BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

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October 2014

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Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

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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

OVERVIEW

Risks for the world economy increase ...

The performance of the global economy and world trade in 2014 has fallen far short of expectations. Economic activity is gaining strength in the United States and the United Kingdom but has weakened in Japan and in the emerging economies. The risks of a further slowdown have increased, in part as a result of geopolitical tensions and the possible aggravation of structural imbalances in some emerging economies. Cyclical misalignment has led to a growing divergence of monetary policies in the advanced countries, with the stance becoming even more expansionary in the euro area while being gradually normalized in the United States.

... and economic activity in the euro area loses momentum

The recovery in the euro area has faltered; economic activity in Germany contracted in the second quarter. The waning of the stimulus from foreign demand has not yet been offset by a sufficient recovery in domestic demand. The prospects for growth this year have been revised downwards both for the euro area as a whole and for the main economies. Inflation has fallen to exceptionally low levels; even medium-term expectations have fallen below the definition of price stability. The risk of further declines is increasing.

Financial markets experience renewed volatility

After an extended period of calm, in recent weeks global financial markets have become volatile again. In response to the unfavourable economic situation globally and in the euro area, exacerbated by uncertainty over the political and financial situation in Greece, there have been portfolio shifts towards safer assets, such as German government securities, whose yield fell to an all-time low. The spread between ten-year Italian and German government securities, which in September had reached its lowest level since May 2011, briefly widened again, but was still far beneath the levels reached during the sovereign debt crisis. The volatility has also been reflected in share prices, which since the end of the second quarter have declined by 9 per cent in the euro area and by 14 per cent in Italy.

Monetary policy is made even more expansionary

To combat the risk of a prolonged period of excessively low inflation and to boost credit and economic activity, the Governing Council of the ECB cut the rate on main refinancing operations to an all-time low of 0.05 per cent and reduced that on the deposit facility, which has been negative since June, to -0.20 per cent. It also launched a programme for the purchase of asset-backed securities and covered bonds. In September the ECB conducted its first targeted longer-term refinancing operation. The measures adopted translated into a fall in yields and a significant depreciation of the euro, which will have beneficial effects on economic activity; a further expansionary impulse could come from banks' recourse to upcoming targeted operations. The decline in inflation expectations, however, has not yet been inverted; the Council reaffirmed its intention to take further unconventional measures if necessary.

Economic activity remains weak in Italy

After basically stabilizing in the second half of 2013, Italy's economy has begun to weaken again. In the first half of the year GDP was affected by the continuing fall in investment and, to a lesser extent, the effect on exports of the weakening performance of world trade. Household consumption instead improved, recording a small increase. According to our estimates, there was a further, slight decline of GDP in the third quarter.

Uncertainty weighs on the recovery of investment …

The recovery of investment is being delayed by acute uncertainty. The improvement in firms' assessments that began last year has faltered in the latest surveys, due mainly to the outlook for demand and concern about the general state of the economy. The majority of firms polled in the Bank of Italy's autumn survey indicated that the prospects for investment expenditure remained uncertain. The construction sector is still weak, despite the slower decline in house prices.

… notwithstanding the modest rise in consumption

Household consumption, in sharp decline since the outbreak of the sovereign debt crisis, grew slightly in the first half of the year, boosted by the marked improvement in confidence, which lasted until the spring. Households' assessments of the general state of the economy turned more pessimistic over the summer; however, on average from June to August there was a sharp upturn in industrial production in the consumer goods sectors, and in the third quarter new car registrations rose slightly.

The labour market has stabilized but the outlook remains uncertain

There are signs of stabilization in the labour market; employment returned to growth in the spring, though only slowly, then stagnated in the summer; the unemployment rate eased slightly. However, hours worked per capita and firms' expectations still indicate an uncertain outlook.

The fall in prices poses risks to the economy

Inflation turned slightly negative in August and September, as much owing to trends in food and energy products as to those in the core components, whose twelve-month rate of change, while still positive, fell to an all-time low of 0.4 per cent in response to the weakness of economic activity. There is still a substantial risk that a prolonged period of excessively low inflation, or even falling prices, could jeopardize the anchoring of expectations, with adverse repercussions on the level of real interest rates and on the debt-to-GDP ratio.

Italy records capital inflows

Private capital inflows to Italy have not ceased. The Bank of Italy's net debtor position on TARGET2 improved during the year, albeit with large monthly swings. The negative balance, which in August 2012 had peaked at €289 billion, narrowed to a low of €130 billion at the end of July; it then expanded again in August and September, before improving in October. The monthly fluctuations of the negative balance are influenced by technical factors, such as maturity mismatches between the government securities held by non-residents and new Treasury issues. The liquidity provided in the first targeted longer-term refinancing operation may also have allowed Italian banks to decrease their recourse to shorter-term funding on the foreign interbank market.

The cost of credit falls but lending decreases again

There are signs that credit conditions have improved but not across the board. The cost of loans has fallen in response to the lowering of official interest rates; lending to households for house purchase has stabilized, while that to firms continues to contract. Surveys suggest that the difficulties in obtaining bank credit have eased somewhat, but they remain considerable for smaller firms. The continuing cyclical decline in investment is still weighing on loan demand. The ratio of new bad debts to outstanding loans to firms has fallen steadily from the peak recorded in 2013. On 26 October the results of the comprehensive assessment of the largest euro-area banks conducted by the ECB and national supervisory authorities will be released; the exercise should bolster confidence in the solidity of the euro area's banking system and strengthen its ability to finance the economy.

The Government has presented the EFD Update and the stability bill

At the end of September the Government revised its April public finance forecasts to take account of the worsening economic situation. It confirmed its commitment to keep the deficit within 3.0 per cent of GDP, but has pushed back the achievement of the medium-term objective of structural balance and the reduction of *the debt. Compared with the projections on a current legislation basis, net borrowing in 2015 is increased by 0.7 percentage points of GDP, to 2.9 per cent. Given the exceptional depth and duration of the recession, the Government's decisions appear well-founded. A more gradual fiscal adjustment can help avert a recessionary spiral of demand; it is justified if the room for manoeuvre that the measures provide is exploited effectively to get the economy moving again and to raise its potential for growth in the medium to longer term. The stability bill specifies the measures for achieving the budgetary targets, envisages tax reliefs on the cost of labour and makes the tax credit for medium-to-low-paid payroll workers permanent.*

The recovery of domestic demand is vital ...

The stimulus from exports, which in recent years underpinned GDP growth in the euro area and in Italy, could continue to weaken. The prospects for economic activity and price stability depend, more than in the past, on the recovery of domestic demand and of private and public investment.

... and so is the contribution of economic policy

Monetary policy will remain expansionary for a long time to come, using all available instruments to prevent excessively low inflation from becoming rooted in expectations and in labour income trends. By exploiting the scope for manoeuvre of national policies and incisive action at EU level, fiscal policy can play a decisive role in improving macroeconomic conditions throughout the euro area. The revival of consumption and investment also requires a recovery of confidence, which depends on a broad-based reform that leaves no room for doubt over timing or outcomes.

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

Global economic activity is falling short of expectations. After lower-than-forecast growth in the first half of 2014, the recovery appears uncertain, timid and restricted to a few areas. In the first half of the year world trade was limited by the decline in imports of emerging economies. According to the estimates of international institutions, which could, however, prove over-optimistic, trade should pick up again in the coming months. Compared with July, the risks of a weakening of the world economy have increased. The persistence of uneven cyclical conditions between the euro area on the one hand and the United States and the United Kingdom on the other has led to a growing divergence of monetary policy stances.

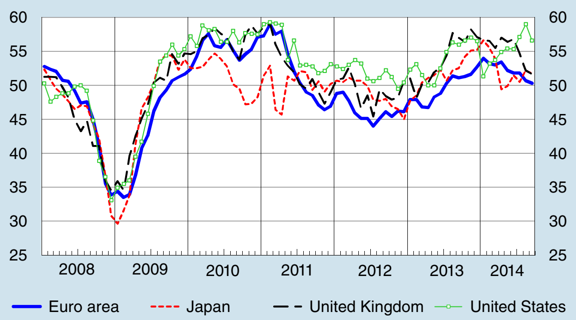
The recovery gathers pace in the US and the UK ...

After contracting in the first quarter, GDP in the United States began to grow again in the second, at an annualized rate of 4.6 per cent, thanks to domestic demand. In the third quarter output apparently expanded again, as suggested by purchasing managers' assessments (Figure 1) and continued positive signals from the labour market: in the summer months the growth of salaried employment in the non-farm sector stayed at high levels and in September the unemployment rate fell to 5.9 per cent. In the United Kingdom GDP growth rose to an annualized rate of 3.7 per cent in the second quarter, returning to pre-crisis levels; the favourable economic phase is estimated to have continued into the summer months. In Japan the sharp contraction in GDP in the second quarter more than offset the growth recorded in the first, when the increase in indirect taxes resulted in spending decisions being brought forward; output looks set to expand again in the second half of the year, if only moderately.

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 slows in the main emerging economies

In China GDP growth, which in the second quarter had benefited from stimulus measures in the real-estate and infrastructure sectors and had risen to 7.5 per cent compared with the year-earlier period, slowed slightly in the third (to 7.3 per cent). One contributory factor was a weakening of domestic demand that was not fully offset by the recovery in external demand; the property sector continues to show signs of weakness. In India too output appears to have lost momentum in the third quarter, after better-than-expected growth in the second. Russia, where GDP growth continued to slow in the spring, is expected to see a further deceleration in the second half of the year, owing to the economic sanctions imposed by the European Union and the United States at the end of July. Gross domestic product in Brazil, which contracted in the first two quarters, is showing only moderate signs of recovery.

World trade falls far short of forecasts

World trade in goods grew less than expected in the early months of the year, although it did pick up slightly in the second quarter (expanding at an annualized rate of 2.7 per cent, after contracting by 2.7 per cent in the first), above all owing to the unexpected drop in the imports of emerging Asian economies (down by 2.1 per cent on an annual basis in the first half of the year) and the slowdown in the euro area. The IMF gradually revised its growth forecasts for trade in 2014 downward: from almost 6 per cent in October 2012 to 3.8 per cent in October 2014. The positive estimates for the third quarter could also be subject to a downward revision in light of the deteriorating global outlook.

Tensions between Russia and Ukraine are still running high

Following the clashes in Ukraine, the European Union and the United States adopted further sanctions against Russia, excluding a large portion of its banking system and flagship energy companies from access to international capital markets. Repercussions on the European economy have been modest to date, owing to the area's low exposure in terms of trade and financial relations and the absence of any marked effects on oil and gas supplies and prices. In the future a worsening of the situation could have a significant impact on the European economy; the effects on energy supplies remain the main risk factor.

Oil prices fall ...

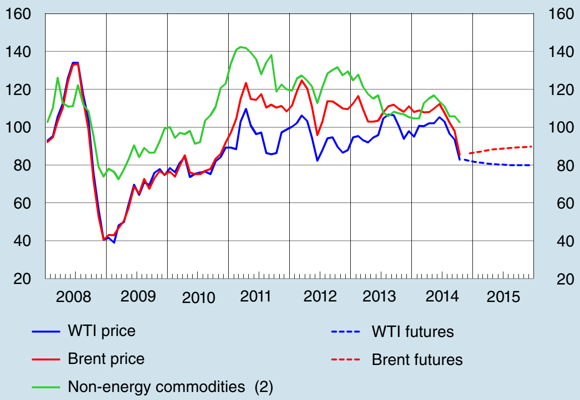
In the third quarter oil prices fell sharply. In mid-October Brent grade crude oil fell to $85 a barrel, from the mid-June peak of $115 (Figure 2); based on futures contracts, prices for next year are expected to remain below $90 a barrel. The price of oil is being affected by favourable supply conditions (the growing contribution of the North American countries has not been offset by a reduction in OPEC supply) and weak demand, especially in the emerging countries. According to the latest forecasts of the International Energy Agency, both of these factors will persist in 2015. In the third quarter the prices of non-energy commodities continued to decline.

... as does inflation

In the United States consumer price inflation fell to 1.7 per cent in August (Figure 3), primarily owing to the drop in the prices of energy products; the Federal Reserve's reference rate, namely the consumer price deflator excluding food and energy, remained stable at 1.5 per cent. In Japan inflation fell to 3.3 per cent, down from 3.7 per cent in May; the Bank of Japan estimates the effect of the rise in indirect taxes at about two percentage points. In the United Kingdom the growth in prices reached the lowest levels on record for five years in September (1.2 per cent). Among the emerging economies, inflation is contracting in China (1.6 per cent in September), while it remains high in India and Brazil.

Figure 2

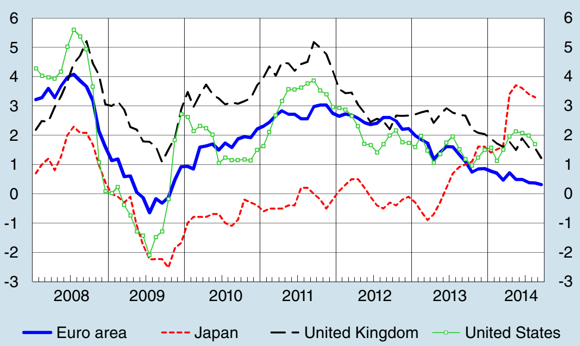
Commodities prices (1)
(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly averages up to September 2014; the latest data refer to 17 October. – (2) Goldman Sachs Commodity Index excluding energy products (January 2008=100).

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 Kingdowm, harmonized consumer prices.

In the United States monetary policy normalization will be gradual

The Federal Reserve continued to taper its quantitative easing, reducing its monthly purchases of mortgage-backed securities and long-term Treasury securities by $20 billion overall between July and September; since January the purchases have decreased from $85 billion to $15 billion. The Fed kept its forward guidance unaltered and continues to consider it likely that the target interval for the federal funds rate will remain unchanged for some time after the end of tapering, currently scheduled for November. In its September meeting the Federal Open Market Committee announced the principles that will guide the normalization of monetary policy, underscoring that the rise in interest rates and the elimination of monetary stimulus will be both gradual and predictable. The markets now expect a first rise in the reference rates in the fourth quarter of 2015.

Elsewhere monetary policies remain accommodative

In the absence of pressures on consumer prices, the Monetary Policy Committee (MPC) of the Bank of England left its benchmark interest rate unchanged at 0.5 per cent and did not vary the amount of the financial assets acquired under its Asset Purchase Programme (£375 billion). According to the MPC's most recent assessments, the positive signals from the labour market, where unemployment has been in constant decline since the beginning of the year and equal to 6.0 per cent in August, point to a gradual reabsorption of spare capacity. The Bank of Japan has maintained its programme to expand the monetary base (by between ¥60 trillion and ¥70 trillion per year), mainly through the purchase of long-term government bonds. In the third quarter the Reserve Bank of India left its policy rates unchanged while the People's Bank of China lowered its ordinary refinancing rate by 30 basis points and continued its selective easing of liquidity conditions, announcing in August a programme of support for smaller banks through bill discounting.

The risks of a global slowdown increase

The IMF projections released in October indicate that the growth in world output will come to 3.3 per cent this year and 3.8 per cent in 2015 (Table 1). The estimates have been revised down slightly with respect to those released in July, due to worsening growth prospects in the euro area and in Japan, only partly offset by the improvement in those for the United States. Since July the risks of a world economic slowdown have intensified: uncertainty has increased, with the deepening of the crisis between Russia and Ukraine and renewed tensions in the Middle East. In the medium term there is a risk that a prolonged period of low inflation in several advanced economies could impede the return to pre-crisis levels of growth.

Table 1

Macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2013	2014	2015	2014	2015
GDP					
World	**3.3**	**3.3**	**3.8**	–	–
Advanced countries					
Euro area	-0.4	0.8	1.3	0.8	1.2
Japan	1.5	0.9	0.8	1.1	1.2
United Kingdom	1.7	3.2	2.7	3.1	2.6
United States	2.2	2.2	3.1	2.2	3.1
Emerging countries					
Brazil	2.5	0.3	1.4	0.4	1.1
China	7.7	7.4	7.1	7.3	7.1
India (1)	5.0	5.6	6.4	5.6	6.3
Russia	1.3	0.2	0.5	0.1	0.8
World trade (2)	**3.0**	**3.8**	**5.0**	–	–

Sources: IMF, *World Economic Outlook,* October 2014; Consensus Economics, October 2014; for Russia and Brazil, September 2014.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

1.2 THE EURO AREA

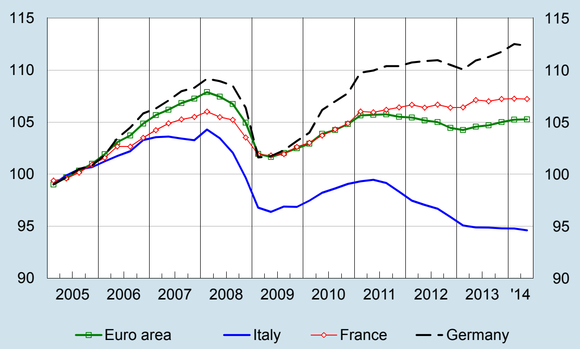
The recovery in the euro area has faltered. Although investment has contracted, consumption has continued to provide support and foreign demand has begun to grow again. Inflation has continued to decline and there is increasing risk that it will fall even lower. In September the Governing Council of the European Central Bank made monetary policy even more accommodative, cutting official rates and adopting new unconventional measures to foster the flow of credit to the economy and increase the Eurosystem's balance sheet.

GDP stagnates in the second quarter ...

In the second quarter of 2014 economic activity in the euro area virtually stagnated, expanding by 0.1 per cent with respect to the first quarter (Figure 4). Foreign trade made a barely positive contribution to GDP growth; the contribution of domestic demand was null, owing to the 0.9 per cent fall in investment, the increase in consumption expenditure of 0.3 per cent and the neutral contribution of inventories. In Germany and in Italy GDP declined (-0.2 per cent on the previous quarter); it stagnated in France, while in Spain and in the Netherlands it expanded.

Figure 4

GDP of the euro area and the main area countries (1)
(quarterly data; indices, 2005=100)



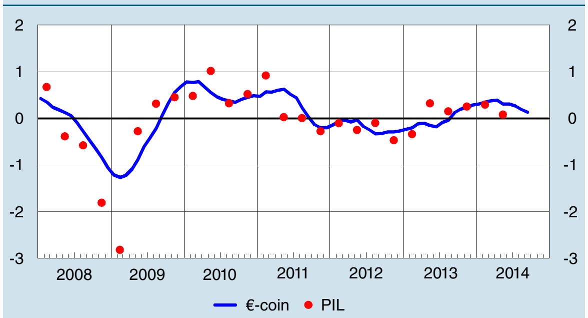
Sources: Based on national statistics.
(1) At chain-linked prices.

... and should grow only moderately in the third

The latest indicators for economic activity point to moderate growth in the third quarter. In September the €-coin coincident indicator produced by the Bank of Italy, which provides a monthly estimate of the rate of change in GDP in the euro area net of the most volatile components, fell for the third straight month, to the lowest level recorded in the past twelve months (Figure 5). Firms' assessments worsened: the euro-area PMI index fell in August and in September, remaining just above the threshold consistent with an increase in economic activity.

Figure 5

€-coin coincident cyclical indicator and euro-area GDP (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 forecasters polled in October by Consensus Economics expect GDP to grow by 0.8 per cent in 2014, 1.2 per cent in 2015 and 1.5 per cent in 2016. These estimates are 0.1 percentage points lower for this year and 0.4 percentage points lower for 2015 and 2016 than those of the ECB staff published in September.

Consumer price inflation continues to fall ...

Twelve-month consumer price inflation fell to 0.3 per cent in September, the lowest level since November 2009 (Figure 6). Excluding the most volatile components, inflation fell to a historically low level of 0.8 per cent, reflecting the persistence of wide margins of idle capacity. Price increases were small for a very large number of components of the harmonized index of consumer prices: from March half the items in the basket showed twelve-month price changes of less than 1 per cent (about double the average for the period 2001-13). In September the share of items showing a decrease in prices was back at a level close to the maximum recorded in May (33 per cent). Inflation has fallen to historically low levels in all the euro-area countries: 0.8 per cent in Germany, 0.4 per cent in France, -0.1 per cent in Italy and -0.3 per cent in Spain.

... and expectations decline

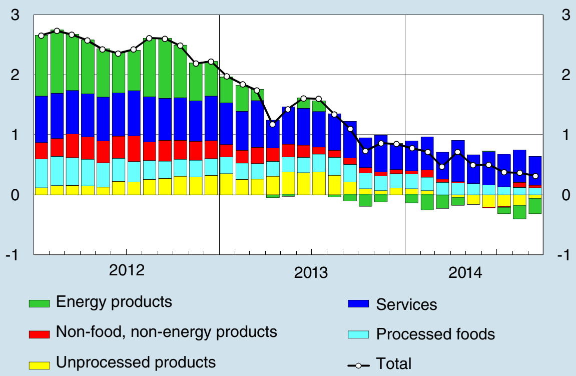
Inflation expectations for 2014-15 formulated by the professional forecasters surveyed by Consensus Economics have been revised progressively downwards since the beginning of the year and in October stood at an annual average rate of 0.5 per cent for 2014 and 1.0 per cent for 2015. Inflation is expected to remain low in 2016 as well (1.3 per cent), one tenth of a point lower than the ECB projections of September. In the same month the index measuring firms' intentions regarding changes in their list prices returned below the threshold consistent with an increase in prices.

Expectations have lessened for the medium term as well: those for 2016-24, surveyed once every six months by Consensus Economics, signal the return of inflation to just under 2.0 per cent in 2019. Expectations based on the financial markets fell considerably in mid-October and indicate a rate of inflation within the next five to ten years of 1.7 per cent.

Figure 6

Inflation in the euro area and contributions of the components (1)

(monthly data; 12-month percentage changes and percentage points)



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

Credit to firms continues to decline

The contraction in lending to firms continued, falling by an annualized rate of 1.1 per cent in the three months ending in August (seasonally adjusted data and net of the accounting effect of securitizations); the expansion in lending to households remained moderate at 0.8 per cent. The twelve-month growth in euro-area M3 was still weak, at 2.0 per cent, despite the greater preference for more liquid assets in view of the low yields on non-monetary alternatives; current account deposits expanded, growing by 5.8 per cent as against 4.9 per cent in May.

The Governing Council cuts official rates and unveils new financial asset purchasing programmes

The Governing Council of the ECB has made monetary policy even more accommodative; in September it lowered the official interest rates, reducing that on main refinancing operations to 0.05 per cent and that on the Eurosystem deposit facility to -0.20 per cent. In the months ahead the Council will begin to buy securities under its asset-backed securities purchase programme and covered bond purchase programme. The purchases will begin in the fourth quarter of 2014 and continue for at least two years. These measures, together with the targeted longer-term refinancing operations (see the Box "The monetary policy measures adopted in June", *Economic Bulletin*, No. 3, 2014), aim to foster the supply of credit to the economy and to expand the Eurosystem's balance sheet considerably. The Council has also reaffirmed its unanimous pledge to adopt other unconventional measures, if necessary, to counter the risks related to an excessively prolonged period of low inflation.

The monetary policy measures are being transmitted to financial markets

The lowering of official interest rates had a rapid effect on monetary and financial conditions and on the exchange rate of the euro. The Eonia rate fell by about 10 basis points on average in September compared with June, dipping to just below zero at the beginning of October. The rate on three-month unsecured interbank loans (Euribor) came down by 15 basis points to 0.08 per cent (Figure 7). The euro fell by 6 per cent against the dollar and by 3 per cent in nominal effective terms.

The first targeted refinancing operation takes place

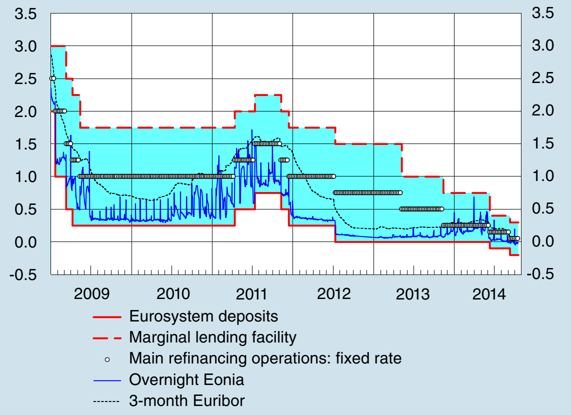
On 18 September the ECB conducted its first targeted longer-term refinancing operation; 255 intermediaries in the euro area participated, obtaining funds totalling €82.6 billion, of which a little less than €30 billion went to Bank of Italy counterparties. Overall recourse by the banking system will be assessed jointly considering participation in the first and the second operation, scheduled for 11 December.

The comprehensive assessment of the banking system is in its final stages

On 26 October the results of the comprehensive assessment conducted by the ECB and national supervisory authorities of the largest banks in the euro area are due to be published. The exercise consists of an asset quality review (AQR) designed to verify the adequacy of banks' provisioning policies and a stress test i.e. an assessment of the ability of intermediaries to withstand adverse macroeconomic shocks. The exercise is preliminary to the launch of the Single Supervisory Mechanism on 4 November. The disclosure template, available on the ECB's website,[1] provides for the release of the main results of the AQR and the stress tests including, for example, the impact on banks' financial solidity of any additional provisioning against risks on balance sheets and losses based on the stress test scenarios. The publication of the results will increase the transparency of banks' conditions. The exercise is designed to boost confidence in the solidity of the euro-area banking system and to strengthen its ability to finance the economy.

Figure 7

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



Sources: ECB and Thomson Reuters Datastream.

1.3 WORLD FINANCIAL MARKETS

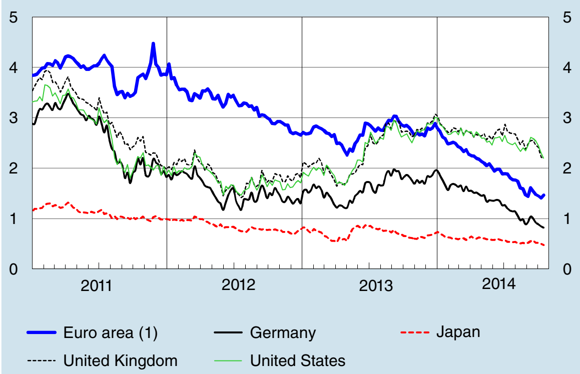
In October there was a fresh increase in the volatility of world financial markets. In response to the deteriorating economic situation globally and in the euro area and to mounting uncertainty over the outlook in some area countries, investors once again turned towards safer assets, such as German government securities, whose yield fell to an all-time low. In the euro area, the sovereign risk premiums of the countries most exposed to the tensions rose again. The euro depreciated, owing to the sharpening monetary policy divergence between the Federal Reserve and the ECB. The flow of capital to the emerging economies began to slacken in September.

Long-term interest rates in the main advanced economies continue to decline ...

Interest rates on ten-year government securities have continued to fall in all the advanced economies, and more sharply in the euro area owing to the weakening prospects for economic recovery and expectations of new expansive measures by the ECB. In the first half of October, yields were 2.2 per cent in the United States and the United Kingdom and 0.5 per cent in Japan. German rates fell to 0.8 per cent, down 40 basis points since the end of June (Figure 8).

Figure 8

Yields on 10-year government bonds
(end-of-week data; per cent)

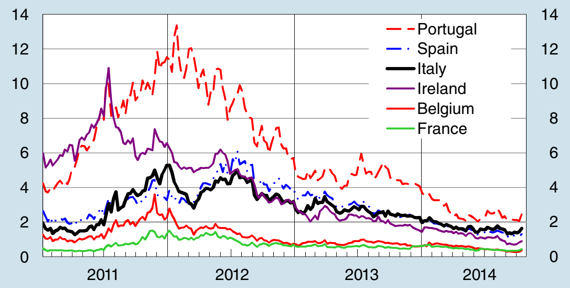


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries excluding Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

[1] http://www.ecb.europa.eu/pub/pdf/other/comprehensiveassessmentdisclosuretemplate201407enen.pdf

Figure 9

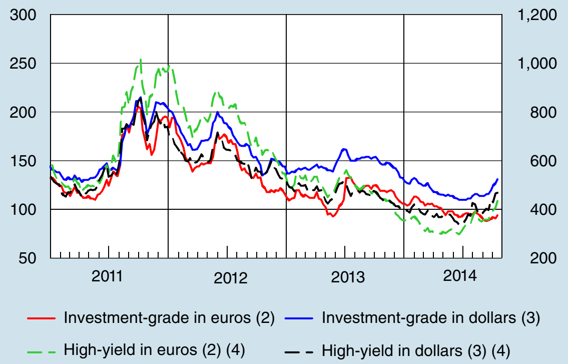
Yield spreads between 10-year government bonds and the corresponding German Bund
(end-of-week data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 10

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



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

... but euro-area sovereign spreads show renewed volatility ...

Following the reaction to adverse macroeconomic developments in Europe, intensified among other factors by the fears for the Greek economy, in mid-October the yield spreads vis-à-vis Germany of the government securities of the euro-area countries worst hit by the sovereign debt crisis began to widen again. Over the next few days the widening was largely reabsorbed (Figure 9).

... and the risk premiums on high-yield bonds increase

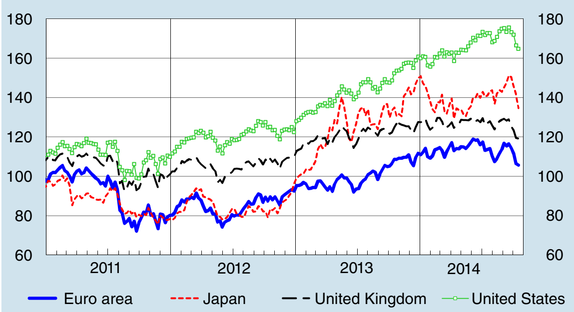
Since the end of June the yield spreads on investment-grade bonds of non-financial corporations have remained practically unchanged in the euro area but have widened in the United States. The spreads on high-yield bonds, which had been very narrow in the second quarter, widened significantly both in the euro area and in the US, by 107 and 115 basis points respectively (Figure 10), jumping by 37 and 28 points between the end of September and 17 October.

Share prices turn downwards in the second half of September ...

Share prices, after recouping the losses in connection with the escalation of the conflicts in Ukraine and the Middle East, turned downwards in the second half of September. Between the end of June and mid-October stock exchange indices fell by 4 per cent in Japan and the United States, more than 6 per cent in the United Kingdom and nearly 9 per cent in the euro area (Figure 11). The volatility implied by share index option prices, which fell in September after the temporary increase of late July and early August, began to increase again as autumn got under way (Figure 12).

Figure 11

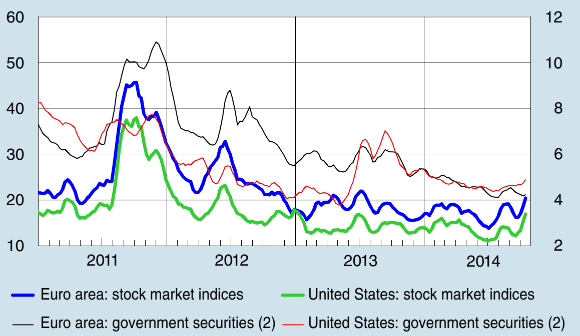
Stock market indices (1)
(end-of-week data; first week of January 2011=100)



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

Figure 12

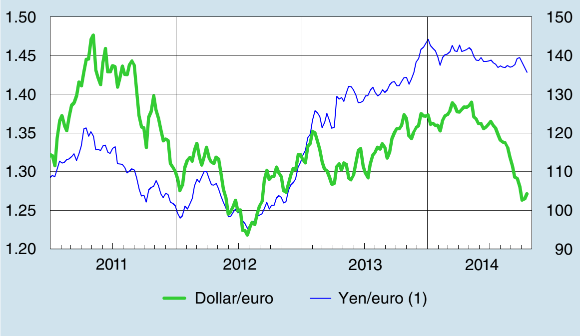
Implied volatility of stock market indices and government securities prices (1)
(end-of-week data; percentage points)



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.

Figure 13

Bilateral exchange rates
(average weekly data)



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

... and the flow of capital to the emerging countries also begins to flag

Financial conditions in the emerging markets remained relaxed, overall, in the third quarter. Through the end of August the continuing substantial inflow of capital was reflected in rising share prices. Starting in September, however, the inflow began to diminish, in parallel with the cyclical weakening. As a consequence share indices fell, as did the exchange rates of the main currencies against the dollar. In Latin America the more severe cyclical deterioration also brought an increase in the yield spreads between long-term dollar-denominated local sovereign securities and those of the US Treasury.

The euro depreciates, reflecting the divergence of monetary policies

The prospect of continuing divergence between the monetary policy stances of the Federal Reserve and the ECB, given the growing cyclical gap between the two areas and made more likely by the policy measures of the ECB Governing Council, has led to a weakening of the euro. Since the end of June the single currency has lost 6.1 per cent against the dollar and 1.4 per cent against the yen, while remaining stable vis-à-vis the pound sterling (Figure 13). In the third quarter the euro depreciated by 2.8 per cent in nominal effective terms.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

After the stabilization of activity in the second half of 2013, the Italian economy began to weaken again in the spring, owing to the decline in investment. GDP is estimated to have suffered a further slight decline in the third quarter. Set against the modest improvement in household spending, investment has been curbed by heightened uncertainty about the trend of demand and the persistence of large margins of spare capacity. The weakness of economic activity shows up in inflation, which was marginally negative in August and September.

The weakness of economic activity ...

According to the quarterly economic accounts based on the new European System of Accounts (ESA 2010),[1] Italy's GDP fell by 0.2 per cent in the second quarter of the year compared with the first; the contraction, which also showed up in the previous statistical release and surprised forecasters, involved all the main productive sectors. Domestic demand declined slightly, with a fresh drop in investment together with destocking outweighing a modest increase in consumption (Table 2 and Figure 14).

The drop in investment (-0.9 per cent quarter on quarter) was steeper for construction (-1.1 per cent). The positive contribution of net exports was the outcome of a small increase in exports outweighing that in imports (1.1 and 0.8 per cent respectively; see the box "The causes of the decline in economic activity in the first six months").

... persists over the summer

The indicators now available signal that GDP slipped again in the third

Table 2

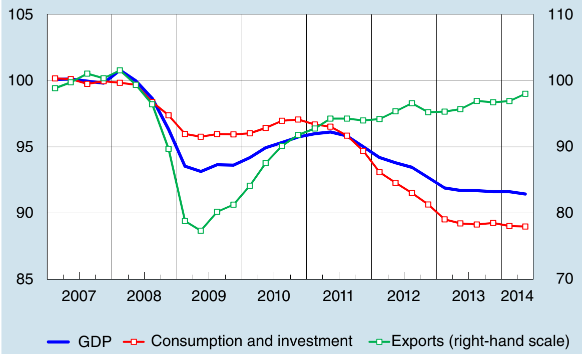
GDP and its main components (1)
(percentage changes on previous period)

	2013 Q3	2013 Q4	2013 (2)	2014 Q1	2014 Q2
GDP	..	-0.1	-1.9	..	-0.2
Total imports	2.2	-0.4	-2.7	..	0.8
National demand (3)	0.2	-0.1	-2.9	-0.1	-0.3
National consumption	-0.1	0.2	-2.3	..	0.1
household spending (4)	0.2	..	-2.8	0.1	0.2
other spending (5)	-0.9	0.6	-0.7	-0.3	0.1
Gross fixed investment	-0.1	..	-5.4	-1.5	-0.9
construction	0.2	-1.2	-6.8	-1.4	-1.1
other investment goods	-0.5	1.2	-3.8	-1.6	-0.6
Change in stocks (6) (7)	0.3	-0.3	..	0.2	-0.3
Total exports	1.3	-0.2	0.6	0.2	1.1
Net exports (7)	-0.2	..	0.9	0.1	0.1

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) Includes non-profit institutions serving households. – (5) Expenditure of general government. – (6) Includes valuables. – (7) Contributions to GDP growth on previous period, in percentage points.

Figure 14

GDP and the main components of demand (1)
(quarterly data; indices, 2007=100)



Source: Based on Istat data.
(1) Chain-linked volumes; adjusted for seasonal and calendar effects.

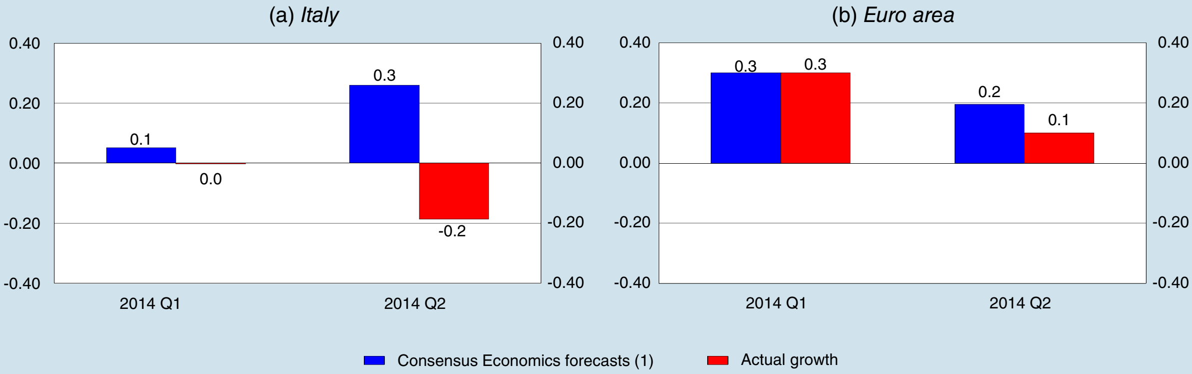
[1] See Istat, *I nuovi conti nazionali in SEC 2010: innovazioni e ricostruzione delle serie storiche (1995-2013).*

quarter, as is suggested by the drop in industrial production. The outlook for foreign demand grew more uncertain as geopolitical tensions flared. The recovery in household and business confidence, under way since the end of last year, came to a halt during the summer.

THE CAUSES OF THE DECLINE IN ECONOMIC ACTIVITY IN ITALY IN THE FIRST SIX MONTHS

In the first half of 2014 the growth of output was considerably less than had been projected by all the leading forecasters, in Italy and to a lesser extent in the euro area. The consensus among forecasters had indicated a consolidation of the recovery in Italy and throughout the area. Instead, GDP contracted in Italy and increased only marginally in the area as a whole (see figure).

Forecast and actual GDP growth in the first two quarters of 2014
(percentage change on previous period)



(1) Bank of Italy calculations based on Consensus Economics data of January 2014.

Italian economic activity during the first half of the year was slowed by the poor performance of foreign trade in the first quarter and above all by the further decrease in investment in both quarters. The investment decline involved both construction and spending on capital goods and transport equipment. Consumer spending, by contrast, was in line with the forecasts of a modest increase, thanks to the gradual recovery in households' propensity to consume.

According to the Bank of Italy's quarterly model, the stagnation of exports in the first quarter (with growth half a percentage point below the January projection) was not due to losses in competitiveness but to the unexpected weakening of world demand, which explains the entire deviation of goods exports from the forecast, while exports of services were essentially up to expectations.

In the next few months the depreciation of the euro registered to date should progressively support sales abroad. The likelihood of solid, sustained recovery in Italy and the euro area nevertheless remains exposed to the uncertainty surrounding the outlook for world economic growth, and in particular the possible heightening of geopolitical tensions and a further slackening of demand in some emerging economies.

In the first half of the year, Italian productive capital formation was about four percentage points less than had been forecast in January. The shortfall cannot be explained by trends in the traditional determinants of investment, such as short- and long-term interest rates and expected demand. Instead, it can be traced in particular to the increasing uncertainty recorded by indicators of confidence as regards foreign demand, which appears to have been a factor in the postponement of plans to expand productive capacity also at export-oriented firms, whose investment intentions had previously been comparatively more favourable. According to the Istat business survey, the confidence of manufacturing firms deteriorated sharply in August and worsened in September as well, falling to the levels registered during the summer of 2013.

Moreover, the boost to firms' liquidity deriving from the provision for the payment of general government commercial debts (see the box "The macroeconomic impact of the unfreezing of general government debts", *Economic Bulletin* No. 68, April 2013) appears to have faded during the first half. The latest data indicate that the flow of payments to creditor firms slowed by comparison with the second half of 2013.

Looking ahead, recent business confidence surveys continue to indicate conditions of uncertainty, which could translate into further postponement of investment plans (see the box "The investment outlook according to recent business surveys"). Some support to investment could come from the monetary policy decisions taken in June and September to encourage lending to firms (see the box "The monetary policy measures adopted in June 2014", *Economic Bulletin* No. 3, 2014).

Inflation turns negative

Consumer price inflation, measured by the harmonized index of consumer prices, was negative in both August and September (twelve-month changes of -0.2 and -0.1 per cent respectively). Core inflation, excluding the more volatile energy and food components, remained positive but fell nevertheless, reaching an all-time low of 0.4 per cent in August (see Section 2.6).

2.2 FIRMS

Industrial and construction activity is suffering from the uncertainty clouding the outlook for demand. During the summer the indicators of confidence, which had been continually improving, worsened slightly in all the main productive sectors. Investment is still struggling to gain traction.

Industrial production remains weak

Industrial production rose slightly in August, by 0.3 per cent compared with July. On the basis of our estimates for September, it appears to have contracted in the third quarter by an average of about 0.5 per cent, as in the second quarter (Figure 15).

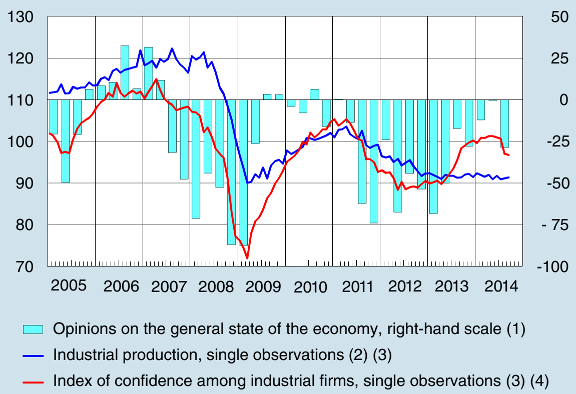
Business confidence declines

The summer saw the end of the strengthening of confidence under way among firms in all sectors since mid-2013. After recording peaks in the second quarter, the PMI indices slipped slightly in September to just above the level compatible with an increase in production in manufacturing and fell below it in services. In the September survey of inflation and growth expectations conducted by the Bank of Italy and *Il Sole 24 Ore*, assessments of the short-term outlook turned more pessimistic, especially among service firms.

Figure 15

Industrial production and business confidence

(monthly data)



Sources: Based on Istat, Terna and Bank of Italy data.
(1) Balance of the "better" and "worse" responses to the question in the Bank of Italy – *Il Sole 24 Ore* quarterly survey on the state of the economy reported in Survey on Inflation and Growth Expectations. September 2014, published in Supplements to the Statistical Bulletin, No. 52; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; for September 2014, estimated data. – (3) Index, 2010=100. – (4) In June 2013 methodological changes were introduced to the sample and the survey techniques which make the data since then not directly comparable with the earlier data.

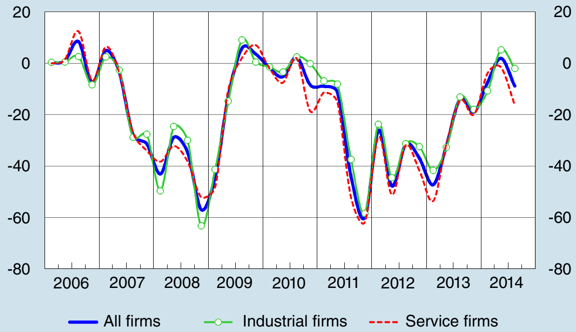
Investment diminishes in nearly every sector

Investment in construction, machinery and equipment declined in the second quarter, while capital spending on transport equipment grew. In the survey conducted by the Bank of Italy and *Il Sole 24 Ore*, most firms planned to invest about the same amount in the second half of the year as in the first, despite greater pessimism about the conditions for investing (see the box "The investment outlook according to recent business surveys").

THE INVESTMENT OUTLOOK ACCORDING TO RECENT BUSINESS SURVEYS

In October the Bank of Italy together with *Il Sole 24 Ore* conducted the quarterly survey on inflation and growth expectations of firms with 50 or more workers. The improvement in business confidence that had been under way since the start of 2013 and had gathered momentum in the first half of this year suddenly stalled. There was a resurgence of pessimism about the general economic situation and present and future demand, both in industry and in services. Assessments of the conditions for investing also worsened (see figure), especially in service firms (see Supplements to the Statistical Bulletin, No. 52, 2014, Survey on Inflation and Growth, forthcoming). The balance between expectations of improvement and deterioration nevertheless remains well above the average recorded in 2013. All in all, firms' plans indicate that investment spending will be roughly the same this year as in 2013.

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



(1) Balance in percentage points between judgments of improvement and of deterioration by comparison with the previous quarter reported in the quarterly Survey on Inflation and Growth Expectations, conducted by the Bank of Italy together with *Il Sole 24 Ore* in September 2014 and published in Supplements to the Statistical Bulletin, No. 52, 2014.

In September and October the branches of the Bank of Italy conducted their autumn business outlook survey of firms with 20 or more workers in industry excluding construction and non-financial private services and 10 or more workers in construction (see Supplements to the Statistical Bulletin, Business Outlook Survey of Industrial and Service Firms, forthcoming). The survey confirmed the persistence of cyclical difficulty in all the main sectors, albeit with some less unfavourable indications: 34.3 per cent of firms in industry excluding construction and 37.4 per cent of those in services reported a decline in turnover in the first nine months of 2014 compared with the same period of 2013, while 35.7 and 29.7 per cent respectively reported an increase (see table). Manufacturing firms judged that their export sales had increased. Expectations on foreign sales for the year as a whole were for growth by comparison with 2013 in all the main outlet markets except Russia, where a decline was expected by reason of the geo-political tensions in Ukraine.

For 2014, 13.7 per cent of the respondent firms now project more investment spending than had been planned at the end of last year, while 22.8 per cent expect less. As the main causes for the undershoot, the latter cite uncertainty, difficulty in obtaining finance and weak demand.

The prospects for a recovery in investment next year remain uncertain. Most firms indicate stable investment spending, while 22.8 per cent expect to invest less than this year and 17.8 per cent to invest more. The investment outlook is poorer among service firms and among the smaller firms.

RESPONSE	Industry excluding construction		Services		Total	
	200 workers or more	Total	200 workers or more	Total	200 workers or more	Total
	Turnover in first 3 quarters of 2014 by comparison with same period of 2013					
Lower	30.6	34.3	31.9	37.4	31.3	35.9
About equal	31.4	30.0	35.3	32.9	33.4	31.5
Higher	38.0	35.7	32.7	29.7	35.3	32.7
	Investment in 2014 compared with plans at end of 2013					
Lower	24.3	21.2	25.7	24.3	25.1	22.8
About equal	58.0	62.8	63.7	64.3	61.0	63.5
Higher	17.7	16.0	10.5	11.5	14.0	13.7
	Investment plans for 2015 compared with 2014					
Lower	16.4	21.7	13.3	24.0	14.8	22.8
About equal	53.2	58.6	61.4	60.1	57.4	59.4
Higher	30.3	19.7	25.3	15.9	27.7	17.8
	Industrial production in fourth quarter of 2014 compared with third quarter					
Lower	19.5	22.1	–	–	–	–
About equal	46.6	47.3	–	–	–	–
Higher	33.9	30.6	–	–	–	–
	Average workforce in 2014 compared with 2013 (2)					
Lower	29.0	26.6	35.1	32.0	32.9	29.7
About equal	51.6	52.8	45.8	50.4	47.9	51.4
Higher	19.4	20.5	19.1	17.6	19.2	18.9

Main results of the Business Outlook Survey of Industrial and Service Firms (1)
(response frequencies, per cent)

(1) Sample of firms with 20 or more workers in industry excluding construction (2,874 firms) and non-financial private services, namely wholesale and retail trade, hotels and restaurants, transport and communications, other professional services (1,122 firms). Percentages estimated net of responses "do not know, no answer," weighting each firm taking account, for the total distributions by geographical area, size class and economic sector, of the ratio between the size of the sample and the entire population. Standard errors of estimated percentages not greater than 0.8 per cent, i.e. 95 per cent confidence intervals of 1.6 percentage points. Based on a provisional sample. – (2) Weighted by number of workers.

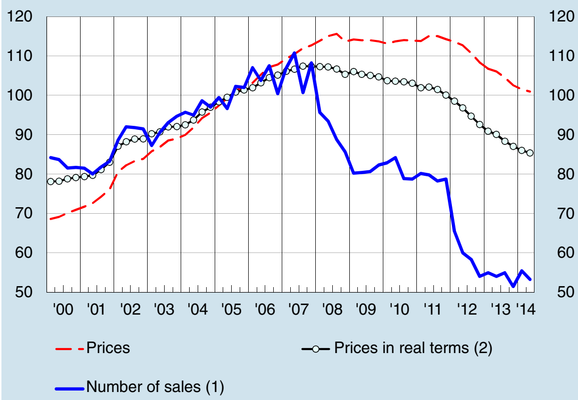
The outlook for construction is still uncertain

The construction industry is still in the doldrums. Its output fell by 0.7 per cent in July and August compared with the second quarter. In the Bank of Italy-*Il Sole 24 Ore* survey, construction firms' assessments of the short-term outlook worsened, but are still less pessimistic than at the end of last year.

After slumping in the wake of the global crisis, the number of house sales has stabilized at the low levels reached at the end of 2012, albeit with fluctuations from quarter to quarter (Figure 16). In the second quarter of this year sales diminished on a seasonally adjusted basis, but this offset the increase recorded in January-March deriving from the reduction in real-estate transfer taxes. The fall in house prices eased again in the second quarter (-0.6 per cent compared with the first quarter).

Figure 16

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



Sources: Based on Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare* data.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index.

The depreciation of the euro supports competitiveness

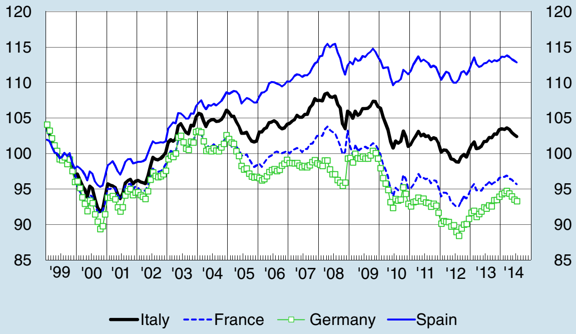
According to preliminary estimates, Italian exports' price competitiveness, gauged by the producer prices of manufactured goods, improved in August and September with respect to the previous two months, thanks mainly to the depreciation of the euro (Figure 17).

However, the cumulative loss of competitiveness since the summer of 2012 remains about 3 percentage points: despite the improvements in recent months, the strengthening of the euro has been mitigated only in part by the trend of Italian export prices relative to those of the country's main competitors.

Figure 17

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 July 2014.

Firms' profitability is still modest

According to estimates based on the national accounts, firms' operating profitability – measured as gross operating profit over value added – did not change significantly in the second quarter with respect to the first, remaining very low (32.8 per cent, against an average of 36.4 per cent in the last twenty years). Firms' borrowing requirement in relation to value added, already at historically low levels, declined slightly as gross fixed investment diminished while self-financing was practically unchanged. The burden of financial costs increased marginally.

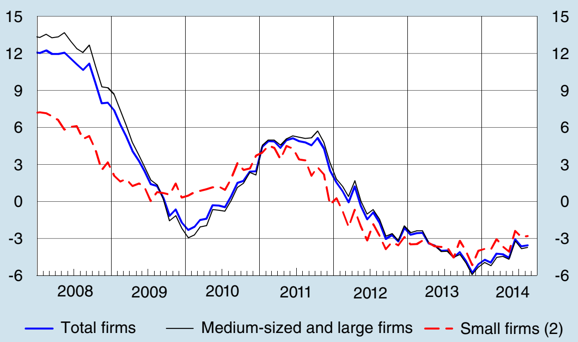
Bank lending to firms declines, but less than in the early months of the year

The volume of bank loans to firms continued to contract, though less markedly than in the first few months of the year; in August the twelve-month decline was equal to 3.5 per cent (Figure 18). In the second quarter corporate debt came down by about 1 percentage point to 76.4 per cent of GDP (Figure 19).

Figure 18

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

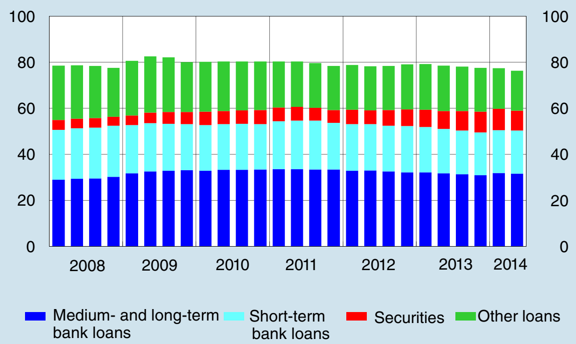


(1) Non-financial firms, including producer households. Data adjusted for the accounting effect of securitizations and for reclassifications. Includes repos and bad debts. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 19

Debt of non-financial firms (1)

(quarterly data; per cent of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the 12 months ending in the quarter in question. Debt includes securitized loans. The data on private debt differ from those published previously as a consequence of the adoption of the new ESA 2010 accounting framework. More detailed information will be available in Monetary and Financial Indicators. Financial Accounts, *Supplements to the Statistical Bulletin*, forthcoming.

Bond funding is negative

After seven consecutive quarters of net issues, between April and June Italian companies made net bond redemptions amounting to €1.6 billion (Table 7). According to partially estimated data, there were net redemptions between July and September as well. By contrast, gross issues of equity by resident companies were substantial in the second quarter.

2.3 HOUSEHOLDS

Household consumption, in sharp decline since the start of the sovereign debt crisis, was up slightly in the first half of the year, boosted by the marked improvement in confidence, which lasted until the spring. Confidence weakened over the summer, but was still near the highest levels recorded since 2011.

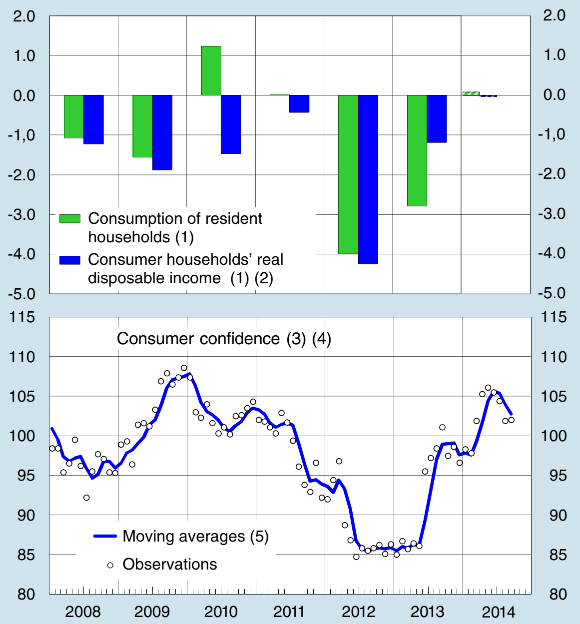
Consumption continues to make modest progress ...

On the basis of the ESA 2010 framework, household expenditure has resumed growing since the third quarter of 2013, though only slightly and with a pause at the end of the year (see Section 2.1). The increase of 0.2 per cent in the second quarter of this year compared with the first, contrasting with a drop of 1.4 per cent in disposable income, can plausibly be put down to the considerable strengthening of consumer confidence, which improved further from the start of the year. The contraction in spending

Figure 20

Consumption, disposable income and consumer confidence

(percentage changes and indices)

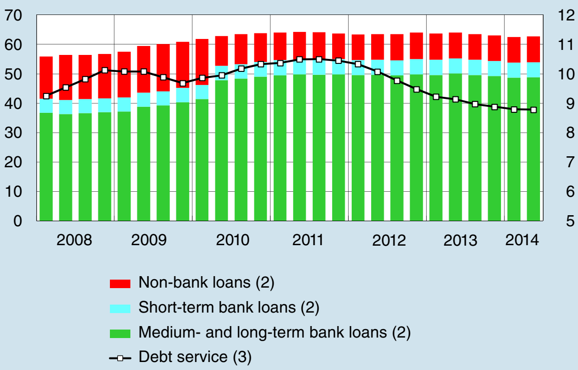


Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes on the previous year. Annual data up to 2013; for 2014, percentage changes in the first six months compared with a year earlier. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices, 2005=100. – (4) In June 2013 methodological changes were introduced to the sample and survey techniques which make the data since then not directly comparable with the earlier data. – (5) Monthly data; moving averages for the three months ending in the reference month.

Figure 21

Household debt (1)

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



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology see the note 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. The data on private debt differ from those published previously as a consequence of the adoption of the new ESA 2010 accounting framework. More detailed information will be available in Monetary and Financial Indicators. Financial Accounts, Supplements to the Statistical Bulletin, forthcoming.

on semi-durable and durable goods (down by 1.6 and 0.3 per cent respectively) was more than offset by the increase in purchases of non-durable goods and services (up by 0.4 and 0.3 per cent).

... but confidence turns weaker in the summer

In the three months from June through August, production in the consumer goods industries accelerated appreciably. New car registrations rose by 0.3 per cent in the third quarter compared with the second on a seasonally adjusted basis. However, household confidence began to deteriorate again during the summer, reflecting a more pessimistic view of the general state of the economy (Figure 20).

Household debt rises slightly but its cost remains stable

In the second quarter Italian household debt in relation to disposable income (under the ESA 2010 framework) edged upwards to 62.7 per cent (Figure 21), well below the euro-area average of about 97 per cent. Households' debt-servicing costs (interest plus repayment of principal), which had declined in 2013, remained stable at 8.8 per cent of disposal income.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports grew in the second quarter as a result of the modest recovery of world trade. The latest surveys indicate that the outlook for foreign sales is nevertheless uncertain. Compared to the same period in 2013, the improvement in both the current account balance and foreign capital inflows continued in the early part of this year.

Exports grow in the spring and weaken in the summer

In the second quarter the volume of exports expanded (up 1.1 per cent on the previous quarter), thanks to the goods component alone, while services did not change. Sales of goods in the EU markets increased most of all. The overall increase in volumes was driven by Italy's main sectors of specialization (machinery and metal products). Preliminary foreign trade data for the third quarter indicate, however, that exports are weakening.

The increase in imports in the second quarter (0.8 per cent in volume) is entirely attributable to the goods component, which grew by 1.1 per cent. The main contributory factor was the pick-up in purchases of refined petroleum products and of energy raw materials, which had fallen sharply in the previous quarter, partly because of the mild winter weather.

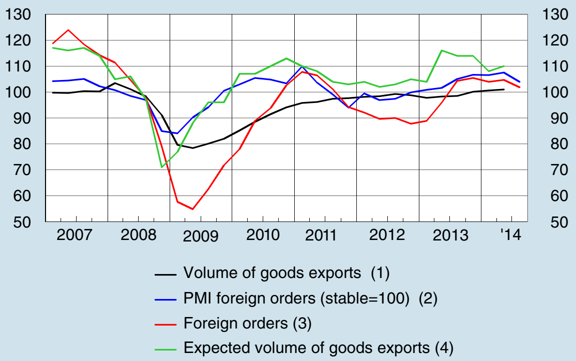
Firms' expectations are uncertain overall

The latest economic surveys indicate increased uncertainty: the PMI index measuring manufacturing firms' opinions on foreign orders worsened, although it remained at a level above the threshold that normally indicates an increase in sales; expectations for export volumes improved, but without regaining the average values recorded in 2013. Firms' qualitative assessments of foreign orders, while decreasing, are in any case more positive than those of the last two years (Figure 22).

Figure 22

Export volumes, foreign orders and firms' expectations

(seasonally-adjusted quarterly data; indices)



Sources: Istat, Markit and Thomson Reuters Datastream.
(1) Index, 2007=100 (national accounts data). – (2) PMI quarterly average plus 50. – (3) Quarterly average based on Istat's monthly survey of firms' opinions on the economic outlook; percentage balance of replies of "increasing" and "decreasing" minus the average, plus 100 – (4) Based on Istat's quarterly survey of firms' opinions on the economic outlook for the next 3 months; percentage balance between "favourable" and "unfavourable" replies plus 100.

The current account improves further

Based on the data compiled according to the new international accounting standards (see the box "The new international accounting standards for external transactions and investment positions"), in the first eight months of 2014 Italy's current account surplus continued to grow, approaching €15 billion, which is more than twice that recorded in the corresponding year-earlier period (Table 3). The improvement was due to the trade surplus (€32.5 billion) and, in particular, to the reduction in the energy deficit.

Foreign capital inflows continue

Non-residents continued to make portfolio investments in Italian securities. Between January and August net purchases of Italian government securities generated foreign capital inflows of almost €71 billion (sharply up on the €13 billion recorded for the whole of 2013), concentrated mostly in the medium- and long-term component. Non-residents also continued to invest in bank and corporate bonds, and in equity securities.

Table 3

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

	2012	2013	Jan. - Aug. 2013	Jan. - Aug. 2014
Current account	**-8.2**	**16.6**	**6.7**	**14.8**
Goods	15.6	36.8	23.8	32.5
non-energy products (2)	*75.2*	*88.0*	*58.6*	*60.2*
energy products (2)	*-59.6*	*-51.2*	*-34.8*	*-27.7*
Services	-0.2	2.2	1.4	1.6
Primary income	-4.1	-3.5	-3.7	-4.7
Secondary income	-19.5	-19.0	-14.8	-14.6
Capital account	**3.9**	**-0.1**	**-2.2**	**-0.3**
Financial account	**-14.8**	**12.0**	**10.3**	**23.0**
Direct investment	5.3	4.3	-1.0	-4.0
Portfolio investment	-25.9	-14.6	18.6	-63.2
Financial derivatives	5.8	3.0	2.8	-2.8
Other investment	-1.5	17.7	-11.8	93.1
Change in official reserves	1.5	1.5	1.7	-0.1
Errors and omissions	**-10.5**	**-4.5**	**5.8**	**8.6**

(1) According to the new international standards (BPM6). For July and August 2014, provisional data. – (2) Based on Istat foreign trade data.

THE NEW INTERNATIONAL ACCOUNTING STANDARDS FOR EXTERNAL TRANSACTIONS AND INVESTMENT POSITIONS

As of this issue of the *Economic Bulletin,* the Bank of Italy has adopted the new international standards laid down in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6).

The financial account and the international investment position are given in greater detail and there is a new classification of institutional sectors and of instruments, compatible with the new European System of National and Regional Accounts (ESA 2010).

One of the most important methodological changes concerns the treatment of goods that cross the frontier for processing without change of ownership, which is now assimilated to the provision of a service and no longer included in the measurement of goods flows. By contrast, merchanting,[1] previously included among services, is now recorded in the goods account.

A distinction is also introduced between primary income deriving from work, financial assets and natural resources and secondary income stemming from redistribution through current transfers.

Lastly, the sign convention that traditionally characterized the financial account has been abandoned: as was already the case on the liabilities side, positive (negative) values now indicate an increase (reduction) on the assets side.

The impact of these innovations on the main external balances is, however, small (for more details see the notice in Supplements to the Statistical Bulletin, No. 55, 2014).

[1] Merchanting is defined as the purchase of goods by a resident from a non-resident and their subsequent resale to another non-resident without the goods physically entering the country of the resident. Net exports of goods under "merchanting" correspond to the difference between the sales and purchases of goods.

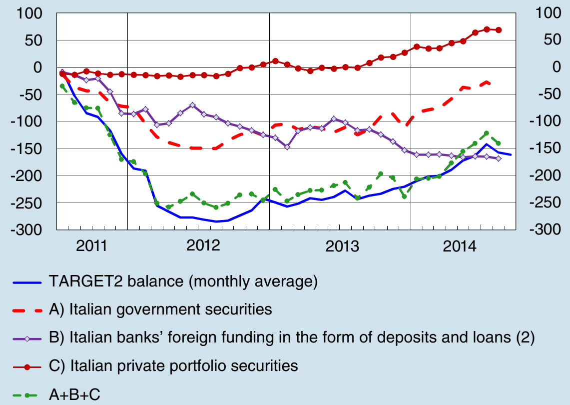
The TARGET2 balance improves overall, but with fluctuations

Thanks to private capital inflows, on average in September the Bank of Italy's debtor position on TARGET2 was €162 billion, representing an improvement of almost €120 billion compared with the peak recorded in August 2012 (Figure 23). The negative balance reached its lowest point of €130 billion at the end of July; it then expanded again by €67 billion overall, between August and September, before improving by some €25 billion in the first three weeks of October. The temporary increase in liabilities between August and September was due to technical reasons; in particular a sizeable package of government securities in the hands of non-resident investors reached maturity but was not covered by new issues, given the exceptionally high level of overall liquidity held by the Treasury. The liquidity supplied by the Eurosystem as a result of its first targeted longer-term refinancing operation (see Section 1.2) may also have enabled Italian banks to reduce their recourse to shorter-term funding on the foreign interbank market.

Figure 23

Cumulative capital flows of non-residents and TARGET2 balance (1)

(billions of euros)



(1) Monthly data. Bank of Italy's TARGET2 balance vis-à-vis the ECB; for the other variables, cumulative capital flows of non-residents from July 2011 onwards. – (2) Including funds intermediated by resident central counterparties.

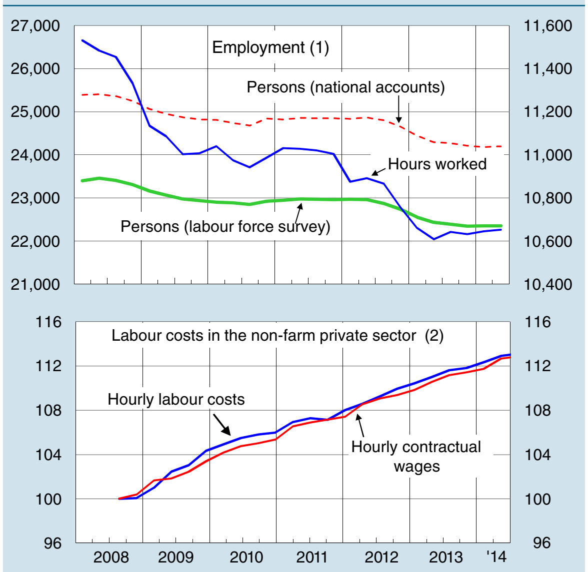
Italy's net international investment position was negative at the end of June by €495 billion, or 30.5 per cent of GDP. The improvement since March (of almost €18 billion) was due in equal measure to the current account surplus and to valuation adjustments, which led to a greater increase in the market value of assets than of liabilities.

2.5 THE LABOUR MARKET

After declining for two years, employment rose overall in the second quarter of the year, albeit slowly, thanks to the increase in the number of employed persons in industry excluding construction. Per capita hours worked remain low. The number of job seekers has fallen for the first time in three years. Developments during the summer months and firms' expectations point to a persistently uncertain outlook.

Figure 24

Employment and labour costs



Sources: Istat labour force survey, quarterly national accounts, and survey of contractual wages.
(1) Thousands of persons (left-hand scale), millions of hours (right-hand scale); seasonally adjusted quarterly data. – (2) Indices, Q3 2008=100; for hourly contractual earnings, raw quarterly data; for hourly labour costs, seasonally adjusted data.

Employment picks up, driven by non-construction industry

In the second quarter, employment returned to growth following two years of decline, rising by 0.1 per cent on the previous quarter, equal to 18,000 jobs; Figure 24). The positive trend in industry excluding construction and in agriculture contrasted with a decrease in construction, albeit less marked than before, and a further fall in private services (Table 4). Self-employment continued to diminish, while salaried employment, particularly fixed-term

Table 4

Employment and unemployment

(seasonally adjusted quarterly data; thousands of persons; millions of hours; percentage changes on previous quarter)

	Number	Change			
	2014 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Total persons in work	**24,199**	**-0.1**	**-0.2**	**-0.1**	**0.1**
of which: Industry excluding construction	*4,310*	*...*	*0.4*	*-0.1*	*0.3*
Private services (1)	*10,280*	*-0.4*	*-0.1*	*-0.2*	*-0.2*
Employees	*18,060*	*-0.2*	*-0.3*	*..*	*0.3*
Self-employed	*6,140*	*0.2*	*..*	*-0.5*	*-0.6*
Hours worked	**10,652**	**0.3**	**-0.1**	**0.1**	**0.1**
of which: Industry excluding construction	*1,904*	*1.3*	*0.2*	*1.3*	*-0.5*
Private services (1)	*4,830*	*-0.2*	*0.2*	*0.2*	*0.3*
Employees	*7,243*	*0.2*	*-0.4*	*0.5*	*0.4*
Self-employed	*3,409*	*0.5*	*0.5*	*-0.6*	*-0.6*
Job seekers	**3,191**	**1.2**	**1.6**	**0.5**	**-0.6**
Labour force	**25,544**	**-0.1**	**..**	**0.1**	**-0.1**

Source: Istat, quarterly national accounts (persons in work and hours worked) and labour force survey (job seekers and labour force).
(1) Excludes services to households and individuals.

contracts, expanded. Data from the SeCO network (Obligatory Statistics and Communications) based on the compulsory reports of hirings and terminations of ten regions and two autonomous provinces, confirm the rise in the number of new fixed-term contracts and the faster expansion in apprenticeships. Preliminary data for July and August indicate a stabilization of employment at the second quarter level.

The small increase in employment was accompanied by a comparable rise in the total number of hours worked, with the result that the intensiveness of labour input was unchanged at the previous quarter's level. The number of wage supplementation hours authorized, which had remained unchanged in the first three months of the year, declined overall in the second quarter due to the ordinary and under-waiver components. This trend continued in the summer months.

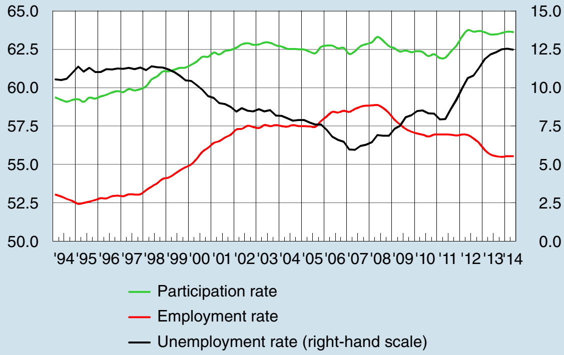
Unemployment diminishes

Labour supply continued to stagnate in the second quarter (-0.1 per cent; Table 4). The number of job seekers fell by 0.6 per cent, reversing a trend under way for three years. The decline concerned specifically men (-2.3 per cent), who predominate in the sectors where employment increased. By contrast, the number of female job seekers rose by 1.5 per cent (0.7 per cent in the previous quarter). The seasonally adjusted unemployment rate fell slightly, to 12.5 per cent, but youth unemployment rose to 43.4 per cent. In July and August the unemployment rate was unchanged from the second quarter level (Figure 25).

Figure 25

Participation, unemployment and employment rates

(seasonally adjusted quarterly data; per cent)



Source: Istat, labour force survey.

The growth in contractual wages slows

According to the national accounts, hourly labour costs in the non-farm private sector rose by 1.4 per cent in the second quarter. The growth in contractual wages slowed owing to developments in the construction industry and in private services. By contrast, there was a small increase in the non-contractual components, in line with our forecasts of moderate growth in 2014-15.

The outlook remains uncertain

Despite the slight improvement, the prospects for a recovery in employment are still uncertain. In the second quarter the ratio of vacancies to total jobs was virtually stable, pointing to persistently weak labour demand. During the summer, expectations regarding the trend in employment three months ahead reported in the opinion surveys conducted by Istat and the Bank of Italy in conjunction with *Il Sole 24 Ore* progressively worsened in all sectors. According to the survey conducted in September by the Bank of Italy (see Supplements to the Statistical Bulletin, Survey of Industrial and Service Firms, forthcoming), the outlook for employment in 2014, which is negative in the non-farm private sector as a whole, is somewhat better for medium-sized and large enterprises and exporting firms, which usually boast greater productive efficiency and are more internationally competitive.

2.6 PRICE DEVELOPMENTS

In August and September consumer price inflation turned negative. The twelve-month changes in prices net of food and energy goods were extremely small but still positive. Forecasters expect inflation to increase only gradually over the next five years. There is still a strong risk of a prolonged period of low inflation.

Inflation turns slightly negative

The harmonized index of consumer price inflation declined to a twelve-month rate of -0.2 per cent in August and -0.1 per cent in September (Table 5 and Figure 26). The only other time this situation has occurred since the introduction of the time series was in July 2009, though owing to factors other than those currently at play (see

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	–	1.3	5.1
2012	3.3	2.0	2.5	3.0	–	1.7	4.1
2013	1.3	1.3	1.1	1.2	–	1.1	-1.2
2013 – Jan.	2.4	1.7	2.2	2.2	0.2	1.6	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	0.1	1.4	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	0.0	1.3	-1.1
June	1.4	1.2	1.3	1.2	0.1	1.1	-0.7
July	1.2	1.0	1.1	1.2	0.1	1.1	-1.5
Aug.	1.2	1.2	1.2	1.2	0.2	1.1	-2.4
Sept.	0.9	1.3	0.9	0.9	0.0	1.2	-2.2
Oct.	0.8	1.2	0.3	0.8	-0.1	1.1	-2.5
Nov.	0.7	1.1	0.2	0.7	-0.1	1.1	-2.3
Dec.	0.7	0.9	0.3	0.7	0.1	0.8	-2.1
2014 – Jan.	0.6	0.9	0.3	0.7	0.2	0.9	-1.5
Feb.	0.4	0.9	0.1	0.5	-0.1	0.9	-1.7
Mar.	0.3	0.9	-0.1	0.4	0.0	0.8	-1.9
Apr.	0.5	1.1	0.2	0.6	0.0	1.0	-1.7
May	0.4	0.8	0.0	0.5	-0.1	0.7	-1.7
June	0.2	0.7	-0.2	0.3	-0.1	0.7	-1.8
July	0.0	0.5	-0.3	0.1	-0.1	0.6	-1.9
Aug.	-0.2	0.4	-0.6	-0.1	0.0	0.5	-2.0
Sept.	-0.1	0.5	-0.5	-0.2	0.0	0.4	….

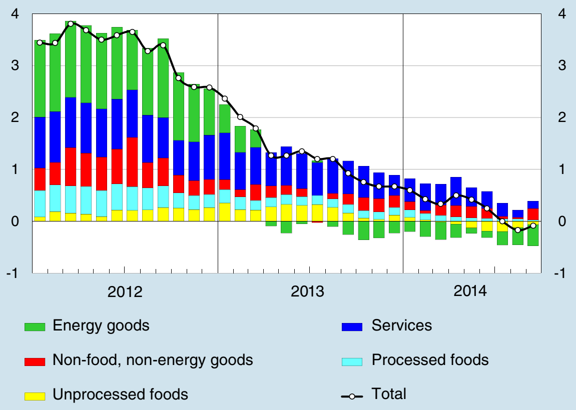
Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the harmonized index principally on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (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) Seasonally adjusted.

the box "The trend of inflation in Italy"). About a third of the decline with respect to the second quarter was attributable to the drop in energy prices following the July cuts in gas charges. Even net of the more volatile components (energy and food) the index fell to the lowest levels on record (0.4 per cent in August and 0.5 per cent in September). The protracted weakness of domestic demand was accompanied by other factors such as the large discounts on clothing and footwear in the summer sales and the adverse effects of the poor weather on tourism services. The overall consumer price index for the entire resident population (CPI) also recorded negative twelve-month changes in August and September (-0.1 and -0.2 per cent respectively) for the first time since 1959.

Figure 26

Consumer price inflation in Italy and its components (1)

(monthly data, 12-month percentage changes and percentage points)



Source: Based on Eurostat data.
(1) HICP.

Prices moderate for a large number of expenditure items

In September less than a third of the individual items within the HICP basket recorded negative twelve-month variations, a slightly larger share than in spring but less than the peak of 35 per cent reached in August. Some 61 per cent of the items recorded rises of less than 1 per cent, compared with 27 per cent on average in 2001-13.

THE TREND OF INFLATION IN ITALY

Consumer price inflation in Italy has been diminishing for more than two years now, and in August and September it was slightly negative, with a twelve-month rate of -0.1 per cent for the HICP and -0.2 per cent for the national consumer price index.

Previously, negative inflation had been recorded for a single month only, July 2009, following the financial crisis of 2008-09, when the HICP was down 0.1 per cent from a year earlier. On that occasion the decline was due essentially to the impact on the more volatile components (energy and food prices) of declining world food commodity prices and the exceptionally sharp drop in oil prices from their summer 2008 peak.

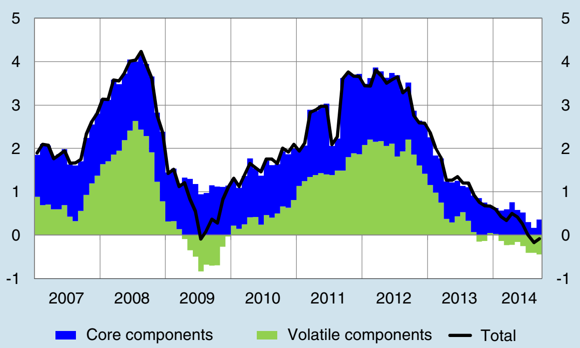
In the present cyclical phase, by contrast, the core components (non-energy industrial products and services) have also made a substantial contribution to the decline in inflation. Core inflation has come down to very low levels (0.5 per cent in September; Figure A). The deceleration has been most pronounced for clothing, communication goods and services, hotel services and insurance.

The recent slackening of core inflation is largely ascribable to the persistence of poor cyclical conditions and their increasing impact on consumer prices in the course of the past two years. In this more recent period, in fact,

Figure A

Harmonized consumer price inflation and contributions of the main components

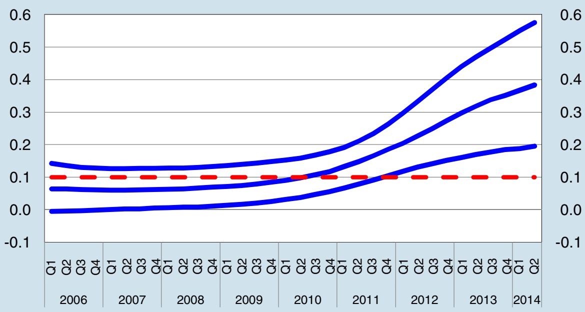
(percentage change over 12 months and percentage points)



prices have become more responsive to spare production capacity, both in Italy and in other euro-area countries. Figure B shows the estimated elasticity of core inflation to the output gap in Italy.[1] This elasticity is now at least three times greater than before 2012; similar results have been found for the area as a whole and, among the leading economies, for Spain and France.[2]

Figure B

Elasticity of core inflation to the output gap (1)



(1) The blue curves represent the 15th, 50th and 80th percentiles of the distribution of the coefficients, which are variable over time, estimated by non-parametric methods. The red dashed line shows the estimate obtained in the period 2004-2012 using a constant-coefficients model. The output gap used here is that estimated by the European Commission in *European Economic Forecast Spring 2014*; it is made quarterly by quadratic interpolation.

One factor in the heightened responsiveness of prices to cyclical conditions is presumably the quicker reaction of short- and medium-term inflation expectations to cyclical developments. A linear model indicates that expectations for euro-area inflation two years ahead, proxied by inflation swaps, have reacted promptly not only to the volume of unutilized resources within the economy but also to the inflation surprises of the last two years, which according to our analysis have helped to induce a gradual but constant downward adjustment of inflation expectations over a steadily lengthening time frame. The depth and the duration of the recession (both much greater than in the past), the permanent fall in consumption, and the exceptionally protracted period of underutilization of production capacity may also have generated non-linear effects, prompting firms to lower their list prices more quickly.

[1] The estimates are derived using an equation linking current inflation to past inflation and the output gap, defined as the percentage difference between actual and potential output.
[2] See M. Riggi and F. Venditti, "Surprise! Euro area inflation has fallen", Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), No. 237, 2014.

Pressures coming from producer prices remain weak

The decline in producer prices accelerated to a twelve-month rate of -2.0 per cent in August. The change in the prices of non-food final consumer products, which is indicative of the future trend in the corresponding consumer prices, was again modest, amounting to 0.8 per cent over twelve months.

The firms polled in the September quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore* again expect modest adjustments to list prices owing to persistently weak domestic demand and the pricing policies of their main competitors. According to the Purchasing Managers Index, in September firms reported a reduction in their selling prices and a slower increase in input prices after the sharp rises of the summer.

Inflation expectations are revised downwards

In October the professional analysts surveyed by Consensus Economics again lowered their consumer price inflation forecasts, to 0.2 per cent in 2014 and 0.6 per cent in 2015 from 1.1 and 1.3 per cent respectively in January. Consumer price inflation should remain modest over the longer term as well; looking ahead over the next ten years, inflation seems unlikely to return to 2.0 per cent before 2019. According to the latest Bank of Italy-*Il Sole 24 Ore* survey firms expect consumer price inflation to be even more modest, remaining below 1.0 per cent at least until 2018.

2.7 BANKS

Lending to firms again declined, reflecting on the supply side the continuing riskiness of borrowers and on the demand side, more than in previous quarters, the weak economic outlook. However, business surveys showed a slight improvement in conditions for accessing credit, but only for the largest firms. The cost of new loans to the productive sector continued to fall and banks further strengthened their capital base.

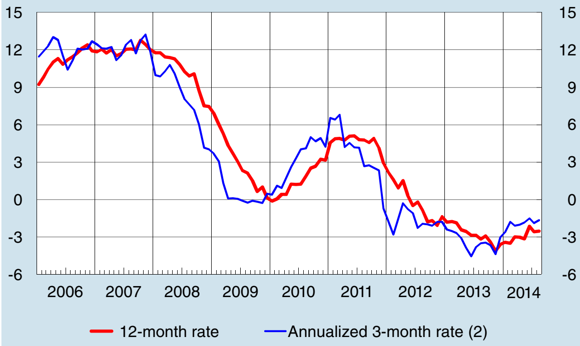
Lending continues to shrink

Bank lending to the non-financial private sector continued to fall steadily, at a seasonally adjusted annual rate of 1.7 per cent in the three months to August (Figure 27); on the demand side, it was affected by the weakening of economic activity (see Section 2.2). Lending to non-financial corporations contracted sharply, by 2.6 per cent, and that to households moderately (down by 0.4 per cent). The decline in loans to the latter for house purchase slowed (from -0.7 to -0.2 per cent), while that in other lending accelerated (from -0.1 to -0.9 per cent).

Figure 27

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.

From the end of May to the end of August, Italian banks' retail funding from resident households increased (Table 6), mainly reflecting the growth in demand deposits, up by 6.1 per cent on an annual

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	May 2014	August 2014	May 2014	August 2014
Assets				
Loans to Italian residents (4)	1,834	1,814	-2.8	-2.2
to firms (5)	*822*	*819*	*-4.7*	*-3.8*
to households (6)	*598*	*596*	*-1.0*	*-0.8*
Claims on central counterparties (7)	59	85	-27.0	9.6
Debt securities excluding bonds of resident MFIs (8)	547	542	-3.5	-6.6
securities of Italian general government entities	*413*	*410*	*-1.8*	*-4.3*
Claims on the Eurosystem (9)	16	10	-32.4	-49.7
External assets (10)	290	294	-5.6	-2.1
Other assets (11)	1,250	1,248	-7.9	-5.5
Total assets	**3,995**	**3,993**	**-5.4**	**-3.9**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,274	1,311	2.6	5.2
Deposits of non-residents (10)	309	304	-6.1	-8.5
Liabilities towards central counterparties (7)	98	124	-34.4	-13.7
Bonds (13)	505	483	-6.5	-8.9
Liabilities towards the Eurosystem (9)	216	164	-16.5	-32.2
Liabilities connected with transfers of claims	137	137	-11.4	-13.3
Capital and reserves	405	416	5.8	8.7
Other liabilities (14)	1,051	1,055	-9.9	-5.6
Total liabilities	**3,995**	**3,993**	**-5.4**	**-3.9**

Source: Supervisory reports,
(1) The figures for August 2014 are provisional. – (2) Billions 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 institutions serving households and units not classified elsewhere. – (7) Only repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (9) Accounts with the Eurosystem for monetary policy operations; see Supplements to the Statistical Bulletin, Monetary and Financial Indicators, Money and Banking, Tables 1.4a and 1.4b. – (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 some minor items. – (12) Excludes liabilities connected with transfers of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Bonds held by resident MFIs, deposits of resident MFIs, money market fund units, derivatives and some minor items.

basis from 4.7 per cent in May. Over the same period there was a decrease in net bond placements at bank branches and in funding on the overseas interbank market.

Credit demand is still weak; supply conditions improve for large firms

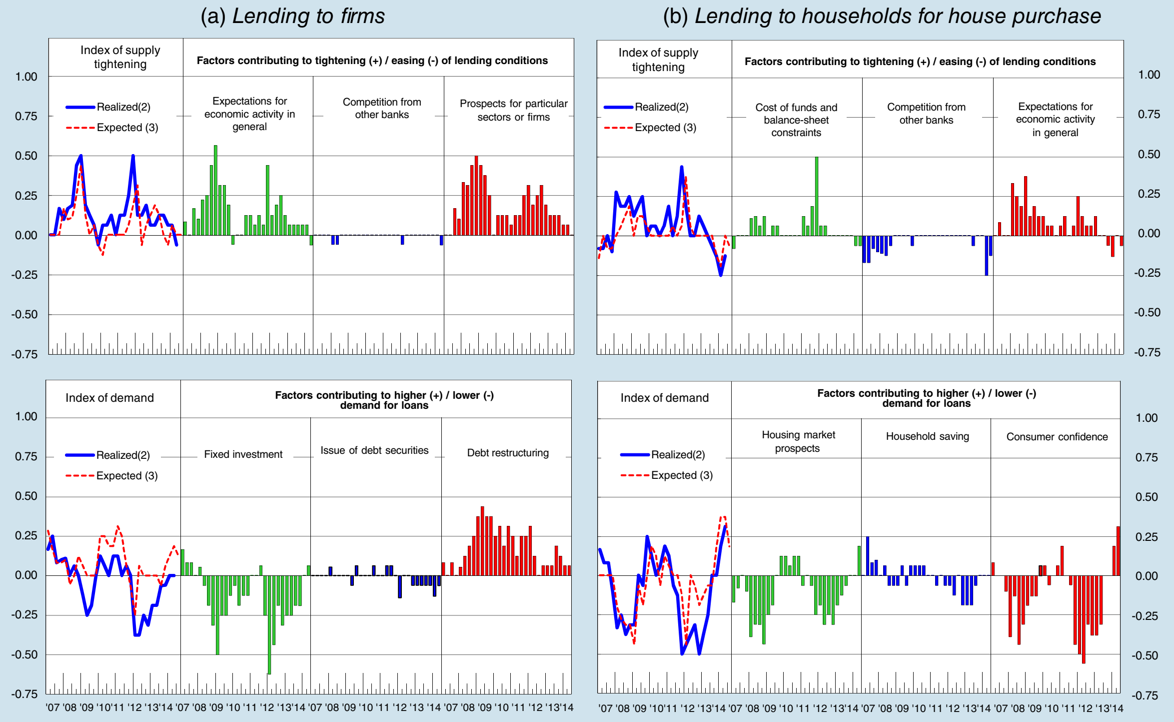
The banks polled for the bank lending survey reported a slight easing of credit supply conditions for both firms and households in the second quarter (see the box "Credit supply and demand"); firms' demand remained weak while that of households picked up. According to preliminary data for July and August the easing halted, mainly owing to the deterioration in economic conditions. Recent business surveys indicate that lending conditions differ according to firm size and that only the largest companies enjoy less restrictive lending policies, while smaller enterprises continue to encounter difficulties.

CREDIT SUPPLY AND DEMAND

According to the banks interviewed in July as part of the quarterly euro-area bank lending survey, in the second quarter both the improvement in expectations for economic activity and greater pressure from other banks had led to an easing of lending criteria, more markedly for households than for businesses (Figure A).[1] For both firms and households, the easing of credit supply conditions led above all to a reduction in the average margin applied to loans.

Figure A

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



Source: 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.

[1] Eight leading banking groups took part in the survey, which was completed on 11 July. The results for Italy are available at www.bancaditalia.it, and those for the euro area at www.ecb.int. The responses concerning assessments for the third quarter of 2014 and expectations for the next quarter will be published on 29 October.

For the third quarter, the banks surveyed expected no change in lending conditions for firms but a further small improvement in the conditions offered to households.

The banks surveyed reported that firms' demand for loans had remained weak, while households' demand for mortgage loans had strengthened further, in conjunction with greater consumer confidence and a more favourable outlook for the property market at the time of the survey.

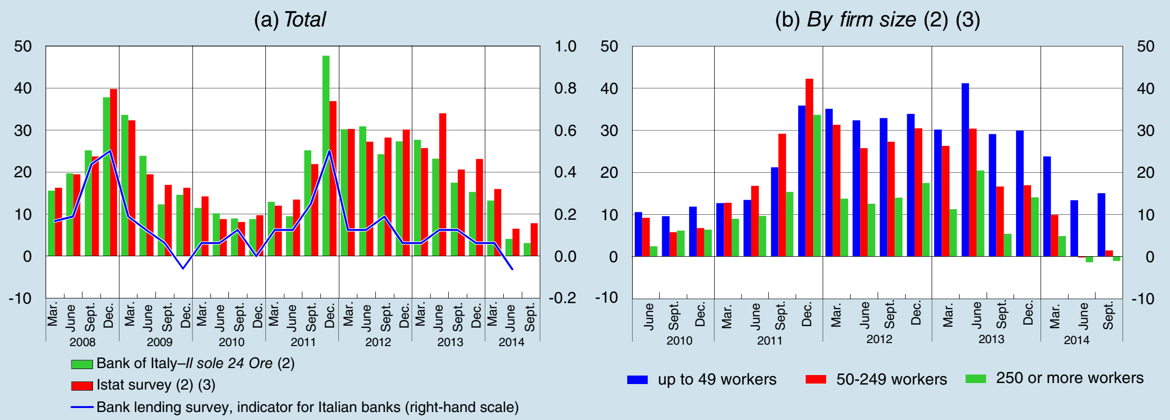
The most recent business surveys indicate, however, some residual tensions in the supply of credit (Figure B), although this only applies to some specific customer segments.

According to the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, the net percentage of firms reporting greater difficulty in obtaining credit decreased slightly in the third quarter to 3.1 per cent, from 4.1 per cent in the second.[2] However, the trend of the indicator differed between firms: those with 200 or more workers reported more favourable borrowing conditions compared with June, while for smaller firms credit supply conditions appeared to have remained much the same.

Similar indications can be found in Istat's monthly survey of manufacturing firms. In September there was an increase in the net percentage of companies with fewer than 50 workers that reported less favourable borrowing conditions than in the previous month: 15.1 per cent compared with 13.4 per cent in June (Figure B). Instead the slight improvement reported by the largest firms (250 or more workers) continued. Firm size also influences the likelihood of obtaining credit: the share of firms reporting they had not obtained the loan requested remained significantly higher for smaller firms (16 per cent against 8 per cent for the largest firms).

Figure B

Credit access conditions for Italian firms (1)



(1) The Bank of Italy – *Il Sole 24 Ore* survey and the Istat survey are conducted respectively on samples of firms in industry and services and in manufacturing. The Istat result is taken from the end-of-quarter survey: in June 2013 some methodological changes involving the sample and data observation techniques were made, precluding direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Net percentages of firms reporting difficulty in obtaining credit. – (3) Istat, *Business confidence survey in the manufacturing sector.*

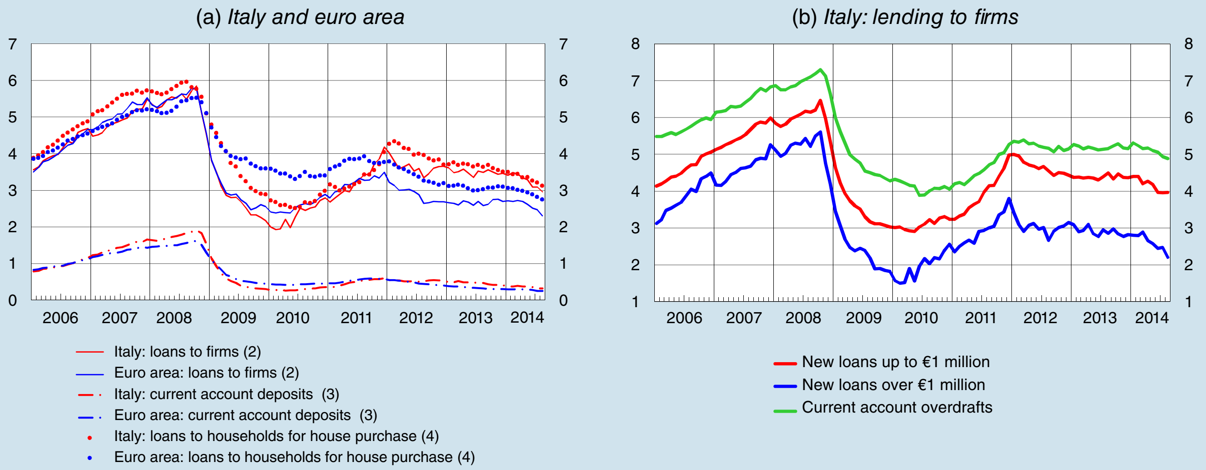
[2] The net percentage is calculated as the difference between the percentage of replies indicating a tightening of lending standards and the percentage of those indicating an easing.

The cost of credit to firms and households continues to decline

The reduction of official interest rates by the ECB in June helped to cut the cost of credit further. In August the average cost of new mortgage loans to households fell to 3.1 per cent from 3.4 per cent in May (Figure 28) and the differential with

Figure 28

Bank interest rates (1)
(monthly data; per cent)



Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current accounts of households and firms. – (4) Rate on new loans to households for house purchase.

respect to the average in the euro area remained at 40 basis points. The average cost of new loans to firms also came down sharply, from 3.3 to 3.0 per cent, although it was still 65 basis points above the euro-area average (70 points in May).

The cost of credit to Italian firms declined by 40 basis points (to 2.2 per cent) for loans over €1 million (Figure 28) and by 20 points (to 4.0 per cent) for lower amounts. The average interest rate on current account overdrafts was also reduced sharply, from 5.1 to 4.9 per cent, but nonetheless remained high.

The new bad debt ratio falls further for firms

The ratio of new bad debts to outstanding loans was unchanged from the previous quarter at 2.6 per cent on a seasonally adjusted annual basis. It fell to 4.1 per cent for loans to firms. Preliminary data indicate that in July and August banks' total exposure to borrowers with loans reported as bad debts for the first time was 14 per cent lower than twelve months earlier.

The profitability of the major groups improves slightly ...

According to the consolidated quarterly financial statements, in the first half of 2014 the profitability of the five largest Italian banking groups was slightly better than a year earlier, thanks to the reduction in operating costs and in value adjustments to loans (-1.4 and -10.0 per cent respectively). Annualized ROE improved but was still modest (2.5 per cent, compared with 1.9 per cent a year earlier). The 1.2 per cent increase in net interest income was offset by a sharp fall in fee income (down by 36.1 per cent). Overall, gross income was down by 1.5 per cent.

...and their capital ratios rise

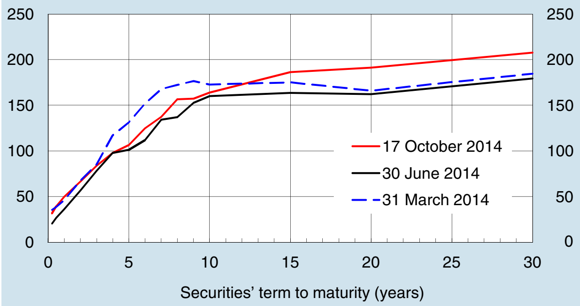
In the first half of the year banks' capital was boosted by the completion of some major capital increases. According to the consolidated half-yearly reports, in June the common equity tier 1 ratio for the five largest groups averaged 12.0 per cent. The new tier 1 and total capital ratios were 12.5 and 16.2 per cent respectively.

2.8 THE FINANCIAL MARKETS

After remaining relaxed during the third quarter, conditions on the Italian financial markets became highly volatile again in October, owing to the reaction of market participants to the deterioration in cyclical conditions in Europe, intensified by fears about Greece's political and financial situation. The yield spreads with respect to German government bonds widened temporarily, while share prices fell sharply. Part of the movement was reabsorbed in the following days.

Figure 29

Term structure of the yield spread between Italian and German government securities
(basis points)



Source: Based on Bloomberg data.

Spreads on Italian government securities rise temporarily ...

Yield spreads between Italian and German government securities, which in the third quarter had fallen to their lowest value since May 2011, rose sharply in the middle of October and then fell again: on 17 October the spread on ten-year paper was 164 basis points, about 25 basis points higher than at the end of September (Figure 29). Over the same period the yield on the Italian security increased by 16 basis points, to 2.50 per cent. In the third quarter the fall had benefited from the expansionary measures adopted by the ECB and from investors' search for assets with relatively high yields and limited volatility. The pronounced rise in mid-October can be attributed to the reaction to the worsening of the macroeconomic situation in Europe, exacerbated by concern about the continuation of Greece's rehabilitation.

... as do those on bonds of non-financial corporations

After falling sharply in the third quarter, the yield spreads between the bonds of non-financial corporations and government securities with the highest credit rating rose to 97 basis points in October. From the end of June the credit default swap spreads of the main Italian banks rose by 31 basis points, to 161, a level considerably higher than that of the leading German and French banks (82 and 69 basis points, respectively).

Net redemptions of bank bonds continue

In the second quarter Italian banks and their euro-area counterparts recorded net bond redemptions of €28 billion and €71 billion respectively (Table 7). Gross issues have nonetheless continued; according to preliminary Dealogic data, in the third quarter Italian banks' placements amounted to €4 billion

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2012	83.2	-5.6	12.7	90.3
2013	-80.3	-16.7	22.4	-74.5
2013 – Q1	-29.8	-3.2	3.8	-29.2
Q2	-14.8	-2.5	3.5	-13.9
Q3	-21.5	-3.4	8.6	-16.3
Q4	-14.2	-7.5	6.6	-15.2
2014 – Q1	-48.5	-8.6	3.3	-53.8
Q2	-28.3	2.2	-1.6	-27.7
		Euro area		
2012	5.7	-0.6	121.9	127.0
2013	-352.8	-50.1	85.4	-317.5
2013 – Q1	-117.8	-19.1	17.3	-119.6
Q2	-99.3	16.3	11.5	-71.5
Q3	-92.2	-12.5	31.3	-73.4
Q4	-43.5	-34.8	25.3	-52.9
2014 – Q1	-116.2	-35.8	18.2	-133.8
Q2	-70.9	49.3	22.1	0.5

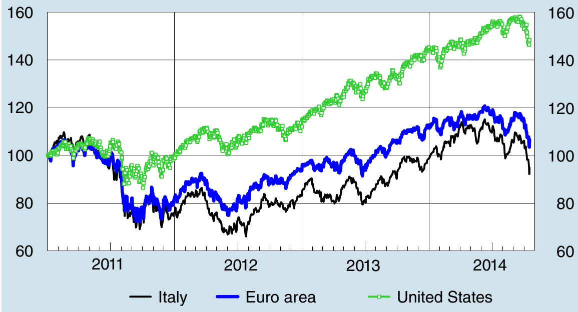
Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by companies resident in Italy or the euro area and belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the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

(as against €14 billion in the previous quarter), of which €2 billion uncollateralized.

Figure 30

Share prices (1)

(daily data; indices, 3 January 2011=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.

The stock exchange index slumps

The Italian stock exchange index, which had risen by 74 per cent between July 2012 and June 2014, has fallen by 11 per cent since the end of September and by 14 per cent since the end of June, compared with a fall of 9 per cent for the main euro-area companies (Figure 30). The fall was due to the large increase in the risk premium required by investors, also owing to the greater uncertainty of the macroeconomic outlook in the euro area and the intensification of geopolitical tensions. On the other hand equities were sustained by the increase in expected earnings and the reduction in the long-term interest rates on the securities considered to be most secure. The rise in the equity risk premium may also be influenced by the sizeable increase in the expected volatility of the stock exchange index, which, inferred from the prices of stock index options, returned to its February 2013 level.

Share prices fell sharply in every sector and especially oil products, services, industry and telecommunications (19 per cent, 17 per cent, 16 per cent and 15 per cent, respectively).

Net inflows to investment funds contract

According to Assogestioni data, in the second quarter net inflows to Italian and foreign open-end investment funds amounted to €18 billion, down from €25 billion in the previous quarter. Net funding was substantial for both flexible and bond funds, while money market funds recorded net outflows.

2.9 THE PUBLIC FINANCES

At the end of September the Government updated its forecasts for the public finances to take account of the worsening economic conditions: the estimate of general government net borrowing for 2014 was raised from 2.6 to 3.0 per cent of GDP. The stability bill for 2015 was presented in mid-October. The shift to the ESA 2010 accounting framework led to 2013 net borrowing being revised down from 3.0 per cent of GDP to 2.8 per cent and the debt from 132.6 to 127.9 per cent (see the box "The general government accounts according to ESA 2010").

THE GENERAL GOVERNMENT ACCOUNTS ACCORDING TO ESA 2010

In September the general government annual accounts were published, drawn up according to the new accounting system ESA 2010.

The new statistical framework modifies the methodological criteria for defining the perimeter of general government, with the inclusion of some entities that operate mainly at local level and of Gestore dei Servizi Energetici; in addition the accounting treatment of some items of the general government consolidated accounts has been changed.

On the expenditure side the main changes concern (a) military spending and spending on research and development, classified as investment and no longer as intermediate consumption; (b) the exclusion from interest payments of flows of net interest in relation to transactions in derivative financial instruments (which had increased the item by €3.2 billion in 2013); and (c) the inclusion of some tax credits, which have been recognized as expenditure, recorded for the full amount in the year in which they arise.

On the revenue side the main changes concern (a) VAT revenue, now recorded gross of the component serving to finance the EU budget (with a corresponding increase in transfers to the rest of the world on the expenditure side); and (b) the inclusion of the components of the electricity tariff used to finance the renewable energy incentives (offset on the expenditure side by a corresponding flow of production subsidies).

The switch to ESA 2010 reduces 2013 net borrowing by 0.2 percentage points of GDP (of which 0.1 points due to the upward revision of GDP); the reduction in interest payments (due mainly to the change referred to above) is only offset in part by that in the primary surplus. The contraction of 4.8 percentage points in the ratio of the debt to GDP is due to the upward revision in GDP.

The EFD Update estimates net borrowing at 3.0 per cent of GDP, up from 2.8 per cent in 2013

On 30 September, in the Update of the 2014 Economic and Financial Document, the Government revised its April public finance forecasts (Tables 8 and 9). Net borrowing is now expected to rise this year by 0.2 percentage points to 3.0 per cent of GDP, whereas in April a reduction of 0.4 points had been expected. The change reflects the revision of the projected primary surplus, basically attributable to the worsening forecast for real GDP (which is now expected to contract by 0.3 per cent, as against an expansion of 0.8 per cent expected in April; in nominal terms growth would slow from 1.7 to 0.5 per cent).

According to the new Government estimates revenue should rise compared with 2013 by 0.5 per cent and primary expenditure by 1.3 per cent; interest payments are expected to decline slightly in relation to GDP to 4.7 per cent.

The structural deficit is also expected to deteriorate

Within the planning framework of the Update, structural net borrowing (i.e. net of cyclical effects and temporary measures) is projected to increase to 0.9 per cent of GDP, or by 0.3 percentage points with respect to 2013. The ratio of public debt to GDP is expected to be 131.6 per cent, an increase of 3.7 percentage points, as against the 2.3 points forecast in April. The worsening is entirely due to the lower growth in GDP.

Table 8

Public finance objectives and estimates for 2014
(billions of euros and per cent of GDP)

	General government				*Memorandum item:*
	Net borrowing	Structural net borrowing	Primary surplus	Debt (1)	Real GDP growth rate (per cent)
Objectives					
April 2013 (2)	28.5	….	61.9	2,094.3	1.3
% of GDP	1.8	-0.4	3.8	129.0	
September 2013 (3)	….	….	….	2,128.8	1.0
% of GDP	2.5	0.3	2.9	132.8	
October 2014 (4)	….	….	….	2,140.6	-0.3
% of GDP	3.0	0.9	1.7	131.6	
Estimates					
April 2014 (5)	41.9	….	40.7	2,141.5	0.8
% of GDP	2.6	0.6	2.6	134.9	
October 2014 (4)	49.2	….	27.5	….	-0.3
% of GDP	3.0	1.2	1.7	131.7	

(1) The estimates and objectives given in the official documents are not entirely consistent because they include, in a non-homogeneous manner, the effects of the financial support given to countries in difficulty and the Italian contribution to the European Stability Mechanism. – (2) *2013 Economic and Financial Document*. – (3) *Update of the 2013 Economic and Financial Document*. – (4) *Update of the 2014 Economic and Financial Document*. These data are affected, unlike the others shown in the table, by the switch to the ESA 2010 accounting standards. – (5) *2014 Economic and Financial Document*.

Table 9

Outturns and official objectives for the main general government balances (1)
(billions of euros and per cent of GDP)

	2013	2014	2015	2016	2017	2018
Net borrowing	46.0	....	....	....	....	....
% of GDP	*2.8*	*3.0*	*2.9*	*1.8*	*0.8*	*0.2*
Primary surplus	32.2	....	....	....	....	....
% of GDP	*2.0*	*1.7*	*1.6*	*2.7*	*3.4*	*3.9*
Interest payments	78.2	....	....	....	....	....
% of GDP	*4.8*	*4.7*	*4.5*	*4.5*	*4.2*	*4.1*
Structural net borrowing	....	....	....	....	....	....
% of GDP	*0.7*	*0.9*	*0.9*	*0.4*	*0.0*	*0.0*
Debt	2,069.8	2,140.6	2,196.9	2,228.3	2,241.4	2,241.8
% of GDP	*127.9*	*131.6*	*133.4*	*131.9*	*128.6*	*124.6*
Debt net of support to EMU countries (2)	2,014.2	2,079.0	2,134.9	2,165.8	2,178.4	2,178.3
% of GDP	*124.4*	*127.8*	*129.7*	*128.2*	*125.0*	*121.0*

Sources: Update of the 2014 Economic and Financial Document.
(1) Rounding may cause discrepancies in totals. – (2) Net of Italy's bilateral loans to Greece, its share of the loans disbursed by the European Financial Stability Facility and its contribution to the capital of the European Stability Mechanism.

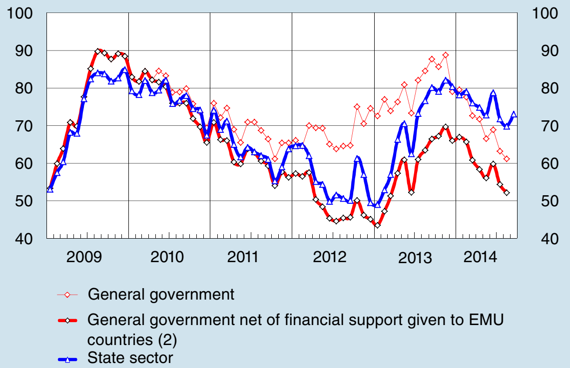
The performance of the accounts is consistent with the Government's estimates: the borrowing requirement contracts ...

The results of the accounts seen so far appear in line with the estimate for net borrowing in the Update of the 2014 Economic and Financial Document, bearing in mind the dishomogeneous criteria used to calculate this aggregate compared with the borrowing requirement.

In the first eight months of 2014 the general government borrowing requirement net of privatization receipts amounted to €42.8 billion, €17.8 billion less than in the same period of 2013 (Figure 31). Net of the main financial transactions

Figure 31

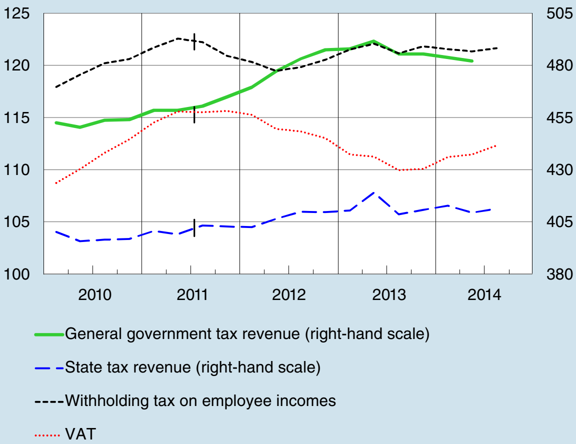
Rolling 12-month borrowing requirement (1)
(billions of euros)



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

Figure 32

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



Sources: Istat for general government tax revenue; *Rendiconto generale dell'amministrazione dello Stato* and State budget for the other items.
(1) From September 2011 the State budget figures do not include the revenue pertaining to the Trentino-Alto Adige region or the autonomous provinces of Trento and Bolzano.

that increased the borrowing requirement in 2013 (€3.6 billion) and of the resources allocated to the financial support of EMU countries (€8.7 billion in 2013 and €4.7 billion in 2014), the borrowing requirement is about €10 billion lower than last year. Taking expected tax revenue into account, most of the improvement is likely to be eroded by the end of the year.

In the first nine months of 2014 State tax revenue, net of lotto and lotteries, increased by €1.2 billion and 0.4 per cent. The proceeds of direct taxes contracted by €3.8 billion or 2.4 per cent; those of indirect taxes grew by €5.0 billion or 4.2 per cent as a consequence of the increase in the standard VAT rate at the end of 2013 and the receipts of excise duties on mineral oils, up by €1.8 billion or 10.9 per cent (Figure 32), which were affected by an accounting break between 2013 and 2014. When account is taken of that break, State tax revenue decreased slightly; for the year as a whole a decrease in State revenue should be offset by an increase in local government revenue, buoyed by property taxes.

... but the quarterly accounts on an accrual basis show a worsening of the balance

According to Istat's estimates, net borrowing amounted to 3.8 per cent of GDP in the first half of 2014, 0.3 percentage points more than in the corresponding period of 2013 (Table 10). Total expenditure decreased by 0.4 per cent, mainly owing to the fall of 6.1 per cent in capital expenditure. The growth of 0.2 per cent in primary current expenditure was driven by the increase of 1.4 per cent in social benefits, which was only partly offset by the reduction in compensation of employees and intermediate consumption, down by 0.8 and 1.7 per cent respectively. Revenue contracted by 1.1 per cent, reflecting the falls in direct and capital taxes.

General government debt increased by €78.6 billion in the first eight months (€71.5 billion in the same period of 2013). Apart from the borrowing requirement, the change in the debt was due above all to the increase of €44.8 billion in the Treasury's liquid balance on deposit with the Bank of Italy, while the issue of securities above par, the appreciation of the euro and the revaluation of indexed BTPs curbed the increase by €5.7 billion.

The Government postpones achievement of structural budget balance to 2017

Given the adverse macroeconomic situation and the desire for quick passage of a package of structural reforms designed to increase the potential of the economy, the Government plans to postpone achievement of structural budget balance to 2017, deeming this delay to be consistent with the margins of flexibility allowed for in the European rules. For 2015 the aim is to have an expansionary budget amounting to 0.7 per cent of GDP compared with the projections on a current legislation basis, which would still lower net borrowing by 0.1 percentage points of GDP, to

Table 10

General government expenditure and revenue
(millions of euros and percentage changes)

	H1			
	2013	2014	% change on corresponding period of previous year 2013	2014
TOTAL EXPENDITURE	**390,791**	**389,341**	**0.5**	**-0.4**
Current expenditure net of interest payments	322,837	323,500	1.8	0.2
of which: compensation of employees	*76,665*	*76,023*	*-1.1*	*-0.8*
intermediate consumption	*42,431*	*41,726*	*1.0*	*-1.7*
social benefits in cash	*149,821*	*151,964*	*2.6*	*1.4*
Interest payments	39,164	38,797	-8.1	-0.9
Capital expenditure	28,790	27,044	-1.3	-6.1
of which: gross fixed investment	*19,055*	*17,873*	*-4.4*	*-6.2*
TOTAL REVENUE	**362,782**	**358,858**	**2.1**	**-1.1**
Current revenue	359,004	356,545	1.5	-0.7
of which: direct taxes	*106,496*	*104,465*	*5.9*	*-1.9*
indirect taxes	*120,041*	*120,353*	*-2.8*	*0.3*
social security contributions	*97,134*	*97,325*	*-0.1*	*0.2*
Capital revenue	3,778	2,313	105.7	-38.8
of which: capital taxes	*2,406*	*870*	*285.0*	*-63.8*
NET BORROWING	**-28,009**	**-30,483**		
Primary balance	**11,155**	**8,314**		
Memorandum item:				
GDP	791,653	794,296	-1.2	0.3

Source: Istat, *Conto economico trimestrale delle Amministrazioni pubbliche*.

2.9 per cent. The size of the correction on a structural basis would be similar. The temporary deviation from the path leading to budgetary balance, which was approved by Parliament with a qualified majority, will be assessed by the European Commission and the Council.

According to the Government's plans, the structural balance will improve by about 0.5 percentage points of GDP per year, attaining the medium-term objective. The primary surplus is projected to increase gradually in relation to GDP, rising from 1.6 per cent in 2015 to 3.9 per cent in 2018. Interest payments should fall from 4.5 to 4.1 per cent of GDP, benefiting from a further narrowing of the yield spread between Italian and German ten-year bonds.

The ratio of debt to GDP should start to come down in 2016

The ratio of debt to GDP is expected to rise to 133.4 per cent in 2015; it is projected to start decreasing in 2016, one year later than forecast in April, and to reach 124.6 per cent in 2018.

The Government approves the stability bill

The stability bill approved by the Council of Ministers on 15 October specifies the measures for achieving the planning objectives indicated in the Update of the 2014 Economic and Financial Document. On the basis of the information currently available, the main measures are to include tax reliefs on the cost of labour for permanent employees: the labour component is to be excluded from the tax base of the regional tax on productive activities of the labour component, and social security contributions are to be waived for three years for newly hired permanent employees. In addition, the tax credit for employees with medium-low incomes is to be made permanent and private sector employees so requesting are to receive the severance pay instalments accruing each month in their pay packets. Expenditure cuts are to contribute to the financing of this measure.

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
2010	2.5	1.9	1.3	0.1	..	1.5	0.2	2.9	3.0	11.9	12.7	-0.5	1.5
2011	1.6	2.3	1.6	-3.0	-0.7	6.3	0.9	1.6	1.6	6.9	5.5	..	-0.1
2012	2.3	1.8	1.3	-1.4	-0.3	8.3	1.2	2.2	2.3	3.3	2.3	..	0.2
2013	2.2	2.4	1.6	-2.0	-0.4	4.7	0.7	1.9	2.0	3.0	1.1	0.2	0.1
2012 – Q1	2.3	2.8	1.9	-2.7	-0.6	9.1	1.2	2.3	2.4	1.3	1.7	-0.1	-0.2
Q2	1.6	1.3	0.9	-0.4	-0.1	4.4	0.6	1.6	1.6	4.8	4.0	..	0.3
Q3	2.5	1.9	1.3	2.7	0.5	3.1	0.5	2.0	2.1	2.1	-0.6	0.4	-0.2
Q4	0.1	1.9	1.3	-6.0	-1.2	6.6	1.0	-0.7	-0.7	1.5	-3.5	0.8	-1.8
2013 – Q1	2.7	3.6	2.5	-3.9	-0.8	2.7	0.4	2.7	2.8	-0.8	-0.3	-0.1	0.7
Q2	1.8	1.8	1.2	0.2	..	4.9	0.7	2.2	2.3	6.3	8.5	-0.5	0.3
Q3	4.5	2.0	1.4	0.2	..	6.6	1.0	3.8	3.9	5.1	0.6	0.6	1.5
Q4	3.5	3.7	2.5	-3.8	-0.7	6.3	1.0	2.3	2.4	10.0	1.3	1.1	-0.3
2014 – Q1	-2.1	1.2	0.8	-0.8	-0.2	0.2	..	-0.4	-0.4	-9.2	2.2	-1.7	-1.2
Q2	4.6	2.5	1.8	1.7	0.3	9.5	1.5	4.8	4.9	11.1	11.3	-0.3	1.4

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
2010	4.7	2.8	1.7	1.9	0.4	-0.2	-0.1	2.9	2.9	24.4	11.1	1.7	0.9
2011	-0.5	0.3	0.2	1.2	0.2	1.4	0.3	0.4	0.4	-0.4	5.9	-0.9	-0.3
2012	1.5	2.0	1.2	1.7	0.4	3.4	0.7	2.3	2.3	-0.2	5.3	-0.9	0.1
2013	1.5	2.0	1.2	2.0	0.4	2.6	0.5	1.8	1.8	1.6	3.4	-0.3	-0.3
2011 – Q1	-6.9	-6.9	-4.1	0.2	..	-0.2	..	-5.9	-5.9	-2.9	5.3	-1.2	-1.6
Q2	-2.7	4.0	2.3	1.3	0.3	0.5	0.1	1.8	1.7	-26.6	-1.2	-4.5	-1.0
Q3	10.8	6.6	4.0	0.5	0.1	6.9	1.4	6.8	6.7	44.6	13.4	3.9	1.4
Q4	0.6	2.4	1.4	1.0	0.2	15.8	3.0	3.7	3.6	-11.9	6.9	-3.0	-1.1
2012 – Q1	4.1	1.5	0.9	6.0	1.2	-0.6	-0.1	3.6	3.6	11.9	8.3	0.4	1.6
Q2	-2.2	1.7	1.0	-2.3	-0.5	2.2	0.4	-0.7	-0.7	-1.9	7.2	-1.4	-1.7
Q3	-2.7	-1.9	-1.2	1.5	0.3	-4.1	-0.9	-0.7	-0.7	-15.2	-3.0	-1.9	1.1
Q4	-0.5	1.8	1.1	2.7	0.5	-2.2	-0.5	0.1	0.1	-12.0	-7.6	-0.5	-1.1
2013 – Q1	5.1	4.2	2.6	3.5	0.7	-0.7	-0.2	3.3	3.3	18.1	4.8	1.7	0.3
Q2	3.4	3.0	1.8	2.3	0.5	11.2	2.2	3.1	3.1	12.8	9.6	0.2	-1.3
Q3	1.8	0.8	0.5	0.4	0.1	10.9	2.2	3.4	3.4	-2.8	7.3	-1.6	0.6
Q4	-0.5	1.5	0.9	0.8	0.2	5.2	1.1	1.9	1.9	1.1	15.7	-2.4	-0.3
2014 – Q1	6.0	8.4	5.1	-0.7	-0.1	19.1	4.0	6.6	6.7	28.6	28.0	-0.8	-2.1
Q2	-7.1	-19.0	-12.6	0.3	0.1	-18.0	-4.5	-10.7	-11.6	-2.0	-20.6	4.3	5.5

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								
2009	-4.5	-11.4	-6.4	....	....	-11.0	-1.0	2.4	-12.7
2010	2.0	9.7	4.0	....	....	-0.5	0.8	0.8	11.0
2011	1.6	4.3	2.4	....	....	1.5	0.2	-0.2	6.6
2012	-0.7	-1.0	-0.8	....	....	-3.4	-1.3	-0.2	2.4
2013	-0.5	1.2	..	....	....	-2.4	-0.7	0.2	2.0
2012 – Q2	-0.3	-0.4	-0.3	....	....	-1.5	-0.5	0.1	0.8
Q3	-0.1	0.2	..	....	....	-0.6	..	-0.3	1.1
Q4	-0.5	-0.7	-0.5	....	....	-0.7	-0.5	..	-0.7
2013 – Q1	-0.3	-0.1	-0.3	....	....	-2.0	-0.3	0.3	-0.1
Q2	0.3	1.5	0.6	....	....	0.5	0.1	..	1.9
Q3	0.1	1.4	0.5	....	....	0.5	0.3	0.2	0.6
Q4	0.3	0.4	0.3	....	....	0.6	-0.1	-0.2	1.1
2014 – Q1	0.3	0.6	0.4	....	....	0.3	0.2	0.7	0.3
Q2	0.1	1.3	0.4	....	....	-0.9	0.3	0.2	1.3
	Implicit prices								
2009	1.0	-6.4	....	....	....	-0.8	-0.7	2.0	-3.2
2010	0.7	5.2	....	....	....	1.3	1.6	0.6	3.2
2011	1.1	5.9	....	....	....	1.7	2.3	0.8	3.6
2012	1.3	2.5	....	....	....	1.3	1.9	0.8	1.9
2013	1.3	-1.3	....	....	....	0.3	1.1	1.3	-0.3
2012 – Q2	0.3	0.1	....	....	....	0.4	0.3	0.7	0.1
Q3	0.4	0.2	....	....	....	0.3	0.1	0.2	0.5
Q4	0.5	-0.2	....	....	....	0.2	0.5	-0.1	0.1
2013 – Q1	0.3	-0.5	....	....	....	-0.2	0.3	0.8	-0.2
Q2	0.3	-0.8	....	....	....	..	0.1	0.1	-0.3
Q3	0.2	-0.3	....	....	....	0.2	0.3	0.4	-0.3
Q4	0.2	-0.4	....	....	....	0.2	0.1	..	-0.1
2014 – Q1	0.3	-0.5	....	....	....	-0.1	0.3	0.3	-0.3
Q2	0.1	-0.3	....	....	....	..	0.1	..	-0.1

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2009	-5.5	-12.9	-7.1	-9.6	-10.3	-9.9	-1.6	0.5	-18.1
2010	1.7	12.4	3.7	-3.6	3.1	-0.5	1.2	0.5	11.8
2011	0.6	0.5	0.6	-3.7	..	-1.9	..	-1.8	5.2
2012	-2.3	-8.0	-3.5	-6.6	-8.3	-7.4	-4.0	-1.5	2.0
2013	-1.9	-2.7	-2.1	-6.8	-3.8	-5.4	-2.8	-0.7	0.6
2012 – Q2	-0.4	-1.8	-0.7	-1.4	-2.3	-1.8	-0.6	-0.8	1.2
Q3	-0.4	-0.2	-0.3	-2.2	-1.8	-2.0	-0.8	0.2	1.3
Q4	-0.8	-2.7	-1.2	-0.8	-1.2	-1.0	-0.9	-1.2	-1.4
2013 – Q1	-0.8	-0.3	-0.7	-4.4	-1.7	-3.2	-1.2	0.4	0.1
Q2	-0.2	-0.9	-0.4	-0.4	0.3	..	-0.6	0.2	0.4
Q3	..	2.2	0.4	0.2	-0.5	-0.1	0.2	-0.9	1.3
Q4	-0.1	-0.4	-0.2	-1.2	1.2	..	..	0.6	-0.2
2014 – Q1	..	..	..	-1.4	-1.6	-1.5	0.1	-0.3	0.2
Q2	-0.2	0.8	..	-1.1	-0.6	-0.9	0.2	0.1	1.1
				Implicit prices					
2009	2.0	-7.8	..	1.7	-0.5	0.7	-0.4	1.9	-2.0
2010	0.3	6.6	1.6	2.5	2.2	2.4	1.4	0.4	2.3
2011	1.5	6.8	2.6	4.2	0.8	2.6	2.9	-0.2	4.0
2012	1.6	3.4	2.0	2.4	1.2	1.8	2.8	-0.1	2.0
2013	1.4	-1.8	0.7	0.8	0.2	0.5	1.2	0.4	-0.1
2012 – Q2	0.5	-0.1	0.3	0.3	1.2	0.8	0.7	0.5	0.3
Q3	0.1	0.7	0.2	0.2	1.9	1.0	0.2	..	0.5
Q4	0.4	-0.5	0.2	0.5	0.1	0.3	0.6	-0.5	-0.2
2013 – Q1	0.4	-0.5	0.2	0.2	-0.7	-0.3	0.3	0.8	..
Q2	0.5	-1.5	0.1	..	-0.1	..	0.3	-0.5	-0.3
Q3	0.3	0.1	0.2	0.3	..	0.1	0.2	0.5	..
Q4	0.2	-0.8	..	..	-1.2	-0.6	-0.1	..	-0.2
2014 – Q1	..	-0.5	-0.1	-0.4	1.6	0.6	0.3	-0.1	-0.3
Q2	-0.1	-0.4	-0.2	-0.2	0.1	-0.1	..	-1.3	-0.2

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

Table A5

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
Total industry excluding construction					
2010	1.1	10.0	9.5	-0.4	-8.0
2011	2.7	2.2	3.0	0.8	0.4
2012	3.6	0.9	-1.1	-2.0	2.6
2013	2.2	0.6	-0.6	-1.2	1.6
2012 – Q1	2.7	0.0	-0.8	-0.8	2.7
Q2	4.0	1.2	-1.0	-2.2	2.8
Q3	4.1	1.8	-0.8	-2.5	2.3
Q4	3.9	1.3	-1.4	-2.7	2.5
2013 – Q1	4.3	1.8	-1.6	-3.4	2.4
Q2	1.6	-0.2	-0.9	-0.7	1.8
Q3	2.1	-0.3	-1.0	-0.7	2.4
Q4	1.0	1.5	1.5	0.0	-0.5
2014 – Q1	0.2	-0.2	1.0	1.1	0.4
Q2	1.2	0.1	0.6	0.5	1.1
Services					
2010	1.2	0.4	0.9	0.6	0.8
2011	1.5	0.9	1.7	0.8	0.6
2012	2.1	0.7	0.0	-0.7	1.3
2013	1.7	0.8	0.1	-0.7	1.0
2012 – Q1	2.4	1.0	0.5	-0.5	1.4
Q2	2.1	1.1	0.2	-0.9	1.1
Q3	2.3	0.3	-0.1	-0.5	1.9
Q4	1.7	0.6	-0.3	-0.8	1.1
2013 – Q1	2.5	1.1	-0.4	-1.5	1.5
Q2	1.5	0.5	0.0	-0.5	1.0
Q3	1.6	1.0	0.2	-0.8	0.6
Q4	1.5	0.6	0.6	0.0	0.8
2014 – Q1	0.8	0.5	1.0	0.6	0.3
Q2	1.2	0.5	0.7	0.2	0.7
Total economy					
2010	1.3	2.1	2.0	-0.1	-0.8
2011	2.0	1.5	1.8	0.3	0.5
2012	2.6	0.9	-0.5	-1.4	1.7
2013	1.9	0.8	-0.3	-1.1	1.1
2012 – Q1	2.7	1.0	0.0	-1.0	1.7
Q2	2.7	1.2	-0.3	-1.6	1.5
Q3	2.8	0.8	-0.6	-1.4	2.0
Q4	2.3	0.8	-0.9	-1.6	1.5
2013 – Q1	3.0	1.4	-0.9	-2.3	1.6
Q2	1.6	0.4	-0.5	-0.9	1.2
Q3	1.8	0.8	-0.2	-1.0	1.0
Q4	1.4	0.9	0.7	-0.2	0.5
2014 – Q1	0.7	0.5	1.0	0.5	0.3
Q2	1.3	0.5	0.6	0.1	0.8

Source: Based on Eurostat data, ESA95 accounts.
(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 (1)

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			of which		
			Value added (2)	Hours worked	
		Total industry excluding construction			
2010	3.1	8.2	6.0	-2.0	-4.8
2011	2.8	1.2	1.5	0.3	1.6
2012	2.8	-0.2	-3.0	-2.8	3.0
2013	1.7	-2.1	-3.2	-1.1	3.9
2012 – Q1	2.7	-1.1	-2.9	-1.8	3.9
Q2	2.2	-1.2	-3.8	-2.6	3.4
Q3	2.8	0.4	-2.2	-2.7	2.4
Q4	4.2	1.5	-3.5	-4.9	2.7
2013 – Q1	2.0	-0.7	-3.6	-2.9	2.7
Q2	2.4	-1.8	-3.5	-1.7	4.2
Q3	2.1	-3.0	-4.2	-1.2	5.3
Q4	0.1	-2.9	-1.3	1.6	3.1
2014 – Q1	-0.4	-2.3	-0.5	1.8	2.0
Q2	....	....	-0.7	....	....
		Services			
2010	2.1	1.2	1.1	-0.1	0.9
2011	0.1	0.0	0.8	0.8	0.1
2012	0.5	-1.5	-1.6	-0.2	1.9
2013	1.0	0.5	-0.9	-1.4	0.5
2012 – Q1	0.3	0.1	-0.6	-0.7	0.2
Q2	-0.3	-1.1	-1.5	-0.4	0.8
Q3	0.6	-3.2	-2.3	1.0	3.9
Q4	1.2	-1.4	-2.1	-0.7	2.6
2013 – Q1	1.7	-0.8	-1.4	-0.6	2.5
Q2	1.0	0.0	-1.1	-1.1	1.0
Q3	1.2	2.0	-0.7	-2.6	-0.8
Q4	0.2	0.9	-0.3	-1.2	-0.7
2014 – Q1	0.1	0.5	-0.1	-0.6	-0.5
Q2	....	....	0.1	....	....
		Total economy			
2010	2.3	2.4	1.7	-0.7	-0.1
2011	1.0	0.3	0.6	0.3	0.6
2012	1.2	-0.7	-2.2	-1.4	2.0
2013	1.4	0.4	-1.6	-2.0	1.0
2012 – Q1	1.2	-0.1	-1.5	-1.4	1.3
Q2	0.4	-0.7	-2.2	-1.5	1.1
Q3	1.3	-1.7	-2.5	-0.8	3.1
Q4	2.2	-0.4	-2.6	-2.3	2.5
2013 – Q1	2.0	0.0	-2.0	-2.0	2.0
Q2	1.6	0.3	-1.9	-2.2	1.2
Q3	1.7	1.0	-1.6	-2.6	0.6
Q4	0.4	0.4	-0.7	-1.1	0.0
2014 – Q1	0.1	0.1	-0.2	-0.3	0.0
Q2	....	....	-0.2	....	....

Source: Based on Istat data, ESA 95 accounts.
(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 food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food
2010	1.7	1.0	1.2	0.6	1.6	1.7	2.1	0.8	1.6	1.0
2011	2.3	1.1	2.5	1.2	2.9	2.0	3.1	1.2	2.7	1.4
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	0.7	1.6	1.2	1.3	1.3	1.5	1.3	1.4	1.1
2012 –Jan.	2.6	1.5	2.3	1.3	3.4	2.0	2.0	0.9	2.7	1.5
Feb.	2.5	1.4	2.5	1.4	3.4	2.0	1.9	0.8	2.7	1.5
Mar.	2.6	1.7	2.3	1.3	3.8	2.5	1.8	0.8	2.7	1.6
Apr.	2.4	1.6	2.2	1.4	3.7	2.3	2.0	0.7	2.6	1.6
May	2.3	1.6	2.2	1.5	3.5	2.2	1.9	0.8	2.4	1.6
June	2.3	1.8	2.0	1.3	3.6	2.3	1.8	0.8	2.4	1.5
July	2.2	1.8	1.9	1.2	3.6	2.6	2.2	1.1	2.4	1.7
Aug.	2.4	1.7	2.2	1.2	3.3	2.0	2.7	1.0	2.6	1.5
Sept.	2.2	1.5	2.1	1.2	3.4	1.8	3.5	1.8	2.6	1.5
Oct.	2.1	1.2	2.1	1.2	2.8	1.4	3.5	2.3	2.5	1.5
Nov.	1.6	1.0	1.9	1.2	2.6	1.4	3.0	2.2	2.2	1.4
Dec.	1.5	1.0	2.0	1.5	2.6	1.6	3.0	2.1	2.2	1.5
2013 – Jan.	1.4	0.9	1.9	1.1	2.4	1.7	2.8	2.1	2.0	1.3
Feb.	1.2	0.7	1.8	1.2	2.0	1.4	2.9	2.1	1.8	1.3
Mar.	1.1	0.8	1.8	1.8	1.8	1.5	2.6	2.2	1.7	1.5
Apr.	0.8	0.5	1.1	0.6	1.3	1.2	1.5	1.8	1.2	1.0
May	0.9	0.6	1.6	1.1	1.3	1.4	1.8	2.0	1.4	1.2
June	1.0	0.5	1.9	1.2	1.4	1.2	2.2	1.9	1.6	1.2
July	1.2	0.7	1.9	1.2	1.2	1.0	1.9	1.5	1.6	1.1
Aug.	1.0	0.6	1.6	1.2	1.2	1.2	1.6	1.4	1.3	1.1
Sept.	1.0	0.8	1.6	1.3	0.9	1.3	0.5	0.5	1.1	1.0
Oct.	0.7	0.9	1.2	1.0	0.8	1.2	0.0	-0.1	0.7	0.8
Nov.	0.8	1.0	1.6	1.7	0.7	1.1	0.3	0.0	0.9	0.9
Dec.	0.8	0.8	1.2	0.7	0.7	0.9	0.3	-0.1	0.8	0.7
2014 – Jan.	0.8	0.8	1.2	1.2	0.6	0.9	0.3	-0.1	0.8	0.8
Feb.	1.1	1.4	1.0	1.2	0.4	0.9	0.1	0.0	0.7	1.0
Mar.	0.7	1.1	0.9	0.9	0.3	0.9	-0.2	-0.3	0.5	0.7
Apr.	0.8	1.2	1.1	1.4	0.5	1.1	0.3	0.1	0.7	1.0
May	0.8	1.1	0.6	0.7	0.4	0.8	0.2	-0.1	0.5	0.7
June	0.6	0.9	1.0	1.1	0.2	0.7	0.0	-0.1	0.5	0.8
July	0.6	0.9	0.8	1.2	0.0	0.5	-0.4	-0.1	0.4	0.8
Aug.	0.5	1.2	0.8	1.2	-0.2	0.4	-0.5	0.0	0.4	0.9
Sept.	0.4	0.9	0.8	1.2	-0.1	0.5	-0.3	-0.2	0.3	0.8

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 (1)

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary Income	Secondary Income	Total	Intangible assets	Capital transfers
2010	-55,711	-21,730	-9,153	-4,826	-20,002	46	-75	121
2011	-50,385	-18,583	-6,156	-6,392	-19,253	1,032	-49	1,081
2012	-8,224	15,587	-157	-4,143	-19,510	3,912	1,788	2,124
2013	16,573	36,816	2,212	-3,492	-18,963	-82	-3,385	3,302
2012 – Q3	703	5,701	1,371	-1,840	-4,530	80	-14	94
Q4	4,618	7,824	-652	1,033	-3,587	4,307	2,237	2,070
2013 – Q1	-5,293	4,300	-2,086	464	-7,971	-2,409	-2,412	3
Q2	5,279	11,250	1,807	-4,351	-3,428	127	-190	317
Q3	6,421	9,688	2,765	-1,103	-4,929	12	-160	171
Q4	10,167	11,578	-274	1,498	-2,636	2,188	-623	2,811
2014 – Q1	-884	8,499	-1,929	582	-8,036	-593	-520	-72
Q2	6,147	12,773	1,623	-4,674	-3,574	271	-167	438
2012 – Aug.	-1,756	159	-35	-401	-1,478	35	-5	39
Sept.	-1,434	559	521	-1,093	-1,421	-23	-34	11
Oct.	1,620	2,764	89	-424	-809	1,611	764	847
Nov.	1,241	2,424	-559	385	-1,009	1,480	743	737
Dec.	1,757	2,636	-182	1,072	-1,769	1,216	730	486
2013 – Jan.	-3,902	-1,163	-733	176	-2,182	-561	-572	12
Feb.	-1,084	1,715	-559	319	-2,559	-595	-602	8
Mar.	-307	3,748	-795	-31	-3,229	-1,253	-1,237	-16
Apr.	1,222	2,781	228	-663	-1,124	-41	-78	37
May	1,138	4,408	573	-3,026	-816	-38	-74	36
June	2,919	4,061	1,006	-661	-1,488	206	-38	244
July	6,281	6,328	1,416	333	-1,796	52	-31	83
Aug.	423	1,952	269	-171	-1,628	27	-47	74
Sept.	-283	1,408	1,080	-1,266	-1,506	-68	-82	14
Oct.	4,129	4,351	208	258	-688	960	-138	1,098
Nov.	2,990	3,321	-387	804	-748	844	-129	974
Dec.	3,048	3,906	-95	436	-1,199	383	-356	739
2014 – Jan.	-1,471	928	-504	146	-2,040	-119	-109	-10
Feb.	267	3,162	-637	361	-2,619	-135	-116	-19
Mar.	320	4,409	-788	75	-3,376	-338	-295	-43
Apr.	2,869	4,381	155	-430	-1,237	-17	-80	63
May	948	4,452	529	-3,181	-852	-8	-72	64
June	2,331	3,940	939	-1,063	-1,485	296	-16	312
July	(7,195)	(7,908)	(1,070)	(-222)	(-1,561)	(-15)	(-46)	(31)
Aug.	(2,312)	(3,326)	(798)	(-356)	(-1,456)	(-10)	(-36)	(26)

(1) Based on the new international Standards of BPM6.

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				
2011 – Dec.	-0.9	-2.4	2.3	3.0	-0.6	1.3	3.7	9.8	1.7
2012 – 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	-1.3	-1.2
June	-0.7	-4.2	-4.2	-4.3	-3.8	-2.9	-0.3	-3.1	-2.8
Sept.	-4.6	-8.6	-4.2	-4.5	-3.2	-2.7	-0.6	-3.5	-3.9
Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.8	-3.4	-3.8
2014 – Mar.	0.3	-5.5	-4.5	-4.8	-3.1	-2.6	-0.6	-3.2	-3.0
June	2.4	-3.2	-3.2	-3.3	-2.4	-2.0	-0.4	-2.2	-1.7
July	2.9	-3.7	-3.9	-4.1	-3.0	-2.1	-0.3	-0.4	-2.0
Aug.	2.3	-3.2	-3.8	-4.0	-2.9	-2.0	-0.3	-0.7	-2.0
					South and Islands				
2011 – Dec.	3.0	-10.4	3.5	4.4	1.0	1.2	3.9	3.2	3.4
2012 – 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	-2.8	-3.0	-0.8	1.9	-1.6
June	-2.8	-0.5	-2.9	-2.7	-3.4	-3.4	-1.1	1.1	-2.1
Sept.	-2.6	0.2	-3.2	-3.2	-3.3	-3.2	-1.6	-1.5	-2.5
Dec.	-5.4	-3.0	-3.1	-2.9	-3.4	-3.0	-1.5	-3.0	-2.7
2014 – Mar.	-5.0	-1.5	-2.8	-2.8	-2.9	-2.8	-1.4	-5.0	-2.4
June	-5.1	-4.3	-2.4	-2.4	-2.5	-2.5	-1.0	-4.0	-2.1
July	-4.1	34.7	-2.3	-2.2	-2.5	-2.1	-0.7	-1.5	-1.4
Aug.	-3.9	36.1	-2.1	-2.0	-2.5	-2.1	-0.7	-1.5	-1.3
					ITALY				
2011 – Dec.	-0.5	-2.6	2.5	3.2	-0.2	1.3	3.7	9.1	1.9
2012 – 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	-0.3	-1.0	-1.3
June	-0.9	-4.1	-4.0	-4.1	-3.7	-3.0	-0.5	-2.7	-2.7
Sept.	-4.4	-8.4	-4.1	-4.3	-3.2	-2.8	-0.8	-3.3	-3.7
Dec.	-2.8	-4.9	-5.1	-5.3	-4.0	-3.1	-0.9	-3.4	-3.7
2014 – Mar.	-0.2	-5.5	-4.2	-4.5	-3.1	-2.6	-0.8	-3.4	-2.9
June	1.6	-3.2	-3.1	-3.2	-2.4	-2.1	-0.6	-2.4	-1.8
July	2.3	-2.9	-3.6	-3.8	-2.9	-2.1	-0.4	-0.6	-1.9
Aug.	1.7	-2.4	-3.5	-3.7	-2.8	-2.1	-0.4	-0.8	-1.9

Source: Supervisory Report.
(1) Statistics for May 2014 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)
2011	-3.6	-3.1	1.3	43.0	0.2	4.1	44.9	19.0	0.0	63.9	9.2
2012	7.0	-1.3	20.4	25.0	0.9	23.7	76.9	-10.1	0.0	66.8	29.5
2013	-1.8	-2.2	-11.0	91.4	-3.0	4.8	80.4	-3.2	-10.0	77.1	13.0
2011 – Mar.	-2.0	-1.6	12.4	10.5	1.3	0.3	22.5	8.3	0.0	30.8	4.7
June	1.1	-0.9	-5.6	32.8	1.1	2.1	31.6	-15.5	0.0	16.1	1.4
Sept.	-3.7	-0.4	9.1	-23.1	-1.6	-0.3	-19.5	34.0	-0.8	14.5	1.0
Dec.	0.9	-0.3	-14.5	22.8	-0.7	2.0	10.4	-7.9	0.8	2.6	2.1
2012 – Mar.	8.0	-1.2	31.4	0.4	-0.2	7.4	47.0	-10.2	-5.6	36.8	8.0
June	-3.9	0.5	-1.5	17.8	1.9	8.5	22.8	-11.7	-2.4	11.2	8.6
Sept.	4.8	-1.2	5.1	4.2	-0.3	0.2	14.0	0.2	-22.7	14.2	0.5
Dec.	-1.9	0.7	-14.6	2.6	-0.6	7.6	-6.9	11.5	30.7	4.6	12.5
2013 – Mar.	0.3	-1.4	5.0	42.5	-0.6	0.4	47.5	-11.5	-10.7	36.1	1.1
June	-5.1	-0.7	6.5	32.9	0.6	4.2	39.1	-30.4	-8.6	8.7	7.1
Sept.	0.2	0.2	0.6	-4.4	-2.0	-1.2	-6.9	35.5	7.3	28.6	0.7
Dec.	2.8	-0.3	-23.1	20.4	-1.0	1.5	0.6	3.1	2.1	3.7	4.1
2014 – Mar.	6.2	-0.5	3.5	46.1	-0.5	-1.3	54.0	-24.3	-6.5	29.8	0.0
June	2.4	-0.3	-1.6	50.7	-3.3	1.8	49.9	-43.3	-27.0	6.6	4.3
2013 – Jan.	1.7	-1.2	6.5	28.1	-1.6	-0.2	34.5	-33.7	-13.0	0.8	0.4
Feb.	-4.5	-0.6	0.3	-2.2	0.1	0.6	-5.7	18.5	-0.1	12.7	0.7
Mar.	3.1	0.4	-1.8	16.7	0.9	0.0	18.8	3.8	2.4	22.6	0.0
Apr.	-3.1	0.0	3.0	6.5	0.6	0.0	7.1	3.9	-1.1	11.0	2.9
May	0.3	-0.6	3.6	24.9	0.3	2.4	31.5	-20.4	-0.1	11.1	2.9
June	-2.4	-0.2	-0.1	1.5	-0.3	1.9	0.5	-13.9	-7.4	-13.4	1.3
July	1.2	-0.1	-1.1	0.8	-3.5	-0.5	-3.1	8.1	13.0	5.0	0.5
Aug.	-0.2	0.9	0.1	-13.1	0.8	-0.4	-12.9	21.8	-6.0	8.9	0.0
Sept.	-0.7	-0.6	1.6	7.9	0.7	-0.3	9.0	5.6	0.3	14.7	0.2
Oct.	-2.0	-0.3	-0.5	21.2	-1.6	-0.3	16.8	-6.7	6.6	10.1	2.9
Nov.	-0.2	-0.1	-2.5	21.1	-0.1	0.6	18.9	-11.5	-10.6	7.4	0.7
Dec.	5.0	0.2	-20.1	-21.9	0.7	1.2	-35.2	21.4	6.1	-13.8	0.5
2014 – Jan.	4.3	-0.6	6.7	10.2	0.8	-0.4	21.6	-20.2	-4.4	1.4	0.0
Feb.	-1.4	-0.1	-2.8	23.4	-1.2	-0.5	17.6	-6.8	0.6	10.7	0.0
Mar.	3.3	0.3	-0.4	12.6	-0.1	-0.4	14.9	2.8	-2.7	17.7	0.0
Apr.	-1.8	-0.1	-1.5	28.7	0.0	1.3	26.6	-15.5	2.5	11.2	4.3
June	1.1	-0.2	0.3	19.3	-0.1	-0.1	20.6	-14.9	-2.8	5.7	0.0
May	3.1	0.0	-0.4	2.7	-3.3	0.6	2.7	-13.0	-26.7	-10.3	0.0
July	-2.7	0.3	-1.6	7.3	0.1	-2.4	0.7	-4.5	-3.3	-3.8	0.2
Aug.	-0.9	0.5	-2.1	-16.8	-0.4	-0.1	-20.4	27.3	-1.6	6.9	0.2

(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)

(billions 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 transac-tions	Financial support to EMU countries (3)
2011	153.2	22.1	131.2	1,473.0	132.8	17.4	3.1	1,907.6	24.3	0.0	35.4	13.1
2012	160.2	20.8	151.6	1,503.4	133.6	41.1	26.9	1,989.9	34.4	0.0	27.2	42.7
2013	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2011 – Mar.	154.9	23.6	142.2	1,430.9	133.8	13.7	0.8	1,875.5	34.9	0.0	35.8	8.7
June	156.0	22.7	136.6	1,466.9	135.0	15.8	2.2	1,910.3	50.4	0.0	36.5	10.0
Sept.	152.3	22.3	145.7	1,445.1	133.4	15.5	2.2	1,892.0	16.4	0.8	36.3	11.0
Dec.	153.2	22.1	131.2	1,473.0	132.8	17.4	3.1	1,907.6	24.3	0.0	35.4	13.1
2012 – Mar.	161.3	20.8	162.6	1,474.0	132.6	24.8	11.1	1,955.3	34.5	5.6	33.6	21.1
June	157.3	21.3	161.1	1,496.6	134.5	33.3	19.7	1,982.9	46.1	7.9	26.5	29.7
Sept.	162.1	20.1	166.2	1,500.3	134.2	33.6	20.2	1,996.4	45.9	30.7	25.4	30.2
Dec.	160.2	20.8	151.6	1,503.4	133.6	41.1	26.9	1,989.9	34.4	0.0	27.2	42.7
2013 – Mar.	160.5	19.4	156.5	1,544.7	133.0	41.5	28.0	2,036.2	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,579.1	133.6	45.7	32.2	2,076.8	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,573.6	131.6	44.5	32.9	2,068.9	40.8	12.1	26.3	51.5
Dec.	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2014 – Mar.	164.6	18.1	144.1	1,637.0	130.1	44.7	34.1	2,120.5	61.9	16.5	25.1	55.6
June	167.0	17.8	142.5	1,686.1	126.8	46.5	35.6	2,168.9	105.3	43.5	25.8	59.9
2013 – Jan.	161.9	19.6	158.1	1,531,0	132.0	41.0	27.3	2,023.9	68.1	13.0	26.3	43.0
Feb.	157.4	19.0	158.4	1,528.9	132.1	41.5	28.0	2,018.4	49.6	13.1	25.8	43.7
Mar.	160.5	19.4	156.5	1,544.7	133.0	41.5	28.0	2,036.2	45.9	10.7	24.6	43.7
Apr.	157.4	19.4	159.6	1,550.9	133.6	41.5	28.0	2,043.0	42.0	11.9	26.8	46.6
May	157.7	18.9	163.2	1,577.5	133.9	43.8	30.9	2,076.2	62.4	11.9	26.6	49.5
June	155.4	18.7	163.1	1,579.1	133.6	45.7	32.2	2,076.8	76.3	19.4	27.1	50.8
July	156.5	18.6	162.0	1,580.2	130.1	45.2	32.7	2,074.0	68.2	6.4	28.1	51.3
Aug.	156.3	19.5	162.1	1,567.4	130.9	44.8	32.7	2,061.5	46.4	12.4	26.8	51.3
Sept.	155.6	18.8	163.7	1,573.6	131.6	44.5	32.9	2,068.9	40.8	12.1	26.3	51.5
Oct.	153.6	18.5	163.2	1,595.0	130.0	44.2	32.9	2,086.0	47.5	5.5	26.4	54.4
Nov.	153.4	18.4	160.7	1,616.4	129.9	44.8	33.6	2,105.2	59.0	16.1	26.1	55.1
Dec.	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2014 – Jan.	162.7	18.0	147.3	1,603.2	131.4	45.6	34.1	2,090.2	57.9	14.4	23.7	55.6
Feb.	161.3	17.9	144.5	1,626.5	130.2	45.1	34.1	2,107.6	64.7	13.8	22.8	55.6
Mar.	164.6	18.1	144.1	1,637.0	130.1	44.7	34.1	2,120.5	61.9	16.5	25.1	55.6
Apr.	162.8	18.0	142.6	1,665.3	130.1	46.0	35.6	2,146.7	77.4	14.0	26.8	59.9
June	163.9	17.8	142.9	1,684.2	130.1	45.9	35.6	2,166.9	92.3	16.8	24.9	59.9
May	167.0	17.8	142.5	1,686.1	126.8	46.5	35.6	2,168.9	105.3	43.5	25.8	59.9
July	164.3	18.1	140.8	1,692.9	126.9	44.1	35.8	2,168.9	109.7	46.8	26.2	60.1
Aug.	163.4	18.6	138.7	1,675.9	126.4	43.9	36.0	2,148.4	82.4	48.4	24.4	60.3

(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.