BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

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July 2015

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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

Negotiations for an agreement with Greece prove difficult

Uncertainty over the prospects for Greece built up rapidly after the talks with creditor institutions and countries on the extension of the support programme broke off and as a result of the outcome of the referendum called unexpectedly by the Greek authorities. The developments of the last few weeks have significantly increased the volatility of euro-area financial markets and share prices. However, the increase in risk premiums on government securities was moderate, all in all, thanks to the battery of instruments at the disposal of the Eurosystem, the advances made in European governance and the reforms undertaken by individual member countries.

On 13 July an agreement is concluded

After difficult negotiations, on 13 July the area's leaders concluded an agreement with Greece. The agreement made the start of talks towards a third support programme conditional on the Greek Parliament's enacting a detailed package of stringent measures, the first set of which were successfully passed on 15 July. After the announcement of the agreement, financial market conditions improved. In order to forestall the resurgence of tensions, resolute European and national economic policy action must be taken to foster a return to growth in Greece and in the euro area as a whole.

The emerging economies slow down and Chinese share prices plummet

The global economic recovery has continued but shows signs of slowing, the consequence of factors that are temporary in the advanced economies and more persistent in the emerging ones. World trade is forecast to accelerate this year. So far the excess supply in world oil markets has helped to hold prices to levels only marginally higher than the lows recorded at the start of the year. The world economy is weighed down by uncertainties regarding the pace of official interest rate increases in the United States and financial instability in China, taking the form of a sharp stock market fall halted only by massive public intervention, which could curtail Chinese economic growth.

In the euro area monetary expansion sustains economic activity and prices

Following the inception of the Eurosystem's asset purchase programme, long-term interest rates in the euro area declined sharply until the middle of April. They then turned upwards, partly in response to the improved prospects for inflation and growth engendered by the programme itself, and recouped most of the earlier decline. All told, conditions on the financial and foreign exchange markets continue to support the economic recovery and price dynamics. Inflation moved back into positive territory in May, at 0.3 per cent, for the first time since the end of last year. The Governing Council of the ECB has reaffirmed its determination to implement the programme in full; it will counter any unwarranted tightening of monetary conditions.

In Italy the gradual pick-up in economic activity proceeds, led by domestic demand

The Italian economy has begun to expand. Improvement in business and household confidence has been accompanied by a recovery in domestic demand, which is once again contributing to growth. Investment, which had contracted almost without interruption since 2008, recorded an upturn, with the first positive signals now visible in the construction industry as well. Firms' investment plans indicate a vigorous expansion of capital formation by the larger companies this year and a more prudent attitude on the part of medium-sized and especially small *firms. According to the most recent cyclical indicators, growth continued in the second quarter at about the same pace as in the first.*

Employment grows modestly

Employment began to grow again in April-May. The unemployment rate stabilized. Since the start of the year there has been a significant increase in the share of new permanent jobs, incentives for which were contained in recent government measures. Recourse to the wage supplementation scheme diminished during the spring. The number of firms expecting to increase staff has risen, although most still expect no change in their workforce.

Inflation turns positive

The rate of inflation, which was negative at the start of the year, has come back up above zero but remains at historically very low levels. The expectations of households and firms point to a further rise.

The monetary expansion is feeding through to credit conditions

The monetary expansion, and in particular Italian banks' ample recourse to targeted longer-term refinancing operations and the Eurosystem's asset purchase programme, is gradually feeding through to credit conditions. The reduction in the cost of business loans has proceeded and has now extended beyond the most creditworthy firms. In opinion surveys, small and medium-sized companies too are now reporting easier access to credit. The decline in loans to firms has moderated, and lending to manufacturing firms and households is expanding for the first time in three years.

The large volume of non-performing loans subtracts resources from the financing of the economy

The long recession's legacy of a large volume of non-performing loans nevertheless continues to hold back the growth of lending, subtracting resources from the financing of economic activity. Speeding up the disposal of these claims would help to underpin credit dynamics. The measures approved in June by the Council of Ministers should remove some regulatory obstacles, providing for accelerated tax deductibility of write-downs and loan losses and making credit recovery procedures more efficient. The ensuing increase in the value of non-performing loans could encourage the formation of a secondary market for these assets. Discussions are under way between the Italian authorities and the European Commission on the creation of an asset management company specializing in the purchase of such claims.

The forecasting scenario is for progressively stronger growth …

The projections for the Italian economy set out in this Bulletin indicate a progressive strengthening of the cyclical recovery. In our central scenario, GDP expands by 0.7 per cent in 2015 and accelerates to 1.5 per cent in 2016. Consumer price inflation increases gradually, from 0.2 per cent this year to 1.1 per cent in 2016. The recovery in economic activity translates into a progressive expansion of employment, which should grow by 1.5 per cent in the two years. The unemployment rate declines from the 12.6 per cent registered in 2014 to 11.9 per cent in 2016.

… thanks to a recovery in investment …

The upward revision of the growth forecast, which amounts to more than half a percentage point over the two years compared with the projections made in the January Economic Bulletin*, is largely ascribable to the performance of investment, which is nevertheless still projected to be below its historical average in relation to GDP in 2016.*

… based on monetary expansion and credit normalization …

The scenario described here posits the continuing effects of monetary stimulus on the exchange rate, long-term interest rates and credit conditions. It further assumes gradually strengthening foreign demand, especially from our European partners, oil prices remaining at their current levels, and an essentially neutral fiscal policy stance, in line with the Government's programmes. The measures to narrow the tax wedge on labour enacted with the 2015 Stability Law are expected to add 0.2 percentage points to employment growth. Some additional stimulus to labour demand – hard to quantify and for this reason not factored into the projections – could come from the Jobs Act.

...and the determination to complete the reforms planned

The risks to the growth forecast appear to be balanced this year but are prevalently on the downside for 2016. They derive largely from the world and European context, and in particular the risk of a deeper and longer slowdown in the emerging economies than is now assumed, the possibility that monetary normalization in the United States may be accompanied by fresh turmoil in the foreign exchange markets and in capital flows, and renewed financial market tensions. The risks would be heightened if it were perceived that the determination to carry through the reforms that are necessary to boost Italy's potential growth was lacking. Heightened uncertainty could act as a brake on investment growth and impede the recovery in consumption, which are essential conditions for a return to sustained growth.

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

The global recovery proceeds although it shows signs of slowing, caused by temporary factors in the advanced countries and more persistent ones in the emerging economies. The leading organizations expect world trade to expand at a faster pace than last year. The global outlook remains dependent on the tensions that could derive from interest rate rises in the United States, on the possible repercussions of domestic stock market instability on economic activity in China, on the outcome of the Greek crisis, and on oil prices, which are forecast to stay low against a backdrop of lasting excess supply. The market expects the first increase in the federal funds rate towards the end of the year.

In the advanced economies output slows in the first quarter ...

In the United States GDP contracted abruptly in the first quarter of 2015, by 0.2 per cent on an annual basis, after expanding by 2.2 per cent in the last quarter of 2014. The decline was largely attributable to transient factors that acted as a brake on investment and exports. In the United Kingdom output growth slowed from 3.4 to 1.5 per cent as a result of the weak export performance and the strengthening of imports. Instead, in Japan GDP accelerated more than expected, to 3.9 per cent, from 1.2 per cent in the last quarter of 2014, buoyed by inventory building, fixed investment and, to a lesser extent, consumption.

... but appears to gain strength in the second

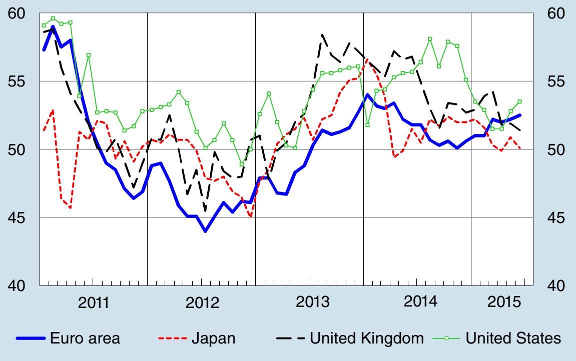
According to firms' purchasing managers indices, the second quarter saw economic activity strengthen in the United States (Figure 1), where employment returned to steady growth, and the unemployment rate remained around its pre-crisis level. Positive signs also emerged from retail sales and the housing market, but industrial production was still slack owing to the performance of the energy sector. In the United Kingdom industrial activity continued to expand and labour market conditions remained favourable. In Japan the latest indicators point instead to a slowing of output growth.

Growth in China is stable...

In China GDP growth held steady at a 12-month rate of 7.0 per cent in the second quarter, the same as in the first, and the lowest in six years. Given the persistently weak performance of investment in the real estate and ancillary sectors, economic activity was buoyed by expansionary monetary and fiscal measures. In order to support spending by local governments (which are responsible for the bulk of investment in infrastructure), in May the Chinese government launched a debt restructuring plan for local

Figure 1

Manufacturing PMIs in the main advanced economies (1)
(monthly data)



Sources: Markit and Thomson Reuters Datastream.
(1) Diffusion indices of economic activity in the manufacturing sector based on the assessment of purchasing managers.

authorities that envisages converting bank loans maturing within the current year into long-term bonds. The measure will not only ease the balance sheet constraints of local administrations but it might also allow the banks to increase their lending to the private sector thanks to the transformation of substandard loans into securities eligible for central bank operations.

... but stock exchange volatility generates risks

Over the coming months economic activity could be adversely affected by the marked instability of share markets since the middle of June (see Section 1.3). For the time being, the wide fluctuations have not affected China's growth prospects, partly because its stock market still has only a secondary role in financing the economy and in household wealth. However, risks may arise from liquidity strains in the interbank market, firms' difficulties in placing share issues, and the impact on the accounts of individual investors with debt positions.

In Brazil the macroeconomic situation continued to deteriorate: GDP contracted by 1.6 per cent in the first quarter compared with a year earlier, responding to the monetary restriction imposed last autumn and the new loss of confidence. Output decreased in Russia too in the first quarter (-1.9 per cent) despite the partial recovery of oil prices; short-term indicators point to a continuation of the recession. In India economic activity instead accelerated in the first quarter, to 7.5 per cent, thanks to the easing of monetary conditions and improvement in confidence.

Global growth is set to slow in 2015 and then to strengthen in 2016

The IMF's forecasts published in July point to a slight slowing of world economic activity in the current year, followed by an acceleration in 2016. The projections for the advanced countries have been revised very slightly downwards since April. The adjustment was larger for the United States (to 2.5 per cent), while the forecasts are unchanged for the euro area. Growth is expected to remain strong in India and weaker in China; Brazil can expect a sharper contraction in GDP but in Russia the decline should slow (Table 1).

World trade contracts in the first quarter but there are signs of recovery

In the first quarter of 2015 world trade in goods and services contracted by 6.0 per cent on an annual basis, after expanding by 6.7 per cent at the end of 2014. The sharp decline in trade flows in the emerging economies was only partially offset by positive dynamics in the advanced economies. For the second quarter, preliminary data suggest that trade returned to growth thanks to a recovery in flows in the emerging economies and continuing growth in the advanced ones. IMF estimates for the current year are still optimistic, predicting world trade will grow by 4.1 per cent.

Excess crude oil supply should keep prices down

Oil prices fluctuated in May and June at around \$65 a barrel for Brent and \$60 for WTI grade, higher than the lows recorded at the start of the year. They fell by about \$5 a barrel in the first ten days of July, pushed down by ample production in the

Table 1

Macroeconomic projections
(changes and percentage points)

		July 2015 forecasts		Difference July 2015/ April 2015	
	2014	2015	2016	2015	2016
GDP					
World	**3.4**	**3.3**	**3.8**	**-0.2**	**0.0**
Advanced countries	**1.8**	**2.1**	**2.4**	**-0.3**	**0.0**
Euro area	0.8	1.5	1.7	0.0	0.1
Japan	-0.1	0.8	1.2	-0.2	0.0
United Kingdom	2.9	2.4	2.2	-0.3	-0.1
United States	2.4	2.5	3.0	-0.6	-0.1
Emerging countries	**4.6**	**4.2**	**4.7**	**-0.1**	**0.0**
Brazil	0.1	-1.5	0.7	-0.5	-0.3
China	7.4	6.8	6.3	0.0	0.0
India	7.3	7.5	7.5	0.0	0.0
Russia	0.6	-3.4	0.2	0.4	1.3
World trade (1)	**3.2**	**4.1**	**4.4**	**0.4**	**-0.3**

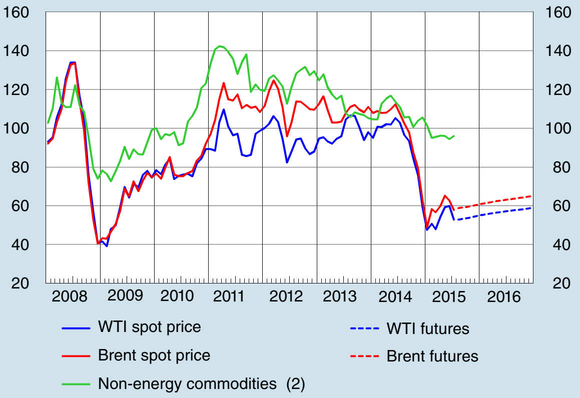
Source: IMF, *World Economic Outlook Update*, July 2015.
(1) Goods and services.

United States and the OPEC countries and expectations of a positive conclusion of the negotiations with Iran (Figure 2). There is still an excess of oil supply on the market, which the International Energy Agency projects at an average of over a million barrels a day this year, as in 2014. This estimate could be revised upwards in the coming months in view of the end of the embargo against Iran. The prices of non-energy commodities have continued to fluctuate around the low levels recorded in April owing to weak demand in the emerging economies.

Figure 2

Commodities prices (1)

(monthly data; dollars per barrel and index numbers)

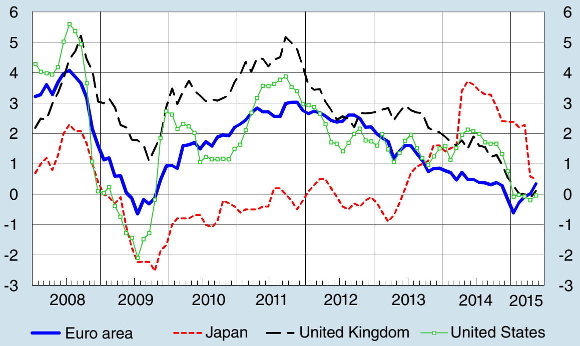


Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average through June 2015; the last data refer to 10 July 2015. – (2) Goldman Sachs Commodity Index excluding energy products (January 2008=100).

Figure 3

Consumer price inflation in the main advanced economies (1)

(monthly data; 12-month percentage changes)



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

Inflation stays low

Consumer price inflation remains low, reflecting the trend in commodity prices. In May it rose slightly in the United States (to 0.0 per cent from -0.2 per cent in April; Figure 3), in the euro area (from 0.0 to 0.3 per cent) and in the United Kingdom, where it turned barely positive (from -0.1 to 0.1 per cent). In Japan inflation instead fell sharply in April and May (to 0.6 and 0.5 per cent respectively from 2.2 per cent in March) when the effect of the consumption tax hike introduced in April 2014 wore off. In June inflation rose slightly across all the main emerging countries, reaching 1.4 per cent in China and 5.4 per cent in India owing to higher food prices. In Brazil inflation rose to 8.9 per cent as a result of the weakness of the currency and increases in regulated prices. In Russia, on the other hand, it fell to 15.3 per cent from the peak of 16.9 per cent recorded in March, partly owing to the stabilization of the rouble.

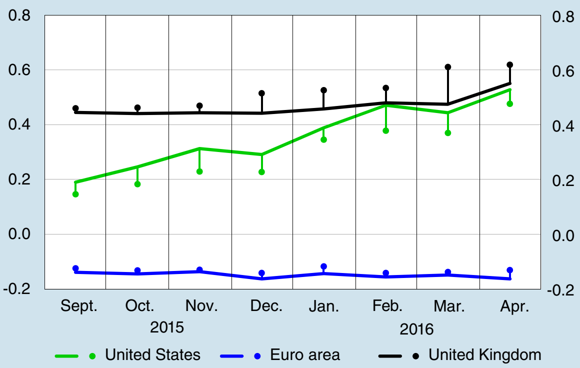
A rise in US rates is expected before the end of the year

The outlook for the global economy continues to depend on the course of monetary policies and in particular on the pace at which official rates are raised in the United States. At the June meeting of the Federal Open Market Committee the

Figure 4

Overnight interest rates implied by derivative contracts (1)

(monthly data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid line indicates the interest rates forecast on 17 April 2015, the dots show those forecast on 10 July 2015.

Federal Reserve left the target range of 0.0-0.25 per cent for the federal funds rate unchanged. FOMC members' projections continue to point to a rate rise before the end of the year, but a more gradual one than envisaged in March. The markets expect the first rise to take place in the last quarter of 2015 (Figure 4). The central banks of Japan and the UK have not altered their policy stance.

Monetary policies become more accommodative in the emerging economies

The central banks of the main emerging economies have maintained relaxed monetary conditions since the beginning of the year, except Brazil. In the second quarter China's central bank lowered its required reserve ratio and cut official rates on lending and bank deposits by 50 basis points. The central bank of India lowered the reference rate by 25 basis points and the Russian bank by 250 points, to 11.5 per cent. By contrast, Brazil maintained its policy of monetary restriction, raising the Selic rate by 100 basis points (to 13.75 per cent) in order to bring inflation back within the reference range.

1.2 THE EURO AREA

The tensions engendered by the negotiations on Greece's debt have eased following the mid-July agreement with the country's international creditors, but factors of uncertainty remain. The risk of a prolonged period of very low inflation in the euro area has receded but not yet vanished. The Eurosystem's expanded asset purchase programme has produced accommodative financial conditions that continue to support the economic upswing, even after the recovery of yields since mid-April. The Governing Council of the ECB has reaffirmed its intention to continue monetary expansion at least until September 2016 and in any case until it sees a sustained adjustment in the part of euro-area inflation consistent with the objective of price stability. It also reiterated its commitment to use all the instruments at its disposal to counter the possible emergence of tensions.

The outlook for Greece has been a source of uncertainty

On 26 June the Greek government broke off the talks for an extension of financial assistance, deciding to hold a referendum on 5 July on the proposal presented by the creditor institutions and countries (which made the extension conditional on a commitment to stringent budget targets for 2015-18 and the enactment of major reforms, including pension reform). The 'no' vote prevailed, and the second support programme was terminated on 30 June. Greece did not repay the IMF loan tranches falling due on that date; nor, subsequently, did it make the payment due on 13 July.

At the end of June the outflow of deposits and the liquidity strains of Greek banks intensified. The ECB Governing Council decided to keep the maximum level of the emergency liquidity assistance that the Bank of Greece can provide to the country's banks unchanged with respect to 26 June. The banks were temporarily closed beginning on 28 June and a limit was placed on ATM withdrawals.

An agreement is reached on 13 July

On 13 July the euro-area heads of state and government, after a very difficult discussion, reached an agreement to begin talks on a third support programme. The start of these negotiations is conditional on the prompt approval by the Greek Parliament of a sweeping package of strict and detailed measures, including provisions concerning indirect taxes, pensions, privatizations and reforms of the public administration.[1] On 15 July the Greek Parliament enacted a first set of measures. On 16 July the ECB Governing Council raised the maximum level for emergency liquidity assistance to Greece's banks, accepting the evaluation of the Greek central bank.

[1] Euro Summit Statement, Brussels, 12 July (http://www.consilium.europa.eu/en/press/press-releases/2015/07/12-euro-summit-statement-greece/).

On the whole, Italy's direct exposure to Greece through finance and trade is modest (see the box 'Italy's exposure to Greece'). The risks stemming from the Greek situation, accordingly, consisted in the possible loss of confidence in the overall monetary stability of the euro area. The ECB Governing Council has pledged to use all the instruments at its disposal to counter the emergence of tensions.

ITALY'S EXPOSURE TO GREECE

Italian banks' exposure to Greece is limited; in March 2015 it was equal to €0.8 billion, almost all of it vis-à-vis the private sector (€0.7 billion).

Italian public debt includes €35.1 billion relating to financial assistance programmes for Greece: 1) liabilities issued to finance bilateral loans provided by Italy in 2010 and 2011 under the first financial assistance programme (€10 billion) and 2) Italy's share (€25.1 billion) of the coverage for loans issued by the European Financial Stability Facility (EFSF) beginning in 2012 under the second programme. These loans were funded via EFSF bond issues and reallocated to the creditor countries on the basis of their respective shares in the capital of the ECB.

The Bank of Italy's exposure is the result of its share in Greek government bonds bought by the Eurosystem under the Securities Market Programme. This exposure, based on the Bank of Italy's share in the capital of the ECB, is just under €3 billion at book values, compared with the Eurosystem's total portfolio of €18.3 billion.

The credit of last resort (Emergency Liquidity Assistance-ELA) for Greek banks is provided by the Greek central bank. The ELA is correlated with monetary outflows abroad arranged by the banks themselves, which are reflected in an increase in the Greek central bank's debtor position towards the ECB on the TARGET2 payment system.

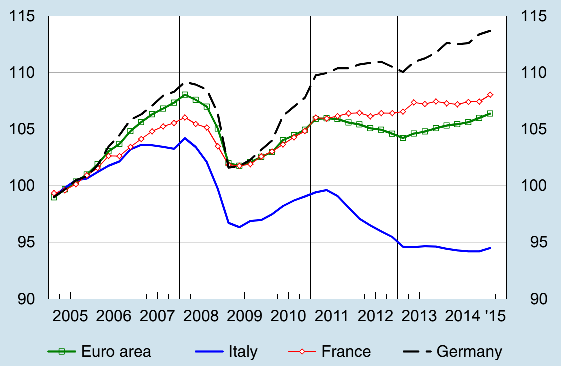
Euro-area GDP grows further in the first quarter ...

In the first quarter the euro-area economy grew at a quarterly rate of 0.4 per cent, the same as in the fourth quarter of 2014 (Figure 5), sustained by household and business spending. In France economic activity returned to expansion (0.6 per cent), driven by stock-building, stronger spending by households, and a moderation of the decline in investment. GDP returned to growth in Italy as well (0.3 per cent) but slowed from 0.7 per cent at end-2014 to 0.3 per cent in Germany, where a further increase in consumption and investment was accompanied by a sharper rise in imports than exports.

Figure 5

GDP of the euro area and the main area countries (1)

(quarterly data; indices, 2005=100)



Sources: Based on national statistics.
(1) Chain-linked volumes.

... and the upswing continues in the spring months

The data available indicate that economic activity expanded in the second quarter and was relatively uniform from country to country. In June the €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, increased modestly for the seventh consecutive month, confirming that the economic recovery is consolidating

(Figure 6). Business surveys have found widespread expectations of cyclical improvement. In June the purchasing managers index (PMI) for euro-area firms remained above the threshold consistent with an expansion of activity. In Germany the PMI indicator points to the persistence of a favourable outlook. In France it rose above the critical threshold in industry and registered its largest increase in four years for the service sector.

The Eurosystem staff projections released in June suggest the acceleration of growth to 1.5 per cent this year (from 0.8 per cent in 2014) and to 1.9 per cent next year. These forecasts are in line with those of professional forecasters made in the same month.

Inflation is now slightly positive again ...

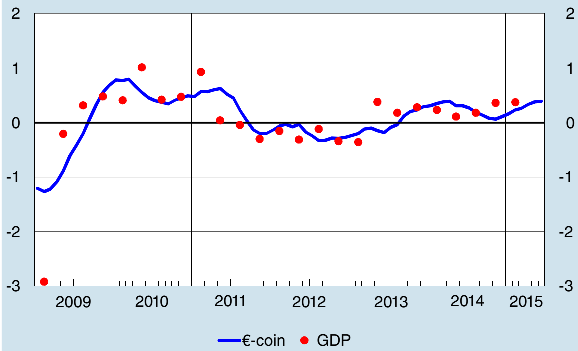
Fears of a prolonged period of low inflation have abated but not evaporated. The twelve-month rate of consumer price inflation rose to 0.2 per cent in June (Figure 7), after edging above zero in May for the first time since December 2014. The decline in the prices of energy goods (which fell by 5.1 per cent) remains a factor in the weakness of inflation. Net of the most volatile components, consumer inflation was 0.8 per cent. About one quarter of the elementary items in the consumer basket showed a twelve-month price decline. Among the core items, reductions were recorded for 38 per cent of goods and 13 per cent of services. Producer price inflation remains negative, recording a twelve-month decline of 2.0 per cent in May, owing above all to falling energy prices. Producer prices of non-food final consumption goods were unchanged.

... but will stay very moderate for the year

In recent months the forecasters surveyed by Consensus Economics have revised their euro-area inflation projections progressively upwards; in June they forecast 0.2 per cent for this year and 1.3 per cent for next year. This is in line with the latest Eurosystem staff projections, by which inflation will approach 2 per cent only in 2017 (at 1.8 per cent). Firms' pricing plans for the next few months, while embodying increases, also presage the persistence of low inflation.

Figure 6

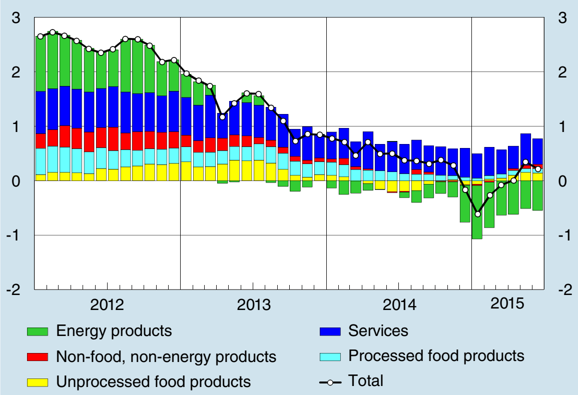
€-coin coincident cyclical indicator and euro-area GDP (1)
(percentage changes)



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 https://www.bancaditalia.it/media/comunicati/documenti/2015-01/201506-eurocoin-eng.pdf?language_id=1. 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.

Figure 7

Inflation in the euro area and contributions of the components (1)
(monthly data; 12-month percentage changes and percentage points)



Source: Based on Eurostat data.
(1) Harmonized index of consumer prices.

The Eurosystem's securities purchase programme proceeds

The Eurosystem proceeded with its purchases of public and private sector securities. By 10 July it had bought a total of €216 billion worth of public securities, €98 billion of covered bonds and €9 billion of asset-backed securities. At the end of June purchases of Italian public securities amounted to €32 billion,

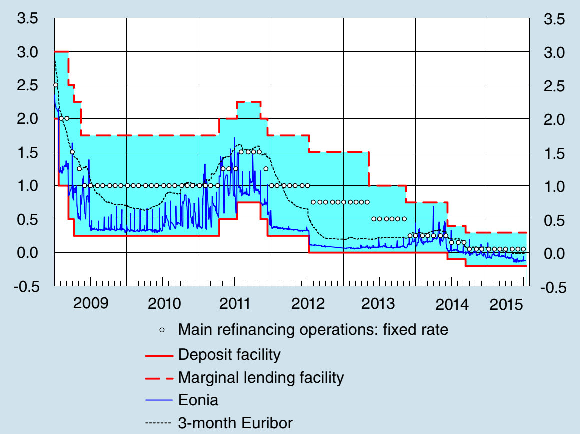
Figure 8

Inflation expectations implied by inflation swaps (1)
(daily data; per cent)

Source: Bloomberg.
(1) Expected inflation rates implied by 2-year, 5-year and 5-10-year inflation swaps 5 years ahead.

Figure 9

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



Sources: ECB and Thomson Reuters Datastream.

with an average residual maturity of 8.8 years. The Governing Council reaffirmed its intention to continue the programme at least until September 2016 and in any case until it sees a sustained adjustment in the path of inflation that is consistent with the definition of price stability. Even after the rise in bond yields (see Section 1.3), financial conditions remain favourable. The Council is monitoring developments closely to detect any signs of unwarranted tightening.

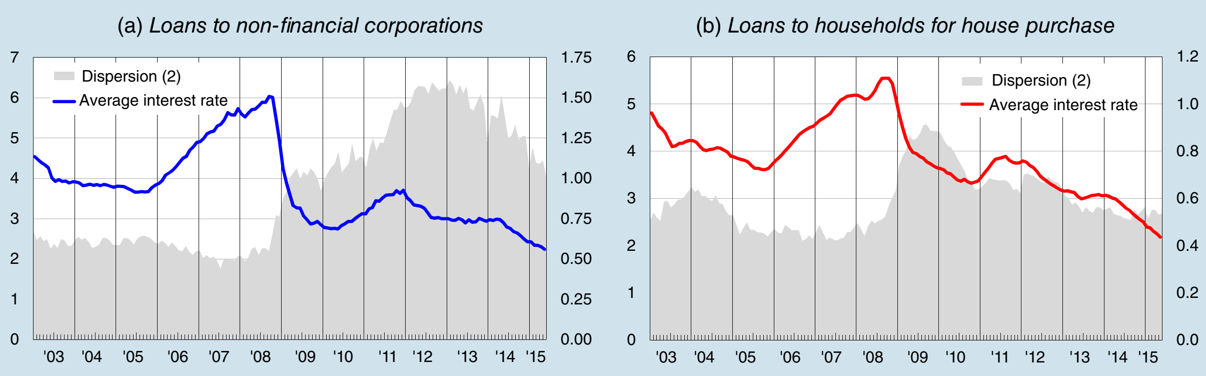
Medium-term inflation expectations, as implied by inflation swap rates, have remained the same as at the start of April (Figure 8), while 5-year forward five years ahead expectations have risen by 0.2 percentage points to 1.8 per cent, continuing the upward trend under way since the end of January.

A new targeted LTRO is conducted

The fourth targeted longer-term refinancing operation was settled on 24 June; 128 banks participated, bidding for €74 billion. The funds assigned to Bank of

Figure 10

Composite indicator of the cost of borrowing in the euro area (1)
(per cent)



Source: ECB.
(1) Average of interest rates on new short- and medium-term loans weighted using the 24-month moving average of new loan disbursements. For non-financial corporations, includes overdrafts. – (2) Standard deviation of the average interest rates for 13 euro-area countries. Right-hand scale.

Italy counterparties amounted to €17.5 billion, bringing the total since the start of the programme to €111 billion. Overall, banks' liquidity deposited with the Eurosystem in excess of reserve requirements rose to €395 billion, from €260 billion in mid-April. The Eonia overnight rate and the three-month unsecured interbank rate (Euribor) declined slightly compared with April to -0.12 and -0.02 per cent respectively (Figure 9).

The credit market improves further

The extremely expansive monetary conditions have continued to affect both the cost of credit, which has fallen further, and the dispersion of interest rates between countries, which diminished slightly (Figure 10). In the three months ending in May, seasonally adjusted lending to firms in the area remained broadly unchanged (adjusted for the accounting effect of securitizations). The expansion of credit to households strengthened to 2.6 per cent. The growth of the M3 aggregate accelerated from a twelve-month rate of 4.1 per cent in February to 5.0 per cent in May.

1.3 WORLD FINANCIAL MARKETS

The difficult negotiations between Greece and international creditors have caused an increase in the volatility of the markets and risk premiums for both sovereign and private debt, especially in the euro-area countries that were most exposed to tensions in the past. Yields on the long-term government securities of the main advanced countries have risen partly due, in the euro area, to the improvement in inflation and growth expectations. They were only temporarily affected by the uncertainty about the outcome of the referendum in Greece.

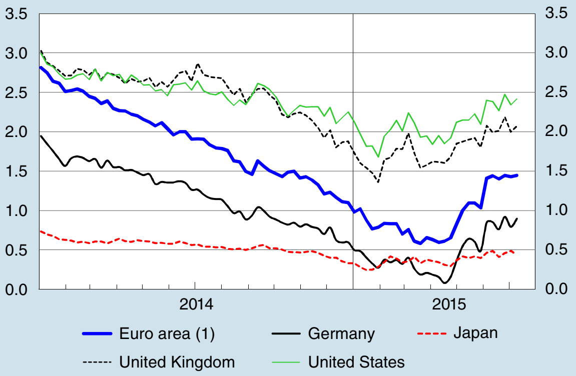
Long-term yields rise

After reaching an all-time low of 0.6 per cent in mid-April in response to the start of the Eurosystem asset purchase programme, ten-year government bond yields in the euro area increased, rising to 1.4 per cent on average as of 10 July. This reversal of trend reflected technical factors, including significant portfolio shifts by investors in reaction to an improvement in inflation and growth expectations. Yields rose in the other main advanced countries as well: the rates on ten-year government securities stood at 2.4, 2.1 and 0.4 per cent respectively in the United States, the United Kingdom and Japan. The acute uncertainty of the Greek situation following the announcement of the referendum had generally limited and temporary effects on yields (Figure 11).

Figure 11

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, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

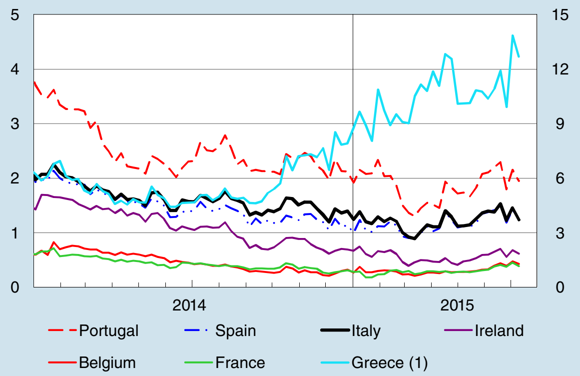
The uncertainty concerning Greece has a limited impact on sovereign risk premiums ...

The protracted uncertainty concerning the outcome of the negotiations between Greece and its international creditors has also had generally limited repercussions on the sovereign debt markets of the other euro-area countries. The increase in spreads following the announcement of the referendum was largely erased around 10 July by the growth of optimism about reaching an agreement. From the end of March to 10 July, yield spreads of ten-year government bonds with respect to Germany widened in Portugal, Spain, Ireland and Italy (by 44, 20, 19 and 17 basis points respectively), with a smaller increase in France (9 basis points; Figure 12).

Figure 12

Yield spreads between 10-year government bonds and the corresponding German Bund

(end-of-week data; percentage points)

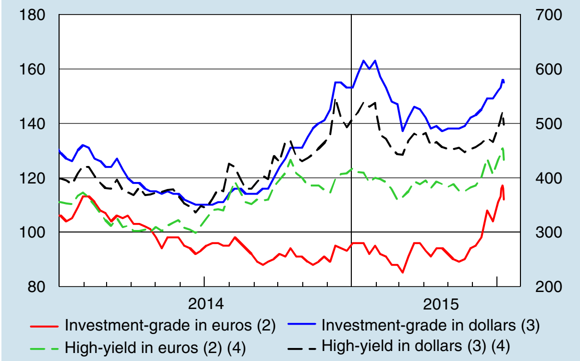


Sources: Based on Bloomerg and Thomson Reuters Datastream data.
(1) Right-hand scale.

Figure 13

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 1 year, issued in 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 1 year issued on the US domestic market; yield spreads are calculated with respect to US Treasury securities. – (4) Right-hand scale.

... as well as on private risk premiums

Risk premiums on investment-grade corporate bonds have increased since the end of the first quarter for both euro- and dollar-denominated securities (Figure 13). In the high-yield segment, yield spreads have widened for euro-denominated securities and also, by a smaller margin, for equivalent dollar-denominated paper. In the euro area, banks' credit risk premiums, measured by five-year credit-default swaps (CDS), have risen; in the United States, the increase has been more moderate.

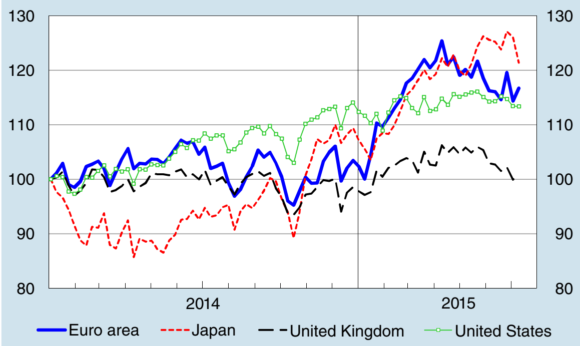
Share prices are affected by the events in Greece but remain high

After reaching very high levels in mid-April, share prices partly retreated in concomitance with the rise in long-term government securities yields; the correction was sharper in the United Kingdom and the euro area (Figure 14). Euro-area share prices have been affected by the Greek crisis but at 10 July were still 17 per cent up on their level of 6 November, the date when preparatory work began for the Eurosystem asset purchase programme. Volatility has increased in general, notably in the euro area (Figure 15).

Figure 14

Stock market indices (1)

(end-of-week data; 1st week of January 2014=100)



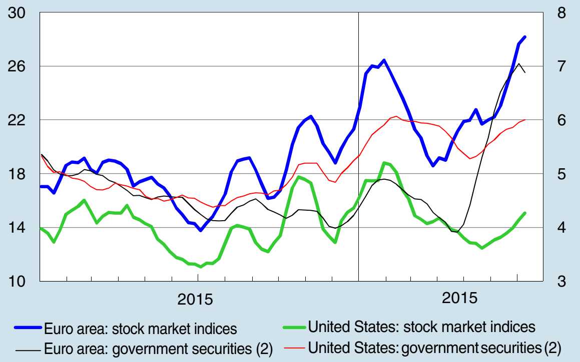
Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom, and Standard & Poor's 500 for the United States.

In China the stock market tumbles

The Chinese stock market registered an abrupt fall beginning in mid-June; share prices tumbled by 30 per cent in less than a month, relinquishing part of the gains accrued since the beginning of the year. The slump followed the upward spiral of prices that began last November (150 per cent), fuelled by the massive entry into the stock market of financially unsophisticated small savers, which may have amplified the price swings. This reflected the easing of monetary conditions and the authorities' explicit exhortation to support the

Figure 15

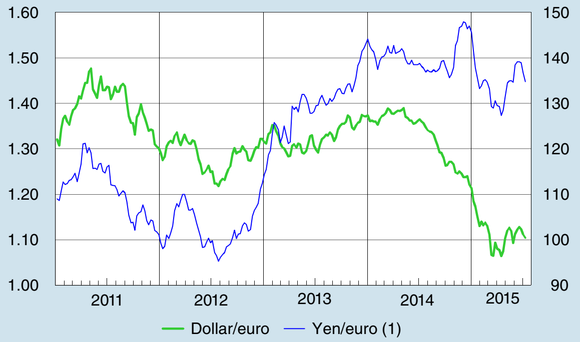
Implied volatility of stock market indices and government securities prices (1)
(end-of-week data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Moving average 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 16

Bilateral exchange rates
(average weekly data)



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

development of the stock market. At the beginning of July the financial authorities intervened to stem the price rout by spurring share purchases by public agencies and corporations; at the same time, trading was suspended for nearly half of listed companies and new initial public offerings were blocked. Following these measures, the prices of the shares still being traded have turned upwards, but worries about a slowing of the reform of China's financial system have spread.

The stock market indices of the other emerging economies also began to fall in May. There were capital outflows from investment in bonds and, more markedly, in equities. Emerging-market currencies depreciated slightly against the dollar.

The euro recovers some of the ground lost in previous months

In the second quarter of 2015 the euro only recovered a small part of the sharp depreciation registered in the previous months, appreciating by 2.4 per cent in nominal effective terms. Bilateral exchange rates strengthened against both the dollar and the yen, by 3.9 and 6.1 per cent respectively (Figure 16). Since 6 November the currency has appreciated by 10.6 per cent against the dollar and by 6.6 per cent in effective terms.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

In Italy, economic activity continues to gain momentum. Qualitative surveys indicate that the cyclical recovery that began in the first quarter of this year firmed up in the second. Domestic demand was again the force behind GDP growth.

GDP returns to growth in the first quarter of 2015

Italy's GDP grew by 0.3 per cent in the first quarter of 2015 after stabilizing at the close of 2014 (Figure 17). Value added expanded in all the main productive sectors except services, where it stagnated. The main support came from the increase in national demand, 0.5 percentage of points of which was the result of a reduction in destocking. While investment picked up sharply (1.5 per cent; Table 2), buoyed above all by spending on transport equipment and construction, there was a barely perceptible decline in consumption. The expansion in national demand led to a pronounced rise in imports; goods exports increased further, but total exports stagnated.

The recovery continues in recent months

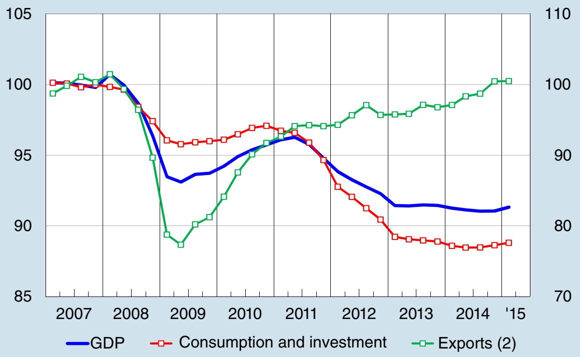
The opinions expressed in the surveys carried out this spring suggest that the economic activity will continue to improve. The signs coming from the indicators of household and business spending are also positive. In June, the Bank of Italy's Ita-coin indicator, which provides an estimate of the quarterly change in Italy's GDP adjusted for short-term fluctuations, rose for the fourth consecutive month. According to our estimates, GDP continued to grow in the second quarter at a similar rate to its performance at the beginning of the year.

Consumer price inflation moves back into positive territory

The twelve-month change in the harmonized index of consumer prices (HICP)

Figure 17

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. – (2) Right-hand scale.

Table 2

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

	2014			2015	2014 (2)
	Q2	Q3	Q4	Q1	
GDP	-0.1	-0.1	..	0.3	-0.4
Total imports	1.2	0.8	0.5	1.4	1.8
National demand (3)	-0.2	..	-0.4	0.7	-0.7
National consumption	-0.1	0.2	0.2	-0.1	..
household spending (4)	0.1	0.2	0.1	-0.1	0.3
other spending (5)	-0.6	0.2	0.4	0.1	-1.0
Gross fixed investment	-0.6	-0.7	0.2	1.5	-3.3
construction	-1.4	-0.8	-0.5	0.5	-4.9
other goods	0.3	-0.5	0.9	2.5	-1.6
Change in stocks (6) (7)	-0.1	..	-0.6	0.5	-0.1
Total exports	1.3	0.4	1.8	..	2.6
Net exports (7)	0.1	-0.1	0.4	-0.4	0.3

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the changes in stocks and valuables. – (4) Includes non-profit institutions serving households. – (5) General government expenditure. – (6) Includes valuables. – (7) Contributions to GDP growth on previous period; in percentage points.

edged up to 0.2 per cent in May and June, despite a further drop in the prices of energy products. Core inflation, which had reached 0.3 per cent in April, the lowest level on record, rose to 0.7 per cent, mainly thanks to the service sector (see Section 2.6).

2.2 FIRMS

The industrial cycle has gained strength and business confidence remains strong. Investment picked up in the first quarter, and according to recent surveys the outlook continues to be good. There are some small signs that the cyclical improvement is gradually spreading to the construction sector, interrupting the negative phase already under way before the financial crisis.

Manufacturing continues to recover

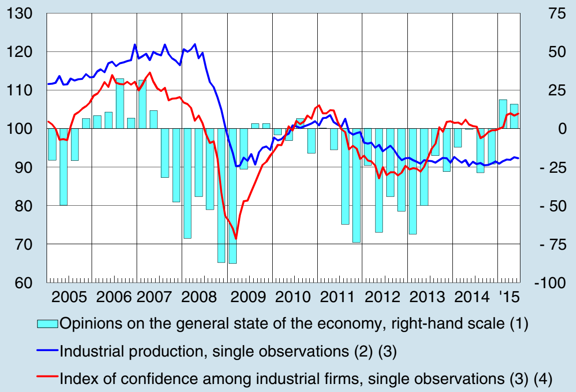
In May, industrial production increased by 0.9 per cent, more than offsetting April's decrease. According to our estimates, it will grow slightly faster in the second quarter than in the first, when it was equal to 0.5 per cent (Figure 18).

Business confidence stays strong

Business survey data suggest that the cyclical recovery will continue in the coming months. In June, confidence began to strengthen in the manufacturing sector, returning to the level of spring 2011; in the service sector, expectations for the short term were again decidedly favourable. Accordingly, services and manufacturing PMIs settled well above the threshold consistent with an expansion of activity. The quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* found the firms interviewed to be moderately optimistic, especially in manufacturing, although the predominant view was that the economic situation would remain stable.

Figure 18

Industrial production and business confidence
(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Balance of responses 'better' and 'worse' to the question on the general state of the economy in the Bank of Italy-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, June 2015, *Supplements to the Statistical Bulletin*, No. 36, 2015; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; for June 2015, estimated data. – (3) Index, 2010=100. – (4) In June 2013 methodological changes were introduced to the sample and the survey techniques that make the data since then not directly comparable with the earlier data.

Investment gradually picks up

Investment growth accelerated to 1.5 per cent in the first quarter; capital goods (2.5 per cent) were buoyed by the sharp increase in spending on transport equipment (28.7 per cent), most likely in response to tax concessions and to the additional demand stemming from the opening of Expo Milano 2015. Expectations for investment spending over the year as a whole remain favourable (see the box 'The investment outlook according to recent business surveys').

THE INVESTMENT OUTLOOK ACCORDING TO RECENT BUSINESS SURVEYS

The latest assessments of businesses confirm the improvement in investment prospects. The complete results of the Survey of Industrial and Service Firms conducted last spring by the Bank of Italy and those of the quarterly Survey on Inflation and Growth Expectations, conducted jointly with *Il Sole 24 Ore* in the first three weeks of June, were released in July.

In 2014 the contraction in real investment expenditure by the firms included in the Survey of Industrial and Service firms practically ceased (-0.4 per cent compared with 2013, from -3.7 per cent in 2013): spending in services was barely negative after three years of decline, and in industry capital formation recovered to expand by 0.9 per cent, driven by the manufacturing sector. All in all, investment continued to be constrained by the relatively poor outlook for demand, though it was reported to be improving, and by ample spare capacity. Only small firms were adversely affected by the terms of access to credit.

On average, actual investment expenditure in 2014 exceeded the forecast made in the spring of that year, when businesses expected an overall decline of 1.4 per cent (Figure A). The picture is broadly similar across firms, with the exception of those with more than 500 workers, at which the considerable capital formation seen in 2013 was followed by a greater-than-expected contraction in 2014, reflecting the temporary deterioration in the prospects for international trade.

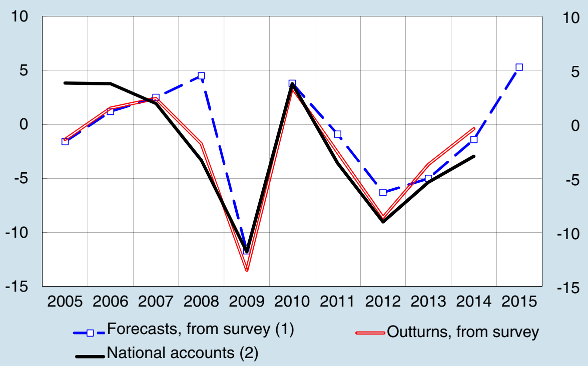
Investment plans for 2015 suggest a sharp increase of 5.3 per cent compared with last year, involving both industry – thanks above all to capital formation by exporting firms – and services. The marked expansion of investment planned by businesses with 500 or more workers (12.7 per cent) contrasts with the more prudent projections of medium-to-large firms (1.4 per cent) and plans to cut spending by firms with fewer than 50 workers (-4.8 per cent).

The indications on trends in investment expenditure for the current year provided in June's quarterly survey are consistent with the results of the Survey of Industrial and Service Firms. The positive balance between judgments of improvement and deterioration of the conditions for investing remains at a historically high level, better than prior to the crisis though slightly below the previous quarter (Figure B). More than half the respondent firms expect nominal investment spending in the first six months of 2015 to be unchanged with respect to the second half of 2014. The share of firms that expect an increase in investment is 11 percentage points greater than that expecting a decline, twice as much as in the previous survey, owing mainly to the improvement in industry. In manufacturing the share of firms reporting greater demand for their products also rose sharply, both among exporters and among firms producing mainly for the domestic market.

Figure A

Investment expenditure

(annual data; percentage changes)

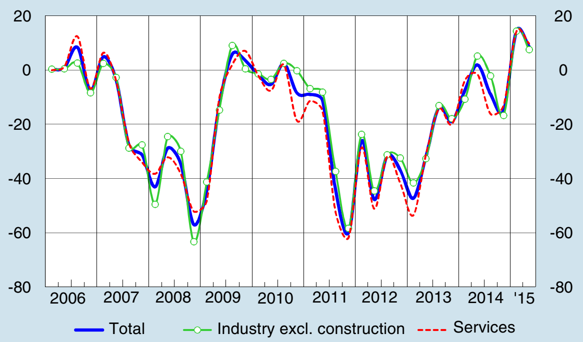


(1) Forecasts made during the spring of the reference year in the Survey of Industrial and Service Firms. Reference year 2014 published in *Supplements to the Statistical Bulletin*, No. 34, 2015. – (2) Chain-linked volumes. Data calculated for total industry excluding construction and for non-financial private services.

Figure B

Firms' assessment of conditions for investing compared with previous quarter (1)

(quarterly data; percentage points)



(1) Balance between judgments of improvement and of deterioration by comparison with the previous quarter reported in the quarterly Survey on Inflation and Growth Expectations, conducted on a sample of firms in industry excluding construction and in services by the Bank of Italy together with *Il Sole 24 Ore* in June 2015 and published in *Supplements to the Statistical Bulletin*, No. 36, 2015.

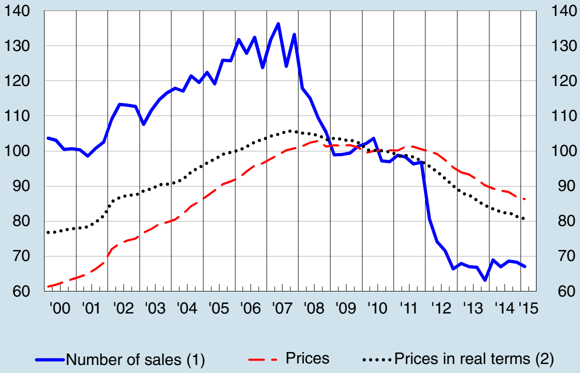
The construction sector shows some signs of recovery

Investment in construction, which had been declining almost without a break since before the financial crisis, turned positive, increasing by 0.5 per cent on the previous period. The slight drop in house sales virtually wiped out the gain recorded in the second half of 2014 (Figure 19). The estate agents interviewed in April for the survey conducted by the Bank of Italy with Tecnoborsa and the Revenue Agency's Osservatorio del Mercato Immobiliare (OMI) reported a continuous rise in the number of potential buyers. House prices, which had been falling for more than three years, began to stabilize. The expectations of the construction companies interviewed in June for the Bank of Italy-*Il Sole 24 Ore* quarterly survey were again positive for the short and medium term and significantly better than at the end of last year.

Figure 19

House prices and sales

(quarterly data; index, 2005=100)



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

The improvement in competitiveness since early 2014 continues

The overall gain in the competitiveness of Italian exports, measured by the producer prices of manu-factures, since the beginning of last year has been significant (3 percentage points) only partly affected – according to provisional data – by the recent appreciation of the exchange rate. The trend is common to the other main euro-area countries as well (Figure 20). The gains with respect to non-euro-area countries were especially large, amounting to 6 percentage points for Italy, 8 points for France and Spain and 5 points for Germany.

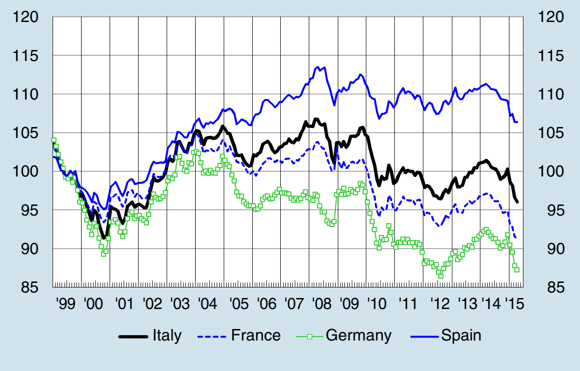
Corporate profitability holds stable

According to estimates based on the national accounts, in the first quarter of 2015 firms' operating profitability – i.e. gross operating profit over value added in the twelve months to March – was virtually stable at a historically low level. Gross investment and self-financing, relative to value added, showed little change. Firms' financial costs and financing requirement decreased.

Figure 20

Indicators of competitiveness (1)

(monthly data; indices, 1999=100)



Sources: Based on ECB, CEPII, Eurostat, IMF, OECD and UN data and national statistics.
(1) Vis-à-vis 61 competitor countries; based on producer prices of manufactures. An increase in an index indicates a loss of competitiveness. The latest data refer to April 2015. For the calulation methodology, see A. Felettigh, C. Giordano, G. Oddo and V. Romano, 'Reassessing price-competitiveness indicators of the four largest euro-area countries and of their main trading partners', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 280, 2015.

The contraction in bank lending eases

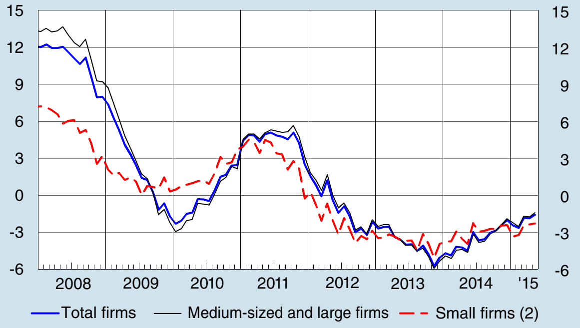
The contraction in bank loans to firms (including producer households) slowed. Loans fell by 1.6 per cent in the twelve months ending in May 2015, compared with a 2.0 per cent reduction in December 2014 (Figure 21). At the end of the first quarter of this year firms' total debt was slightly down at 77.8 per cent of GDP from 78.2 per cent three months earlier (Figure 22).

Net bond issues turn positive in the early months of the year

Italian firms made net bond issues of €1.0 billion in the first quarter of this year, against net redemptions of €0.8 billion in the previous quarter (Table 7). In the early months of 2015 gross share

Figure 21

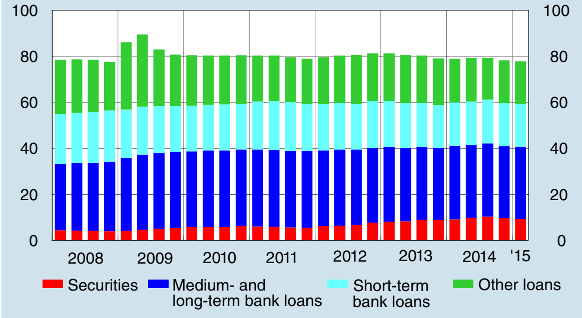
Firms' bank debt by size of firm (1)
(monthly data; 12-month percentage changes)



Source: Supervisory reports.
(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 22

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.

issues of non-financial corporations resident in Italy rose further. Preliminary Dealogic data indicate that in April and May there were net bond issues totalling €4 billion.

2.3 HOUSEHOLDS

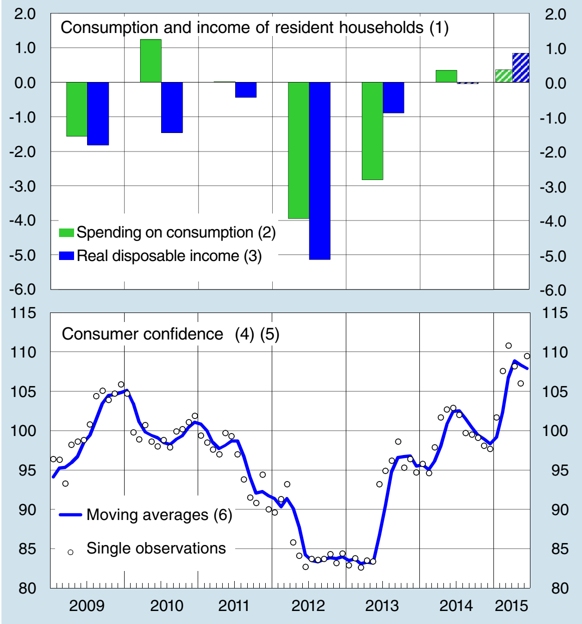
The recovery in consumer expenditure, under way since mid-2013, remains concentrated in purchases of durable goods. Spending is being supported by the return of household confidence, despite persistently cautious assessments of the outlook for the general state of the economy and the labour market, but is still constrained by the weakness of disposable income.

Consumption falls slightly in the first quarter

Household consumption contracted very slightly in the first quarter, after recording cumulative growth of 0.7 per cent since the summer of 2013; the recovery in purchases of durables and semi-durables, which recorded increases of 0.8 and 0.5 per cent respectively, contrasted with the slight decline in purchases of non-durable goods and the stagnation of services (compared with growth of 0.3 per cent in the last quarter of 2014). Spending continues to be held back by the weakness of disposable income which, notwithstanding signs of a recovery in wages and a 0.6 per cent increase in purchasing power in the first quarter, has been stationary for about two years (Figure 23). The saving rate has risen gradually from the lows of early 2013, reaching 9.2 per cent

Figure 23

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



Source: Based on Istat data.
(1) Percentage changes on the previous year. – (2) Chain-linked volumes. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, reference year = 2010. – (4) Monthly data seasonally adjusted. Indices, 2010=100. – (5) In June 2013 methodological changes were introduced to the sample and survey techniques that make the data since then not directly comparable with the earlier data. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

in the first quarter and revealing households' caution in expanding their consumption.

According to the latest indicators, in the second quarter consumption was again buoyed by the durable goods component; new car registrations, though slowing, were up 2.5 per cent from the previous quarter.

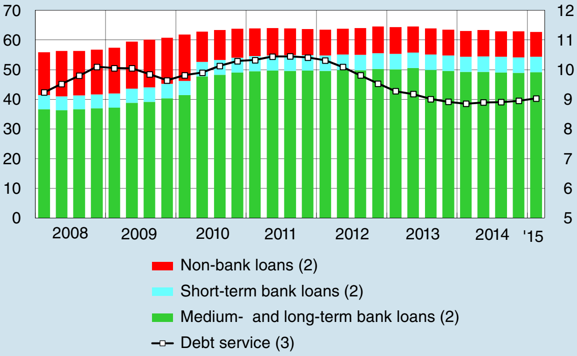
... but household confidence remains strong

During the spring the index of consumer confidence rose again, reaching high levels. The improved assessments of the current economic situation and of the state of households' finances contrasted with their persistently cautious assessments of the outlook for the general state of the economy and the labour market.

Figure 24

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. Data for the last 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 apportionment of bank and non-bank loans. For the methodology see the note in Monetary and Financial Statistics. 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.

Debt and debt service is unchanged

In the first quarter of 2015 the ratio of Italian households' debt to disposable income was unchanged at 62.8 per cent (Figure 24), still well below the euro-area average of around 96 per cent. The interest rates on new loans for house purchase continued to decline on average during the quarter, while there was a slight increase in those for consumer credit; households' expenditure on debt service (interest and principal) was basically stable at 9.0 per cent of disposable income.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Against the backdrop of a contraction in world trade, in the first quarter of 2015 Italian exports remained stationary overall but recorded expansion in the goods component. Business surveys indicate favourable prospects for exports in the coming months. Imports increased, driven by an upturn in domestic demand. The current account surplus continued to expand and non-residents' purchases of Italian government securities strengthened.

Goods exports increase ...

In the first quarter of 2015 exports of goods and services remained unchanged in volume terms compared with the previous period. Nevertheless, despite the global reduction in goods trade, Italian merchandise exports grew again (up by 0.6 per cent, against 1.8 per cent in the fourth quarter of 2014), especially in the non-EU markets, while services exports declined by 2.4 per cent.

Goods exports in volume terms turned in a particularly positive performance in the United States and Japan, thanks in part to the depreciation of the euro; sales to the OPEC countries and the dynamic economies of East Asia recorded smaller increases. The transport equipment and metal product sectors made a positive contribution to total exports, while there was a decline in sales of mechanical machinery and equipment, pharmaceutical products and the main traditional Italian export goods.

... and imports accelerate

Imports of goods and services accelerated in volume terms (up 1.4 per cent, from 0.5 per cent in the fourth quarter), especially as regards goods (3.6 per cent). Imports increased in all sectors with the exception of refined petroleum products and commodities. Imports of chemical products, transport equipment, metal products and electrical machinery were very substantial, presumably in connection with the recovery of gross fixed investment (see Section 2.2).

The outlook for exports improves

The latest data indicate that goods exports in April-May were on average higher than in the first quarter, while imports contracted slightly. The qualitative indicators confirm a favourable picture: the manufacturing PMI index for foreign orders and the analogous Istat indicator improved in June, reaching their highest levels for about a year (Figure 25).

The current account surplus continues to grow

The current account surplus, which in 2014 as a whole amounted to 1.9 per cent of GDP, has continued to grow; in the first four months of 2015 it amounted to €6 billion, more than twice as large as in the same period a year earlier. The improvement was mainly due to the lower energy deficit (Table 3).

Net private capital inflows continue

With the start of the Eurosystem's asset purchase programme, foreign investors' interest in Italian portfolio securities has increased; in the first four months of 2015, foreign purchases amounted to €76.1 billion, of which €65.0 billion in public debt securities, for the most part with maturities of more than one year. In the same period in 2014 total inflows had been equal to €71.6 billion, of which €54.0 billion in purchases of public debt securities.

Foreign portfolio investment by resident operators also continued, amounting to €74.0 billion in the first four months of the year, of which approximately 60 per cent related to foreign investment funds.

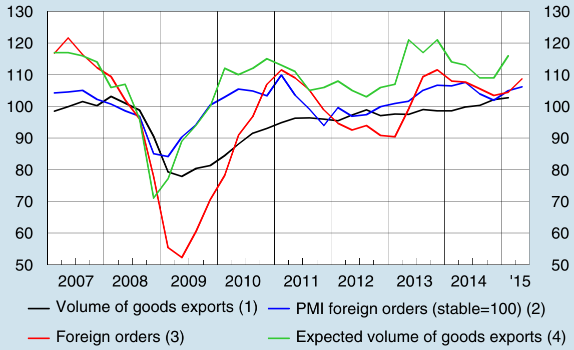
The changes in TARGET2 reflect technical factors

In the first ten days of July, the Bank of Italy's debtor position in TARGET2 averaged €196 billion (see the box 'The TARGET2 balance in the last three years'). Compared with the average position in June (€171 billion) the widening was partly due to technical factors which, as in the past, determined temporary fluctuations, such as net redemptions of government securities held by non-residents and the repatriation of funds by some foreign banks towards the end of the month. Furthermore, the liquidity provided by the Eurosystem through its fourth targeted refinancing operation and through securities purchases for monetary policy purposes allowed Italian banks to reduce their shorter-term funding on the foreign interbank market.

Figure 25

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 indicator 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 replies of 'favourable' and 'unfavourable' plus 100.

Table 3

Italy's balance of payments (1)

(billions of euros)

	2013	2014	Jan.-Apr. 2014	Jan.-Apr. 2015
Current account	**15.0**	**30.9**	**2.6**	**6.0**
Goods	36.1	49.5	12.6	15.5
Non-energy products (2)	87.6	90.1	26.9	26.4
Energy products (2)	-51.5	-40.7	-14.3	-10.9
Services	1.4	0.5	-2.3	-2.2
Primary income	-4.4	-2.3	0.4	1.0
Secondary income	-18.1	-16.6	-8.1	-8.2
Capital account	**0.2**	**3.4**	**-0.6**	**-0.4**
Financial account	**11.3**	**50.2**	**18.0**	**0.7**
Direct investment	3.6	9.0	-5.2	2.4
Portfolio investment	-14.6	-4.5	-49.3	-2.0
Derivatives	3.0	-3.6	-2.8	0.0
Other investment	17.7	50.2	75.3	0.7
Change in official reserves	1.5	-1.0	0.1	-0.3
Errors and omissions	**-3.8**	**15.9**	**15.9**	**-4.9**

(1) According to the international standards set out in the IMF's *Balance of Payments and International Investment Position Manual*, 6th edition (BPM6), 2009. For April 2015, provisional data. – (2) Based on Istat's foreign trade data.

THE TARGET2 BALANCE IN THE LAST THREE YEARS

The balance of each euro-area national central bank (NCB) in the Trans-European TARGET2 payment system reflects the difference between payments received and payments made by banks operating in the country, which are settled by the system via the NCB. The balance can be read as the accounting counterparty of all commercial and financial transactions between residents and non-residents; moreover, it can be interpreted on the basis of the internal distribution within the Eurosystem of the liquidity that each NCB injects into the system through its monetary policy operations.

As a result, a country's TARGET2 balance can be examined from two angles: the balance of payments and the balance sheet of its central bank.[1] By using the balance of payments accounting identity it is possible to highlight the main typologies of foreign transactions associated with changes in the balance. In Italy's case, an improvement in the balance may reflect foreign investment in Italian public and private sector securities; an increase in the net funding of resident banks on the international markets; a surplus on current account and on capital account; and residents' disposals of foreign assets (table, Panel A). Looking instead at the main items of the central bank's balance sheet, an improvement in the balance is normally the result of either a reduction in the liquidity injected into the system via monetary policy operations (loans to banks or purchases of assets, such as public and private sector securities) or it may be linked to an increase of the factors that absorb this liquidity (in particular, general government deposits and liabilities towards banks for monetary policy purposes; see the table, Panel B).

After reaching a peak of €289 billion in August 2012 – at the height of the sovereign debt crisis that caused foreign capital to flow out of the market for Italian government securities and a reduction

TARGET2 balance in relation to the balance of payments and the Bank of Italy's balance sheet (1)
(billions of euros)

			(A) *Balance of payments accounting identity*						(B) *Bank of Italy balance sheet accounting identity*					
			Change in TARGET2 = (a)+(b)+(c)+(d)+(e)-(f)						Change in TARGET2 = (g)+(h)+(i)-(l)-(m)-(n)					
			plus:					minus:	plus:			minus:		
	Balance	Change in balance (2)	Foreign invest. in Italian public debt secs.	Foreign invest. in Italian private sector secs.	Net funding abroad by resident banks	Cur. account and capital account	Resid. items	Italian invest. in foreign secs.	Gen. gov. deposits	Bank-notes in circulation	Liabilities vis-à-vis EMU credit instits. for mon. pol. purposes	Loans to EMU credit instits. for mon. pol. purposes	Secs. held for mon. pol. purposes	Other net assets
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(l)	(m)	(n)
			Flows						Changes in stocks					
Aug. 2012	-289													
July 2014	-130	159	123	87	-20	37	-29	38	51	-7	-13	-116	-12	0
Dec. 2014	-209	-79	-27	-5	-15	21	0	52	-55	5	-1	30	3	-5
Apr. 2015	-177	32	65	11	38	6	-14	74	17	-6	2	-35	21	-4
May 2015	-164	13	….	….	….	….	….	….	16	-1	-3	-10	9	1
June 2015	-189	-25	….	….	….	….	….	….	-1	-1	3	16	8	3

(1) Breakdown of the change in the balance at the end of the month based on the accounting identity of the balance of payments (Panel A above; data available up to April 2015) and of the Bank of Italy (Panel B above). – (2) Calculated in relation to the end of the previous month given in the first column of the table.

[1] See M. Cecioni and G. Ferrero, 'Determinants of TARGET2 imbalances', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 136, 2012.

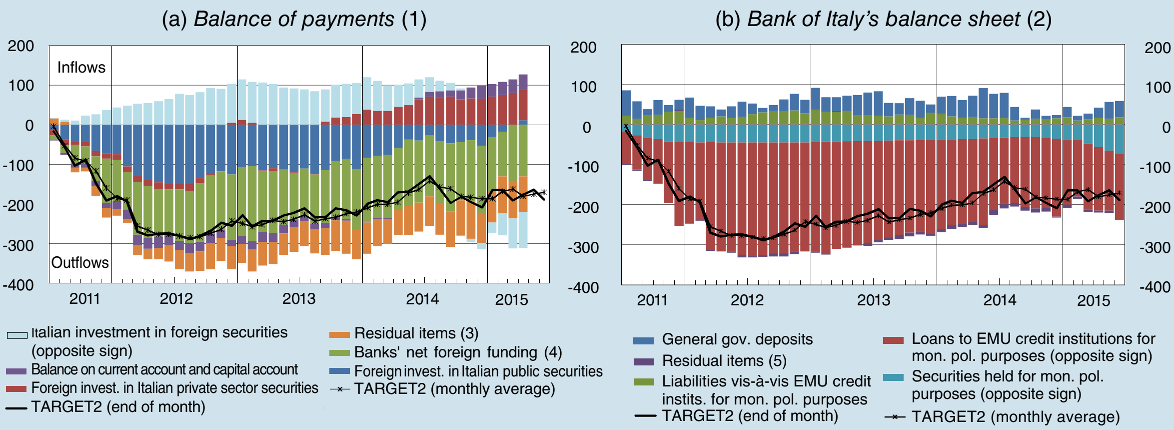
in banks' funding abroad – the Bank of Italy's debtor position in TARGET2 gradually improved, reaching a low point of €130 billion in July 2014. Subsequently the balance fluctuated widely, leading to a liability position of €189 billion at the end of June.

On the balance of payments side, the reduction of the Bank of Italy's liability position in TARGET2 between the summer of 2012 and that of 2014 was mainly due to a revival of foreign investment in Italian public securities and corporate shares and bonds. However, in the same period there was no evidence of a recovery in net funding on the foreign interbank market (see the figure, Panel A). In the Bank of Italy's balance sheet, the improved TARGET2 balance was primarily the result of reduced recourse by resident banks to central bank refinancing operations and an increase in general government deposits (see the figure, Panel B).

The temporary widening of the negative balance in the second half of 2014 can be put down to the issuance policy of the Treasury, which used the large volume of liquidity accumulated in its own accounts with the Bank of Italy to make net redemptions of securities, in part held by non-residents; there was a corresponding decline in general government deposits in the Bank's balance sheet. One factor that contributed to the increase in the TARGET2 balance was the larger volume of liquidity provided by the Bank under the first two TLTROs, some of which was used by Italian banks to reduce their funding on the foreign interbank market. The widening of the balance was partly the result of purchases of foreign securities (mainly investment fund units) by residents.

The reduction in the liability position in the first four months of 2015 reflected increased foreign investment in Italian public securities and net funding abroad by resident banks, which was only partly counterbalanced by residents' purchases of foreign portfolio securities. The Bank of Italy's balance sheet showed an increase in general government deposits and a decrease in refinancing of banks, which more than offset the larger volume of liquidity provided by purchases of public and private sector securities for monetary policy purposes. Similar trends in the balance sheet items characterized the further improvement in the balance in May; the subsequent widening of the liability position in June was primarily due to the liquidity provided through the fourth TLTRO and the continuing purchases of securities for monetary policy purposes.

Main factors linked to the TARGET2 balance
(billions of euros)



(1) Breakdown on the basis of the balance of payments accounting identity. Cumulative monthly flows from July 2011 (data available up to April 2015). – (2) Breakdown on the basis of the Bank of Italy's balance sheet accounting identity. Monthly stocks. – (3) Direct investment, derivatives, other investment, errors and omissions. – (4) Includes funding intermediated by resident central counterparties. – (5) Difference between banknotes in circulation and 'Other net assets'.

At the end of last March, Italy's net international investment position was negative by €478 billion, equal to 29.6 per cent of GDP. The worsening with respect to the end of 2014, equal to almost 2 percentage points of GDP, was largely due to valuation adjustments; the increase in the value of liabilities due to the marked decline in yields of Italian debt securities and the rise in share prices more than offset the sizeable price and exchange rate adjustments on the asset side.

2.5 THE LABOUR MARKET

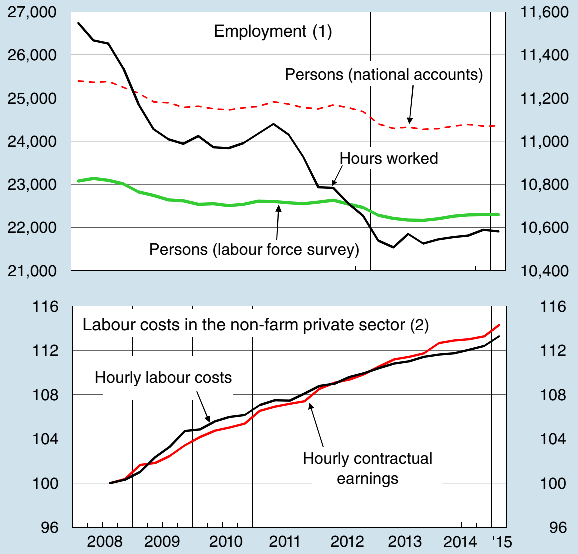
The number of persons employed returned to growth in April-May after essentially stagnating over the previous six months. The unemployment rate stabilized at the level to which it had declined in the first quarter. Since the start of the year the share of new hires consisting in open-ended contracts has increased. The employment outlook, while still uncertain, is improving.

Employment returns to growth in the spring

According to Istat's labour force survey, after stagnating for six months employment recorded an increase of 0.3 per cent in April-May by comparison with the first quarter. National accounts data indicate that both payroll employment and self-employment were essentially flat in the first quarter (Figure 26 and Table 4). The number of jobs in both agriculture and services

Figure 26

Employment and labour costs



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

Table 4

Employment and unemployment

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

	Number	Change			
	2015 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Total persons in work	**24,358**	**0.2**	**0.1**	**..**	**..**
of which: industry excl. construction	4,181	-0.1	-0.4	0.1	-0.8
private services (1)	10,540	0.1	0.6	0.1	0.5
Employees	18,118	0.4	0.2	-0.1	..
Self-employed	6,240	-0.2	0.1	0.2	..
Hours worked	**10,582**	**0.1**	**0.1**	**0.3**	**-0.1**
of which: industry excl. construction	1,831	-1.0	0.9	0.6	-0.6
private services (1)	4,863	-0.1	0.1	0.2	0.3
Employees	7,176	0.4	0.2	0.1	0.1
Self-employed	3,406	-0.5	-0.2	0.8	-0.6
Job seekers	**3,156**	**-1.0**	**1.9**	**0.1**	**-2.9**
Labour force	**25,456**	**0.2**	**0.3**	**0.1**	**-0.4**

Source: Istat: quarterly national accounts (persons in work and hours worked); labour force survey (job seekers and labour force).
(1) Does not include services to households and individuals.

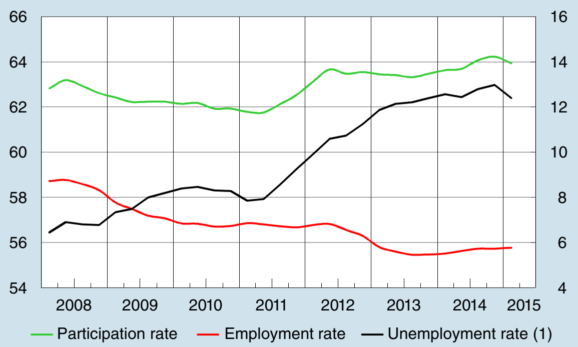
remained broadly unchanged and employment declined by 0.8 per cent in industry excluding construction, but construction employment grew for the first time in nearly three years, gaining 1.1 per cent.

The portion of open-ended hires increases

Since the start of the year there has been a marked shift in the composition of new jobs towards open-ended positions. According to Labour Ministry data, the share of new employment relationships accounted for by open-ended contracts rose to 21.4 per cent in the first quarter compared with 17.9 per cent a year earlier, presumably thanks to the social contributions relief enacted with the 2015 Stability Law, in effect from the start of the year, and the new rules on individual dismissals introduced by the Jobs Act (Enabling Law 183/2014) for persons hired from March onwards. Preliminary data indicate that the trend continued in April-May as well.

Figure 27

Participation, employment and unemployment rates
(seasonally adjusted quarterly data; per cent)



Source: Istat labour force survey.
(1) Right-hand scale.

The unemployment rate declines

The unemployment rate diminished from 12.7 per cent in the fourth quarter of 2014 to 12.4 per cent in the first quarter (Figure 27), owing to a decline in labour market participation, most markedly among persons under 55. Long-term joblessness eased slightly. In April-May the unemployment rate held at about the same level as in the first three months of the year.

Hourly labour costs accelerate slightly

Hourly labour costs in the non-farm private sector, as measured by the national accounts, picked up to growth of 1.5 per cent in the first quarter with respect to the year-earlier period, from 0.8 per cent in the fourth quarter of 2014. Contractual earnings increased by 1.4 per cent, about the same as in the previous three quarters (Figure 26).

The employment outlook is improving but uncertainty remains

The number of hours of wage supplementation benefits authorized fell further in the first quarter, and the number of benefit hours utilized by firms also diminished, to 38 per cent of the hours authorized, from 42 per cent a year earlier. Authorized hours fell further in April-May. According to the business survey conducted by the Bank of Italy together with *Il Sole 24 Ore*, some two thirds of firms continue to expect their employment level to remain stable, but those that expect an increase in the next three months slightly outnumber those that expect a decrease.

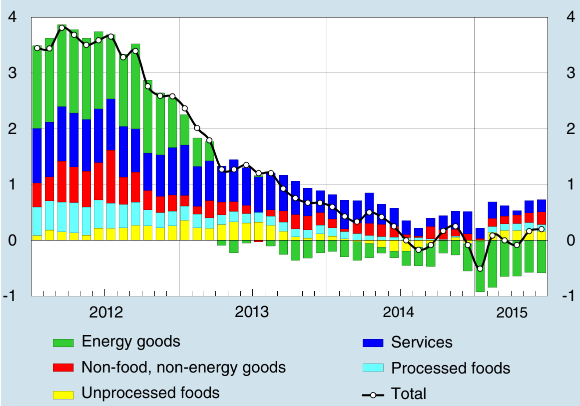
2.6 PRICE DEVELOPMENTS

After falling to an all-time low at the start of the year, consumer price inflation began to move slowly upwards in the course of the spring, but continued to be affected by falling energy prices. Despite a rise in recent months, core inflation continues to increase only modestly. The expectations of firms and households improved during the spring. In the view of professional forecasters, inflation will remain at historically low levels this year.

Figure 28

Consumer price inflation in Italy and the contributions of its components (1)

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



Source: Based on Eurostat data.
(1) Harmonized index of consumer prices.

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
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8
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	0.0	0.7	-1.7
June	0.2	0.7	-0.2	0.3	0.0	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	0.1	0.5	-2.1
Sept.	-0.1	0.5	-0.5	-0.2	0.0	0.4	-2.0
Oct.	0.2	0.6	0.2	0.1	0.1	0.5	-1.5
Nov.	0.3	0.6	0.3	0.2	0.0	0.5	-1.5
Dec.	-0.1	0.7	-0.1	0.0	-0.1	0.7	-2.1
2015 – Jan.	-0.5	0.5	-0.5	-0.6	-0.4	0.3	-3.8
Feb.	0.1	0.9	0.0	-0.1	0.4	0.5	-3.2
Mar.	0.0	0.4	-0.1	-0.1	0.0	0.3	-3.0
Apr.	-0.1	0.3	-0.3	-0.1	0.1	0.3	-3.0
May	0.2	0.7	0.2	0.1	0.1	0.6	-2.7
June	0.2	0.7	0.2	0.2	0.1	0.6	....

Source: 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.

Inflation edges back into positive territory

The twelve-month change in the HIPC increased in the second quarter to 0.2 per cent in May and June (Figure 28) but continues to be restrained by the fall in energy prices (Table 5). Net of the more volatile components, after reaching an all-time low in April, inflation also increased slightly (0.7 per cent), led by the pick-up in service prices. The percentage of the elementary prices in the HICP basket recording twelve-month declines has diminished steadily, falling from 40 per cent in January to 27 per cent in May. This is nevertheless higher than the average for 2009-10, when inflation was particularly low.

Producer price pressures remain weak ...

Producer prices declined again in May; the index was 2.7 per cent lower than in May 2014, reflecting the persistent fall in energy prices (down 8.1 per cent). The variation in the producer prices of non-food final consumer goods, which gives indications concerning the corresponding consumer price trends, held at the slightly negative values of April.

...but firms' and households' expectations improve

In May, for the first time since last summer, more of the manufacturing firms surveyed by the European Commission expected to raise their list prices in the coming three months than to reduce them. The businesses interviewed in the latest survey conducted by the Bank of Italy together with *Il Sole 24 Ore* expect the rise in their prices over the next twelve months to be modest, but greater than indicated in the previous survey. In part, firms' assessments depend on expectations of a modest strengthening in demand. Confirmation comes from the PMI indicator, which in June registered a further rise in the component relating to firms' prices. The households surveyed by Istat expect inflation to remain very low over the next twelve months.

Even so, the percentage of consumers who expect prices to decline has diminished since the start of the year, falling from the peak of 10.4 per cent last September to 5.5 per cent in June. The professional forecasters surveyed that month by Consensus Economics revised their inflation projections for 2015 upwards, to 0.2 per cent, while they left the forecast for 2016 unchanged at 0.9 per cent.

2.7 BANKS

The expansive monetary conditions are being gradually transmitted to the credit market. The cost of loans continues to fall, the easing of supply conditions is now extending to smaller firms as well, the contraction of lending to businesses has slowed, and lending to households and to manufacturing firms has expanded for the first time in over three years.

The credit contraction halts

In the three months ending in May the contraction of lending to the non-financial private sector came to an end, on a seasonally adjusted basis, after an annualized decline of 1.5 per cent in the three months to February (Figure 29.a). The fall in lending to non-financial corporations slowed from 2.5 to 0.5 per cent, and credit to household showed modest growth of 0.4 per cent, its first gain since March 2012. In the first quarter of 2015 new mortgage loans were up by about 15 per cent from the year-earlier quarter, corroborating the more favourable signals coming from the real estate market and benefiting from the low level of interest rates.

Lending to manufacturers returns to growth

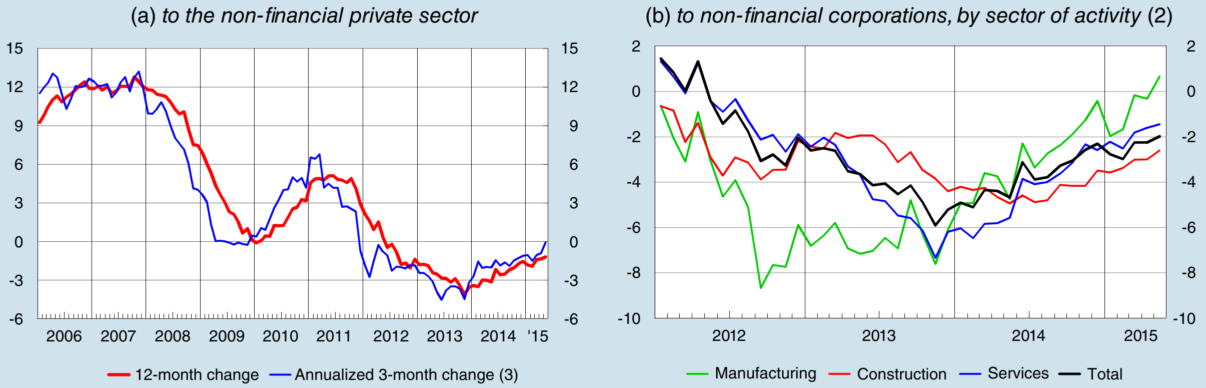
In the twelve months to May the contraction in lending to non-financial corporations eased both for large firms and for smaller businesses, to declines of 1.4 and 3.6 per cent respectively. Trends continue to differ according to sector of activity. Lending to manufacturing firms returned to growth, gaining 0.7 per cent (Figure 29.b), while credit to service and construction firms continued to contract (by 1.5 and 2.6 per cent respectively), albeit more moderately than the 2.6 and 3.5 per cent reductions registered at the end of last year.

Italian banks' total funding expanded between February and May, reflecting both the further growth of residents' deposits, which more than offset a decline in households' bond holdings, and increased

Figure 29

Bank lending (1)

(monthly data; percentage changes)



Source: Supervisory reports.
(1) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage change is net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) 12-month changes; the data for each sector are not adjusted for exchange rate variations or, until December 2013, for value adjustments. – (3) Seasonally adjusted.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	February 2015	May 2015	February 2015	May 2015
Assets				
Loans to Italian residents (4)	1,816	1,819	-1.7	-0.8
of which: to firms (5)	806	803	-3.0	-2.0
to households (6)	598	599	-0.4	-0.1
Claims on central counterparties (7)	101	97	48.8	64.8
Debt securities excluding bonds of resident MFIs (8)	556	543	-0.8	-1.7
of which: securities of Italian general government entities	434	425	3.9	1.5
Claims on the Eurosystem (9)	10	15	-50.2	-7.7
External assets (10)	329	340	10.6	11.4
Other assets (11)	1,237	1,200	-4.0	-3.6
Total assets	**4,049**	**4,014**	**-0.8**	**0.0**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,346	1,369	7.8	7.3
Deposits of non-residents (10)	331	336	5.4	5.3
Liabilities towards central counterparties (7)	168	160	40.7	63.1
Bonds (13)	452	436	-13.5	-14.3
Liabilities towards the Eurosystem (9)	141	149	-34.1	-30.9
Liabilities connected with transfers of claims	130	122	-10.9	-10.7
Capital and reserves	438	426	8.8	6.3
Other liabilities (14)	1,042	1,014	-6.6	-4.0
Total liabilities	**4,049**	**4,014**	**-0.8**	**0.0**

Source: Supervisory reports.
(1) The data for May 2015 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 Monetary and Financial Indicators. Money and Banking, *Supplements to the Statistical Bulletin*, 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.

Eurosystem refinancing (Table 6). Meanwhile, non-residents' deposits and the banks' net repo liabilities with central counterparties, consisting largely in foreign interbank funding, remained unchanged.

Credit supply conditions improve

According to the Italian banks participating in the bank lending survey, in the second quarter of 2015 credit supply conditions were relaxed further for firms and households alike (see the box 'Credit supply and demand'). Demand from both categories of borrower was reported to have increased. The most recent surveys of manufacturing firms confirm the gradual improvement in credit access conditions, which initially involved only the larger firms but is now extending to smaller businesses as well.

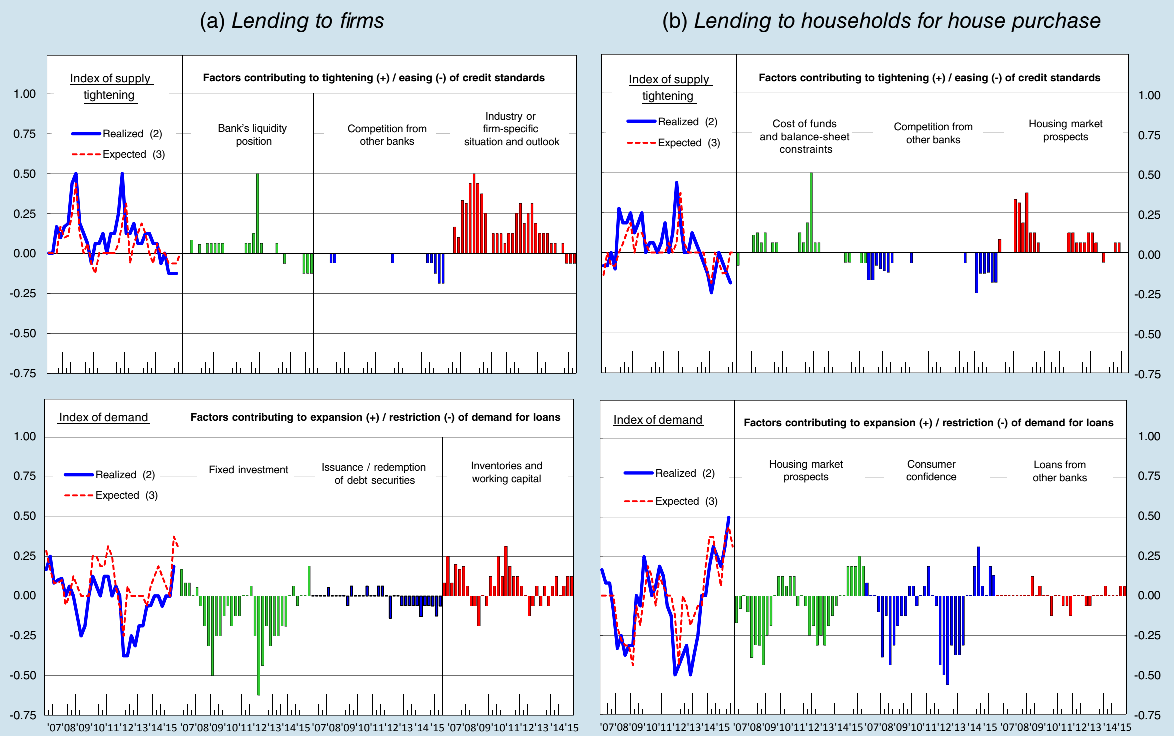
CREDIT SUPPLY AND DEMAND

According to the banks interviewed in June for the quarterly euro-area bank lending survey, the conditions for loans to firms and to households for house purchase eased further in the second quarter of 2015 (Figure A).[1] The banks reported a further reduction in the average margin on loans, especially the least risky ones, and a slight increase in the size of the loans granted.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 24 June. The results for Italy were published on 14 July at www.bancaditalia.it and those for the euro area at www.ecb.int.

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.

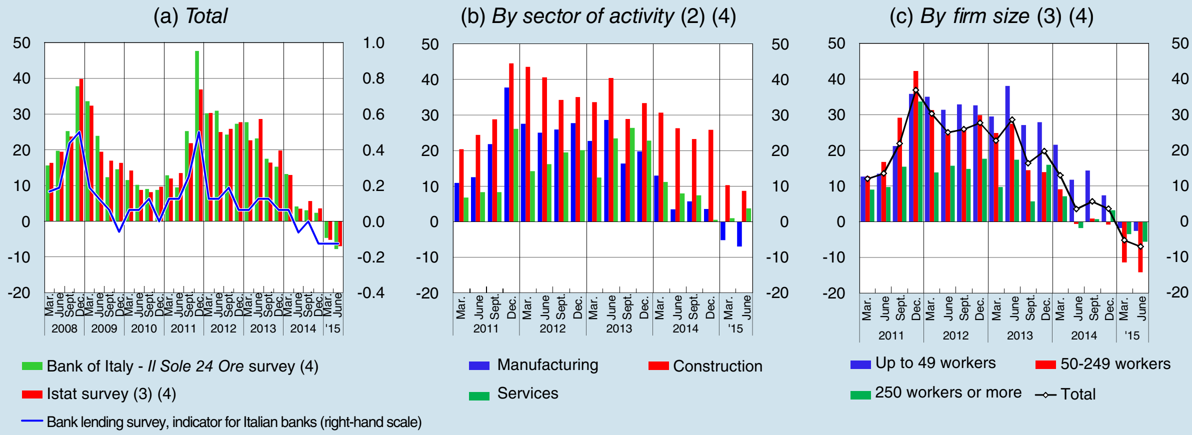
The more favourable lending conditions continued to reflect primarily greater competition between the banks, presumably mainly to the benefit of the more creditworthy borrowers, and intermediaries' improved liquidity.

For the first time since mid-2011, the banks interviewed reported an increase in firms' demand for credit with respect to the previous quarter. The factors that probably contributed to this development were the recovery in fixed investment, the increase in demand to finance inventories and working capital, and the stimulus afforded by low interest rates. Their positive impact was only partly counterbalanced by greater recourse to alternative sources of financing, notably issuance of debt securities by the largest companies. Demand for mortgage loans continued to grow, again buoyed mainly by low interest rates but also by the improved outlook for the housing market and stronger consumer confidence. Banks expect the demand for loans from both firms and households to strengthen further in the current quarter.

The responses to specific questions about the targeted longer-term refinancing operations (TLTROs) announced by the ECB's Governing Council in June last year indicate that the funds received helped to improve banks' liquidity and were used to replace other Eurosystem refinancing operations as well as to grant new loans to non-financial corporations.

Figure B

Firm's access to credit (1)



(1)The Bank of Italy-*Il Sole 24 Ore* survey is conducted on a sample of medium-sized and large firms (with at least 50 employees) in industry excluding construction and in services; the Istat business confidence surveys are conducted on samples of manufacturing and service firms (excluding retail and wholesale trade) and construction companies. The data from the Istat survey are taken from the end-of-quarter observations: in June 2013 some methodological changes involving the sample and the data observation techniques were made that preclude direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, *Indagini sulla fiducia delle imprese*. – (3) Istat, *Indagine sulla fiducia delle imprese manifatturiere*. – (4) Net percentage of firms reporting difficulty in obtaining credit. 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 latest business surveys also point to a gradual improvement in banks' lending standards, although differences between sectors and size classes of firms persist (Figure B).

According to Istat's monthly survey of business confidence, lending standards improved for manufacturing firms (-7.0 per cent), particularly medium-sized and large ones (-14.2 per cent) but also small enterprises, though to a lesser extent (-2.6 per cent); they were still unfavourable for construction companies (8.7 per cent). Similar indications come from the quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* on a sample of medium-sized and large firms (with at least 50 employees): industrial and service firms reported that credit terms were much better than in the previous quarter, while construction companies reported a slight worsening.

According to Istat's survey, loan demand rose slightly in June, particularly in manufacturing. The share of firms reporting that they had not obtained the loan requested remained large (9.7 per cent overall for manufacturing firms), pointing to continued prudence on the part of banks in selecting borrowers.

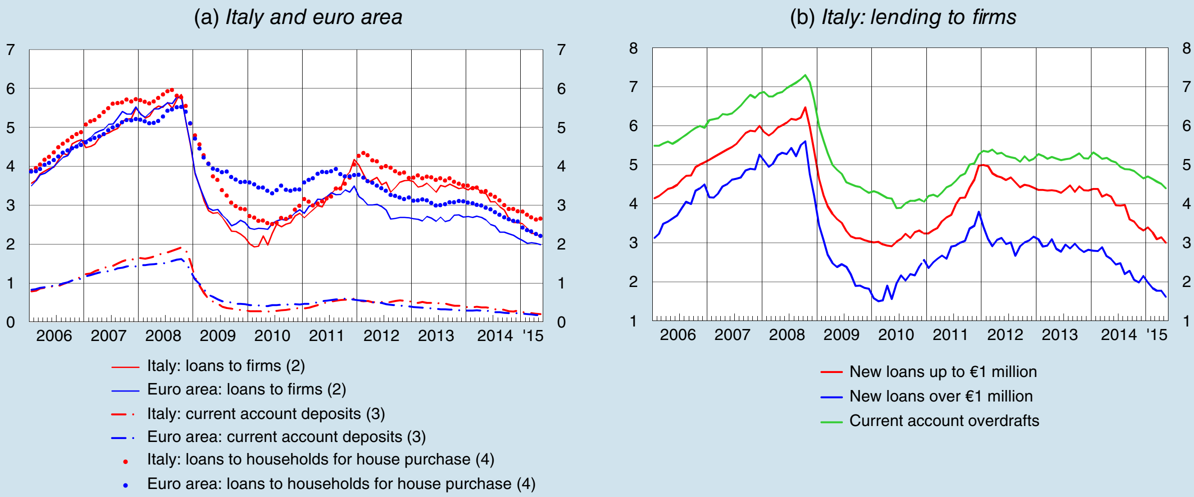
The reduction in the cost of loans is extended

The easing of monetary conditions continues to feed through to the cost of credit. Between February and May the interest rate on new loans to firms came down by 0.2 percentage points to 2.2 per cent and that on existing short-term loans by 0.3 points to 3.8 per cent. The cost of new mortgage loans to households declined by a tenth of a point to 2.7 per cent. The reductions were larger for fixed-rate loans, in keeping with the pronounced decline in long-term yields recorded up to mid-April (see Section 1.3). The differential with respect to the average rates in the euro area narrowed by 20 basis points for new loans to firms; and for loans larger than €1 million it was eliminated. On mortgage loans to households the differential remained unchanged at around 40 basis points.

The reduction in the cost of finance involved both large and smaller firms (Figure 30). In the first quarter its scope was further extended to encompass firms producing primarily for the domestic market and those whose finances are less solid (see the box 'The cost of credit according to type of firm').

Figure 30

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 account deposits of households and firms. – (4) Rate on new loans to households for house purchase.

THE COST OF CREDIT ACCORDING TO TYPE OF FIRM

In the two years 2012-13, while short-term official and market interest rates came down by one percentage point, the average cost of new term loans to Italian firms declined by about 30 basis points, to 3.5 per cent in December 2013. Since the beginning of 2014 bank rates have fallen further, with a cumulative reduction of about one percentage point as of May 2015.

The changes in the average cost of loans reflect differentiated trends in the conditions applied by banks to different types of firm.

The dynamic of the cost of credit was analysed for a large sample of firms broken down on the basis of (a) risk category; (b) size of assets; and, only for a subsample, (c) export share of turnover. The comparison was made by calculating the median of the interest rates applied to the firms of each group in every calendar quarter (see the figure).

In panel (a) of the figure, it can be seen that the level and dynamic of the cost of new term loans differ in relation to firms' risk category. In the two years 2012-2013 interest rates gradually came down for loans to the most creditworthy firms and also, to a lesser extent, to those in the intermediate risk category; this downward trend has steepened since the beginning of 2014. Since the fourth quarter of last year, the decline has also extended to the rates charged to higher-risk borrowers. Between the end of 2011 and last March, the cost of credit fell by a total of about two percentage points for firms in the best risk category and by about a point for the riskiest borrowers. The interest rates on outstanding overdraft loans displayed a similar pattern during 2014 and since the end of the year have also fallen for risky firms.

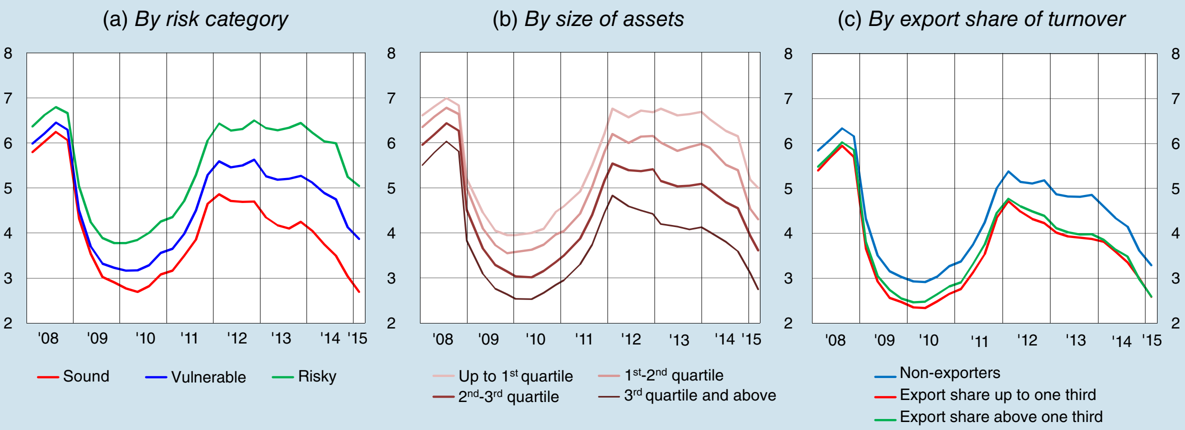
The interest rate spread between the most and least creditworthy firms, which began to widen in the second half of 2009 and increased further during the sovereign debt crisis, exceeds two percentage points.

The dynamic of the cost of credit also differs when interest rates on new loans are examined according to firm size. These already began to decline for larger firms in 2012 but did not turn downwards for smaller firms until the third quarter of 2014 (figure, panel (b)).

The differences between exporting firms and other firms are less pronounced, presumably in part because of the larger average size of the companies in the subsample used for this analysis, but not negligible. In 2012-13 the interest rates on new loans to exporting firms came down more sharply than did those charged to businesses oriented to the domestic market; the decline gained pace in 2014 for both categories of firm (figure, panel (c)). Between the end of 2011 and the first quarter of 2015 the cost of new loans diminished by a total of 1.9 percentage points for exporters and 1.7 points for the others.

Interest rates on new term loans to firms in Italy (1)

(medians; percentage points)



Sources: Bank of Italy and Cerved.
(1) Firms are divided in panel (a) on the basis of the scores assigned by Cerved for firms' balance-sheet soundness, in panel (b) on the basis of quartiles of total assets, and in panel (c) on the basis of export revenues as a share of total turnover.

The flow of bad debts abates

In the first quarter of 2015, on an annualized, seasonally adjusted basis the flow of adjusted new bad debts came down by 0.3 points to 2.4 per cent of outstanding loans. The improvement was due to loans to firms, for which the new bad debt rate came down by 0.6 points to 3.9 per cent, and involved all the sectors of economic activity. For households, the rate held practically unchanged at 1.5 per cent. Nevertheless, the attenuation of the deterioration in credit quality registered in 2013 and 2014 has not been consolidated as yet, owing above all to the relative weakness of the economic recovery to date. Preliminary data for the second quarter indicate an increase in the banks' total exposure to borrowers with loans reported as bad debts for the first time.

The Government approves measures to facilitate disposal of non-performing loans

The long recession's legacy of bad debts (amounting to some 10 per cent of total outstanding loans in March) continues to crimp banks' lending policies, subtracting resources from the financing of economic activity. In June the Government approved measures to remove some impediments to the liquidation of non-performing loans (Decree Law 83/2015) by making credit recovery proceedings more efficient. The measures bear both on composition under insolvency procedures and on enforcement procedures. As regards bankruptcy procedures, the decree strengthens the instruments for negotiating a debt restructuring and sets strict deadlines for the conclusion of the liquidation phase, with sanctions for infractions. As for enforcement procedures, it introduces new criteria for the assignment of assets, simplifies the sales phase, and shortens some procedures. Provisional initial analyses indicate that the measures could cut the average length of insolvency procedures in half and significantly shorten property foreclosures, to the benefit of banks' balance sheet situation.[1] The decree also modifies the tax treatment of write-downs and loan losses, instituting immediate deductibility rather than over five years and thus bringing Italy's rules into line with those of other main European countries.

Profitability of the main banking groups improves

According to their consolidated quarterly financial statements, the earnings of the five largest Italian banking groups increased in the first quarter compared with the first quarter of 2014. Annualized ROE rose by about 3 percentage points to 6.6 per cent. A small decline of 1.3 per cent in net interest income owing to a contraction in lending volume was more than offset by the gain in fee income (9.7 per cent) and trading profits. Gross income rose by 9.6 per cent. Operating profits increased by 22.8 per cent, as a result of the broad stability of operating expenses, which continue to benefit from banks' cost-cutting measures. Value adjustments to loans, though still substantial, decreased by 11.8 per cent.

In the first quarter the five largest groups' capital ratios, which do not yet reflect earnings during the period, diminished slightly, owing almost entirely to the larger deductions from capital entailed by the transition to the Basel III rules, to be completed in 2018. At the end of March the CET1 ratio stood at 11.0 per cent of risk-weighted assets, compared with 11.4 per cent at the end of 2014.

2.8 THE FINANCIAL MARKETS

In the second quarter there was a partial correction of the considerable easing of conditions on the Italian financial markets under way since the start of the year. In the government securities segment this reflected above all the rise in medium- and long-term yields in Germany. The events in Greece triggered a sharp increase in volatility on the financial markets and in risk premiums, but all in all the effects on the primary and secondary markets for Italian government securities were limited.

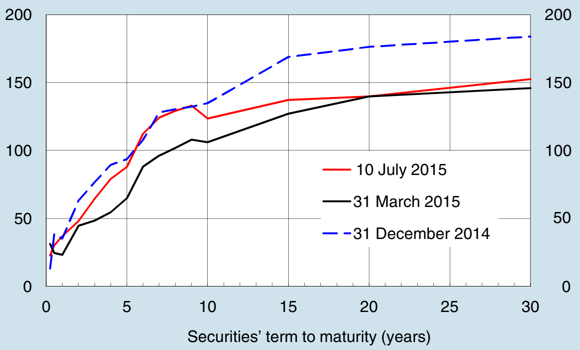
The correction on the government bond market reflects that of German Bunds ...

Following the sharp decline attributable to the anticipation and launch of the Eurosystem's public sector securities purchase programme, in mid-April the yields on medium- and long-term government bonds turned back up. The increase followed that of German rates (see Section 1.3). In the second quarter as a whole the rate on ten-year Italian government bonds rose by 89 basis points to 2.1 per cent. The spread with respect to the corresponding German Bund widened by 17 basis points to 124 basis points (Figure 31), reflecting to a small extent the protracted uncertainty over the outcome of talks on another aid programme for Greece.

Figure 31

Term structure of the yield spreads between Italian and German government securities

(basis points)



Source: Based on Bloomberg data.

Demand on the primary market is still ample

The tensions in Greece have also had a modest overall impact on the primary market for government securities. The average rate of return at issuance rose from 0.4 per cent in April to 0.7 per

[1] Address by the Governor Ignazio Visco at the Annual Meeting of the Italian Banking Association, 8 July 2015.

cent in June; in subsequent auctions with settlement dates up to 14 July it stood at 0.9 per cent. Even at the height of the crisis demand was still ample and in line with the levels of previous months. The average rate on new issues remains well below the average cost at issuance of the securities outstanding (3.4 per cent last March, see *Financial Stability Report*, No. 1, 2015).

Bank risk premiums rise slightly

The effects of the situation in Greece on banks' credit risk premiums were also limited overall: the spreads on the CDS of the largest Italian banks rose by 27 basis points. The spreads of Italian non-financial corporations' bonds over the highest-rated euro-area government securities widened by 16 basis points to 111 points.

Net redemptions of bank bonds continue

Banks continued to make net bond redemptions in the first quarter of 2015, both in Italy and in the euro area, amounting to €42 billion and €65 billion respectively (Table 7). According to preliminary Dealogic data on gross issuances only, Italian banks made far fewer placements in the second quarter of 2015 than in the first (€2 billion, down from €11 billion between January and March).

The stock market weakens

After the strong rally over the first three months of the year, share prices recorded significant losses first following the increase in government bond yields and subsequently owing to the growing tensions about the situation in Greece. Since the end of March the Italian stock exchange index has fallen by 1.8 per cent and the euro-area index by 3.6 per cent (Figure 32). The negative effects stemming from the rise in interest rates and the increase in the risk premiums demanded by investors were only partially offset by the improvement in expectations for corporate earnings. Expected stock price volatility, implied by the prices of stock exchange index options, rose considerably.

Table 7

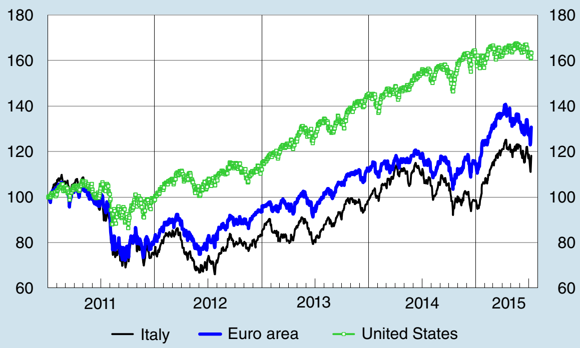
Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy (2)		
2013	-80.3	-17.1	22.8	-74.6
2014	-153.0	-17.1	3.8	-166.3
2014 – Q1	-48.5	-8.6	3.3	-53.8
Q2	-28.3	1.8	-1.5	-28.0
Q3	-37.6	-6.9	2.8	-41.7
Q4	-38.7	-3.4	-0.8	-42.8
2015 – Q1	-42.0	-6.1	1.0	-47.2
		Euro area		
2013	-377.9	-73.2	81.2	-369.8
2014	-400.5	11.5	56.4	-332.6
2014 – Q1	-116.6	-27.4	19.4	-124.6
Q2	-70.7	69.8	18.0	17.1
Q3	-80.7	-11.4	13.5	-78.9
Q4	-132.4	-19.3	5.5	-146.3
2015 – Q1	-65.3	58.9	19.0	12.7

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issuance of more than 1 year, at face value, issued by companies resident in Italy (top panel) or the euro area (bottom panel) 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. – (2) The data on net issues in Italy differ from those published up to October 2014 as a consequence of the introduction of the new ESA 2010 accounting standards.

Figure 32

Share prices (1)
(end-of-week 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.

Net inflows to investment funds increase sharply

According to the asset management association Assogestioni, in the first quarter of 2015 net inflows of savings to Italian and foreign open-end investment funds increased markedly to €39 billion, from €19 billion in the previous quarter. Net fund-raising was substantial for bond, flexible, balanced and equity funds, while money market and hedge funds registered net outflows.

2.9 PROJECTIONS

Our projections for growth and inflation in the next two years point to the progressive strengthening of the cyclical recovery that began in the first quarter of this year and a modest reduction in the risk that inflation will remain low for an extended period of time (Table 8). This scenario is based on the hypothesis that external conditions remain favourable, in particular with regard to developments in the world economy, trends in the prices of raw materials and the effectiveness of monetary policy interventions.

The outlook for Italy depends on the strengthening of world growth ...

In line with the assessments of the leading international organizations, we posit that economic activity and world trade will gradually gather momentum, after the temporary weakening at the start of 2015. Foreign demand for Italian goods should already pick up this year, above all from our European partners, driven by the consolidation of the recovery in the euro area.

... the effects of recent monetary policy decisions ...

The easing of monetary conditions and in particular the Eurosystem's asset purchase programme has driven government bond yields down, though there was a partial correction starting in April confined to the medium- and long-term segments of the yield curve; this easing has translated into a marked decline in the exchange rate of the euro, which should support the upturn in exports thanks to regained price competitiveness on markets outside the area. Our scenario hypothesizes that the yield on ten-year BTPs, after reaching a low of 1.1 per cent in March, will remain at around 2 per cent this year and reach 2.9 per cent in 2016, as is currently implied by the prevailing prices on the financial markets (see the box 'The technical assumptions').

Table 8

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

	2014	2015	2016
GDP (1)	-0.4	0.7	1.5
Household consumption	0.3	0.6	1.1
Government consumption	-1.0	-0.7	0.2
Gross fixed investment	-3.2	2.2	2.6
of which: in machinery, equipment and transport equipment	-1.6	4.5	3.3
Total exports	2.4	4.3	6.9
Total imports	1.7	4.5	6.2
Change in stocks (2)	-0.1	0.0	0.0
HICP	0.2	0.2	1.1
HICP net of food and energy	0.7	0.7	1.0
Employment (3)	0.2	0.7	0.8
Unemployment rate (4)	12.6	12.2	11.9
Export competitiveness (5)	-1.1	4.8	0.2
Current account balance (6)	1.9	2.2	2.5

Source: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Includes valuables. Contribution to GDP growth in percentage points. – (3) Standard labour units – (4) Annual averages; per cent. – (5) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products); a positive value indicates a gain in competiveness. – (6) Per cent of GDP.

THE TECHNICAL ASSUMPTIONS

The main assumptions underlying the macroeconomic scenario are:

a) foreign demand, weighted according to the importance of the markets for Italian exports, accelerates in the two years 2015-16, expanding at an average annual rate of 4.3 per cent;[1]

[1] Our growth assumptions for global economic activity and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented in the June issue of the ECB's *Monthly Bulletin*, updated to take account of the latest cyclical developments.

b) the dollar-euro exchange rate, which averaged 1.33 in 2014, falls to 1.11 in 2015-16;[2]

c) a barrel of Brent crude oil, which averaged around $100 in 2014 and €57 in July 2015, is assumed, on the basis of the prices of futures contracts, to be $60 in 2015 and $65 in 2016;

d) three-month interest rates on the interbank market (Euribor) are practically nil for the next two years;

e) the yield on ten-year BTPs is 2.9 per cent in 2014, falling to 2.1 per cent in 2015 and rising back to 2.9 per cent the year after, in line with market expectations;

Assumptions for the main exogenous variables
(percentage changes on the previous year unless specified otherwise)

	2014	2015	2016
Potential foreign demand	2.3	3.6	5.0
Dollar/euro (1)	1.33	1.11	1.11
Nominal effective exchange rate (2)	-0.2	4.9	0.1
Crude oil price (3)	99.0	60.3	65.4
Three-month Euribor (1)	0.2	0.0	0.1
One-year BOTs (1)	0.5	0.1	0.3
Ten-year BTPs (1)	2.9	2.1	2.9

Sources: Based on Bank of Italy and Istat data.
(1) Annual averages. – (2) Positive changes indicate a depreciation. – (3) Dollars per barrel, Brent.

f) the forecasting scenario factors in the measures contained in the Stability Law. It includes support for lower-middle payroll incomes, the elimination of the labour cost component of IRAP, and the reduction of social security contributions for private sector employers that hire new employees on a permanent basis in 2015. The projections take account of the decision to not raise VAT rates from 2016, as had been programmed in the 2015 Economic and Financial Document. Lastly, they include the effects on the public finances of the pension refunds ordered by the Government in compliance with the recent ruling of the Constitutional Court.

Most of the effects of the Eurosystem's expanded asset purchase programme are incorporated in the technical assumptions on exchange rates and interest rates.

[2] The technical assumptions for interest rates, exchange rates and oil prices are calculated on the basis of spot and forward prices in the markets in the ten working days up to 10 July.

... and credit market conditions

The exceptionally expansionary stance of monetary policy and the recovery in economic activity should favour an improvement in credit conditions, in line with the indications of recent surveys (see the box 'Credit supply and demand'). Average rates on business loans should decline steadily, in view among other things of reduced borrower riskiness. At the end of the forecasting horizon, however, the spread between bank rates and three-month money market yields will still be about 30 basis points greater than its pre-crisis average, suggesting that conditions will not have eased entirely. Lending to businesses should return to growth at the start of 2016, and lending to households will improve more rapidly, especially the less risky home mortgage loan component.

Economic activity should also benefit from low oil prices ...

Given the continuing excess supply on world oil markets, the scenario assumes that the prices of energy commodities will remain low, as currently implied by futures prices (see Section 1.1), sustaining real disposable income and the expansion of household consumption; it is estimated that the fall in the euro prices of crude oil since mid-2014 could contribute around 1 percentage point to the increase in GDP for the three years 2014-16.

... and the neutral stance of fiscal policy

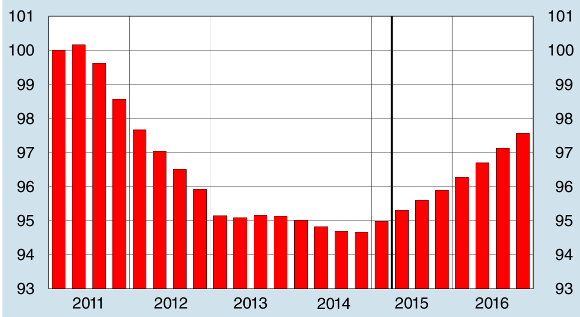
After the large sharp correction of 2012-13, fiscal policy is assumed to remain basically neutral, in line with Government programmes. Net of funding coverage, the expansive measures taken by the Government in 2014 should add about 0.2 per cent to output in 2015-16. General government net borrowing will decline in the two years 2015-16, and the ratio of public debt to GDP will begin to come down again next year.

Our growth projections are slightly higher than in January

GDP is now projected to expand by 0.7 per cent in 2015 and accelerate to 1.5 per cent in 2016, mainly thanks to the gradual pick-up in domestic demand (Figure 33). By the end of the forecasting horizon output will have recouped around one quarter of the losses sustained during the global financial and sovereign debt crises.

Figure 33

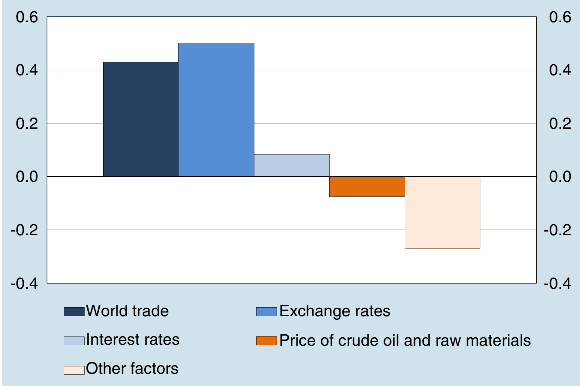
GDP projections: quarterly profile (1)
(index, 2011 Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Real GDP, adjusted for seasonal and calendar effects. Through 2015 Q1, actual data; thereafter, projections.

Figure 34

Contributions to the revision of growth estimates for 2015-16 since January (1)
(percentage points)



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

The growth projections for 2015-16 are more than half a percentage point better than those published last January before the launch of the asset purchase programme by the Eurosystem. The upward revision is primarily due to the more positive international developments, largely ascribable to the effects of monetary policy decisions. The expansion of world trade, partly originating in the other euro-area countries, contributed 0.4 points to the revision, the depreciation of the euro 0.5 points, and the reduction of interest rates 0.1 points. Among the factors partly offsetting these effects, the most significant is the pricing policies of foreign competitors, which are now lower than was forecast in January (Figure 34). Among the components of demand, the biggest revisions involve investment – which in the first quarter of the year grew more rapidly than predicted in January – and foreign sales (Figure 35).

The exchange rate and foreign demand are supporting exports

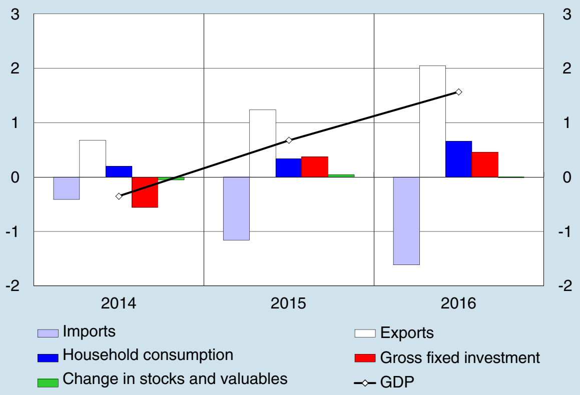
It is estimated that exports will grow at an average annual rate of over 5 per cent in the two years 2015-16. After stagnating in the first quarter owing to the weakness of economic activity in non-euro-area countries, they will expand at a faster pace than foreign demand, thanks to competitiveness gains associated with the sharp depreciation of the euro since the middle of 2014.

In our projections investment turns upwards again ...

After the slight increase recorded in the last quarter of 2014, capital formation accelerated considerably in the first three months of 2015, partly driven by tax incentives. Investment is projected to return to growth at an annual average rate of over 2 per cent in 2015 and 2016, chiefly reflecting faster growth in the machinery and equipment component, which will benefit from better demand prospects, improving confidence and more favourable financing conditions. Notwithstanding faint signs of recovery in the

Figure 35

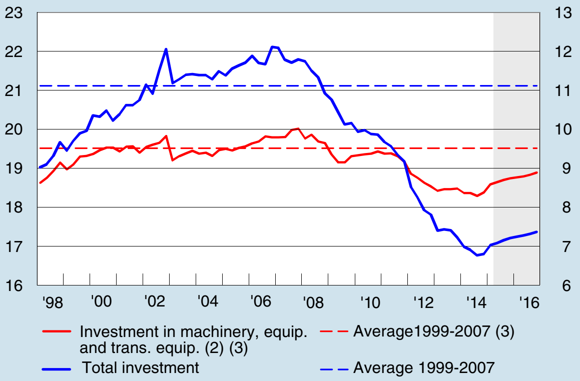
GDP growth and the contributions of the main demand components and imports (1)
(percentage points)



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

Figure 36

Investment as a percentage of GDP (1)
(quarterly data)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. – (2) Investment in machinery, equipment and transport equipment. – (3) Right-hand scale.

early months of 2015, the housing market is expected to remain weak, curbing the recovery in residential building investment. At the end of the forecasting horizon the ratio of investment to GDP will still be lower than the average of the pre-crisis years (1999-2007; Figure 36), above all for construction.

... and consumption gradually strengthens ...

Household consumption is projected to accelerate gradually in the two-year period, thanks to the recovery in real disposable income, which should benefit from the income support measures taken by the Government and improved conditions in the labour market. Low interest rates should also make a contribution, discouraging saving and stimulating purchases of durable goods in particular. Household consumption is projected to grow by around half a percentage point overall this year and by over 1 per cent next year. Spending on durable goods, which fell by almost 30 per cent between 2007 and 2013, returned to growth in 2014 and should continue to increase in 2015-16.

... in part thanks to improving labour market conditions

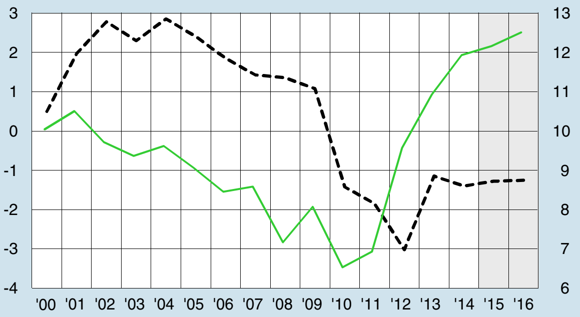
Labour market conditions should continue to improve, in line with the recovery in production. Employment measured in standard units, which has been expanding moderately since the beginning of 2014, will accelerate to average annual growth of 0.7 per cent over the next two years, benefiting from the cyclical upswing and, especially this year, the measures to narrow the tax wedge on labour contained in the Government's last Stability Law. It is estimated that these measures can boost employment by 0.2 per cent overall. These projections do not incorporate the effects of the Jobs Act, which are difficult to quantify and could lead to a greater increase in labour demand than estimated here. Our projections suggest that the unemployment rate will decline by around half a percentage point to the still high level of 11.9 per cent in 2016.

The external accounts continue to improve

Imports will grow by between 4 and 6 per cent, driven by the acceleration in the components of demand with the largest content of imported inputs (namely exports and investment in machinery, equipment and transport equipment). The surplus on current account should continue to improve, from 1.9 per cent of GDP in 2014 to 2.2 per cent this year and 2.5 per cent in 2016 (Figure 37); the increase should be partly attributable to better terms of trade brought about by the fall in oil prices.

Figure 37

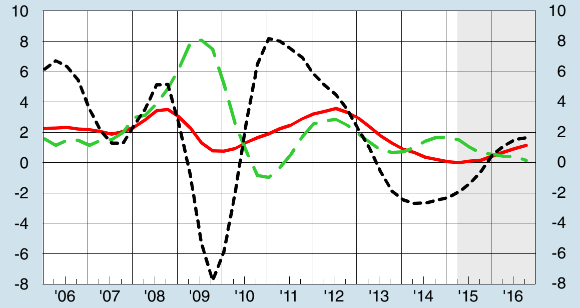
Household saving rate and current account balance
(percentage points)



Sources: Based on Bank of Italy and Istat data.
(1) Right-hand scale. – (2) As a share of GDP.

Figure 38

Main determinants of consumer price inflation
(quarterly data; percentage changes on year-earlier period; 4-term moving averages)



Sources: Based on Bank of Italy and Istat data.
(1) Unit labour costs in the private sector (excluding agriculture and energy), calculated as the ratio of earnings per full-time equivalent worker to output per full-time equivalent worker; output is value added at factor cost.

Inflation increases gradually, by more than estimated in January

The Eurosystem's asset purchase programme should contribute to a gradual increase in inflation with respect to the low levels recorded at the end of 2014, even if the rise in prices should remain modest overall throughout the forecasting horizon. Consumer price inflation is projected to be 0.2 per cent on average this year and 1.1 per cent in 2016 (Figure 38). Excluding the most volatile components, prices should rise by 0.7 per cent this year (as in 2014) and pick up to 1.0 per cent in 2016. Domestic price pressures should strengthen: the value added deflator for the private sector is forecast to increase by an average of 1 per cent in the two years 2015-16, mainly reflecting the recovery in profit margins. Unit labour costs are expected to increase only modestly, thanks to the cyclical upturn in productivity and the measures to reduce the tax wedge. Compared with January's *Economic Bulletin*, the projection for the harmonized index of consumer prices has been revised upwards by half a percentage point for this year and next, mostly owing to the decline in the exchange rate.

These growth estimates mostly parallel those formulated by the other leading international organizations for both 2015 and 2016. The inflation forecast of the European Commission is higher than ours and so, marginally, is that of the OECD (Table 9).

The risk factors

The economic picture described in this Bulletin reflects favourable external conditions and a gradual improvement in household and business confidence. The dissipation of these conditions would have non-negligible negative effects on economic activity. A resurgence of tensions linked to Greece would have a very modest direct impact through trade and financial links with Italy, but could have repercussions on capital markets. Risks

Table 9

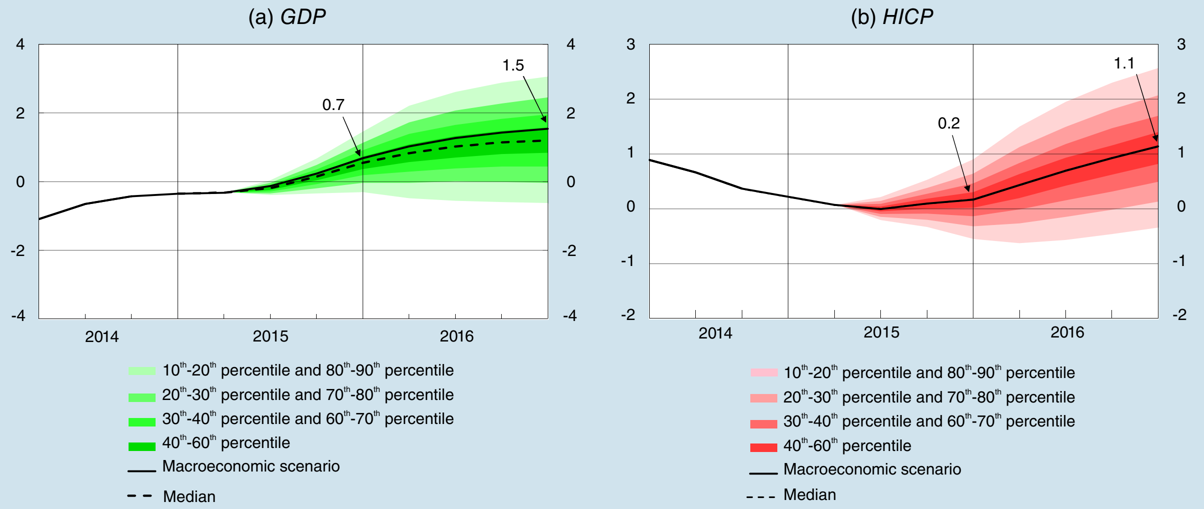
Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2015	2016	2015	2016
IMF (July and April)	0.7	1.2	0.0	0.8
OECD (June)	0.5	1.5	0.2	1.3
European Commission (May)	0.6	1.4	0.2	1.8
Consensus Economics (June)	0.7	1.2	0.2	0.9

Source: For growth, IMF, *World Economic Outlook Update*, July 2015; for inflation, *World Economic Outlook*, April 2015; OECD, *Economic Outlook* 97, June 2015; European Commission, *European Economic Forecast*, Spring 2015, May 2015; Consensus Economics, *Consensus Forecasts,* June 2015.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Figure 39

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



(1)The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The distribution takes account of asymmetric shocks to the equations that reflect the main risk factors by the procedure described in C. Miani and S. Siviero, 'A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts', Banca d'Italia, Temi di Discussione (Working Papers), 758, 2010. The figure shows year-on-year percentage changes of 4-term moving averages. The value corresponding to the 4th quarter of each year coincides with the average annual percentage change.

could derive from a deeper and longer slowdown in the emerging economies than that implied by our assumptions for world trade, especially if the normalization of US monetary policy were to be accompanied by fresh turbulence in foreign exchange markets and in capital flows. Heightened uncertainty on the part of firms could impede the investment recovery if the reform process were perceived to have faltered. Overall, the risks for growth are balanced this year and prevalently on the downside for the rest of the forecasting horizon; those for inflation appear balanced overall (Figure 39).

SELECTED STATISTICS

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

CONTENTS

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
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
2014	2.4	2.5	1.7	-0.2	..	5.3	0.8	2.5	2.6	3.1	4.0	-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
Q3	5.0	3.2	2.2	4.4	0.8	7.7	1.2	4.1	4.2	4.5	-0.9	0.8	..
Q4	2.2	4.4	3.0	-1.9	-0.4	4.5	0.7	3.2	3.2	4.5	10.4	-1.0	0.1
2015 – Q1	-0.2	2.1	1.4	-0.6	-0.1	-0.3	-0.1	1.7	1.7	-5.9	7.1	-1.9	0.5

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	1.7	2.3	1.4	1.7	0.3	3.4	0.7	2.6	2.6	-0.2	5.3	-0.9	0.2
2013	1.6	2.1	1.3	1.9	0.4	3.2	0.7	1.9	1.9	1.2	3.1	-0.3	-0.4
2014	-0.1	-1.3	-0.8	0.2	0.1	2.6	0.6	-0.1	-0.1	8.4	7.4	..	0.1
2012 – Q1	4.1	2.3	1.4	4.8	1.0	-2.8	-0.6	3.8	3.8	11.1	8.3	0.3	2.0
Q2	-1.8	2.8	1.6	-1.7	-0.3	2.9	0.6	-0.3	-0.3	-1.6	7.7	-1.5	-2.2
Q3	-1.8	-1.3	-0.8	1.8	0.4	-4.0	-0.9	0.1	0.1	-14.4	-2.6	-1.9	1.4
Q4	-0.6	0.2	0.1	2.6	0.5	-0.3	-0.1	..	..	-13.8	-9.0	-0.6	-0.5
2013 – Q1	5.3	5.1	3.1	3.5	0.7	0.8	0.2	3.5	3.6	17.1	4.5	1.6	-0.3
Q2	2.9	3.5	2.1	2.5	0.5	10.5	2.1	2.7	2.7	12.5	10.1	0.1	-2.0
Q3	2.0	1.4	0.8	-0.3	-0.1	9.5	2.0	3.4	3.4	-1.5	7.6	-1.5	0.7
Q4	-0.9	-0.6	-0.4	0.2	..	5.8	1.2	1.3	1.3	0.3	13.1	-2.1	0.4
2014 – Q1	4.4	8.7	5.2	-1.1	-0.2	13.9	2.9	5.6	5.7	26.8	29.3	-1.3	-2.2
Q2	-6.8	-19.0	-12.6	1.2	0.2	-16.9	-4.1	-10.4	-11.2	-0.1	-19.3	4.3	5.3
Q3	-2.0	1.4	0.8	0.8	0.2	-1.9	-0.4	-2.1	-2.2	6.5	4.3	0.2	-2.8
Q4	1.2	1.5	0.9	1.1	0.2	0.4	0.1	0.2	0.2	13.5	5.8	1.1	-1.1
2015 – Q1	3.9	1.5	0.9	0.3	0.1	6.4	1.4	4.5	4.6	9.9	12.2	-0.7	2.2

Source: 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								
2010	2.0	9.8	4.0	-3.6	3.4	-0.4	0.8	0.8	11.1
2011	1.6	4.4	2.4	0.2	3.4	1.7	0.2	-0.2	6.6
2012	-0.8	-0.7	-0.8	-4.4	-3.0	-3.7	-1.3	-0.1	2.7
2013	-0.4	1.3	0.1	-3.4	-1.2	-2.4	-0.6	0.2	2.0
2014	0.8	4.1	1.8	-1.3	3.9	1.2	1.0	0.6	3.8
2013 – Q1	-0.4	..	-0.3	-2.3	-2.1	-2.2	-0.3	0.1	0.4
Q2	0.4	1.4	0.6	0.3	1.2	0.8	0.2	0.1	1.6
Q3	0.2	1.6	0.6	0.7	0.8	0.7	0.2	0.2	0.5
Q4	0.3	0.2	0.3	-0.7	1.7	0.5	..	0.1	0.8
2014 – Q1	0.2	0.7	0.4	0.3	0.6	0.5	0.3	0.2	0.5
Q2	0.1	1.3	0.4	-1.8	0.9	-0.5	0.3	0.2	1.3
Q3	0.2	1.7	0.6	-0.7	1.0	0.1	0.5	0.2	1.4
Q4	0.4	0.8	0.5	0.7	0.1	0.4	0.4	0.1	0.8
2015 – Q1	0.4	1.2	0.6	0.6	1.0	0.8	0.5	0.6	0.6
	Implicit prices								
2010	0.7	5.2	....	....	....	0.9	1.6	0.6	3.2
2011	1.1	5.9	....	....	....	1.5	2.3	0.8	3.6
2012	1.3	2.5	....	....	....	1.3	1.9	0.8	1.8
2013	1.3	-1.3	....	....	....	0.4	1.2	1.3	-0.3
2014	0.9	-1.8	....	....	....	0.4	0.5	1.0	-0.7
2013 – Q1	0.3	-0.5	....	....	....	..	0.2	1.0	-0.4
Q2	0.4	-0.8	....	....	....	-0.2	0.1	0.2	-0.2
Q3	0.1	-0.3	....	....	....	0.2	0.2	0.3	-0.2
Q4	0.2	-0.3	....	....	....	0.1	0.2	..	-0.2
2014 – Q1	0.3	-0.5	....	....	....	0.1	0.1	0.5	-0.4
Q2	0.1	-0.4	....	....	....	-0.1	0.1	..	-0.1
Q3	0.3	-0.2	....	....	....	0.4	..	0.6	0.1
Q4	0.2	-0.8	....	....	....	0.2	..	-0.1	-0.1
2015 – Q1	0.4	-1.5	....	....	....	..	-0.3	0.3	-0.4

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

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2010	1.7	12.4	3.7	-3.6	3.1	-0.5	1.2	0.6	11.8
2011	0.6	0.5	0.6	-3.7	..	-1.9	..	-1.8	5.2
2012	-2.8	-8.1	-4.0	-9.3	-9.2	-9.3	-3.9	-1.2	2.3
2013	-1.7	-2.3	-1.8	-7.2	-4.4	-5.8	-2.8	-0.3	0.5
2014	-0.4	1.8	..	-4.9	-1.6	-3.3	0.3	-1.0	2.6
2013 – Q1	-0.9	0.1	-0.7	-4.2	-2.7	-3.5	-1.4	0.7	0.1
Q2	..	-1.2	-0.3	-0.1	0.7	0.3	-0.5	0.2	0.1
Q3	0.1	2.2	0.5	..	0.4	0.2	0.1	-1.0	1.3
Q4	..	-0.3	-0.1	-2.1	0.7	-0.8	0.1	..	-0.3
2014 – Q1	-0.2	-0.3	-0.2	-1.6	-2.7	-2.1	0.2	-0.3	0.3
Q2	-0.1	1.2	0.1	-1.4	0.3	-0.6	0.1	-0.6	1.3
Q3	-0.1	0.8	0.1	-0.8	-0.5	-0.7	0.2	0.2	0.4
Q4	..	0.5	0.1	-0.5	0.9	0.2	0.1	0.4	1.8
2015 – Q1	0.3	1.4	0.5	0.5	2.5	1.5	-0.1	0.1	..
	Implicit prices								
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	1.4	3.5	1.8	1.2	1.6	1.4	2.7	-0.3	1.9
2013	1.4	-1.9	0.7	0.8	0.2	0.5	1.1	0.2	0.1
2014	0.9	-2.5	0.1	-0.1	0.3	0.1	0.2	0.6	-0.3
2013 – Q1	0.6	-0.8	0.3	0.3	-0.6	-0.1	0.3	0.7	0.2
Q2	0.3	-0.9	0.1	-0.1	-0.1	-0.1	0.2	-0.5	-0.2
Q3	0.3	-0.4	0.1	0.3	-0.2	0.1	0.3	0.4	..
Q4	0.3	-0.9	..	0.3	-1.4	-0.5	-0.1	0.3	-0.2
2014 – Q1	0.5	-0.7	0.2	-0.6	1.1	0.2	0.1	0.3	..
Q2	-0.2	-0.4	-0.3	-0.3	-0.2	-0.3	..	-0.6	-0.3
Q3	0.2	-0.5	..	0.5	0.8	0.6	-0.1	0.6	0.3
Q4	0.2	-0.7	..	0.2	0.6	0.4	0.1	0.3	-0.2
2015 – Q1	..	-0.7	-0.1	-0.4	-0.3	-0.3	-0.1	-0.5	-0.3

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			
2011	1.9	2.2	3.0	0.8	-0.3
2012	3.5	1.7	-0.5	-2.2	1.8
2013	3.0	1.2	-0.5	-1.7	1.7
2014	1.8	0.0	0.4	0.4	1.8
2013 – Q1	4.5	2.2	-1.4	-3.5	2.3
Q2	1.8	0.3	-0.6	-0.8	1.6
Q3	2.6	0.2	-0.8	-1.0	2.5
Q4	2.2	1.8	1.2	-0.7	0.3
2014 – Q1	1.5	0.5	1.0	0.5	1.1
Q2	2.5	0.7	0.3	-0.4	1.7
Q3	1.9	0.1	0.4	0.3	1.8
Q4	1.6	-0.7	0.1	0.9	2.4
2015 – Q1	2.0	0.2	0.6	0.4	1.8
		Services			
2011	1.6	1.0	1.8	0.7	0.6
2012	2.5	0.9	-0.2	-1.1	1.6
2013	2.0	0.7	-0.1	-0.8	1.3
2014	1.2	0.1	1.0	0.9	1.1
2013 – Q1	2.4	1.1	-0.5	-1.6	1.4
Q2	1.9	0.6	-0.2	-0.8	1.2
Q3	1.8	0.7	0.1	-0.6	1.1
Q4	2.1	0.5	0.4	-0.1	1.6
2014 – Q1	1.2	0.2	1.1	0.9	1.0
Q2	1.1	0.2	1.0	0.8	1.0
Q3	1.2	0.2	1.1	0.9	1.1
Q4	1.0	-0.1	1.1	1.3	1.2
2015 – Q1	1.6	0.5	1.2	0.7	1.1
		Total economy			
2011	1.8	1.5	1.7	0.3	0.4
2012	2.9	1.1	-0.6	-1.8	1.7
2013	2.3	1.1	-0.3	-1.3	1.2
2014	1.3	0.2	0.9	0.6	1.1
2013 – Q1	3.0	1.6	-0.9	-2.5	1.4
Q2	1.9	0.8	-0.4	-1.2	1.1
Q3	2.0	0.7	-0.1	-0.9	1.2
Q4	2.1	1.0	0.6	-0.4	1.1
2014 – Q1	1.3	0.4	1.1	0.7	0.9
Q2	1.4	0.4	0.8	0.4	1.0
Q3	1.3	0.2	0.8	0.6	1.1
Q4	1.1	-0.3	0.8	1.1	1.4
2015 – Q1	1.6	0.3	0.9	0.6	1.3

Source: Based on Eurostat data, ESA 2010 accounts.
(1) Based on hours effectively worked. Annual figures are unadjusted, quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices, volumes at chain-linked prices. Reference year 2010.

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2011	2.6	1.1	1.1	0.0	1.4
2012	2.8	1.7	-2.6	-4.2	1.1
2013	2.1	0.2	-2.8	-3.0	1.9
2014	1.6	-2.0	-1.1	0.9	3.6
2013 – Q1	1.8	0.9	-3.7	-4.5	0.9
Q2	2.3	0.6	-3.2	-3.8	1.7
Q3	2.0	-1.2	-3.5	-2.3	3.3
Q4	2.3	0.4	-1.0	-1.4	1.9
2014 – Q1	1.9	-0.9	0.0	0.9	2.9
Q2	1.9	-0.9	-0.6	0.3	2.8
Q3	1.8	-1.8	-0.9	0.8	3.6
Q4	1.0	-2.9	-1.3	1.6	4.0
2015 – Q1	2.6	-0.4	-0.4	-0.1	2.9
		Services			
2011	0.3	0.2	0.9	0.7	0.1
2012	0.2	-0.9	-2.0	-1.1	1.1
2013	0.2	-0.1	-0.8	-0.6	0.3
2014	0.3	-0.2	0.1	0.3	0.5
2013 – Q1	-0.1	-0.9	-1.4	-0.5	0.8
Q2	-0.3	0.1	-0.8	-0.8	-0.3
Q3	-0.4	0.4	-0.3	-0.7	-0.8
Q4	1.4	0.1	-0.4	-0.5	1.4
2014 – Q1	1.0	0.1	0.2	0.0	0.8
Q2	0.1	-0.4	0.1	0.5	0.6
Q3	0.5	-0.2	0.0	0.2	0.7
Q4	-0.2	-0.5	0.2	0.6	0.3
2015 – Q1	0.1	-0.3	0.1	0.4	0.4
		Total economy			
2011	1.0	0.5	0.6	0.1	0.5
2012	1.1	0.1	-2.4	-2.5	1.0
2013	0.9	0.5	-1.4	-1.8	0.3
2014	0.6	-0.5	-0.4	0.1	1.1
2013 – Q1	0.7	0.2	-2.1	-2.3	0.4
Q2	0.6	1.0	-1.6	-2.5	-0.3
Q3	0.3	0.3	-1.1	-1.4	0.0
Q4	1.6	0.5	-0.7	-1.1	1.2
2014 – Q1	1.2	0.0	0.0	0.0	1.2
Q2	0.5	-0.5	-0.2	0.3	1.1
Q3	0.8	-0.5	-0.4	0.0	1.3
Q4	0.1	-1.2	-0.4	0.7	1.3
2015 – Q1	0.7	-0.5	-0.1	0.4	1.2

Source: Based on Istat data, ESA 2010 accounts.
(1) Based on hours effectively worked; annual figures are unadjusted, quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices, volumes at chain-linked prices. Reference year 2010.

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
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
2014	0.6	1.0	0.8	1.1	0.2	0.7	-0.2	-0.1	0.4	0.8
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
Oct.	0.5	0.8	0.7	1.1	0.2	0.6	-0.2	-0.2	0.4	0.7
Nov.	0.4	0.7	0.5	0.9	0.3	0.6	-0.5	-0.2	0.3	0.7
Dec.	0.1	0.7	0.1	1.2	-0.1	0.7	-1.1	-0.1	-0.2	0.7
2015 – Jan.	-0.4	0.4	-0.5	0.9	-0.5	0.5	-1.5	0.0	-0.6	0.6
Feb.	-0.3	0.3	0.0	1.1	0.1	0.9	-1.2	0.0	-0.3	0.7
Mar.	0.0	0.4	0.2	1.0	0.0	0.4	-0.8	0.0	-0.1	0.6
Apr.	0.1	0.5	0.3	1.1	-0.1	0.3	-0.7	0.0	0.0	0.6
May	0.3	0.7	0.7	1.4	0.2	0.7	-0.3	0.3	0.3	0.9
June	0.3	0.7	0.1	0.9	0.2	0.7	0.0	0.4	0.2	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.

Table A8

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
2011	-50,371	-18,583	-6,157	-6,378	-19,253	1,032	-49	1,081
2012	-6,939	16,829	-130	-4,122	-19,516	3,959	1,835	2,124
2013	14,967	36,103	1,369	-4,448	-18,056	161	-3,142	3,302
2014	30,940	49,462	455	-2,343	-16,634	3,355	-942	4,297
2013 – Q2	4,630	10,995	1,370	-4,662	-3,074	188	-129	317
Q3	5,595	9,371	2,469	-1,386	-4,859	73	-98	171
Q4	9,843	11,185	-528	1,453	-2,267	2,301	-510	2,811
2014 – Q1	-227	8,355	-2,261	705	-7,027	-587	-515	-72
Q2	6,295	12,222	1,290	-4,269	-2,948	281	-158	439
Q3	10,534	12,736	2,089	-1,162	-3,129	423	43	381
Q4	14,338	16,149	-664	2,383	-3,531	3,238	-311	3,549
2015 – Q1	909	9,440	-2,351	961	-7,141	-262	-244	-18
2013 – Apr.	969	2,694	81	-765	-1,041	-22	-58	37
May	980	4,392	427	-3,130	-709	-19	-55	36
June	2,680	3,910	862	-767	-1,324	229	-15	244
July	6,039	6,272	1,307	228	-1,768	72	-11	83
Aug.	96	1,802	179	-277	-1,608	46	-29	74
Sept.	-539	1,297	983	-1,337	-1,483	-44	-58	14
Oct.	4,093	4,166	129	348	-550	991	-107	1,098
Nov.	2,884	3,261	-478	738	-637	874	-100	974
Dec.	2,867	3,759	-179	367	-1,080	436	-304	739
2014 – Jan.	-1,381	818	-595	146	-1,750	-118	-108	-10
Feb.	526	3,160	-735	379	-2,278	-134	-115	-19
Mar.	627	4,377	-931	180	-2,999	-335	-292	-43
Apr.	2,853	4,202	-2	-281	-1,066	-13	-76	63
May	843	4,166	387	-3,050	-659	-4	-68	64
June	2,600	3,854	906	-937	-1,223	298	-14	312
July	7,626	7,418	1,272	115	-1,179	195	37	157
Aug.	1,612	2,670	100	-76	-1,082	157	12	146
Sept.	1,295	2,648	716	-1,200	-868	71	-6	77
Oct.	5,974	5,887	92	919	-924	1,317	-65	1,382
Nov.	3,157	4,048	-532	601	-960	1,168	-58	1,226
Dec.	5,206	6,214	-224	863	-1,647	753	-188	942
2015 – Jan.	-1,449	751	-646	234	-1,789	-6	-18	12
Feb.	1,267	4,057	-837	364	-2,318	-10	-14	4
Mar.	1,092	4,631	-868	362	-3,033	-246	-212	-35
Apr.	(5,139)	(6,037)	(108)	(68)	(-1,074)	(-127)	(-131)	(4)

(1) Based on the international standards in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (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)				
						of which: producer households (3)			
				Centre and North					
2012 – Dec.	4.6	4.4	-2.2	-2.0	-2.9	-2.4	0.2	-1.6	0.0
2013 – Sept.	-4.6	-8.6	-4.2	-4.5	-3.1	-2.6	-0.6	-3.7	-3.9
Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.7	-3.6	-3.8
2014 – Mar.	0.3	-5.5	-4.4	-4.8	-3.0	-2.5	-0.5	-3.2	-3.0
June	2.4	-3.2	-3.1	-3.3	-2.3	-1.9	-0.4	-2.2	-1.7
Sept.	2.2	-2.9	-3.2	-3.3	-2.8	-1.9	-0.2	-1.3	-1.7
Dec.	4.2	-0.7	-2.1	-2.0	-2.5	-1.6	0.0	-1.6	-0.6
2015 – Mar.	1.3	-0.9	-2.0	-1.9	-2.6	-1.5	0.1	-2.5	-0.9
Apr.	2.2	-1.3	-2.0	-1.9	-2.5	-1.5	0.2	-1.4	-0.8
May	2.7	-1.0	-1.7	-1.6	-2.4	-1.3	0.3	-2.5	-0.5
				South and Islands					
2012 – Dec.	-1.7	-4.5	-2.1	-1.8	-2.9	-3.2	-0.4	-0.8	-1.4
2013 – Sept.	-2.6	0.3	-3.2	-3.2	-3.2	-3.0	-1.5	-1.4	-2.4
Dec.	-5.4	-3.0	-3.0	-2.9	-3.3	-2.8	-1.5	-3.0	-2.6
2014 – Mar.	-5.0	-1.4	-2.6	-2.6	-2.6	-2.4	-1.3	-5.0	-2.3
June	-5.1	-4.2	-2.2	-2.2	-2.2	-2.1	-1.0	-4.0	-2.0
Sept.	-4.3	-4.5	-2.0	-1.8	-2.4	-2.0	-0.7	-3.5	-1.7
Dec.	-4.1	-3.2	-1.6	-1.5	-2.0	-1.2	-0.6	-1.7	-1.4
2015 – Mar.	-4.1	-5.3	-1.0	-0.7	-1.9	-1.0	-0.4	0.6	-1.0
Apr.	-4.0	0.5	-1.0	-0.7	-1.9	-1.1	-0.2	-0.5	-0.9
May	-4.0	-3.2	-0.7	-0.4	-1.7	-0.8	-0.2	-1.2	-0.8
				Italy					
2012 – Dec.	4.0	4.2	-2.2	-2.0	-2.9	-2.6	0.0	-1.5	-0.2
2013 – Sept.	-4.4	-8.4	-4.1	-4.3	-3.1	-2.7	-0.8	-3.5	-3.7
Dec.	-2.8	-4.9	-5.1	-5.3	-3.9	-3.0	-0.9	-3.5	-3.6
2014 – Mar.	-0.2	-5.5	-4.2	-4.5	-2.9	-2.5	-0.7	-3.4	-2.9
June	1.6	-3.2	-3.0	-3.2	-2.2	-1.9	-0.5	-2.4	-1.7
Sept.	1.6	-2.9	-3.0	-3.1	-2.7	-1.9	-0.3	-1.5	-1.7
Dec.	3.4	-0.7	-2.0	-1.9	-2.4	-1.5	-0.2	-1.6	-0.7
2015 – Mar.	0.8	-1.0	-1.8	-1.7	-2.4	-1.4	0.0	-2.1	-0.9
Apr.	1.6	-1.2	-1.9	-1.7	-2.4	-1.4	0.1	-1.3	-0.8
May	2.0	-1.0	-1.6	-1.4	-2.3	-1.1	0.2	-2.3	-0.6

Source: Supervisory Report.
(1) The data for the last month 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)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which:* investments of liquidity	Borrowing requirement	*of which:* in connection with financial support to EMU countries (3)
2012	7.0	-1.3	20.4	24.1	0.9	23.7	76.0	-10.1	0.0	65.9	29.5
2013	-1.8	-2.2	-11.0	91.3	-3.0	4.8	80.3	-3.2	-10.0	77.0	13.0
2014	14.7	-1.1	-16.0	81.9	-4.9	-1.2	74.4	-8.8	-28.0	65.7	4.7
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	11.1	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	1.8	-0.6	7.6	-7.8	11.5	30.7	3.7	12.5
2013 – Mar.	0.3	-1.4	5.0	42.6	-0.6	0.4	47.6	-11.5	-10.7	36.2	1.1
June	-5.1	-0.7	6.6	32.9	0.6	4.2	39.2	-30.4	-8.6	8.8	7.1
Sept.	0.2	0.2	0.6	-4.5	-2.0	-1.2	-7.0	35.5	7.3	28.4	0.7
Dec.	2.8	-0.3	-23.1	20.3	-1.0	1.5	0.5	3.1	2.1	3.6	4.1
2014 – Mar.	6.2	-0.5	3.5	46.2	-0.5	-1.3	54.2	-24.3	-6.5	29.9	0.0
June	2.4	-0.3	-1.6	50.5	-3.3	1.8	49.8	-43.3	-27.0	6.4	4.3
Sept.	-3.7	0.3	-4.9	-20.8	-0.2	-2.4	-32.1	53.7	-1.6	21.6	0.4
Dec.	9.8	-0.6	-13.0	6.0	-0.9	0.6	2.6	5.2	7.1	7.8	0.0
2015 – Mar.	-1.6	-0.9	5.5	49.1	4.2	-2.7	54.5	-32.5	-25.8	22.0	-2.1
2014 – Jan.	4.2	-0.6	6.7	10.2	0.8	-0.3	21.6	-20.2	-4.4	1.3	0.0
Feb.	-1.3	-0.1	-2.8	23.4	-1.2	-0.5	17.6	-6.8	0.6	10.8	0.0
Mar.	3.3	0.3	-0.4	12.6	-0.1	-0.4	15.0	2.8	-2.7	17.7	0.0
Apr.	-1.8	-0.1	-1.5	28.7	0.0	1.6	27.0	-15.5	2.5	11.5	4.3
May	1.1	-0.2	0.3	19.3	-0.1	-0.3	20.3	-14.9	-2.8	5.5	0.0
June	3.1	0.0	-0.4	2.5	-3.3	0.5	2.4	-13.0	-26.7	-10.5	0.0
July	-2.7	0.3	-1.6	7.4	0.1	-2.5	0.6	-4.5	-3.3	-3.8	0.2
Aug.	-0.9	0.5	-2.1	-16.7	-0.4	-0.1	-20.2	27.3	-1.6	7.1	0.2
Sept.	-0.1	-0.4	-1.2	-11.4	0.1	0.2	-12.5	30.9	3.3	18.4	0.0
Oct.	-1.5	-0.8	-3.0	30.8	-0.7	-0.3	25.3	-17.8	-1.1	7.5	0.0
Nov.	3.1	-0.6	-1.7	0.2	0.2	0.2	2.1	3.2	-9.7	5.2	0.0
Dec.	8.1	0.7	-8.2	-25.0	-0.4	0.7	-24.7	19.8	17.9	-4.9	0.0
2015 – Jan.	1.3	-0.4	7.3	24.7	-1.1	-0.5	31.7	-36.4	-18.1	-4.7	0.0
Feb.	-3.3	-0.8	-0.1	5.9	4.4	-2.4	4.5	3.6	-10.9	8.1	-2.1
Mar.	0.4	0.3	-1.7	18.5	0.9	0.3	18.4	0.2	3.2	18.6	0.0
Apr.	-0.9	-0.1	-1.0	12.1	1.1	-0.3	10.9	-4.2	6.2	6.7	0.0
May	1.7	-0.4	-0.1	20.1	0.6	-0.2	22.1	-17.8	1.2	4.3	0.0

(1) For more information, see the Methodological Appendix in "Monetary and Financial Indicators. 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.

Table A11

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 transactions	Financial support to EMU countries (3)
2012	160.2	20.8	151.6	1,502.4	133.7	41.1	26.9	1,988.9	34.4	0.0	27.2	42.7
2013	158.4	18.6	140.6	1,593.2	130.6	45.9	34.1	2,068.7	37.6	10.0	24.7	55.6
2014	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2012 – Mar.	161.3	20.8	162.6	1,473.8	132.6	24.8	11.1	1,955.1	34.5	5.6	33.6	21.1
June	157.3	21.3	161.1	1,496.4	134.5	33.3	19.7	1,982.7	46.1	7.9	26.5	29.7
Sept.	162.1	20.1	166.2	1,500.1	134.2	33.6	20.2	1,996.2	45.9	30.7	25.4	30.2
Dec.	160.2	20.8	151.6	1,502.4	133.7	41.1	26.9	1,988.9	34.4	0.0	27.2	42.7
2013 – Mar.	160.5	19.4	156.5	1,543.7	133.0	41.5	28.0	2,035.3	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,578.1	133.6	45.7	32.2	2,075.9	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,572.6	131.6	44.5	32.9	2,067.9	40.8	12.1	26.3	51.5
Dec.	158.4	18.6	140.6	1,593.2	130.6	45.9	34.1	2,068.7	37.6	10.0	24.7	55.6
2014 – Mar.	164.6	18.1	144.1	1,635.9	130.1	44.7	34.2	2,119.5	61.9	16.5	25.1	55.6
June	167.0	17.8	142.5	1,684.9	126.8	46.5	35.6	2,167.7	105.3	43.5	25.8	59.9
Sept.	163.3	18.2	137.5	1,661.8	126.6	44.1	36.0	2,133.3	51.6	45.1	24.9	60.3
Dec.	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2015 – Mar.	171.5	16.7	130.0	1,711.0	129.9	42.1	33.9	2,184.5	78.9	63.8	23.2	58.2
2014 – Jan.	162.6	18.0	147.3	1,602.1	131.4	45.6	34.1	2,089.0	57.9	14.4	23.7	55.6
Feb.	161.3	17.9	144.5	1,625.4	130.2	45.1	34.1	2,106.6	64.7	13.8	22.8	55.6
Mar.	164.6	18.1	144.1	1,635.9	130.1	44.7	34.2	2,119.5	61.9	16.5	25.1	55.6
Apr.	162.8	18.0	142.6	1,664.3	130.1	46.3	35.6	2,146.0	77.4	14.0	26.8	59.9
May	163.9	17.8	142.9	1,683.1	130.1	46.0	35.6	2,166.0	92.3	16.8	24.9	59.9
June	167.0	17.8	142.5	1,684.9	126.8	46.5	35.6	2,167.7	105.3	43.5	25.8	59.9
July	164.3	18.1	140.8	1,691.7	126.9	44.0	35.8	2,167.7	109.7	46.8	26.2	60.1
Aug.	163.4	18.6	138.7	1,674.9	126.4	44.0	36.0	2,147.4	82.4	48.4	24.4	60.3
Sept.	163.3	18.2	137.5	1,661.8	126.6	44.1	36.0	2,133.3	51.6	45.1	24.9	60.3
Oct.	161.8	17.4	134.5	1,691.7	125.9	43.8	36.0	2,157.6	69.4	46.2	24.1	60.3
Nov.	165.0	16.8	132.7	1,692.2	126.1	44.0	36.0	2,160.1	66.2	55.9	23.2	60.3
Dec.	173.1	17.5	124.5	1,666.8	125.7	44.8	36.0	2,134.9	46.4	38.0	25.7	60.3
2015 – Jan.	174.4	17.2	131.9	1,690.8	124.6	44.2	36.0	2,165.9	82.8	56.1	21.0	60.3
Feb.	171.1	16.4	131.7	1,695.6	129.0	41.8	33.9	2,169.2	79.1	67.0	20.2	58.2
Mar.	171.5	16.7	130.0	1,711.0	129.9	42.1	33.9	2,184.5	78.9	63.8	23.2	58.2
Apr.	170.6	16.6	129.0	1,722.5	130.9	41.7	33.9	2,194.8	83.1	57.6	23.6	58.2
May	172.2	16.2	128.9	1,743.9	131.5	41.6	33.9	2,218.2	100.9	56.4	25.2	58.2

(1) For more information, see the Methodological Appendix in "Monetary and Financial Indicators. 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.