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CONTENTS

LIST OF BOXES

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

The global outlook is affected by uncertainty concerning China

Activity continues to expand in the main advanced countries, but the slowdown in the Chinese economy has adversely affected commodity prices and economic activity in the emerging countries. China's path of adjustment from its high levels of investment and debt is a factor of fragility for that country and a risk for the world economy. The uncertainty clouding the global macroeconomic situation influenced the Federal Reserve's decision not to start raising its reference rates in September.

In the euro area the recovery proceeds, but there are downside risks ...

The latest data all confirm that economic activity in the euro area continued to expand during the summer months. So far the global slowdown has had a limited effect on the area, but looking ahead it poses a downside risk for growth and inflation. The latter returned to negative territory in September (-0.1 per cent for the twelve-month rate), owing in part to the fall in oil prices.

... which the ECB is determined to combat

The expansive measures adopted by the Governing Council of the ECB have provided support to economic activity and to the recovery in credit. The Council stands ready to use every available instrument, including adjustments to the size, composition and duration of the asset purchase programme, if this proves necessary to combat the downside risks and ensure the return of inflation to values consistent with the definition of price stability.

The Volkswagen scandal is an additional source of uncertainty

The fraud perpetrated by the German car manufacturer Volkswagen has affected the performance of the stock markets and the climate of confidence in Germany, introducing a new element of uncertainty for the European economies. The possible repercussions are still difficult to quantify; they will depend on the magnitude of the effects on the automotive sector as a whole (which up to now has contributed decisively to the cyclical upswing), on the German industry and on supplier businesses in other countries, as well as on investors' and consumers' expectations.

In Italy the main indicators confirm the cyclical upturn ...

Economic activity in Italy has been expanding since the beginning of 2015, at an annualized rate of about 1.5 per cent. The latest cyclical signs – including the gain in industrial production, the strengthening of household and business confidence and the rise in purchasing managers' indices – indicate that the expansion continued in the third quarter at about the same pace as in the first half of the year. After years of contracting domestic demand, the strengthening of the recovery in private consumption and the gradual revival of investment in productive capital are contributing to the expansion of output. According to the latest surveys, most firms judge the direct effects of the economic slowdown in China on their own activity to be limited so far; the impact appears to be more pronounced only for some large exporting firms.

... with favourable developments in the labour market

Employment has made significant gains during 2015, rising by 0.8 per cent on average over the first eight months compared with the previous year. The evidence to date indicates that the increase in payroll employment is the consequence above all of the cyclical recovery, but it has also benefited from the Government's recent measures for social contribution relief and labour market reform. The *unemployment rate, which nearly doubled between 2008 and 2014, continued to inch down during the summer. Firms are moderately optimistic about the job outlook.*

Inflation remains low

The rate of increase in consumer prices, which has been affected by the new decline in oil prices, is still very low (0.2 per cent in the twelve months to September). By contrast, core inflation continues to edge up, still driven by the acceleration in the prices of services. Households and firms expect very low but gradually rising inflation in the coming months. The percentage of consumers who expect prices to fall has diminished.

Credit conditions gradually improve ...

The improvement in the credit market has continued, fostered by the cyclical upturn and the measures adopted by the ECB Governing Council. After a long period of contraction, lending to the non-financial private sector stabilized during the summer. In the twelve months to August the decline in lending to firms slowed to 0.8 per cent and the growth in credit to the manufacturing sector strengthened to 1.8 per cent. Credit dynamics have reflected the situations of firms in the various sectors, remaining more favourable for those with no repayment irregularities. There has been a further small decrease in the cost of new loans to firms, although the dispersion of terms on single loans remains significant.

... and the flow of new non-performing loans slows

The improving macroeconomic picture has had a positive effect on the flow of new non-performing loans, which decreased in the second quarter. Preliminary data for July and August indicate a decrease, compared with May and June, in banks' total exposure to borrowers with loans reported as bad debts for the first time. The long recession's legacy of bad debt remains very substantial: at the end of June, total bad debts were equal to 10.3 per cent of outstanding loans.

Measures affecting banking are enacted

In August the Italian Parliament approved measures to increase the speed and efficiency of bankruptcy and enforcement procedures and allow the immediate tax deductibility of loan write-downs and losses, with the aim of removing some of the causes of the huge overhang of bad debt and encouraging the establishment of a secondary market in impaired assets. Discussions are still under way between the Italian authorities and the European Commission on the advisability of setting up a special purpose company for the acquisition of bad debts, with the ultimate objective of restoring an adequate flow of credit to the economy.

Foreign purchases of Italian government securities continue

Foreign investors' demand for Italian government securities remains high. From March to July non-residents made net purchases worth €21 billion, an amount only slightly less than total net issues. The considerable increase in the Bank of Italy's net debtor position in TARGET2 since the spring reflects ample liquidity creation and the diminished supply of government securities as a result of the Treasury's issuance policy and the monetary policy operations carried out by the Bank. Both these factors led Italian banks to reduce interbank funding abroad and residents to readjust their portfolios towards foreign assets.

The Government revises its growth projections upwards ...

In the Update to the 2015 Economic and Financial Document, presented on 18 September, the Government raised its estimates of GDP growth for this year and, in the planning framework, for 2016 as well. The revisions for the current year are consistent with the latest cyclical data, which suggest a slightly better outlook for the domestic components of demand than had been expected.

... and plans to reduce taxes on households and firms

The Government intends to reduce the tax burden on households and firms. For 2016 the Update foresees no triggering of the tax increases called for by earlier safeguard clauses and the introduction of tax relief on home ownership. For the coming year, the decrease in revenue will be financed only in part by spending cuts; overall, the programme envisages a reduction in the pace of fiscal adjustment. The debt/GDP ratio is slated to start *diminishing in 2016. The measures planned and their financing will be specified in the Stability Law, the draft of which was approved by the Council of Ministers on 15 October.*

The favourable conditions for reducing the debt need to be exploited

The start of a gradual reduction in taxes coincides with the need to lower Italy's high ratio of tax and social security contributions to GDP, which acts as a brake on economic growth. From this standpoint, the measures with the most immediate effect on growth potential are those that lighten the burden on productive factors; the elimination of taxes on primary residences may have only a limited impact on consumer spending. At the same time, the timetable for fiscal consolidation must guarantee a clear and steady reduction of the debt and, to this end, the opportunity offered by exceptionally favourable financial and monetary conditions and the gradually strengthening economic recovery must be exploited in full.

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

The prospects of world growth for this year and the next, revised downwards again, are exposed to the risk of a sharper than expected slowdown of the Chinese economy. This is affecting both international trade and commodity prices, which have fallen back to the low levels reached in the 2008-09 crisis. Faced with an extremely uncertain macroeconomic scenario, the Federal Reserve decided in September to leave its reference rates unchanged.

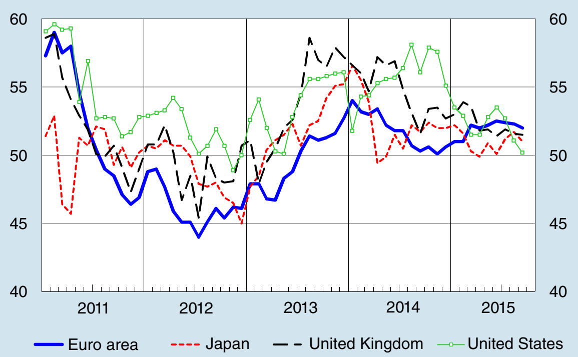
Growth continues in the advanced economies ...

Economic activity continues to expand in the main advanced economies, albeit at varying rates. In the United States, GDP growth in the second quarter accelerated more strongly than had been expected, to an annualized 3.9 per cent, with all components contributing positively. The most recent data indicate that the economy continued to grow in the third quarter, though at a more moderate rate, driven by household consumption expenditure. In the United Kingdom, GDP continues to increase in line with the projections. In Japan, however, the performance of the economy still seems uneven: GDP unexpectedly declined by 1.2 per cent in the second quarter, reflecting a fall in both exports, especially to emerging economies, and consumption; for the third quarter there are contradictory indications, which are also reflected in the volatile behaviour of the purchasing managers' indices (Figure 1).

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.

... but developments in China weaken the other emerging economies

The slowdown in China, which dominated macroeconomic conditions in the emerging economies in the second quarter and the following months, has led to a reduction in international commodity prices, with a negative impact on the growth of the major exporters (see the box 'The slowdown in China and the repercussions for the world economy'). Recessionary pressures have increased in Brazil and Russia, with a decline in consumer and business confidence.

THE SLOWDOWN IN CHINA AND THE REPERCUSSIONS FOR THE WORLD ECONOMY

In the first half of 2015 the rate of growth of the Chinese economy decreased to 7.0 per cent, down from the 7.3 per cent average for 2014, but in line with the objectives set by the Chinese government as part of the transition towards a more balanced development model. A growing discrepancy has, however, emerged between the available national accounts data and the information that can be inferred from the indicators more frequently associated with GDP, i.e. inland freight transportation, imports, electric power generation, and cement and steel output. Some leading analysts have calculated that the actual growth rate might be lower by 2 percentage points compared with estimates based on the national accounts.[1]

These indicators, however, are highly correlated to industrial output and international trade and could therefore underestimate the contribution of the services sector to GDP, which is rising significantly, reflecting the transition under way. In the last three years the growth in value added in the services sector has been consistently higher than in the industry sector. The weight of the services sector on total output has risen by 5 percentage points to slightly less than 50 per cent of GDP, which is still low by international standards.

The slowdown is not unique to China but also concerns other countries in Asia and those that export raw materials, which are the most affected by weakening demand from China. International organizations revised their growth forecast downwards for most of the emerging economies, and there were substantial capital outflows from their stock and bond markets. Based on estimates by the Institute of International Finance, in 2015 net capital flows towards emerging countries could be negative for the first time since 1988.

Doubts voiced by many observers concerning China's actual expansion rate in the first half of 2015 were reinforced by the publication of worse than expected macroeconomic data and by the devaluation of the renminbi in August (see Section 1.3), all of which explain the turbulence that hit the Chinese financial market during the summer and also spread to the other main global financial centres. Between the middle of June and the end of August Chinese equity prices suffered a protracted decline, falling by around 40 per cent, correcting the exceptional surge of the first half of the year. This could have a direct negative effect on GDP owing to the dynamics of value added in the financial sector, which was a major factor in the growth recorded in the first half of the year. Repercussions on consumption, on the contrary, were more moderate on the whole, given the small amount of household financial wealth held in the form of stocks (8 per cent in 2014).

In a broader perspective, recent events have highlighted the risks connected with the much needed transition to a development model less dependent on the traditional driving forces of economic growth, i.e. exports and investment, and more reliant on household consumption and led by market forces. The Chinese government has confirmed its goal of supporting a reorientation of the economy towards a more balanced and sustainable development path.

The contribution of net exports to GDP growth contracted significantly following the financial crisis of 2008-09, owing both to weakened foreign demand and to Chinese goods being less able to gain further market shares in developed countries (Figures A and B).

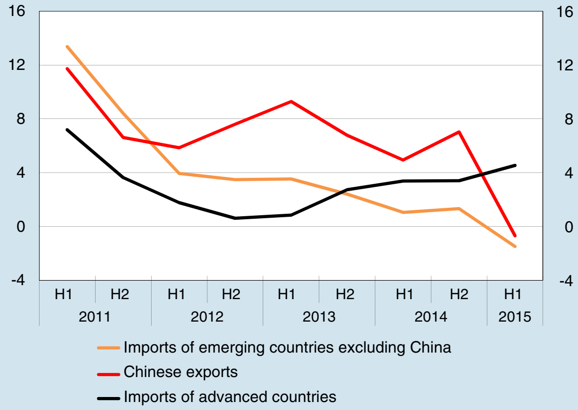
The rate of growth of investment, which was very rapid until 2013 thanks to the massive fiscal stimulus programme launched in 2009-10 and a sharp expansion in credit, has slowed down in the last two years (Figure C). This rapid accumulation of capital took place, however, in a period marked by a gradual deceleration in manufacturing, and this has made the Chinese economy more vulnerable. Many sectors in Chinese heavy industry now have excess production capacity, while profit margins have come steadily down.[2] The large stock of unsold properties is holding back the recovery in the building sector, and

[1] Consensus Economics, *Asia Pacific Consensus Forecasts*, September 2015.
[2] World Bank, *China Economic Update*, June 2015.

Figure A

Chinese exports and total imports of advanced and emerging countries (1)

(semi-annual data; growth rate on the previous year)

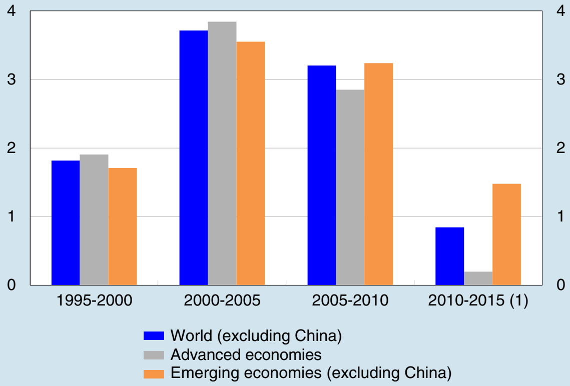


Sources: Based on national and OECD data.
(1) Imports of advanced and emerging countries excluding China are obtained by aggregating quarterly data on imports covering 14 advanced countries and 17 emerging countries.

Figure B

Growth of Chinese market shares by destination

(changes over five-year periods; percentage points)

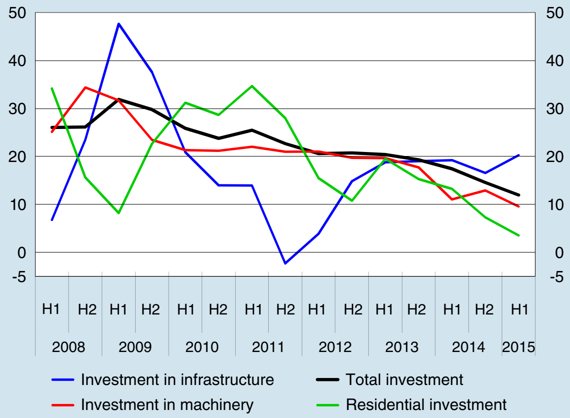


Sources: Based on OECD and UN Comtrade data.
(1) The figure for 2015 is an estimate based on data for the first half of the year.

Figure C

Gross fixed investment

(semi-annual data; growth rate on the previous year)



Source: Based on data from the National Bureau of Statistics of China.

public investment is unable to yield the expected cash flow. This has an impact on the financial soundness of local governments, which supported these projects counting on the revenues to be gained from a rise in property prices. The banking and shadow financial sectors were also affected.

These developments go hand in hand with an expansion in consumption which, although rapid, is still not sufficiently strong to offset the decrease in the stimulus provided by investment and exports, given the still relatively small share of household consumption in relation to GDP (less than 40 per cent).

Starting from the summer the Chinese government adopted a series of fiscal and monetary measures and reiterated its commitment to supporting the economy. A significant slowdown in the Chinese economy would have repercussions on the rest of world through a number of transmission channels.

The first channel is a further slowdown in international trade. Considering this factor alone, based on our estimates, which are in line with those of the professional analysts and the international organizations,[3] a decrease of 1 percentage point in the Chinese growth rate could reduce total world growth by a third of a point. The effect on the advanced economies would be more moderate: about one tenth of a point for the euro area, and slightly less for Italy. The impact could, however, be greater

[3] OECD, *Economic Outlook*, 96, November 2014.

for certain sectors: a sudden fall in Chinese investment growth would affect capital goods exports, which would hit Germany the most, although it should be noted that Germany's sales to China rely on a large share of components made in Italy and the rest of the European Union.

For emerging markets the overall effect would be approximately four times larger. Looking at Asia, countries with stronger ties to China such as Taiwan, South Korea and Japan all saw a significant fall in their exports in 2015. Repercussions would also be particularly noticeable for countries exporting energy commodities and industrial raw materials, e.g. Australia, Brazil, Indonesia, and South Africa, given that China accounts for a large share of the world demand for these products. These countries would be affected not only by the reduction in export volumes but also by a fall in commodity prices, and a weakening of these countries' economies could have adverse effects on world trade.

The financial channel could also become significant. New bouts of instability in Chinese markets occurring while a reduction in global liquidity is under way could trigger a further increase in risk aversion on international markets, which would intensify capital outflows from the emerging economies. These developments are a risk factor that is potentially very significant, albeit difficult to quantify.

Projections for global growth are revised down

The International Monetary Funds' projections, published in October, indicate a deceleration in global growth this year. Compared to those of July, the projections for 2015 have been revised down only slightly for the advanced economies but more markedly for the emerging ones, due above all to a larger contraction of GDP in Brazil and Russia (Table 1). Growth is expected to pick up moderately in 2016, despite an increase in downside risks associated with a sharper slowdown in China and the tensions that may arise when United States monetary policy begins to be normalized.

Table 1

Macroeconomic projections
(changes and percentage points)

	2014	October 2015 forecasts		Difference October 2015/ July 2015	
		2015	2016	2015	2016
GDP					
World	**3.4**	**3.1**	**3.6**	**-0.2**	**-0.2**
Advanced countries	**1.8**	**2.0**	**2.2**	**-0.1**	**-0.2**
Euro area	*0.9*	*1.5*	*1.6*	*0.0*	*-0.1*
Japan	*-0.1*	*0.6*	*1.0*	*-0.2*	*-0.2*
United Kingdom	*3.0*	*2.5*	*2.2*	*0.1*	*0.0*
United States	*2.4*	*2.6*	*2.8*	*0.1*	*-0.2*
Emerging countries	**4.6**	**4.0**	**4.5**	**-0.2**	**-0.2**
Brazil	*0.1*	*-3.0*	*-1.0*	*-1.5*	*-1.7*
China	*7.3*	*6.8*	*6.3*	*0.0*	*0.0*
India	*7.3*	*7.3*	*7.5*	*-0.2*	*0.0*
Russia	*0.6*	*-3.8*	*-0.6*	*-0.4*	*-0.8*
World trade (1)	**3.3**	**3.2**	**4.1**	**-0.9**	**-0.3**

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

World trade continues to disappoint expectations

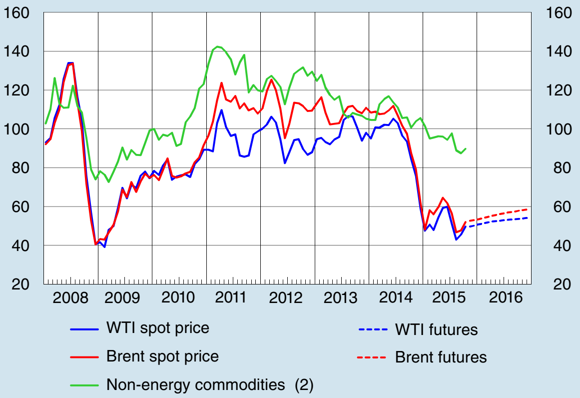
Following the sharp fall registered in the first quarter, world trade stagnated in the second quarter. In emerging Asian economies trade continued to be affected by the weakness of flows in China, while in the advanced economies the performance of trade was boosted by developments in the euro area and the United States. According to the IMF, world trade in 2015 will grow by 3.2 per cent, nine tenths of a percentage point less than the July estimates; taking into account the disappointing trade developments registered in the summer months, particularly in the emerging economies, our projections are more pessimistic, putting the expansion at just over 2 per cent.

Oil prices weaken again ...

Oil prices have fallen since July, settling at around $50 a barrel in recent weeks both for Brent and WTI, in a context of pronounced volatility (Figure 2). Futures contracts anticipate a very modest recovery in prices over the next twelve months.

Figure 2

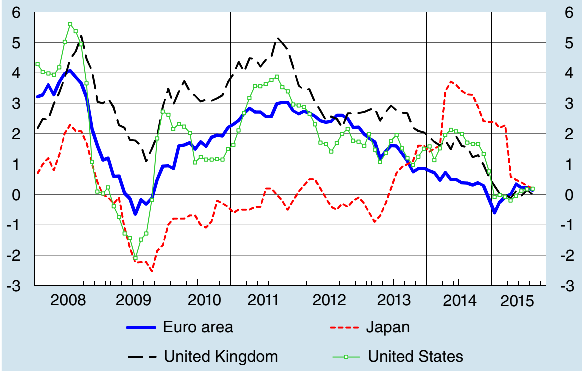
Commodities prices (1)
(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average through September 2015; the last data refer to to 9 October. – (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.

According to the International Energy Agency's estimates, world demand for crude oil is likely to remain well below the supply capacity, reflecting the current weakness of global economic activity. Crude oil supply will also be affected next year by the return of Iranian output to international markets following the lifting of sanctions. The prices of non-energy commodities have also fallen. Those of agricultural products have decreased by almost 10 per cent compared with the beginning of July, those of industrial metals by about 12 per cent.

... keeping inflation in check

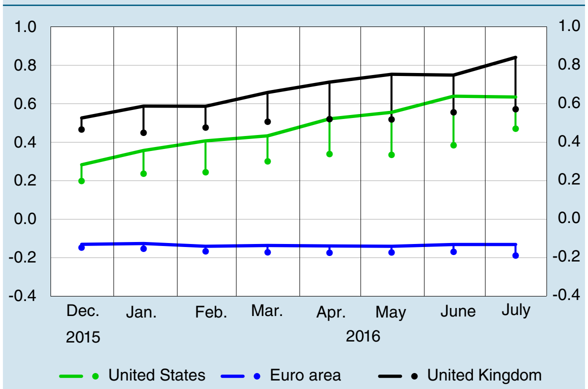
Consumer price inflation in the advanced economies continues to fluctuate around zero, mainly owing to the weakness of commodity prices (Figure 3); however, even excluding the more volatile components, inflation remains extremely subdued. Inflation rates differ more widely in the emerging economies: they are very high in Russia and Brazil, at 15.7 and 9.5 per cent, respectively, partly as a result of weak exchange rates, but much lower in India and China, at 4.4 and 1.6 per cent, respectively.

Monetary policy remains highly expansionary in the advanced economies ...

In the Federal Open Market Committee meeting in September, the Federal Reserve left the target range for interest rates on federal funds unchanged at 0.0-0.25 per cent; the decision not to raise rates was influenced by concerns over the international macroeconomic and financial scenario and by increasing downward pressure on inflation; the decision also stemmed from the assessment that, although the unemployment rate (5.1 per cent in August) was close to the FOMC's estimated

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 July 2015, the dots show those forecast on 9 October 2015.

long-term equilibrium rate, there is room for improvement elsewhere in the labour market, such as in the participation rate and the share of involuntary part-time workers. Nevertheless, a strong majority of Committee members believe that a rate hike is still likely by the end of the year, although the curve of expected future yields has been revised downwards again; market participants, by contrast, only expect a first rate hike in 2016 (Figure 4). The central banks of Japan and the UK have not altered their policy stance, which remains highly expansionary.

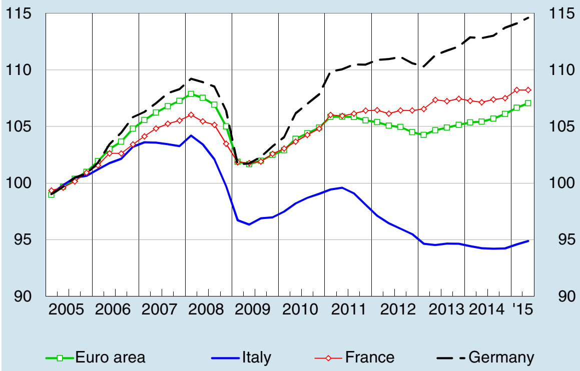
... and diverge among the main emerging economies

The monetary policies of the main emerging economies diverged further over the summer, becoming more accommodative in China, India and Russia and more restrictive in Brazil. The Chinese central bank cut both its reference rates and the banks' required reserve ratio, injected liquidity to support the purchase of securities on the stock market and sold currency reserves to limit the depreciation of the renminbi (see Section 1.3). The Brazilian central bank raised its policy rate again in July in response to persistently strong inflationary pressure.

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.

1.2 THE EURO AREA

According to the most recent indicators, the euro-area economy continued to grow in line with expectations in the third quarter. However, downside risks arose in connection with weakening world trade and turbulence in currency and financial markets. Inflation once again turned negative. The Governing Council of the European Central Bank is ready to use all instruments available, if necessary.

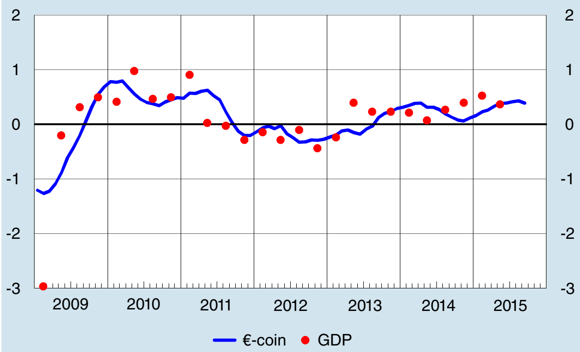
The euro-area recovery continues in the second quarter ...

In the second quarter euro-area GDP grew by 0.4 per cent with respect to the previous quarter (Figure 5). Economic activity was driven primarily by foreign trade, with a surge in exports and a slowdown in imports. The stimulus of household spending was partly offset by a decline in investment, particularly in construction, and by the negative contribution of changes in stocks. Among the major economies, GDP grew in Italy and Germany (by 0.3 and 0.4 per cent, respectively), but was stagnant in France (following strong growth in the first quarter) owing to an abrupt reduction in household spending.

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/notizia/indicatore-coin-settembre-2015*. 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.

... and apparently also in the third ...

The most recent indicators suggest that economic activity continued to expand in the third quarter at rates similar to those of the previous period, with quite uniform performances among the major countries. In September, the

Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, remained high, although it registered its first slight decline since November 2014 (Figure 6).

Business surveys also point to a moderately favourable outlook, with the September purchasing managers' index (PMI) for the euro area remaining well above the threshold compatible with an economic expansion.

... but in the latter period downside risks emerge, attributable to emerging markets...

According to the ECB staff projections released in September, the euro-area economy will expand by 1.4 per cent this year and 1.7 per cent in 2016. The figures for growth were revised slightly downwards compared with the projections prepared by the Eurosystem experts in June, mainly as a result of the slower expansion in trade with emerging market economies.

... and the Volkswagen affair

At the end of September there was an injection of uncertainty arising from the possible repercussions of reports of the manipulation of diesel engine emissions test results, which has undermined the credibility of the German car manufacturer Volkswagen and is reflected in the leading analysts' confidence indices concerning Germany's growth outlook. The effects of this, which are still difficult to quantify, will hinge on its impact on the automotive and related sectors, which have contributed significantly to the cyclical recovery of the euro area. In Germany the overall automotive sector accounted for about 18 per cent of value added in manufacturing and 4 per cent of that in the entire economy in 2013. Since 2013 it has contributed around 1.5 percentage points to the growth in industrial production in Italy and Spain, 1.0 points in Germany, and 0.5 points in France.

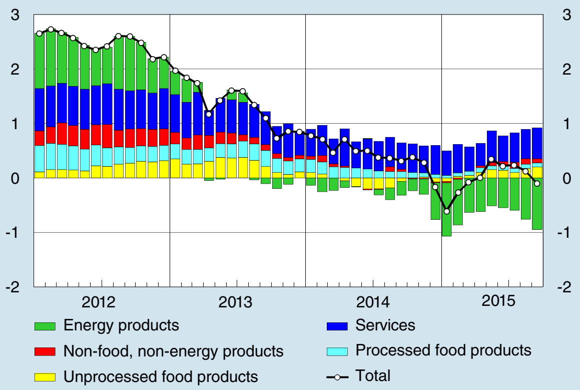
Inflation is slightly negative ...

Based on preliminary estimates, in September consumer price inflation was once again negative, with a twelve-month decline of 0.1 per cent (Figure 7). The weakness of inflation derives from the still sharply negative trend of the prices of energy products (-8.9 per cent); net of the most volatile components, inflation came to 0.9 per cent, supported by services. Based on the data now available, about a quarter of the elementary items in the basket showed a twelve-month price decline in August (35 per cent in January); among the core items, reductions were recorded for 31 per cent of goods and 13 per cent of services.

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 and ECB data.
(1) Harmonized index of consumer prices; for September 2015, preliminary estimates.

... and is expected to remain low over the medium term

According to opinion surveys, inflation is likely to remain very low in the coming months. During the summer, manufacturing firms projected that their list prices would once again fall slightly. ECB staff projections released in September indicate that consumer price inflation will be 0.1 per cent on average for the year, rise to 1.1 per cent in 2016 and to a little below 2 per cent in 2017 (1.7 per cent). The projections for harmonized inflation are lower now than they were June, mainly owing to the drop in oil prices.

Medium- and long-term inflation expectations, as implied by inflation swap rates, fell across all maturities after rising significantly in the first half of the year (Figure 8). As compared with the start of July, the 2-year swaps rate declined by about 0.4 percentage points to 0.6 per cent. The 5-10 year 5 years ahead rate registered a more modest decrease, falling to 1.6 per cent.

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.

The Eurosystem's securities purchase programme proceeds

The Eurosystem proceeded steadily with its purchase of public and private sector securities. As of 9 October, it had bought a total of €359 billion worth of public securities, €125 billion of covered bank bonds and €13 billion of asset-backed securities. At the end of September, purchases of Italian public securities amounted to €55 billion, with an average residual maturity of 9.3 years. The Governing Council of the ECB, at its meeting in early September, raised the issue share limit for public sector securities to 33 per cent (from an initial limit of 25 per cent).[1]

... and the Council will combat the risks of a decline in inflation

The Governing Council deems that downside risks to the growth and inflation outlook have intensified as a result of developments in global markets. It is prepared, if necessary, to adjust the size, composition and duration of the asset purchase programme.

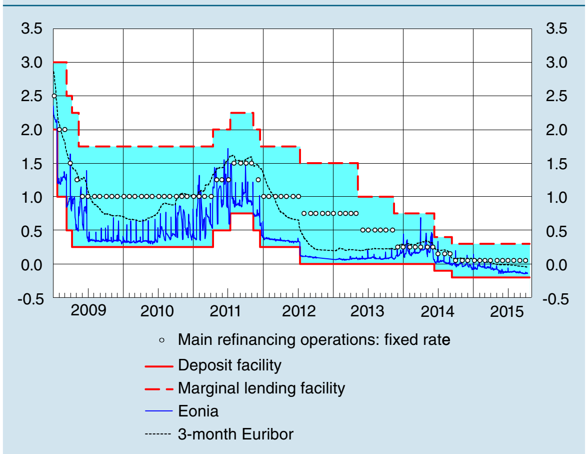
Liquidity remains high

The fifth targeted longer-term refinancing operation (TLTRO) was settled on 30 September; 88 banks participated, bidding for €15.6 billion. The funds assigned to Bank of Italy counterparties amounted to €4 billion. The reduced demand seen in this TLTRO was a reflection of the abundant liquidity in the banking system. Including this latest operation, a total of €400 billion has been injected into the euro-area banking system through the TLTROs, with €115 billion going to Italian banks.

Overall, banks' liquidity deposited with the Eurosystem in excess of reserve requirements rose to €531 billion (from €429 billion in mid-July), which helped to keep money market rates at very low levels (Figure 9).

Figure 9

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



Sources: ECB and Thomson Reuters Datastream.

Credit conditions improve

The ECB's expansive monetary operations have continued to stimulate the flow of credit to the private

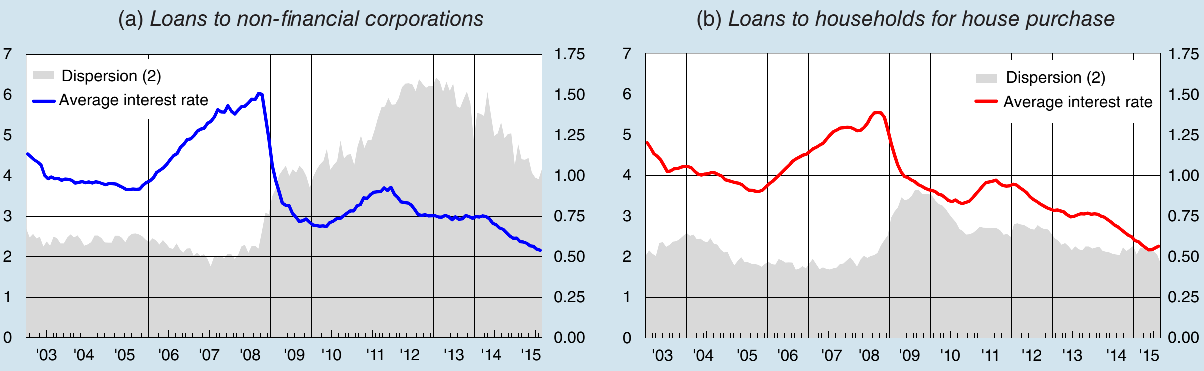
[1] See https://www.ecb.europa.eu/mopo/implement/omt/html/pspp-qa.en.html.

sector and to reduce the cost of credit. In the three months ending in August, lending to firms in the area rose significantly (1.5 per cent on a seasonally adjusted annual basis, from a decline of 0.2 per cent in May, adjusted for the accounting effect of securitizations). The rate of growth in lending to households rose to 1.9 per cent.[2]

The cost of loans to non-financial firms fell further to 2.2 per cent in August (Figure 10). The growth in the M3 aggregate (4.8 per cent in the twelve months to August) continued at practically the same pace as that reported in May. Its expansion was driven by the sharp increase in current account deposits (11.9 per cent), which continue to benefit from the reallocation of portfolios towards more liquid assets.

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.

A new support programme for Greece is launched

On 19 August the third financial support programme for Greece was launched: the European Stability Mechanism (ESM) will lend up to €86 billion over a three-year period. To receive this aid, Greece must implement a reform plan designed to ensure the sustainability of the public finances and financial stability and to boost the potential growth and competitiveness of the economy. The measure also envisages the adoption of a privatization plan, which is expected to raise over €50 billion. The agreement was preceded by a €7.2 billion bridge loan, approved on 17 July, to allow Greece to meet its most pressing financial obligations and repay overdue debts.

The first tranche of assistance, amounting to €13 billion, was disbursed on 20 August. The ESM simultaneously earmarked €10 billion in notes to be used for interventions in favour of Greek banks. These notes can be transferred to Greece upon request and with the prior approval of the ESM Board. The aid disbursed through this new programme and the bridge loan do not increase the exposure of Italy's public finances to Greece, which thus remains equal to about €35 billion (see *Economic Bulletin*, No. 3, 2015).

[2] In September the ECB introduced a new method for calculating the rate of increase in lending, adjusted for securitization, which takes into account information on developments in loans even after they are no longer recorded on banks' balance sheets as a result of securitization or other transfer. As a result of this new method, the growth rates of loans by euro-area sector have been revised downwards. The method introduced is consistent with that already used in Bank of Italy publications. For more information see https://www.ecb.europa.eu/press/pr/date/2015/html/pr150921.en.html.

1.3 WORLD FINANCIAL MARKETS

Volatility on international financial and foreign exchange markets diminished in July after European leaders concluded an agreement with Greece but rapidly increased beginning in mid-August with the spread of worries about an abrupt slowdown of the Chinese economy and its repercussions on the rest of the world. These fears worsened after the Chinese authorities' sudden decision to modify the exchange rate regime and simultaneously to devalue the renminbi against the dollar and following the fresh fall in the country's stock market. The events in China led to significant losses in the financial markets of developed and emerging economies and a large fall in commodity-producing countries' exchange rates.

The fall of share prices in China ...

In August Chinese share prices suffered another sharp fall, reflecting fears that the economic slowdown may be worse than expected and correcting the excessive growth in share prices seen in the first half of 2015 (see the box 'The slowdown in China and the repercussions for the global economy'). Following the large losses of the previous two months, financial indices fell by another 30 per cent and then stabilized at the levels reported at the beginning of the year.

... spreads to global financial markets

The pronounced correction registered in the Chinese stock market spread to global financial markets, in connection with the uncertainty generated by the decision of Chinese authorities to modify, as of 11 August, the procedures for setting daily central parity quotes between the renminbi and the dollar. This decision, which, according to the Chinese authorities, was designed to give more weight to market forces in setting the exchange rate, caused a sudden though limited depreciation of the renminbi, which reinforced the worries held by some that the slowdown in economic activity might be more intense than the authorities asserted. The repercussions were stronger in Japan and in the euro area, where share prices fell by roughly 15 per cent, wiping out most of the gains accrued since the beginning of the year (Figure 11).

In the last ten days of September the turbulence triggered by the Volkswagen scandal contributed to the downturn in the euro area's stock exchanges (see Section 1.2). Volatility increased on the share markets, returning to historically high levels (Figure 12).

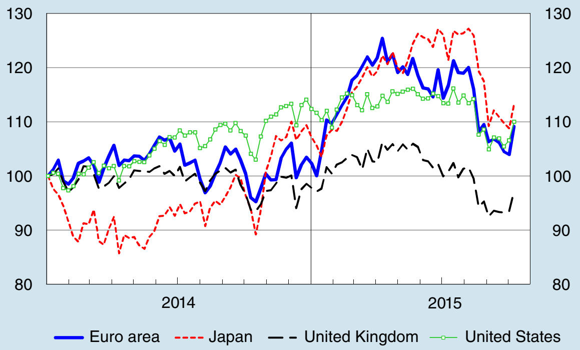
In the emerging countries sovereign spreads increase ...

The sovereign spreads of emerging economies increased, most notably in commodity-exporting

Figure 11

Stock market indices (1)

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

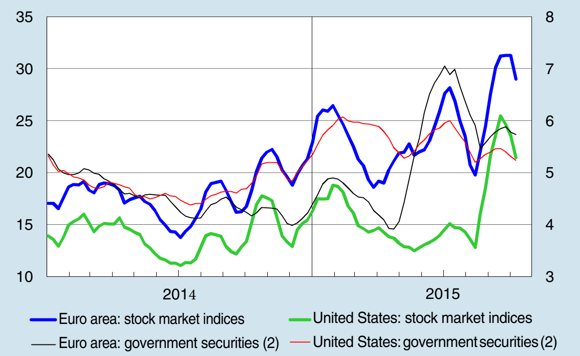


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

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

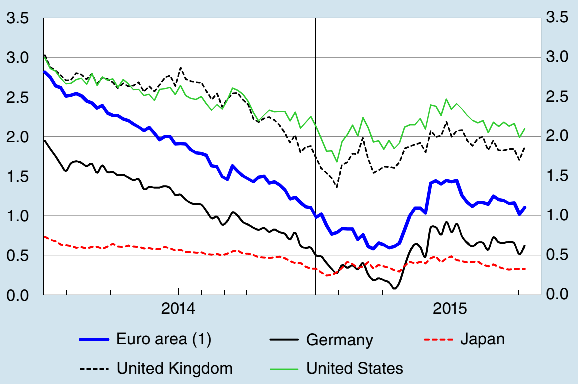
(end-of-week data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Moving 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 13

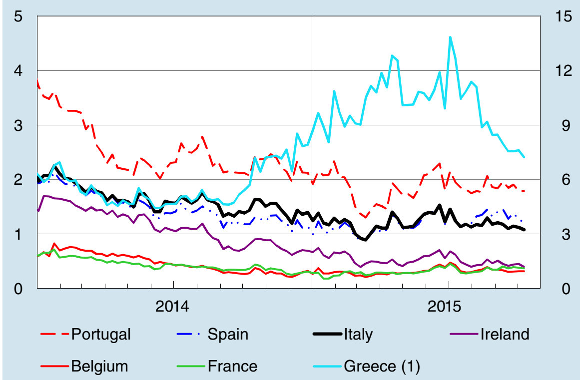
Yields on 10-year government bonds
(end-of-week data; per cent)



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.

Figure 14

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



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

countries. Preliminary data indicate that capital outflows from emerging economies intensified at the end of August and then abated in the second half of September after the Federal Reserve's decision to hold official rates unchanged.

... and currencies depreciate

The currencies of emerging countries depreciated overall against the dollar, especially those of commodity exporters; the volatility of exchange rates rose to the highest level since 2013. By contrast, the depreciation of the renminbi was limited (2.5 per cent against the dollar since mid-August), thanks in part to the steps taken by the central bank of China, which intervened repeatedly after the change of the exchange rate regime, with large sales of official reserves ($94 billion in August alone).

In the advanced economies yields decline ...

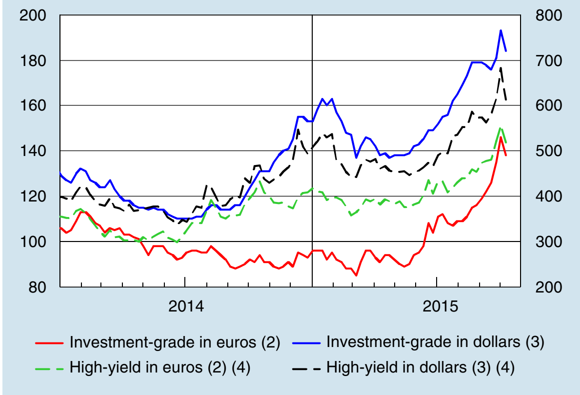
Yields on the ten-year government bonds of the main advanced countries turned moderately downwards, reflecting the fall in inflation and growth expectations and the search for safe investments in a more risk averse environment (Figure 13).

... and euro-area sovereign spreads decrease

In the euro area, after European leaders concluded an agreement with Greece, sovereign risk premiums fell; they were not subsequently affected by the turmoil on the financial and foreign exchange markets (Figure 14).

Figure 15

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



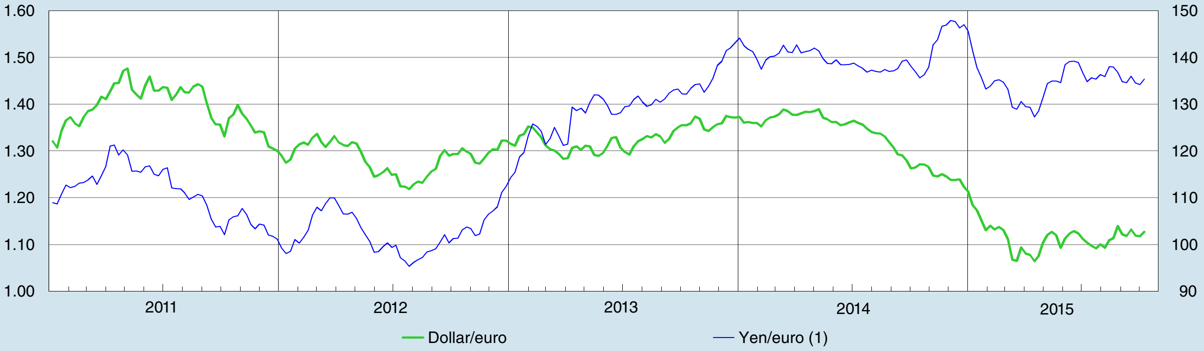
Source: Merrill Lynch.
(1) Investment-grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High-yield bonds are those issued by corporations rated below those grades. – (2) Fixed-rate bonds with a residual maturity of not less than 1 year, issued in the Euromarket; 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.

Private risk premiums increase

From the end of June, risk premiums on investment grade bonds issued by non-financial corporations rose for both euro- and dollar-denominated securities, by 17 and 25 basis points respectively (Figure 15). In the high-yield segment, the increase in yield spreads was more pronounced (78 and 113 basis points for euro- and dollar-denominated securities, respectively), especially in the United States where the segment is more sensitive to the fall in oil prices. Banks' credit risk premiums, inferred by five-year credit default swaps, were nearly unchanged in the euro area while they rose moderately in the United States.

Figure 16

Bilateral exchange rates
(average weekly data)



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

The euro strengthens moderately

In the third quarter, the euro recovered part of the losses it registered in the final part of 2014 and the first few months of 2015, appreciating by 2.4 per cent in nominal effective terms. The common currency strengthened slightly against the dollar, among other things following the Federal Reserve's decision in September to leave interest rates unchanged, and weakened slightly against the yen (Figure 16). Since 6 November 2014, the euro has depreciated by 10 per cent against the dollar and by 5.2 per cent in nominal effective terms.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

The latest data confirm that the Italian economy has emerged from a long period of recession. Growth is driven by domestic demand, in particular by household consumption, by inventory restocking and investment in machinery, equipment and intangible goods, which has picked up again.

The recovery that began in the first half of the year ...

In line with the projections contained in last July's *Economic Bulletin*, in the second quarter Italy's GDP grew by 0.3 per cent on the previous period, when growth was 0.4 per cent (this figure has been revised slightly upwards; Figure 17 and Table 2). Activity was sustained by the domestic components of demand, notably consumer spending, above all in the durable goods sector. There was a decline in investment overall, mainly reflecting the decline in the construction sector. However, after a temporary dip in the first quarter, investment in machinery, equipment and intangible goods regained the moderate positive growth that began at the end of 2014 (see Section 2.2). Value added expanded in the services sector and in industry excluding construction, while it decreased again in construction and agriculture.

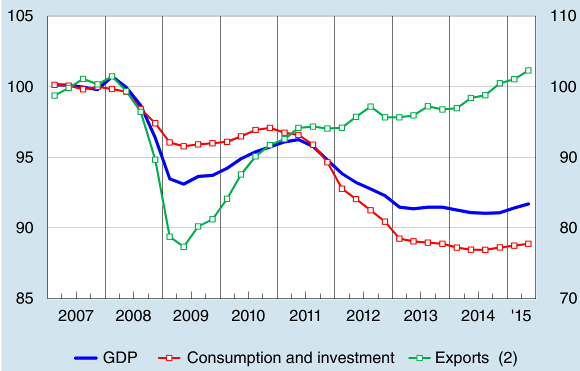
... has continued in recent months

The most recent indicators suggest that in the third quarter GDP growth continued at a similar pace to that in the second, driven by strengthening activity in the services and the manfacturing sectors. In September, the Bank of Italy's Ita-coin indicator, which estimates the underlying trend of GDP, recorded its seventh consecutive increase, consolidating its positive position (Figure 18). Taking account of Istat's slightly upward revisions of GDP in the first half of the year, overall growth in 2015

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 Q3	2014 Q4	2014 (2)	2015 Q1	2015 Q2
GDP	..	..	-0.4	0.4	0.3
Total imports	1.3	0.7	2.9	2.1	1.8
National demand (3)	0.1	-0.4	-0.6	0.8	0.5
National consumption	0.2	0.2	0.1	-0.1	0.2
household spending (4)	0.1	0.1	0.4	-0.1	0.4
other spending (5)	0.6	0.5	-0.7	..	-0.4
Gross fixed investment	-0.9	0.2	-3.5	1.2	-0.4
construction	-0.8	-0.5	-5.0	0.4	-0.7
other investment goods	-0.9	0.9	-1.9	1.9	-0.2
Change in stocks (6) (7)	0.1	-0.6	-0.1	0.6	0.4
Total exports	0.6	1.9	3.1	0.7	1.0
Net exports (7)	-0.2	0.4	0.1	-0.4	-0.2

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; percentage points.

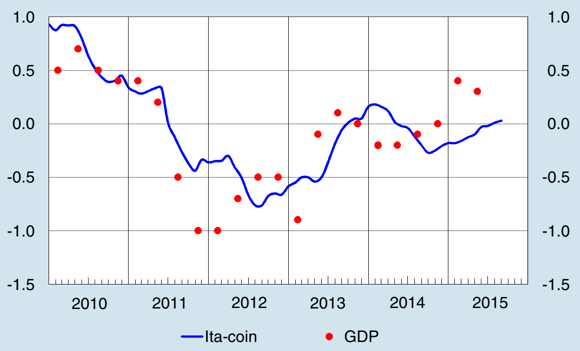
could turn out to be slightly higher than the 0.7 per cent forecast in the *Bulletin* last July.

The consumer and business confidence indicators are still favourable; however, growth prospects are weighed down by greater risks related to trends in foreign demand. The recent Volkswagen scandal (see Section 1.2) could have repercussions on Italian firms working in the components sector, the severity of which depends on the impact it will have on the German automotive sector as a whole. As a destination market, Germany accounts for a share of between 20 and 25 per cent of Italian exports. According to the Italian Association of the Automotive Industry (ANFIA), in 2014 Volkswagen bought €1.5 billion worth of components produced by Italian firms (7.7 per cent of all exports from this sector).

Figure 18

Ita-coin coincident cyclical indicator and GDP in Italy (1)

(percentage changes)



Sources: Bank of Italy and Istat.
(1) For the methodology and construction of the indicator, see the box 'Ita-coin: a coincident indicator of the Italian economic cycle', in *Economic Bulletin*, No. 2, 2015. For GDP, quarterly data; change on the previous quarter. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

Consumer price growth is still weak

Consumer price inflation, expressed as the twelve-month change in the harmonized index of consumer prices (HICP), stood at 0.2 per cent in September. The weak inflation picture reflects the continuing steep decline in energy prices. Core inflation was 0.8 per cent, sustained by the recovery in the services component (see Section 2.6).

2.2 FIRMS

The upswing in manufacturing and services consolidated during the summer; the economic recovery is slow to take hold in the construction industry, although there are some positive signs for the future. Firms' opinions on investment conditions continue to be favourable; the share of firms expecting to invest more in the second half of 2015 clearly outweighs that planning to invest less.

Manufacturing continues to recover

Our estimates suggest that in the third quarter the index of industrial production rose by more than half a percentage point on the previous period, despite a temporary dip in August, bringing it to its highest level since autumn 2012 (Figure 19).

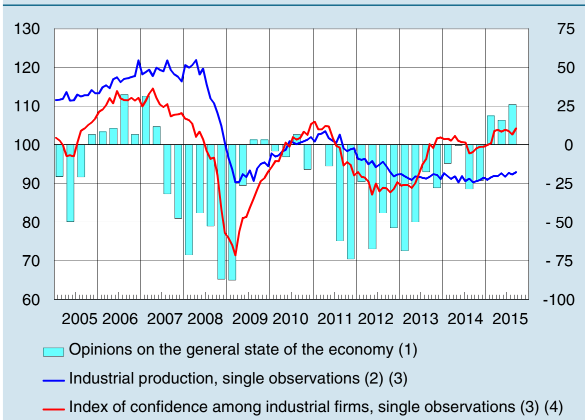
Business confidence continues to improve ...

Business survey data point to a further recovery in production in the coming months. Manufacturing firms' confidence was high in the third quarter, in line with the PMI,

Figure 19

Industrial production and business confidence

(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Right-hand scale; 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, September 2015, *Supplements to the Statistical Bulletin*, No. 51, 2015; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; for September 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.

despite some fluctuations; there was also a clear improvement in the opinions of private service firms. There are further indications of the continuing expansion of production in the September edition of the Bank of Italy-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations. In particular, firms' opinions on the general economic situation show a clear improvement, as do their expectations of an increase in demand in the short term.

… but signs of a recovery in investment are not yet widespread

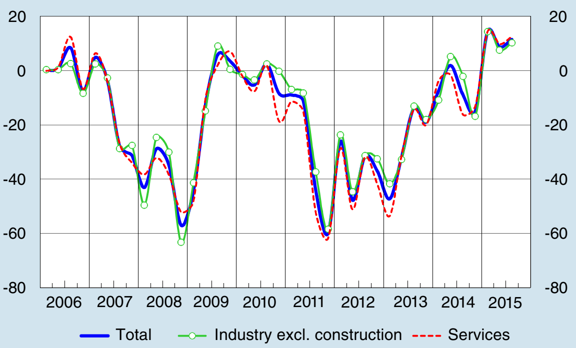
Total investment declined in the second quarter by 0.4 per cent on the previous period, curbed by the fall in spending on construction and by the drop in purchases of transport equipment, which had risen significantly at the start of the year. Nevertheless, expenditure on machinery, equipment and intangible goods returned to growth (0.6 per cent), mainly reflecting the more positive expectations of demand and directly affecting potential output. Firms started to build up warehouse stocks, interrupting a period of decline that had lasted a year. Firms' opinions on investment conditions remained favourable, more so than in July; the share of firms expecting an increase in nominal investment spending in the second half of the year compared with the first is clearly larger than that of firms envisaging a decline in expenditure (see the box 'The investment outlook according to business surveys').

THE INVESTMENT OUTLOOK ACCORDING TO BUSINESS SURVEYS

The quarterly Survey on Inflation and Growth Expectations of firms with 50 or more employees, conducted in September by the Bank of Italy together with *Il Sole 24 Ore*, highlights an improvement in the climate of confidence, after it had virtually stabilized in the previous quarter. Firms in both industry excluding construction and in services reported growing optimism about general economic developments (see Survey on Inflation and Growth Expectations, September 2015, in *Supplements to the Statistical Bulletin*, No. 51, 2015). Assessments of the current and expected trend of demand were also favourable while judgments of investment conditions continued to be positive (see the figure). For the year as a whole, firms plan to increase investment expenditure by comparison with 2014.

Between September and October of this year the Bank of Italy's branches conducted their customary autumn business outlook survey on a sample of firms with 20 or more workers in industry excluding construction, non-financial private services, and construction firms with 10 or more workers (see Business Outlook Survey of Industrial and Service Firms, forthcoming in *Supplements to the Statistical Bulletin*). The survey confirmed the strengthening of investment prospects, against the background of a gradual consolidation of the cyclical recovery. Some 43.0 per cent of firms in industry excluding construction and 42.3 per cent of those in services reported an increase in turnover in the first nine months of the current year compared with the same period in 2014; 27.8 per cent and 27.3 per cent, respectively, reported a decrease (see the table). In the manufacturing sector trends in

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 September 2015 and published in *Supplements to the Statistical Bulletin*, No. 51, 2015.

Main findings of the Business Outlook Survey of Industrial and Service Firms (1)
(frequency of responses, per cent)

	Industry excluding construction	Services	Total
Turnover in the first 3 quarters of 2015 compared with the same period in 2014			
Lower	27.8	27.3	27.5
About the same	29.3	30.4	29.8
Higher	43.0	42.3	42.6
Export turnover in the first 3 quarters of 2015 compared with the same period in 2014			
Lower	24.7	24.8	24.7
About the same	33.2	41.1	35.4
Higher	42.1	34.1	39.9
Investment expenditure in 2015 compared with planned investment at end-2014			
Lower	15.8	15.0	15.4
About the same	67.9	70.6	69.3
Higher	16.3	14.4	15.3
Investment expenditure planned for 2016 compared with 2015			
Lower	15.9	13.3	14.6
About the same	58.5	66.5	62.6
Higher	25.6	20.2	22.9
Average workforce in 2015 compared with 2014 (2)			
Lower	22.6	24.4	23.6
About the same	47.2	43.2	44.9
Higher	30.1	32.4	31.4

(1) Sample composed of firms with 20 or more workers in industry excluding construction (2,751 firms) and private non-financial services (wholesale and retail trade, hotels and restaurants, transport and communications, other professional services; 1,066 firms). Estimates of the percentages, net of the response 'don't know, don't wish to answer', calculated using a weighting coefficient for each firm that takes account, for each geographical area, size class and sector of activity, of the number of firms in the sample and in the universe. Standard errors of the estimated percentages not greater than 0.8 per cent, i.e. maximum confidence intervals (at 95 per cent) equal to 1.6 percentage points. Based on a provisional sample. – (2) Weighted by firm size (number of workers).

foreign sales remained favourable, benefiting from the growth in exports to all the major outlet markets including China, with the exception of the other main emerging economies. According to most of the firms interviewed the effects of the current economic slowdown in China appear limited; several major exporters instead reported more significant effects.

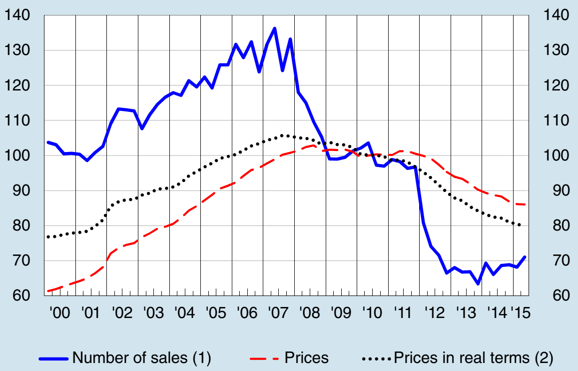
For about 70 per cent of firms, investment expenditure for 2015 is largely in line with that planned at the end of 2014, while 15.3 per cent plan an increase. In 2016 investment should continue to recover, albeit in a climate of uncertainty. Most firms expect investment spending to remain stable with respect to 2015, some 22.9 per cent expect an increase while 14.6 per cent expect a decline.

The construction sector struggles to take off again ...

The housing market is picking up but recovery in the construction industry has yet to be seen. In the second quarter investment in the sector began to decline again (by 0.7 per cent compared with the previous period); in July the downward trend in output continued. Some positive signs emerged for house sales which, after stabilizing in autumn 2014, grew by 4.2 per cent in the second quarter compared with the first, excluding seasonal effects (Figure 20). In the same period, there was an interruption in the prolonged decline in house prices, which usually react more slowly to a turnaround in sales.

Figure 20

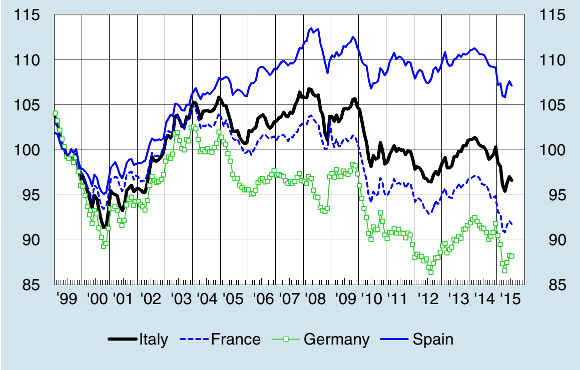
House prices and sales
(quarterly data; index, 2005=100)



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.

Figure 21

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



Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN and national statistics.
(1) Vis-à-vis 61 competitor countries; based on producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to June 2015. For the calculation 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.

... even if expectations are improving

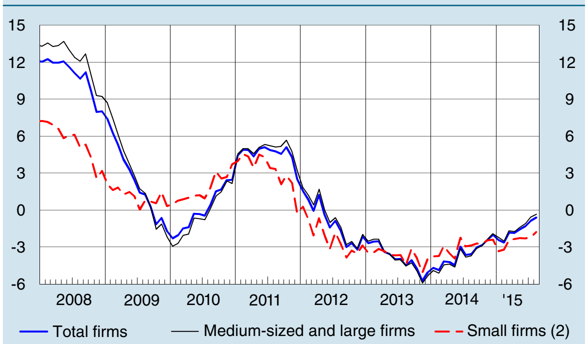
Looking ahead, positive signs have emerged from the decisive improvement since the start of this year in business confidence among construction firms. According to the Bank of Italy-*Il Sole 24 Ore* quarterly survey carried out in September, opinions on investment conditions remained positive and the percentage of firms that expect housing demand to worsen in the next three months has declined. This was also thanks not only to the more favourable macroeconomic outlook but also to an improvement in financing conditions: according to the Italian Housing Market Survey carried out in July, the share of houses bought with a mortgage loan had increased for the third quarter running.

Price competitiveness deteriorates slightly in the summer

Provisional assessments for August and September indicate that the competitiveness of Italian exports, measured on the basis of the producer prices of manufactured goods, worsened slightly, reflecting the nominal appreciation of the euro. The cumulative gain since the end of 2014 is still ample (over 2 percentage points; Figure 21).

Figure 22

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, simple partnerships, de facto companies and sole proprietorships with up to 19 workers.

Corporate profitability remains stable

Estimates based on national accounts show that in the second quarter firms' operational profitability – calculated as the ratio of gross operating profit to value added in the twelve months ending last June – remained stable, at historically low levels. In relation to value added, gross investment increased, leading to higher borrowing requirements; self-funding rose slightly following a fall in interest expenses.

Lending to manufacturing firms increases

The contraction in bank lending to firms, including producer households, has virtually come to a halt

(Figure 22); lending to manufacturing firms has expanded in the last few months (see Section 2.7). The total debt of manufacturing firms as a percentage of GDP declined slightly to 79.0 per cent at the end of June from 79.7 per cent at the end of March (Figure 23).

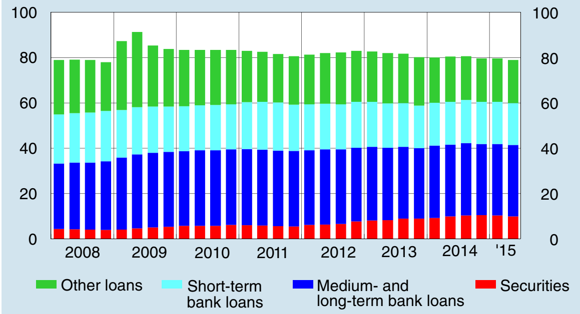
Net bond issues are weak

In the second quarter, Italian firms' net bond issues were negative by €3.6 billion compared with positive issues of €1.7 billion in the first quarter (Table 7). Provisional data from Dealogic indicate that net bond issues edged into positive territory between July and September. In the spring, gross share issues of non-financial corporations resident in Italy were fairly small.

Figure 23

Debt of non-financial firms (1)

(quarterly data; as a percentage of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the 12 months ending in the quarter in question. Debt includes securitized loans. A number of revisions were made to the data on non-financial firms' debt, mainly linked to the balance of payment statistics (see Financial Accounts and Balance of Payments and International Investment Position in *Supplements to the Statistical Bulletin).*

2.3 HOUSEHOLDS

The latest indicators show that the moderately positive trend in household consumption was confirmed over the summer, in line with favourable assessments of the outlook for the general state of the economy and the labour market and with the recovery in disposable income.

Consumption continues to increase moderately ...

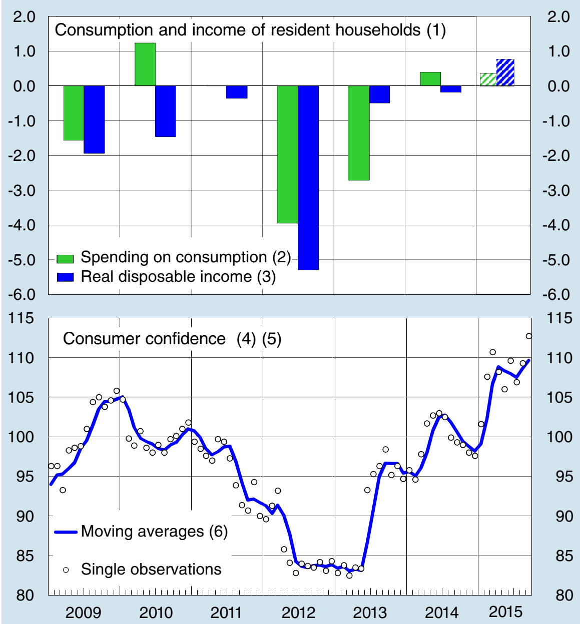
In the second quarter household consumption rose by 0.4 per cent over the previous quarter, resuming the positive trend that began in the summer of 2013 after a brief slowdown over the winter months. This rise was mainly bolstered by purchases of durable goods, up by 3.1 per cent, together with the contribution of services (0.2 per cent). Real disposable income increased slightly from the previous quarter, recovering by 1.1 per cent from the previous year (Figure 24). Household propensity to save decreased to slightly less than 9 per cent, still half a percentage point higher than in the spring of last year.

The latest indicators suggest that the growth in consumption continued in the third quarter. New car registrations remained stationary compared with the previous quarter, with an increase of 15.3 per cent in the first nine months of the year on the same period in 2014.

Figure 24

Consumption, disposable income and consumer confidence

(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. Up to 2014, annual data; for 2015, percentage changes in the first 6 months on the same period of 2014. – (2) Chain-linked values. – (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 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.

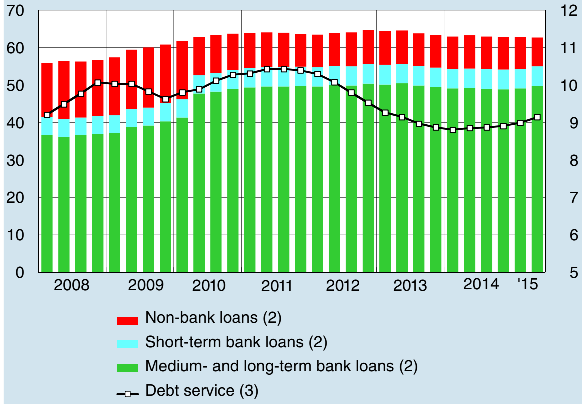
... and household confidence remains strong

In September the index of consumer confidence rose again, to its highest level in recent times. This positive trend, widespread across all components, was more pronounced owing to households' favourable assessments of the general state of the economy and the labour market, both current and expected.

Figure 25

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 are unchanged

In the second quarter the ratio of Italian households' debt to disposable income was virtually unchanged at 62.7 per cent (Figure 25), still well below the euro-area average, which was around 96 per cent at the end of March. The interest rates for consumer credit and on new loans for house purchases continued to decline on average during the quarter; in recent months both rates have remained stable at unprecedentedly low levels, despite a slight increase in mortgage interest rates (see Section 2.7). Households' expenditure on debt service (interest and principal) was basically stable at 9.1 per cent of disposable income.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Export performance was buoyed by the recovery in price competitiveness recorded in the first half of the year, though this was then curbed by the slight appreciation of the euro over the summer, and by the strengthening of economic activity in the European Union. Despite a growth in imports in response to stronger domestic demand, the current account surplus remains high thanks to the fall in the energy deficit.

Exports increase in the second quarter ...

In the second quarter exports of goods and services increased by 1.0 per cent in volume terms compared with the previous period. Goods exports picked up by 1.6 per cent, driven by their robust expansion in EU countries; by contrast, sales in non-EU markets fell, suffering from the slowdown of activity in the oil-producing countries and other emerging economies. Leading the growth in exports were sales by firms in the refined petroleum products, chemical-pharmaceutical and main traditional Italian export goods sectors.

... as do imports

Imports of goods and services in volume terms grew by 1.8 per cent, driven by goods in particular. The strong rebound in imports since the beginning of the year reflects the recovery in highly import-intensive demand components (investments in machinery, equipment and transport equipment, exports and inventories).

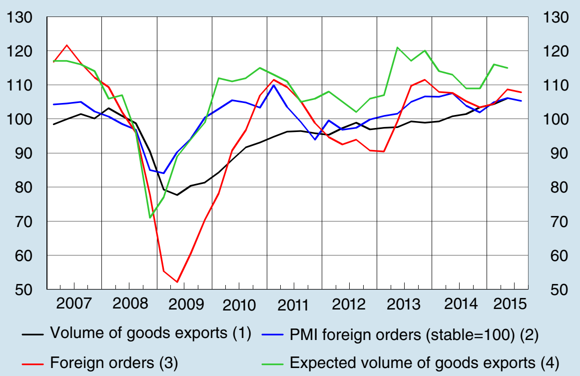
The outlook for foreign orders is positive

Exports weakened over the summer. In July goods exports fell slightly compared to the previous month; in August sales to non-EU countries contracted further. Firms' assessments of the outlook for foreign demand remain positive: the manufacturing PMI index for foreign orders is still above the threshold compatible with a growth in sales (Figure 26).

Figure 26

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) Quarterly average of the PMI 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.-July 2014	Jan.-July 2015
Current account	**14.3**	**31.5**	**13.4**	**14.4**
Goods	36.0	49.2	27.7	28.7
non-energy products (2)	*87.6*	*90.3*	*53.5*	*47.9*
energy products (2)	*-51.6*	*-41.1*	*-25.8*	*-19.2*
Services	0.7	-0.6	-0.4	0.4
Primary income	-4.4	-0.5	-2.8	-3.9
Secondary income	-18.1	-16.6	-11.2	-10.8
Capital account	**0.2**	**3.4**	**-0.1**	**-0.7**
Financial account	**11.0**	**46.2**	**18.0**	**11.3**
Direct investment	0.6	5.0	1.5	9.1
Portfolio investment	-14.6	-4.5	-88.4	25.0
Derivatives	3.0	-3.6	-2.4	0.7
Other investment	20.4	50.2	107.4	-23.6
Change in official reserves	1.5	-1.0	0.0	0.1
Errors and omissions	**-3.5**	**11.4**	**4.7**	**-2.4**

(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 January-July 2015, provisional data. – (2) Based on Istat's foreign trade data.

The current account surplus is still large

In the first seven months of 2015 the current account recorded a surplus of €14.4 billion, up slightly from €13.4 billion in the same period of the previous year; the improvement is due to the reduced energy deficit (Table 3).

Foreign purchases of government securities remain high

Foreign investors' demand for Italian government securities has been significant since the beginning of 2015: between January and July net purchases of government securities totalled €56.7 billion. At the end of June the share of government securities held by non-residents came to 39.6 per cent (from 38.1 per cent at the end of 2014); according to our estimates, roughly half of this increase is ascribable to investors other than the Eurosystem that do not belong to the category of foreign funds attributable to Italian investors. Non-residents also showed interest in equity securities (€16.7 billion). On the asset side, residents made net purchases of foreign portfolio securities amounting to €98.0 billion, roughly two thirds of which in shares of mutual funds: the growth in the asset management sector, where foreign funds play a very important part, was due to the shift in savings from government securities and bank bonds to more diversified forms of investment. Italian banks also contributed to the purchases of securities with investments of €25.9 billion in foreign bonds, mainly French, German and Spanish government securities.

The TARGET2 liability position increases ...

The Bank of Italy's debtor position in TARGET2 increased from €163 billion in March to €232 billion on average in September (Figure 27). The worsening of the balance cannot be ascribed to a lesser propensity of non-residents to hold Italian government securities: according to the data available to date, between March and July foreign investors made net purchases of Italian public sector securities amounting to €21.0 billion, slightly less than the sum of net issues.

... as a consequence of issuance policy and monetary operations

The change in the negative balance reflects, instead, the combined effect of ample liquidity creation and a lower supply of public securities,[1] both in relation to the issuance policy of the Treasury (which since June has been using the large volume

[1] For an explanation of the link between the TARGET2 balance and the channels for creating and using liquidity and the balance of payments identity, see the box 'The TARGET2 balance in the last three years', in *Economic Bulletin*, No. 3, 2015.

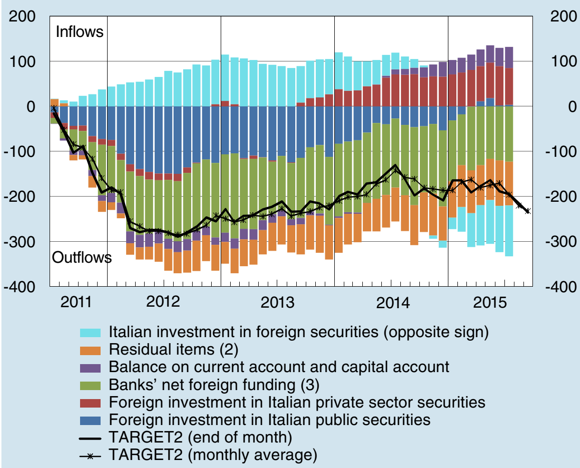
of liquidity accumulated in its own accounts with the Bank of Italy to make net redemptions of securities) and to the monetary policy operations implemented by the Bank of Italy (purchases of public and private securities and longer-term targeted refinancing operations). As a consequence of these transactions, Italian banks reduced foreign interbank funding; residents rebalanced their own portfolios towards foreign financial assets.

At the end of last June, Italy's net international investment position was negative by 26.7 per cent of GDP. The improvement from the previous quarter, equal to over 3 percentage points of GDP, was largely due to valuation adjustments: the increase in yields on Italian debt securities reduced the market value of liabilities held by non-residents.

Figure 27

TARGET2 balance and cumulative flows in the balance of payments (1)

(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's debit balance vis-à-vis the ECB in the TARGET2 payment system may reflect investments in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and capital account surplus. Cumulative flows since July 2011. – (2) Direct foreign investments, derivatives, other investment, errors and omissions. – (3) Includes funding intermediated by resident central counterparties.

2.5 THE LABOUR MARKET

The labour market recovery strengthened in the summer months, following moderate growth in the number of persons employed and hours worked in the second quarter. Social contribution relief on new open-ended hires and, to a lesser extent, the new rules on individual dismissals introduced by the Jobs Act led to a significant shift in the composition of employment towards more stable contractual arrangements, also helping to increase labour demand. The unemployment rate turned down, and firms' expectations regarding employment prospects continue to be marked by cautious optimism.

The number of jobs and hours worked continue to grow

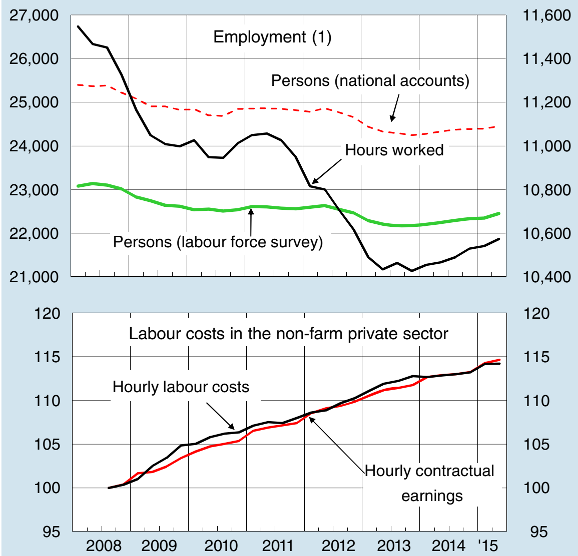
According to Istat's labour force survey, in July-August employment recorded an average increase of 0.4 per cent by comparison with the second quarter, continuing the growth of the previous period (Figure 28 and Table 4). National accounts data indicate that the upturn in employment in the spring reflected job growth in construction, professional services and services to households and individuals, while industry excluding construction was essentially flat.

The share of fixed-term hires increases

Employment growth in the second quarter was entirely in payroll jobs (up

Figure 28

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			
	Q2 2015	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Total persons in work	**24,453**	**0.2**	**0.1**	**..**	**0.3**
of which: industry excl. construction	4,202	-0.4	0.1	-0.7	-0.1
private services (1)	10,496	0.5	0.1	0.4	..
Employees	18,219	0.2	-0.1	..	0.5
Self-employed	6,234	..	0.4	..	-0.3
Hours worked	**10,573**	**0,2**	**0.4**	**0.1**	**0.3**
of which: industry excl. construction	1,835	1.1	0.7	-0.3	-0.7
private services (1)	4,810	0.2	0.3	0.2	0.3
Employees	7,186	0.3	0.2	0.4	0.4
Self-employed	3,387	0.1	0.9	-0.5	0.2
Job seekers	**3,179**	**2.8**	**0.4**	**-3.9**	**1.1**
Labour force	**25,625**	**0.5**	**0.2**	**-0.5**	**0.5**

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.

0.5 per cent on the previous quarter, against a decline of 0.3 per cent in self-employment) and was accompanied by an increased proportion of more stable contracts regulating new employment relationships. The increase in the share of new hires consisting in open-ended contracts was due to the favourable cyclical phase but also in part to the social contribution relief enacted with the 2015 Stability Law in January and the new rules on individual dismissals for payroll contracts from March onwards introduced by the Jobs Act (Enabling Law 183/2014) (see the box 'Hirings: the effects of the labour market measures as reflected in the administrative data'). According to data drawn from employers' compulsory communications to the Ministry of Labour and Social Policy, in the first half of the year the share of new open-ended contracts rose by a total of 4 percentage points compared with a year earlier.

HIRINGS: THE EFFECTS OF THE LABOUR MARKET MEASURES AS REFLECTED IN THE ADMINISTRATIVE DATA

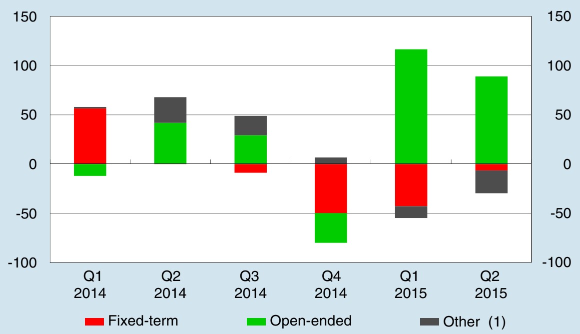
According to administrative data drawn from employers' compulsory communications to the Ministry of Labour and Social Policy (Comunicazioni obbligatorie), the growth in hirings observed early in the year strengthened in the second quarter. Net of terminations, the total number of payroll jobs increased by 320,000 (60,000 more than the increase registered in the second quarter of 2014), and preliminary data indicate that the strengthening continued through July and August.

The growth in net hirings, which involved open-ended positions only (Figure A), may have been due not only to the cyclical upturn but also to the social contribution relief in effect from the start of the year and the new rules on individual dismissals introduced by the Jobs Act for contracts signed from 7 March on, which reduces the cost of firings, especially for firms with more than 15 workers.

Figure A

The growth of payroll employment: breakdown by type of contract

(12-month changes; thousands of jobs)

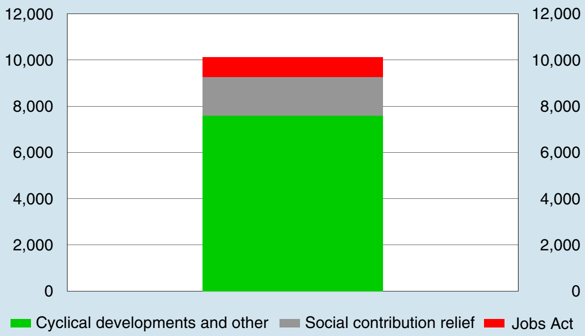


Source: Ministry of Labour and Social Policy. Automated Compulsory Communications.
(1) 'Other' contracts: apprenticeships, on-the-job training (general government only), work insertion contracts, fixed-term and open-ended employment agency contracts, fixed-term and open-ended job-on-call contracts, self-employment in entertainment, and temporary agency contracts (general government only).

Figure B

Determinants of payroll employment growth in the Veneto region in the first four months of 2015 (1)

(12-month changes in percentage points)



Source: Based on data from compulsory employer communications, Veneto Region.
(1) Payroll and quasi-employee positions excluding agriculture, the public administration and domestic work. The bars show the impact of cyclical developments (green) and government measures on contribution relief (grey) and dismissal rules (red), estimated by simulating alternative scenarios.

Exploiting the fact that the two measures came into force on different dates and cover potentially different groups of workers, we can make an initial estimate of what portion of the growth in payroll employment was due to each and the extent to which it reflected other factors, notably the cyclical pick-up in economic activity. This information can be derived by comparing the trends in net hirings of workers eligible and ineligible for the contribution relief [1] as well as hiring patterns at firms of different sizes.[2]

Preliminary estimates using the data from the compulsory communications of the Veneto region – the only one for which the data permit the reconstruction of firm size and offer timely information on eligibility – suggest that in the first four months of the year the measures fostered not only a shift towards open-ended positions but also a modest overall increase in the number of jobs (Figure B). In the Veneto region about one fourth of the increase in the number of employees and quasi-employees in the non-farm private sector (some 10,000 jobs) could be ascribed to the two measures. We estimate that the contribution relief produced two thirds of the effect and the new rules on firings, one third. Similar valuations presumably apply to the entire economy, but further inquiry is necessary.

The administrative data from the compulsory communications differ from those derived from Istat's labour force surveys and national accounts. The communications cover only payroll jobs and some forms of quasi-employee position; also, they do not count the average number of employees but cumulative hirings and terminations during a given period. These differences explain the discrepancies in simultaneous trends as gauged by the two sources; they also make it possible to use the communications to produce an advance estimate of developments in overall employment, or at least in its payroll component.[3] New jobs

[1] The relief does not apply if the worker was employed on an open-ended contract with any other employer during the previous six months.
[2] We use the differences-in-differences estimation technique, comparing the trend in firms' net employment before and after the entry into effect of each measure, distinguishing firms by size and workers by their eligibility for the contribution relief (P. Sestito and E. Viviano, 'Hiring incentives and/or firing cost reduction? Evaluating the impact of the 2015 policies on the Italian labour market', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming).
[3] F. Colonna, 'La previsione di breve termine dell'andamento dell'occupazione sulla base dei dati amministrativi su assunzioni e cessazioni', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

beginning at the start of March, for example, are fully counted among the hirings for the first quarter in the compulsory communications, but contribute just one third to the increase in average employment in the period; these contracts, if they continue to exist, are not comprised in full in the average data until the second quarter.

In the light of changes in net hirings in the second quarter and in July and August, we can accordingly predict that overall employment growth will continue in the second half of 2015. It could strengthen further at the end of the year if firms elect to bring hirings planned for 2016 forward in order to benefit from the contribution relief, which under current legislation will not apply to workers taken on starting next January.

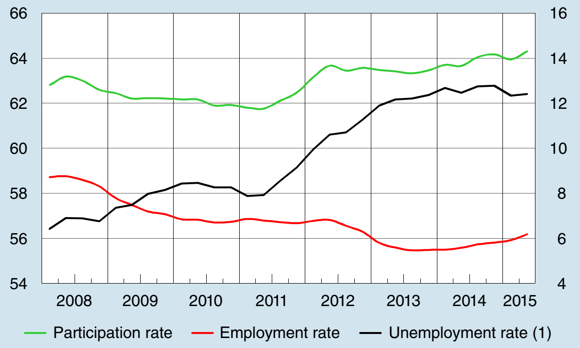
The unemployment rate declines again in the summer

In July-August the unemployment rate turned downwards (to 12.0 per cent on average, from 12.4 per cent in the second quarter; Figure 29), after remaining stationary in the spring months owing to the rise in the participation rate. Long-term joblessness fell slightly. After soaring by over 20 percentage points between 2008 and 2014, youth unemployment stabilized in the first half of the year and finally declined on average in July-August to 40.5 per cent, still very high but nonetheless the lowest rate in two years.

Figure 29

Participation, employment and unemployment rates

(seasonally adjusted quarterly data; per cent)



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

Growth in the cost of labour remains stable and is slower than that of contractual wages

In the second quarter actual earnings in the non-farm private sector increased by 1.5 per cent compared with the year-earlier period, in line with contractual wages (Figure 28). Partly owing to the effect of the social contribution relief on new hires, hourly labour costs grew more slowly (1.2 per cent). Hourly productivity continued to shrink, while the rise in unit labour costs came to 1.7 per cent, unchanged from the previous period.

The employment outlook continues to improve

In the second quarter the number of hours of wage supplementation authorized declined further, as did the number of benefit hours actually utilized, which fell to 40 per cent of the hours authorized in the first five months from 45 per cent a year earlier. The decline continued in July and August. According to the business opinion surveys conducted by Istat during the summer, firms remain cautiously optimistic on job prospects in the next three months, in line with the increase in labour demand signalled by the growth in the number of vacancies.

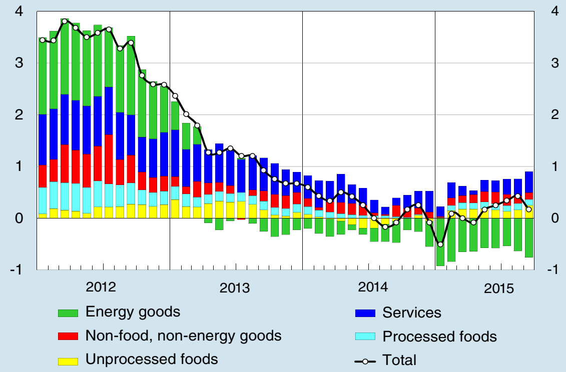
2.6 PRICE DEVELOPMENTS

The rate of increase in the overall index of consumer prices remains weak, mainly owing to falling energy prices. Core inflation has been supported by the pick-up in services. The latest surveys point to an improvement in the expectations of households and firms, although inflation is widely expected to remain low in the coming months. Analysts also predict the change in prices to be barely positive in 2015 as a whole.

Inflation remains weak The twelve-month change in the HICP decreased to 0.2 per cent in September (Figure 30), affected by the continued sharp decline in energy prices (-7.6 per cent; Table 5). Net of the more volatile components, inflation steadied at 0.8 per cent, supported by the upturn in service prices, while the prices of consumer goods slowed, perhaps partly owing to temporary effects. A large number of basic items in the HICP basket continue to record twelve-month declines: their share in September was 34 per cent, higher than the average for 2009-10 but lower than the peak reached at the beginning of the year. Considering core components, negative changes in prices concerned almost 43 per cent of goods and approximately 24 per cent of services.

Figure 30

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) HICP.

Table 5

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

	HICP (1)			CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index		Excl. energy and food	Overall index
					at 1 month (5)		
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	-2.6
June	0.2	0.7	0.2	0.2	0.1	0.6	-3.1
July	0.3	1.0	0.3	0.2	-0.1	0.7	-3.0
Aug.	0.4	1.0	0.3	0.2	0.0	0.7	-3.6
Sept.	0.2	0.8	0.1	0.2	0.1	0.8	….

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.

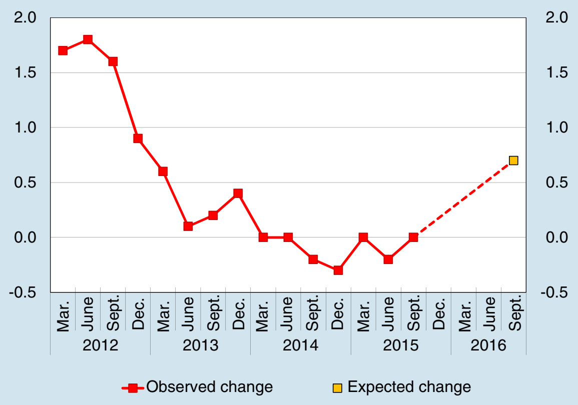
Producer prices continue to fall ...

Producer prices of industrial goods sold on the domestic market continued to fall, declining by 3.6 per cent in August from a year earlier, reflecting the contraction of 9.9 per cent in energy goods, while the variation in the producer prices of non-food final consumption goods was scarcely positive.

Figure 31

Rate of change in firms' own sales prices: outturn and forecast (1)

(firms in industry excluding construction and in services; 12-month percentage changes)



(1) Robust averages of responses to questions concerning the 12-month observed percentage change in firms' own sales prices and the expected change over the next 12 months. Bank of Italy-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, September 2015, *Supplements to the Statistical Bulletin*, No. 51, 2015.

... but the expectations of firms and households gradually improve

In the summer months the inflation expectations of firms and households continued to improve gradually. Looking at the quarterly average, the balance between manufacturing firms polled by Istat expecting an increase in sales prices over the next three months and those expecting a decrease was positive, but only barely so. The businesses interviewed in the survey conducted in September by the Bank of Italy together with *Il Sole 24 Ore* expect the improvement in demand to trigger a moderate increase in sales prices over the next twelve months (Figure 31).The households surveyed by Istat in September widely expect inflation to remain very low over the next twelve months. Even so, the percentage of consumers who expect prices to decline diminished further, from the peak of 10.4 per cent in September 2014 to 4.2 per cent in September 2015. The professional forecasters surveyed that month by Consensus Economics predicted growth of 0.2 per cent in consumer prices this year and of 1.0 per cent in 2016.

2.7 BANKS

The gradual improvement in the credit market has continued, fostered by the cyclical recovery and the measures adopted by the Eurosystem. After a long period of contraction, lending to the non-financial private sector remained broadly unchanged over the summer while the growth in credit to manufacturing firms strengthened. The cost of loans to non-financial corporations recorded a further slight decrease. Credit supply conditions improved moderately; they remain less favourable in the construction sector.

Credit to the non-financial private sector stabilizes

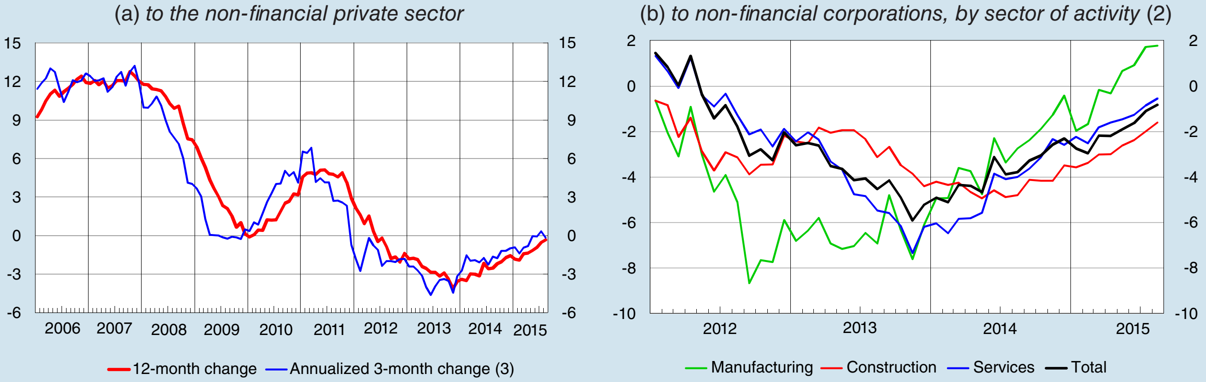
During the summer months, lending to the non-financial private sector remained at the same level as in the preceding period, with practically no change (a seasonally adjusted, annualized decline of just 0.2 per cent) in the three months ending in August (Figure 32.a). A moderate fall in loans to non-financial corporations (-0.9 per cent) was offset by an increase in loans to households (0.8 per cent).

The twelve-month contraction in lending to non-financial corporations eased from -1.9 per cent in May to -0.8 per cent in August (Table 6), thanks to quickening growth in loans to the manufacturing sector from 0.7 to 1.8 per cent (Figure 32.b) and an attenuation of the decline in loans to construction and service firms (to -1.6 and -0.6 per cent, respectively). In the same period the contraction of lending

Figure 32

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)	
	May 2015	August 2015	May 2015	August 2015
Assets				
Loans to Italian residents (4)	1,819	1,818	-0.8	0.2
of which: to firms (5)	*803*	*801*	*-1.9*	*-0.8*
to households (6)	*599*	*608*	*-0.1*	*0.3*
Claims on central counterparties (7)	97	90	64.8	6.6
Debt securities excluding bonds of resident MFIs (8)	543	530	-1.7	-2.0
of which: securities of Italian general government entities	*425*	*413*	*1.5*	*1.0*
Claims on the Eurosystem (9)	15	25	-7.7	141.1
External assets (10)	341	342	11.4	12.6
Other assets (11)	1,200	1,140	-3.7	-6.8
Total assets	**4,014**	**3,945**	**0.0**	**-0.8**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,369	1,364	7.3	3.9
Deposits of non-residents (10)	336	328	5.3	4.7
Liabilities towards central counterparties (7)	161	158	63.1	27.6
Bonds (13)	436	419	-14.3	-13.8
Liabilities towards the Eurosystem (9)	150	158	-30.9	-3.4
Liabilities connected with transfers of claims	122	125	-10.7	-9.3
Capital and reserves	426	443	6.3	5.2
Other liabilities (14)	1,014	950	-3.9	-6.6
Total liabilities	**4,014**	**3,945**	**0.0**	**-0.8**

Source: Supervisory reports.
(1) The data for August 2015 are provisional. – (2) Billions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. Changes in loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition; excludes producer households. – (6) Harmonized definition; includes producer households, non-profit institutions 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.

to large non-financial corporations practically ceased (-0.3 per cent) and the decline in lending to smaller businesses also eased (-2.7 per cent). Credit dynamics continued to be stronger for firms with no repayment irregularities.

After the strong increase Italian banks' total funding in the first few months of the year, from May through August both retail and wholesale funding diminished. This was countered by increased recourse to Eurosystem refinancing, in particular longer-term operations designed to sustain the flow of credit to the private sector.

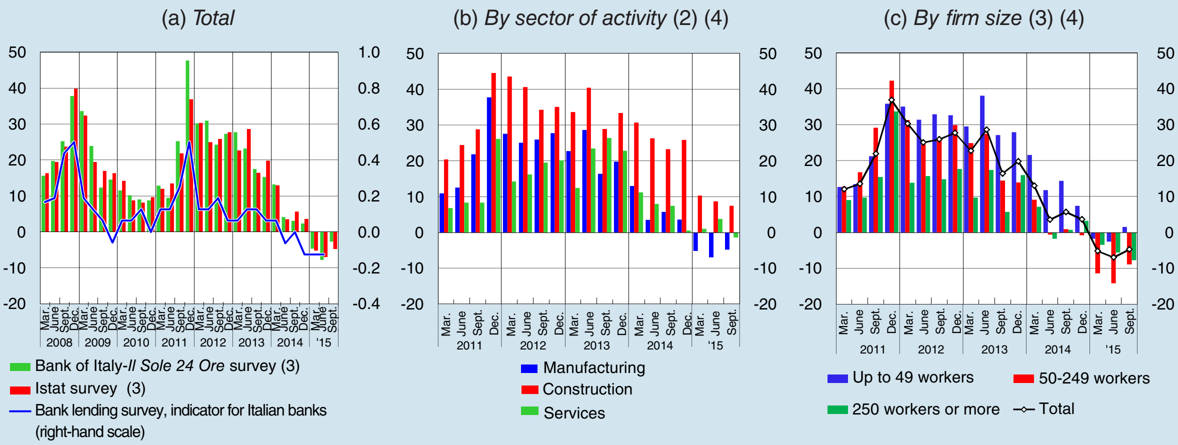
Credit supply conditions improve moderately

Credit supply conditions recorded a further moderate improvement in the third quarter (see the box 'Credit supply and demand'). Istat's monthly survey of manufacturing firms indicates that the easing did not extend to smaller businesses. In recent years the Guarantee Fund for SMEs has been a useful tool for supporting lending to such businesses (see the box 'An assessment of the Guarantee Fund for SMEs'). Intermediaries continue to be more prudent in granting credit to the construction industry, which is disadvantaged by uncertainty over the cyclical upturn (see Section 2.2) and by recurrent repayment irregularities, which affect more than half of all building loans.

CREDIT SUPPLY AND DEMAND

The banks interviewed in last June's quarterly euro-area bank lending survey relative to the second quarter of this year had reported a slight easing of credit supply conditions and of lending terms and conditions, along with an increase in demand for credit (*Economic Bulletin*, No. 3, 2015).[1]

Firms' 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, in the box: 'Credit Supply and Demand', in *Economic Bulletin*, No. 3, 2015. – (2) Istat, *Indagini sul clima di 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.

[1] The results of September's survey relative to the third quarter of 2015 will be published on 20 October 2015 and will be available for consultation on the Bank's website at www.bancaditalia.it; the results for the euro area will be available at www.ecb.int.

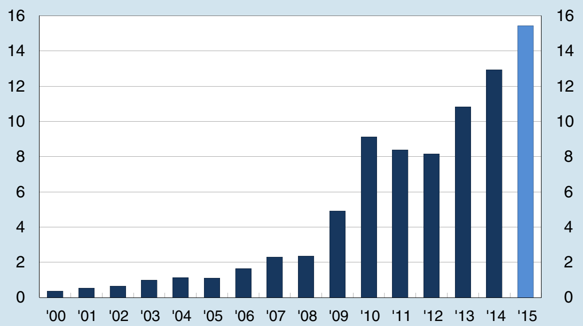
The surveys of firms conducted during the summer confirm a gradual improvement in access to credit, although differences between the various sectors of economic activity persist. According to the quarterly survey conducted in September by the Bank of Italy together with *Il Sole 24 Ore*, the net percentage of manufacturing and service firms reporting a deterioration in lending conditions compared with the previous period was negative (-2.7 per cent; see the figure). The balance was instead positive for construction firms (10.3 per cent), pointing to persistent restrictions on credit supply.

The results of Istat's monthly business confidence survey, which also polls firms with fewer than 50 employees, are broadly similar. In September manufacturing and service firms reported a further slight relaxation of lending standards, which instead remained relatively tight for construction firms. Among manufacturing firms there was an improvement for those with more than 50 workers, while lending conditions were basically unchanged for smaller firms. The share of manufacturing firms reporting that they had not obtained loans requested was 9.4 per cent, in line with averages reported since the survey began (March 2008); the share rises to 12.3 per cent for smaller firms.

AN ASSESSMENT OF THE GUARANTEE FUND FOR SMALL AND MEDIUM-SIZED ENTERPRISES

The Guarantee Fund for SMEs, which provides guarantees on bank loans, has been the main public instrument of support for the financing of businesses in recent years.[1] During the global crisis, the need to mitigate the sharp rise in borrowers' credit risk led to a significant increase in the Fund's activity: between the beginning of 2009 and September 2015 new loans amounting to some €65 billion were guaranteed, compared with €11 billion in the period 2000-08 (see the figure). More than half of the loans that the Fund guaranteed went to firms with fewer than 20 workers: the share of loans on total bank loans granted to such firms rose to about 8 per cent, from less than 2 per cent in 2008.

Loans guaranteed by the Guarantee Fund for SMEs (1)
(annual flows; billions of euros)



Source: Ministry for Economic Development.
(1) For 2015, estimate based on the annual rate of change observed in the period January-September 2015.

The growth in the loans guaranteed by the Fund is also the result of the progressive expansion of its range of operations since 2009 through (a) the increase in the Fund's capital endowment, (b) the inclusion of new potential beneficiaries, (c) the easing of eligibility criteria, and (d) the extension to the Fund of the last-resort guarantee of the State, which allows banks to zero out the regulatory capital charge on the share of loans covered by the Fund. In addition, the public guarantee can now cover portfolios of loans and bonds issued by unlisted SMEs (minibonds).

An analysis conducted on the firms that obtained a guarantee between 2005 and 2010 indicates that the Fund's intervention had a positive impact on credit volumes but found no significant effects as regards the

[1] Access to the Fund is determined on the basis of a number of indicators of financial equilibrium calculated on the data of the last two available annual financial statements; for a detailed description of how the Fund operates, see http://www.fondidigaranzia.mcc.it/fondo_di_garanzia.html.

average level of interest rates charged by the banks.[2] The loans obtained with the Fund's guarantee were used mainly to finance working capital, whereas the impact on investment was not significant. Plausibly, this finding can be ascribed to the fact that firms' credit demand during the recession was determined more by their having to cope with liquidity strains than by the need to finance expansion projects.

The loans guaranteed by the Fund have a higher probability of being classified as bad debts than do unguaranteed loans to firms with similar characteristics. While the presence of a public guarantor fosters the flow of credit to the economy, it can also induce banks to be quicker to report as bad debts loans to borrowers for which a refund is readily available.[3] In addition, the guarantee's high coverage – up to 80 per cent of the value of the loan – may have undercut banks' incentive to select counterparties with care.

Some recent changes to the functioning of the Fund may have led banks to apply lower interest rates on guaranteed loans.[4] With a view to reducing insolvencies, the analyses carried out suggest that it could be useful to strengthen the instruments available for the assessment of credit risk by the Fund itself.

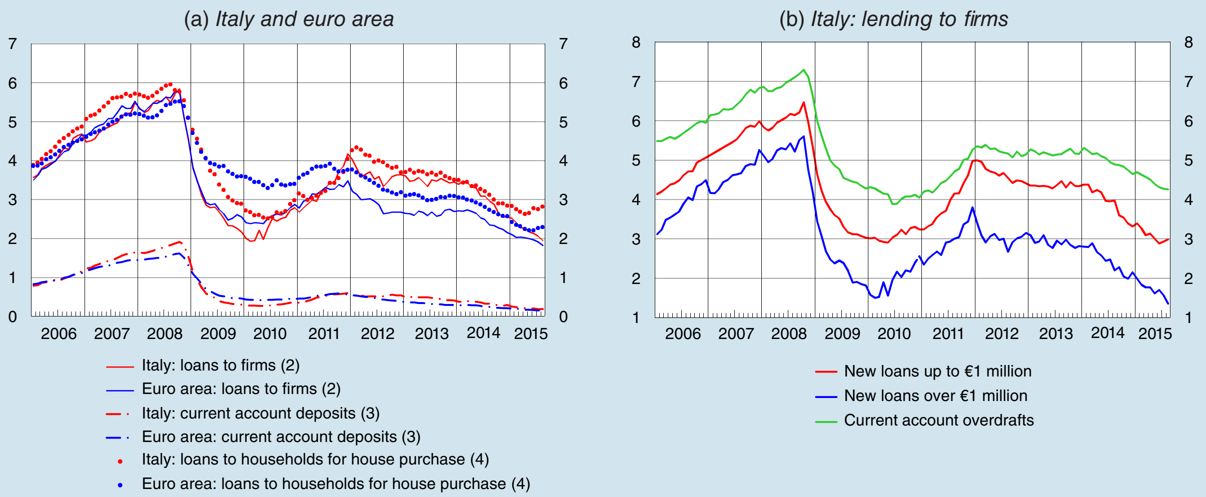
[2] The sample analysed consists of some 84,000 industrial and service companies, of which more than 12,000 benefited from the public guarantee, the rest belonging to the control sample (G. de Blasio, S. De Mitri, A. D'Ignazio, P. Finaldi Russo and L. Stoppani, 'Public guarantees to SME borrowing. A RDD evaluation', Banca d'Italia, Temi di discussione (Working Papers), forthcoming).
[3] Banks can activate the Fund's guarantee 'upon first request', that is to say upon the occurrence of borrower insolvency.
[4] Since March 2014 banks are asked to indicate the rates they would have applied in the absence of Fund intervention and to make them known to the borrower firms.

The cost of business credit declines further

Interest rates on loans to non-financial corporations decreased further between May and August. The average rate on outstanding short-term loans came down from 3.8 to 3.7 per cent; that on new loans declined by 0.2 points to 2.0 per cent, owing above all to the reduction in the rates on loans larger than €1 million (Figure 33). In the second quarter, the decrease in new loans involved all the principal sectors of economic activity. In the summer months the average cost of new mortgage loans to households rose slightly, to 2.8 per cent from 2.7 per

Figure 33

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.

cent in May. The differential with respect to the average rates for new loans in the euro area remained stable at their May levels of about 15 basis points for firms and 50 points for households.

The flow of non-performing loans abates

The ratio of new non-performing to outstanding loans[2] decreased from 4.1 to 3.8 per cent in the second quarter on an annualized, seasonally adjusted basis. This improvement, due wholly to loans to firms, benefited from the improvement in the macroeconomic picture. But bad debts nonetheless increased as a result of the reclassification of loans already displaying repayment anomalies. Preliminary data for July and August indicate a decrease compared with May and June in the banks' total exposure to borrowers with loans reported as bad debts for the first time. However, the lengthy recession's legacy of bad debt remains very substantial: at the end of June, total bad debt was equal to 10.3 per cent of outstanding loans.

The Italian Parliament approves measures to facilitate disposal of non-performing loans ...

In August Parliament approved measures to increase the speed and efficiency of bankruptcy and enforcement procedures and instituted the immediate tax deductibility of write-downs and loan losses (see *Economic Bulletin*, No. 3, 2015). These measures act directly on some of the causes of the huge stock of bad debts. A major spur for the creation of a secondary market in impaired assets could be provided by the creation of a special purpose asset management company to acquire these loans. The reduction in the proportion of bad debts on bank balance sheets should help restore an adequate flow of credit to the economy. This special purpose company project is under discussion with the European Commission; feasibility studies are proceeding rapidly to eliminate uncertainty surrounding the project that could impede transfers of packages of impaired assets to the market.

... and delegates the Government to transpose the Bank Recovery and Resolution Directive

On 2 July Parliament approved the European delegation law, empowering the Italian Government to draft a legislative decree transposing the Bank Recovery and Resolution Directive (BRRD), which introduces harmonized rules for all European countries and gives authorities the powers and tools needed to plan the management of crises, intervene before they are full blown, and better manage the resolution phase, attenuating the impact on the economy and preventing the cost of bail-outs from weighing on taxpayers. Where a financial institution is failing or likely to fail, the bail-in tool allows resolution authorities to write down equity and write down or convert some debt into equity in order to absorb the losses, restore capital adequacy and maintain market confidence. In Italy the bail-in tool will be fully functional starting in 2016; the write-down or conversion of equity and subordinated debt, including capital instruments, is already applicable when necessary to avoid collapse.[3] Deposits protected by guarantee schemes, i.e. those up to €100,000, are excluded from bail-in and ineligible for write-down or conversion into equity.

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 six months compared with the first half of 2014, with annualized ROE rising from 2.9 to 6.3 per cent. While net interest income contracted by 4.0 per cent, gross income gained 4.5 per cent owing in part to an increase in fee income from asset management. Operating profits increased by 7.0 per cent, reflecting broadly stable operating expenses. Value adjustments to loans decreased by 16.5 per cent.

In the second quarter, the capitalization of the five largest groups improved. Their high-quality capital endowment has benefited not only from the stronger profits but also from capital increases.

[2] The flow of non-performing loans during a quarter (overdue exposures, other impaired assets and bad debts) as a ratio to outstanding loans, net of non-performing loans, at the start of the quarter.
[3] See http://www.bancaditalia.it/media/approfondimenti/documenti/QA_gestione_crisi_bancarie.pdf.

The reduction in risk-weighted assets has helped to strengthen capital ratios. At the end of June, the common tier 1 equity ratio, tier 1 ratio and total capital ratio of the groups averaged 11.8, 12.4 and 15.4 per cent of risk-weighted assets, respectively, an increase of almost 1 percentage point in each ratio compared with the end of March.

2.8 THE FINANCIAL MARKETS

In August and September there was a sharp increase in volatility on Italy's financial markets, due mainly to the developments on the global financial markets (see Section 1.3). The turbulence did not touch the sovereign debt market, whose conditions, which had improved at the beginning of July after Europe's leaders and Greece reached an agreement, remained relaxed during the rest of the period.

Sovereign risk premiums diminish ...

After peaking immediately after the referendum in Greece, the sovereign risk premiums on Italian government securities gradually came down and then remained essentially stable in August and September, despite the elevated volatility seen on the other markets. Between the end of June and the end of the first ten-day observation period in October, the yield spread between ten-year Italian and German government bonds fell by 49 basis points, to 108 (Figure 34).

... while bank risk premiums are volatile

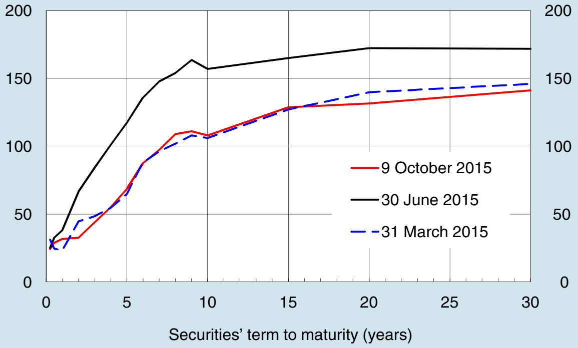
The premiums for banks' credit risk, instead, were affected by the climate of greater uncertainty on the financial markets, showing wide fluctuations. However, the spreads on the credit default swaps of both banks and firms remained practically unchanged over the period as a whole.

Net redemptions of bank bonds continue

In the second quarter there were further net bond redemptions by banks both in Italy and in the whole of the euro area, amounting to €26 billion and €71 billion respectively (Table 7). According to preliminary Dealogic data on gross issues, the volume of placements by banks in Italy remained modest in the third quarter, although it did rise to €7 billion from €2 billion in the second quarter.

Figure 34

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



Source: Based on Bloomberg data.

Table 7

Net bond issues (1)
(millions 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	1.7	-46.4
Q2	-26.4	-5.1	-3.6	-35.1
		Euro area		
2013	-377.9	-73.4	81.4	-369.9
2014	-387.6	16.8	56.4	-314.4
2014 – Q1	-116.7	-27.4	19.4	-124.7
Q2	-70.5	69.6	18.0	17.2
Q3	-80.7	-7.8	13.2	-75.4
Q4	-119.7	-17.5	5.8	-131.5
2015 – Q1	-72.8	69.1	19.0	15.3
Q2	-70.6	14.4	2.3	-53.8

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issuance of more than one 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.

Share price volatility surges

The share price rally that got under way at the start of the third quarter following the resolution of the Greek crisis (see Section 1.2) reversed direction in mid-August in connection with the turbulence on global financial markets and with the Volkswagen scandal (see Section 1.3). The expected volatility of share prices, derived from the prices of stock index options, rose sharply, approaching the levels seen at the end of 2011 in one of the most acute phases of the sovereign debt crisis; since the beginning of October volatility has fallen back to much more moderate levels and the share indices have recouped their losses of the previous two months. Compared with the end of June, the Italian stock market index is practically unchanged, as against an overall decline of 4 per cent in the euro area (Figure 35).

Figure 35

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.

Investment funds record further substantial inflows

According to Assogestioni data, the net inflow of savings to Italian and foreign open-end investment funds was considerable in the second quarter of 2015, though slightly less than in the first (€30 billion, down from €39 billion). Net funding was positive for all fund categories except hedge funds.

2.9 THE PUBLIC FINANCES

In September, the Government updated its public finance forecasts for 2015 and the programmes for the next four years. The estimate for the general government deficit for this year was essentially confirmed at 2.6 per cent of GDP, while the debt-to-GDP ratio was raised slightly to take account of the expectation of slower price increases.

The EFD Update estimates net borrowing at 2.6 per cent of GDP, against 3 per cent in 2014

On 18 September, in the Update of the 2015 Economic and Financial Document, the Government revised its April estimate for net borrowing this year slightly upwards (Table 8). This was mainly to take account of the Constitutional Court's ruling on the unlawfulness of the suspension, for the two years 2012-13, of cost-of-living indexation for pensions more than three times the minimum amount. Net borrowing is now projected to be 2.6 per cent of GDP, down 0.4 percentage points on the previous year (Table 9). In the Government's new estimates, revenue and primary expenditure increase by 1.5 and 1.4 per cent respectively, while interest expenditure decreases from 4.7 to 4.3 per cent of GDP.

Table 8

Public finance objectives and estimates for 2015

(per cent of GDP)

	General government				*Memorandum item:* real GDP growth rate
	Net borrowing	Structural net borrowing	Primary surplus	Debt (1)	
Objectives					
April 2014 (2)	1.8	0.1	3.3	133.3	1.3
October 2014 (3)	2.6	0.6	1.9	133.1	0.6
September 2015 (4)	2.6	0.3	1.7	132.8	0.9
Estimates					
April 2015 (5)	2.5	0.5	1.7	132.4	0.7
September 2015 (4)	2.6	0.5	1.7	132.8	0.9

(1) The estimates and objectives given in the official documents include, in a non-homogeneous manner, the effects of Italy's share of the financial support given to EMU countries in difficulty and its capital contribution to the ESM. – (2) 2014 Economic and Financial Document. The data are formulated in compliance with the ESA 1995 accounting standards; the financial planning documents published from September 2014 follow the standards of ESA 2010. – (3) 2015 Draft Budgetary Plan. – (4) Update of the 2015 Economic and Financial Document. – (5) 2015 Economic and Financial Document.

Table 9

Outcomes and official objectives for the main general government budget aggregates (1)
(per cent of GDP)

	2014 (2)	2015	2016	2017	2018	2019
Net borrowing	3.0	2.6	2.2	1.1	0.2	-0.3
Primary surplus	1.6	1.7	2.0	3.0	3.9	4.3
Interest payments	4.7	4.3	4.3	4.1	4.1	4.0
Structural net borrowing	0.7	0.3	0.7	0.3	0.0	0.0
Debt	132.1	132.8	131.4	127.9	123.7	119.8
Debt net of support to EMU countries (3)	128.4	129.3	127.9	124.6	120.5	116.6

Source: Update of the 2015 Economic and Financial Document.
(1) Rounding may cause discrepancies in totals. – (2) The figures for 2014 in the Update of *the 2015* Economic and Financial Document do not take account of the revision to the national accounts for the 3 years 2012-14 notified by Istat in its press release of 23 September 2015. – (3) Excludes bilateral loans to Greece, Italy's share of the loans granted by the EFSF, and its capital contribution to the ESM.

The structural deficit is also set to improve

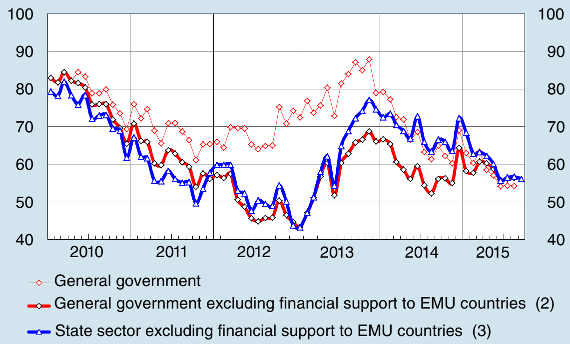
Structural net borrowing (i.e. net of cyclical effects and temporary measures) is projected to decrease by 0.3 percentage points in 2015 to 0.3 per cent of GDP. The ratio of public debt to GDP is expected to increase slightly more than was forecast in April (to 132.8 per cent) owing to the slower rate of increase in prices, which has reduced GDP growth in nominal terms despite the increase in real growth.

The borrowing requirement is reduced in line with Government estimates

The performance of the public finances to date appears to be consistent with the estimate for net borrowing for 2015 contained in the September Update of the Economic and Financial Document. In the first eight months of the year the general government borrowing requirement net of privatization receipts amounted to €28.2 billion, €14.8 billion less than in the same period of 2014 (Figure 36). The contraction was due mainly to smaller outlays for the payment of overdue commercial debts and extraordinary tax refunds (estimated at about €2 billion in the period concerned, compared with nearly €10 billion in 2014, based on the monitoring by the Ministry of Economy and Finance updated to 11 August 2015). Excluding also the effects of the other main financial transactions and taking account of temporal misalignment, the improvement in the balance on a cash basis in the first eight months of the year can be estimated at around €3 billion.

Figure 36

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



Source: For the state sector, Ministry of Economy and Finance.
(1) Excluding privatization receipts. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the EFSF and Italy's capital contribution to the ESM. – (3) Excludes liabilities in connection with bilateral loans to EMU member countries and Italy's capital contribution to the ESM; loans disbursed through the EFSF do not count towards the state sector borrowing requirement.

Tax revenue increases

In the first nine months of 2015 state tax revenue, net of lotto and lotteries, rose by 3.6 per cent (€10 billion). Taking into account some accounting breaks relating to personal income tax withholdings and excise duties, the increase would be more moderate.

The quarterly accounts improve

According to Istat's estimates, net borrowing amounted to 3.2 per cent of GDP in the first half of 2015, down 0.3 percentage points on the same period of 2014 (Table 10). Total expenditure was unchanged. The decreases of 8.1 per cent in interest payments and 1.5 per cent in capital expenditure were offset by the rise of 1.1 per cent in primary current expenditure, which was driven up by the growth in social benefits in cash (2.2 per cent). Revenue was up by 0.5 per cent, as the increase in direct taxes, indirect taxes, and social security contributions was offset only partly by the fall in other current revenue and in capital revenue.

General government debt rose by €48.8 billion in the first eight months of the year, compared with €78.8 billion in the same period of 2014. The increase was due not only to the borrowing requirement but chiefly to the €27.3 billion rise in the Treasury's liquid balance. However, the combined impact of the issuance of securities priced above par, exchange rate variations, and the revaluation of inflation-indexed bonds reduced the increase by €3.5 billion.

Table 10

General government expenditure and revenue
(million euros, percentage changes and per cent of GDP)

	H1			
	2014	2015	Change on corresponding half-year 2014	Change on corresponding half-year 2015
TOTAL EXPENDITURE	**391,121**	**391,035**	**0.2**	**0.0**
Current expenditure net of interest payments	324,767	328,219	0.4	1.1
of which: compensation of employees	76,201	75,579	-0.6	-0.8
intermediate consumption	42,964	43,338	-1.4	0.9
social benefits in cash	151,965	155,240	1.4	2.2
Interest payments	38,397	35,268	-1.5	-8.1
Capital expenditure	27,957	27,548	0.6	-1.5
of which: gross fixed investment	17,207	17,299	-9.2	0.5
TOTAL REVENUE	**363,617**	**365,548**	**0.3**	**0.5**
Current revenue	361,701	364,033	0.9	0.6
of which: direct taxes	104,218	105,327	-1.8	1.1
indirect taxes	123,118	124,262	3.3	0.9
social security contributions	97,246	98,331	0.2	1.1
Capital revenue	1,916	1,515	-51.9	-20.9
of which: capital taxes	649	460	-74.8	-29.1
NET BORROWING	**27,504**	**25,487**		
% of GDP	3.5	3.2		
Primary balance	**10,893**	**9,781**		
% of GDP	1.4	1.2		

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

The Government plans to slow its adjustment of the public finances ...

In the September Update of the Economic and Financial Document the Government plans to slow the adjustment of the public finances with respect to the timeline indicated in the 2015 Economic and Financial Document published in April, even though the economic situation had improved slightly in the meantime.[4] The objective for net borrowing in 2016 was raised from 1.8 to 2.2 per cent of GDP. The structural deficit objective was set 0.4 percentage points higher than in the previous year, compared with the reduction of 0.1 points programmed in April. Italy's medium-term objective of structural balance should be achieved in 2018, one year later than projected in April (see the box 'European budget rules and the objectives for Italy's public finances', *Economic Bulletin*, No. 1, 2015). The deviation from the path towards structural balance complies with European and national budgetary rules, according to the Government, which intends to make fuller use of the margins of flexibility allowed in the presence of structural reforms and to invoke the investment clause.

... and reduce the tax burden

The Government intends to reduce the tax burden on households and firms and, as of next year, the tax increases resulting from the safeguard clauses of the stability laws for 2014 and 2015 will be deactivated and the tax on ownership of the primary residence will be abolished. These measures will be financed only in part by reducing expenditure through a spending review. The overall framework of the measures and the financing resources will be set out in the 2016 Stability Law, the draft of which was approved by the Council of Ministers on 15 October.

[4] L.F. Signorini, *Audizione preliminare all'esame della Nota di aggiornamento del Documento di economia e finanza 2015*, testimony before the Senate of the Republic, Rome, 29 September 2015.

In the Update, net borrowing is expected to decrease by an average of 1 percentage point of GDP in 2017 and 2018, achieving virtual budget balance at the end of the two years. Interest expenditure is projected to decrease by 0.2 percentage points to 4.1 per cent of GDP in the same period.

The ratio of debt to GDP is expected to diminish from 2016

According to the Government the ratio of debt to GDP will begin to come down in 2016, decreasing by 1.4 points to 131.4 per cent. In 2019 it is expected to fall below 120 per cent.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	2.2	1.5	1.0	-1.9	-0.4	9.8	1.4	2.1	2.1	3.4	2.2	0.1	0.1
2013	1.5	1.7	1.2	-2.9	-0.6	4.2	0.6	1.2	1.3	2.8	1.1	0.2	0.1
2014	2.4	2.7	1.8	-0.6	-0.1	5.3	0.8	2.5	2.6	3.4	3.8	-0.2	0.1
2013 – Q1	1.9	2.5	1.7	-4.5	-0.9	4.9	0.8	1.8	2.0	1.0	0.8	-0.1	0.7
Q2	1.1	1.4	1.0	-2.0	-0.4	2.6	0.4	1.3	1.3	4.9	5.5	-0.2	0.4
Q3	3.0	1.7	1.2	-2.2	-0.4	3.8	0.6	2.7	2.8	4.2	2.4	0.2	1.5
Q4	3.8	3.5	2.4	-2.7	-0.5	5.1	0.8	2.5	2.5	10.9	1.0	1.3	-0.1
2014 – Q1	-0.9	1.3	0.9	..	..	6.0	0.9	0.5	0.5	-6.7	2.8	-1.4	-1.3
Q2	4.6	3.8	2.6	1.2	0.2	5.6	0.9	4.7	4.8	9.8	9.6	-0.2	1.1
Q3	4.3	3.5	2.3	1.8	0.3	7.9	1.2	3.8	3.9	1.8	-0.8	0.4	..
Q4	2.1	4.3	2.9	-1.4	-0.3	2.5	0.4	2.9	3.0	5.4	10.3	-0.9	..
2015 – Q1	0.6	1.8	1.2	-0.1	..	3.3	0.5	2.5	2.5	-6.0	7.1	-1.9	0.9
Q2	3.9	3.6	2.4	2.6	0.5	5.2	0.8	3.6	3.7	5.1	3.0	0.2	..

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	..	2.6	0.6	-0.1	-0.1	8.4	7.4	..	0.1
2013 – Q1	5.4	4.9	3.0	4.0	0.8	0.4	0.1	3.5	3.5	15.7	2.4	1.7	-0.3
Q2	2.3	3.9	2.3	1.7	0.3	11.5	2.3	2.6	2.6	14.2	14.5	-0.3	-2.4
Q3	2.5	1.3	0.8	-0.1	..	8.9	1.8	3.8	3.8	-0.9	7.0	-1.3	1.2
Q4	-0.9	-0.9	-0.6	0.3	0.1	5.7	1.2	1.1	1.1	-0.7	11.3	-2.0	0.4
2014 – Q1	4.5	8.5	5.1	-0.8	-0.2	13.4	2.9	5.4	5.5	24.6	25.6	-0.9	-2.2
Q2	-7.6	-18.5	-12.2	0.3	0.1	-15.8	-3.8	-10.5	-11.3	2.3	-14.5	3.6	4.8
Q3	-1.1	1.3	0.8	1.2	0.2	-2.6	-0.6	-1.5	-1.6	7.3	3.7	0.5	-2.1
Q4	1.3	1.3	0.7	1.3	0.3	0.2	..	..	..	11.6	3.4	1.3	-1.1
2015 – Q1	4.5	1.5	0.9	1.1	0.2	6.6	1.4	4.7	4.7	6.7	7.3	-0.3	2.3
Q2	-1.2	-2.7	-1.6	2.0	0.4	0.6	0.1	-0.1	-0.1	-16.6	-10.1	-1.1	1.0

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	9.9	4.1	-3.6	3.6	-0.4	0.8	0.8	11.3
2011	1.6	4.3	2.4	0.1	3.3	1.6	..	-0.1	6.7
2012	-0.8	-0.8	-0.8	-4.6	-2.5	-3.6	-1.2	-0.1	2.7
2013	-0.3	1.3	0.2	-3.6	-1.5	-2.6	-0.6	0.2	2.1
2014	0.9	4.2	1.8	-0.5	3.1	1.2	0.9	0.8	3.9
2013 – Q2	0.4	1.5	0.7	0.8	0.9	0.9	0.2	0.1	1.6
Q3	0.2	1.5	0.6	0.7	0.9	0.8	0.3	0.1	0.6
Q4	0.2	0.1	0.2	-0.8	1.8	0.5	0.1	0.1	0.9
2014 – Q1	0.2	0.9	0.4	0.7	0.1	0.4	0.1	0.3	0.6
Q2	0.1	1.2	0.4	-1.6	0.6	-0.5	0.2	0.2	1.2
Q3	0.3	1.7	0.7	-0.1	0.9	0.3	0.5	0.2	1.5
Q4	0.4	0.9	0.5	0.6	0.6	0.6	0.6	0.2	0.9
2015 – Q1	0.5	1.5	0.8	1.0	1.7	1.4	0.5	0.6	1.0
Q2	0.4	1.0	0.5	-1.1	0.1	-0.5	0.4	0.3	1.6
				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 – Q2	0.3	-1.0	....	....	....	-0.2	0.1	0.2	-0.4
Q3	0.1	-0.3	....	....	....	0.2	0.2	0.3	-0.1
Q4	0.2	-0.3	....	....	....	0.3	0.2	-0.1	-0.2
2014 – Q1	0.3	-0.5	....	....	....	..	0.1	0.5	-0.3
Q2	0.1	-0.5	....	....	....	-0.1	..	..	-0.3
Q3	0.3	-0.2	....	....	....	0.3	..	0.5	0.2
Q4	0.2	-0.7	....	....	....	0.3	0.1	-0.2	..
2015 – Q1	0.4	-1.2	....	....	....	..	-0.3	0.3	-0.1
Q2	0.3	1.1	....	....	....	0.2	0.5	0.1	0.9

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: GDP	Sources: Imports	Sources: Total	Uses: Gross fixed capital formation: Construction	Uses: Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Uses: Gross fixed capital formation: Total	Uses: Resident households' consumption expenditure (2)	Uses: General government consumption expenditure	Uses: Exports
				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	-1.4	2.3
2013	-1.7	-2.5	-1.9	-7.4	-5.7	-6.6	-2.7	-0.3	0.8
2014	-0.4	2.9	0.2	-5.0	-1.9	-3.5	0.4	-0.7	3.1
2013 – Q2	-0.2	-1.3	-0.4	-0.7	0.2	-0.3	-0.5	0.3	0.5
Q3	0.1	2.4	0.6	-0.1	..	..	0.2	-1.0	1.4
Q4	..	..	..	-2.8	0.4	-1.3	0.1	0.1	-0.3
2014 – Q1	-0.2	0.3	-0.1	-1.0	-2.0	-1.5	0.2	-0.2	0.3
Q2	-0.2	0.9	0.1	-1.5	..	-0.8	0.1	-0.7	1.4
Q3	..	1.3	0.2	-0.8	-0.9	-0.9	0.1	0.6	0.6
Q4	..	0.7	0.1	-0.5	0.9	0.2	0.1	0.5	1.9
2015 – Q1	0.4	2.1	0.7	0.4	1.9	1.2	-0.1	..	0.7
Q2	0.3	1.8	0.6	-0.7	-0.2	-0.4	0.4	-0.4	1.0
				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	1.3	-1.7	0.6	0.5	0.4	0.4	1.2	0.2	-0.2
2014	0.9	-2.4	0.2	-0.1	0.2	0.1	0.3	0.7	-0.3
2013 – Q2	0.3	-0.8	..	-0.1	-0.1	-0.1	0.3	-0.4	-0.4
Q3	0.2	-0.4	0.1	0.3	..	0.1	0.3	0.4	..
Q4	0.3	-0.8	..	0.3	-1.2	-0.4	..	0.3	-0.2
2014 – Q1	0.5	-0.7	0.3	-0.5	0.5	..	0.1	0.3	0.1
Q2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	..	-0.2	-0.3
Q3	0.3	-0.4	0.1	0.4	1.1	0.8	-0.1	0.2	0.3
Q4	0.2	-0.9	..	0.2	0.7	0.4	..	0.2	-0.3
2015 – Q1	..	-0.7	-0.1	-0.4	-1.6	-1.0	..	-0.6	-0.4
Q2	0.1	1.1	0.3	-0.2	1.1	0.4	0.2	-0.1	0.4

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	2.0	2.0	2.8	0.8	-0.1
2012	3.6	1.4	-0.9	-2.3	2.1
2013	2.9	1.2	-0.4	-1.6	1.7
2014	1.8	0.1	0.5	0.4	1.6
2013 – Q1	4.7	2.4	-1.2	-3.5	2.2
Q2	1.9	0.2	-0.6	-0.9	1.6
Q3	2.6	0.1	-0.8	-0.9	2.4
Q4	2.1	2.0	1.4	-0.6	0.1
2014 – Q1	1.4	0.5	1.1	0.6	0.9
Q2	2.4	0.8	0.5	-0.4	1.6
Q3	1.8	0.3	0.6	0.3	1.5
Q4	1.5	-0.9	0.2	1.0	2.3
2015 – Q1	1.7	0.4	0.9	0.5	1.3
Q2	1.6	0.7	1.4	0.7	0.9
		Services			
2011	1.6	1.1	1.8	0.7	0.6
2012	2.5	1.1	0.0	-1.1	1.4
2013	2.0	0.8	0.0	-0.8	1.2
2014	1.3	0.2	1.0	0.8	1.1
2013 – Q1	2.5	1.1	-0.5	-1.6	1.4
Q2	1.8	0.6	-0.1	-0.7	1.2
Q3	1.7	0.7	0.2	-0.5	0.9
Q4	1.9	0.6	0.6	0.0	1.3
2014 – Q1	1.3	0.3	1.1	0.8	1.0
Q2	1.3	0.2	0.9	0.7	1.1
Q3	1.3	0.1	1.0	0.8	1.2
Q4	1.1	0.0	1.2	1.1	1.1
2015 – Q1	1.4	0.6	1.4	0.8	0.9
Q2	1.3	0.6	1.6	1.0	0.7
		Total economy			
2011	1.9	1.5	1.7	0.3	0.4
2012	2.9	1.2	-0.6	-1.8	1.7
2013	2.2	1.1	-0.2	-1.3	1.1
2014	1.4	0.3	0.9	0.6	1.1
2013 – Q1	3.1	1.6	-0.9	-2.5	1.5
Q2	1.9	0.8	-0.3	-1.2	1.1
Q3	1.9	0.8	0.0	-0.8	1.1
Q4	1.9	1.1	0.8	-0.3	0.8
2014 – Q1	1.3	0.5	1.1	0.7	0.8
Q2	1.5	0.5	0.8	0.3	1.0
Q3	1.4	0.2	0.8	0.5	1.1
Q4	1.2	-0.2	0.8	1.0	1.4
2015 – Q1	1.4	0.4	1.2	0.7	1.0
Q2	1.3	0.5	1.5	1.0	0.8

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.

Table A6

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2011	2.6	1.1	1.1	0.0	1.4
2012	2.8	1.6	-2.6	-4.2	1.1
2013	2.7	0.6	-2.3	-2.9	2.1
2014	1.6	-2.2	-1.2	0.9	3.8
2013 – Q1	2.5	1.4	-3.2	-4.5	1.0
Q2	3.2	1.2	-2.6	-3.8	1.9
Q3	2.8	-0.8	-3.0	-2.2	3.6
Q4	2.7	0.5	-0.7	-1.2	2.2
2014 – Q1	1.9	-0.9	0.2	1.1	2.8
Q2	1.6	-1.4	-0.8	0.5	3.0
Q3	1.4	-2.5	-1.4	1.2	4.0
Q4	0.6	-3.5	-1.6	2.1	4.3
2015 – Q1	2.5	-1.0	-0.5	0.5	3.5
Q2	1.7	-0.2	0.6	0.8	2.0
		Services			
2011	0.3	0.2	0.9	0.7	0.1
2012	0.2	-0.9	-2.1	-1.1	1.2
2013	1.3	0.8	-1.0	-1.9	0.5
2014	0.4	-0.2	0.1	0.3	0.6
2013 – Q1	0.8	-0.1	-1.7	-1.6	0.9
Q2	1.0	1.1	-1.2	-2.2	-0.1
Q3	0.9	1.5	-0.7	-2.1	-0.6
Q4	2.5	1.0	-0.6	-1.6	1.5
2014 – Q1	1.4	0.4	-0.1	-0.4	1.0
Q2	0.2	-0.4	0.1	0.5	0.6
Q3	0.3	-0.3	0.1	0.4	0.7
Q4	-0.4	-0.8	0.1	0.9	0.4
2015 – Q1	-0.5	-0.8	0.1	0.9	0.3
Q2	-0.1	-0.6	0.4	0.9	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	1.8	1.2	-1.5	-2.6	0.6
2014	0.7	-0.5	-0.4	0.1	1.2
2013 – Q1	1.5	0.8	-2.2	-3.0	0.6
Q2	1.8	1.7	-1.7	-3.4	0.0
Q3	1.4	1.1	-1.2	-2.3	0.3
Q4	2.5	1.1	-0.8	-1.8	1.4
2014 – Q1	1.5	0.2	-0.2	-0.3	1.3
Q2	0.5	-0.5	-0.2	0.3	1.1
Q3	0.6	-0.6	-0.4	0.2	1.3
Q4	-0.1	-1.5	-0.5	1.0	1.4
2015 – Q1	0.3	-0.9	0.0	0.8	1.1
Q2	0.3	-0.7	0.3	1.0	1.0

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	1.3	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
July	0.2	0.8	0.1	0.9	0.3	1.0	0.0	0.5	0.2	1.0
Aug.	0.1	0.6	0.1	1.1	0.4	1.0	-0.5	0.5	0.1	0.9
Sept.	0.1	0.7	-0.2	1.1	0.2	0.8	-1.1	0.4	(-0.1)	(0.9)

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 of Italy: current account and capital account (1)

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary Income	Secondary Income	Total	Intangible assets	Capital transfers
2011	-50,411	-18,583	-6,157	-6,418	-19,253	1,032	-49	1,081
2012	-6,938	16,829	-130	-4,121	-19,516	3,959	1,835	2,124
2013	14,293	36,034	692	-4,376	-18,056	181	-3,142	3,322
2014	31,475	49,199	-558	-532	-16,634	3,355	-942	4,297
2013 – Q3	5,504	9,452	2,282	-1,370	-4,859	73	-98	171
Q4	9,731	11,166	-632	1,464	-2,267	2,301	-510	2,811
2014 – Q1	-478	8,203	-2,532	878	-7,027	-587	-515	-72
Q2	6,330	12,067	998	-3,787	-2,948	281	-158	439
Q3	10,297	12,775	1,752	-1,100	-3,129	423	43	381
Q4	15,325	16,154	-775	3,477	-3,531	3,238	-311	3,549
2015 – Q1	1,050	9,696	-2,339	843	-7,150	-262	-244	-18
Q2	6,699	12,581	1,559	-5,119	-2,321	-349	-587	238
2013 – July	6,004	6,302	1,237	232	-1,768	72	-11	83
Aug.	66	1,826	120	-272	-1,608	46	-29	74
Sept.	-565	1,324	925	-1,331	-1,483	-44	-58	14
Oct.	4,058	4,158	97	353	-550	991	-107	1,098
Nov.	2,849	3,255	-510	741	-637	874	-100	974
Dec.	2,824	3,753	-219	370	-1,080	436	-304	739
2014 – Jan.	-1,526	739	-685	170	-1,750	-118	-108	-10
Feb.	406	3,116	-823	392	-2,278	-134	-115	-19
Mar.	642	4,348	-1,023	316	-2,999	-335	-292	-43
Apr.	2,751	4,152	-101	-234	-1,066	-13	-76	63
May	727	4,114	292	-3,020	-659	-4	-68	64
June	2,852	3,801	807	-534	-1,223	298	-14	312
July	7,539	7,455	1,143	121	-1,179	195	37	157
Aug.	1,528	2,673	-3	-60	-1,082	157	12	146
Sept.	1,230	2,648	612	-1,162	-868	71	-6	77
Oct.	5,985	5,891	61	958	-924	1,317	-65	1,382
Nov.	3,157	4,039	-568	645	-960	1,168	-58	1,226
Dec.	6,182	6,224	-268	1,874	-1,647	753	-188	942
2015 – Jan.	-1,618	831	-639	-18	-1,792	-6	-18	12
Feb.	1,100	4,136	-828	113	-2,322	-10	-14	4
Mar.	1,569	4,728	-872	748	-3,035	-246	-212	-35
Apr.	3,092	4,449	87	-440	-1,005	-176	-199	24
May	1,733	4,635	578	-3,153	-327	-174	-197	23
June	1,874	3,497	894	-1,526	-990	1	-191	192
July	(6,647)	(6,426)	(1,216)	(328)	(-1,323)	(-95)	(-207)	(111)

(1) Based on the international standards in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6), 2009.

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 – 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
June	3.5	-1.6	-1.5	-1.3	-2.5	-1.4	0.6	-0.6	-0.3
July	2.7	-1.2	-1.0	-0.7	-2.4	-1.4	0.8	-2.2	0.0
Aug.	3.5	-1.6	-0.6	-0.3	-2.0	-1.2	0.8	-1.5	0.3
					South and Islands				
2012 – Dec.	-1.7	-4.5	-2.1	-1.8	-2.9	-3.2	-0.4	-0.8	-1.4
2013 – 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
June	-4.1	-4.7	-0.4	0.0	-1.6	-0.6	0.1	-0.6	-0.6
July	-5.8	-1.5	-0.2	0.2	-1.3	-0.7	0.2	-2.0	-0.5
Aug.	-8.7	-2.2	-0.5	-0.3	-1.1	-0.6	0.4	-3.2	-0.9
					Italy				
2012 – Dec.	4.0	4.2	-2.2	-2.0	-2.9	-2.6	0.0	-1.5	-0.2
2013 – 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
June	2.8	-1.7	-1.3	-1.1	-2.3	-1.2	0.5	-0.6	-0.3
July	1.9	-1.2	-0.9	-0.6	-2.2	-1.3	0.7	-2.2	-0.1
Aug.	2.4	-1.6	-0.6	-0.3	-1.8	-1.0	0.7	-1.7	0.1

Source: Supervisory Report.
(1) The data for the last month are provisional. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The breakdown by geographical area is according to customers' place of residence. Net of reclassifications, value adjustments and other variations 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	1.3	23.7	76.5	-10.1	0.0	66.3	29.5
2013	-1.8	-2.2	-11.0	91.3	-3.6	4.8	79.8	-3.2	-10.0	76.6	13.0
2014	14.7	-1.1	-16.0	81.9	-5.0	-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	2.2	8.5	23.1	-11.7	-2.4	11.4	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	-0.5	7.6	-7.7	11.5	30.7	3.8	12.5
2013 – Mar.	0.3	-1.4	5.0	42.6	-1.0	0.4	47.3	-11.5	-10.7	35.8	1.1
June	-5.1	-0.7	6.6	32.9	0.6	4.2	39.1	-30.4	-8.6	8.7	7.1
Sept.	0.2	0.2	0.6	-4.5	-2.1	-1.2	-7.0	35.5	7.3	28.4	0.7
Dec.	2.8	-0.3	-23.1	20.3	-1.1	1.5	0.4	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	-0.1	-2.4	-32.0	53.7	-1.6	21.8	0.4
Dec.	9.8	-0.6	-13.0	6.0	-1.1	0.6	2.5	5.2	7.1	7.6	0.0
2015 – Mar.	-1.6	-0.9	5.5	49.2	4.2	-2.7	54.5	-32.5	-25.8	22.0	-2.1
June	5.1	-0.4	-2.1	15.8	-0.6	0.2	18.5	-22.0	6.8	-3.5	0.0
2014 – Jan.	4.2	-0.6	6.7	10.2	0.8	-0.3	21.6	-20.2	-4.4	1.4	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	0.2	-2.4	0.8	-4.5	-3.3	-3.6	0.2
Aug.	-0.9	0.5	-2.1	-16.7	-0.4	-0.2	-20.3	27.3	-1.6	7.0	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	-0.9	-0.3	25.1	-17.8	-1.1	7.3	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	-24.9	-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	4.2	0.0
June	4.3	0.1	-0.9	-16.3	-2.2	0.7	-14.5	0.0	-0.6	-14.5	0.0
July	-3.1	-0.2	0.0	0.3	-1.9	-0.5	-5.2	4.7	-0.2	-0.5	0.0
Aug.	0.9	0.5	-2.3	-13.4	-0.6	-0.2	-15.5	22.5	-1.5	7.0	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.

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)	*Memorandum item:* Treasury's liquid balances (2) – *of which:* investments of liquidity	*Memorandum item:* Deposits with resident MFIs net of liquidity transactions	*Memorandum item:* Financial support to EMU countries (3)
2012	160.2	20.8	151.6	1,502.4	134.1	41.1	26.9	1,989.4	34.4	0.0	27.2	42.7
2013	158.4	18.6	140.6	1,593.7	131.0	45.9	34.1	2,069.7	37.6	10.0	24.7	55.6
2014	173.1	17.5	124.5	1,667.4	126.1	44.8	36.0	2,135.9	46.4	38.0	25.7	60.3
2012 – Mar.	161.3	20.8	162.6	1,473.9	132.6	24.8	11.1	1,955.2	34.5	5.6	33.6	21.1
June	157.3	21.3	161.1	1,496.5	134.8	33.3	19.7	1,983.1	46.1	7.9	26.5	29.7
Sept.	162.1	20.1	166.2	1,500.2	134.6	33.6	20.2	1,996.7	45.9	30.7	25.4	30.2
Dec.	160.2	20.8	151.6	1,502.4	134.1	41.1	26.9	1,989.4	34.4	0.0	27.2	42.7
2013 – Mar.	160.5	19.4	156.5	1,543.8	133.6	41.5	28.0	2,036.0	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,578.6	134.2	45.7	32.2	2,077.0	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,573.1	132.1	44.5	32.9	2,068.9	40.8	12.1	26.3	51.5
Dec.	158.4	18.6	140.6	1,593.7	131.0	45.9	34.1	2,069.7	37.6	10.0	24.7	55.6
2014 – Mar.	164.6	18.1	144.1	1,636.5	130.5	44.7	34.2	2,120.4	61.9	16.5	25.1	55.6
June	167.0	17.8	142.5	1,685.5	127.2	46.5	35.6	2,168.7	105.3	43.5	25.8	59.9
Sept.	163.3	18.2	137.5	1,662.4	127.1	44.1	36.0	2,134.4	51.6	45.1	24.9	60.3
Dec.	173.1	17.5	124.5	1,667.4	126.1	44.8	36.0	2,135.9	46.4	38.0	25.7	60.3
2015 – Mar.	171.5	16.7	130.0	1,711.6	130.2	42.1	33.9	2,185.5	78.9	63.8	23.2	58.2
June	176.6	16.3	128.0	1,728.2	129.7	42.3	33.9	2,204.6	100.9	57.0	25.5	58.2
2014 – Jan.	162.6	18.0	147.3	1,602.6	131.8	45.6	34.1	2,090.0	57.9	14.4	23.7	55.6
Feb.	161.3	17.9	144.5	1,626.0	130.7	45.1	34.1	2,107.5	64.7	13.8	22.8	55.6
Mar.	164.6	18.1	144.1	1,636.5	130.5	44.7	34.2	2,120.4	61.9	16.5	25.1	55.6
Apr.	162.8	18.0	142.6	1,664.8	130.6	46.3	35.6	2,147.0	77.4	14.0	26.8	59.9
May	163.9	17.8	142.9	1,683.7	130.5	46.0	35.6	2,167.0	92.3	16.8	24.9	59.9
June	167.0	17.8	142.5	1,685.5	127.2	46.5	35.6	2,168.7	105.3	43.5	25.8	59.9
July	164.3	18.1	140.8	1,692.2	127.4	44.1	35.8	2,168.9	109.7	46.8	26.2	60.1
Aug.	163.4	18.6	138.7	1,675.4	127.0	44.0	36.0	2,148.5	82.4	48.4	24.4	60.3
Sept.	163.3	18.2	137.5	1,662.4	127.1	44.1	36.0	2,134.4	51.6	45.1	24.9	60.3
Oct.	161.8	17.4	134.5	1,692.3	126.3	43.8	36.0	2,158.6	69.4	46.2	24.1	60.3
Nov.	165.0	16.8	132.7	1,692.8	126.5	44.0	36.0	2,161.0	66.2	55.9	23.2	60.3
Dec.	173.1	17.5	124.5	1,667.4	126.1	44.8	36.0	2,135.9	46.4	38.0	25.7	60.3
2015 – Jan.	174.4	17.2	131.9	1,691.4	124.9	44.2	36.0	2,166.9	82.8	56.1	21.0	60.3
Feb.	171.1	16.4	131.7	1,696.2	129.3	41.8	33.9	2,170.2	79.1	67.0	20.2	58.2
Mar.	171.5	16.7	130.0	1,711.6	130.2	42.1	33.9	2,185.5	78.9	63.8	23.2	58.2
Apr.	170.6	16.6	129.0	1,723.1	131.3	41.7	33.9	2,195.8	83.1	57.6	23.6	58.2
May	172.2	16.2	128.9	1,744.6	131.9	41.6	33.9	2,219.2	100.9	56.4	25.2	58.2
June	176.6	16.3	128.0	1,728.2	129.7	42.3	33.9	2,204.6	100.9	57.0	25.5	58.2
July	173.4	16.0	128.0	1,729.2	127.7	41.7	33.9	2,200.2	96.2	57.2	26.6	58.2
Aug.	174.4	16.5	125.7	1,715.9	127.1	41.5	33.9	2,184.7	73.7	58.7	27.0	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.