BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

1 | 2016

January 2016

BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 1 / 2016
January

Other economic publications of the Bank of Italy:

Annual Report
Account of the main developments in the Italian and world economy during the year

Financial Stability Report
Six-monthly analysis of the state of the Italian financial system

Economie Regionali
A series of reports on the regional economies

Temi di Discussione (Working Papers)
A series of empirical and theoretical papers

Questioni di Economia e Finanza (Occasional Papers)
Miscellaneous studies of issues of special relevance to the Bank of Italy

Newsletter
News on recent research work and conferences

Quaderni di Storia Economica (Economic History Working Papers)
A series of papers on Italian economic history

These publications are available online at www.bancaditalia.it
and in hard copy from the Bank of Italy's library (Biblioteca, Via Nazionale 91, 00184 Rome - Italy)
and at the branches of the Bank

For the paper-based version: registration with the Court of Rome No. 426, 19 September 1985
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

The English edition is translated from the Italian by the Secretariat to the Governing Board.

Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

ISSN 0393-7704 (print)
ISSN 2280-7640 (online)

Based on data available on 8 January 2016, unless otherwise indicated.

Designed and printed by the Printing and Publishing Division of the Bank of Italy

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 remains subject to downside risks

The outlook in the advanced countries is improving, but the weakness of the emerging economies is curbing the growth of global trade, which continues to disappoint, and is contributing to the squeeze on raw material prices. Oil prices have fallen below the minimum levels recorded at the height of the 2008-09 crisis. The projections for the global economy this year and the next envisage a moderate acceleration compared with 2015; at the start of the year, however, significant new tensions emerged in China's financial markets, accompanied by concerns about its domestic growth.

The US rate hike is initiated, but without repercussions

The raising of the federal funds rate in December by the US Federal Reserve, motivated by the significant improvement in the labour market, marks the end of the zero interest rate policy in the United States adopted from 2008 onwards. Contrary to what some observers had feared, the move has had no adverse repercussions on the world's financial and foreign exchange markets, thanks to its effective communication and the announcement that monetary conditions would in any event remain accommodative.

The ECB Governing Council steps up monetary stimulus in the euro area

There is a continued though fragile upturn in the euro area. The Eurosystem's asset purchase programme is proving effective in supporting economic activity as a whole and its effects so far are in line with initial assessments. However, weakening foreign demand and falling oil prices have contributed to the emergence of new downside risks to inflation and growth, which in recent months have become more apparent. In December the ECB's Governing Council took further stimulus measures and expanded the Eurosystem's asset purchase programme; it stands ready to intervene again if necessary.

Domestic demand in Italy is recovering little by little ...

In Italy the recovery is proceeding gradually. The boost from exports which, after supporting economic activity in the last four years, are suffering from the weakness of non-European markets, is gradually being replaced by that of domestic demand, especially consumption and inventory restocking. The upturn in manufacturing is being flanked by signs of an expansion in services and, following a protracted slump, of stabilization in the construction sector. The outlook for investment, however, continues to be clouded by uncertainty about foreign demand. In the fourth quarter GDP is estimated to have expanded at a comparable pace to the previous one, when it grew by 0.2 per cent.

... thanks in part to positive developments in the labour market

The number of persons employed continued to increase during the summer, particularly among young people and in the services industry. The shift in the composition of employment towards more stable contracts also proceeded. In October-November the unemployment rate fell to 11.4 per cent on average, the lowest level since the end of 2012, reflecting in part the decline in youth unemployment, which nonetheless remains at historically high levels. Firms' expectations regarding employment prospects are cautiously optimistic.

Inflation is still very low

In December inflation declined to 0.1 per cent on an annual basis; households and firms expect it to pick up somewhat in the coming months but to stay at low levels. Inflation is being weighed down by the fresh fall in energy prices but also by persistently ample spare *production capacity, which together are keeping core inflation at minimum levels.*

Foreign investors continue to make securities purchases

At the end of last December, purchases of Italian government bonds under the Eurosystem's asset purchase programme totalled some €79 billion (of which €73 billion by the Bank of Italy) with an average residual maturity of just over nine years. Foreign investors continued to display interest in Italian assets, slightly increasing the proportion of public securities held; there was a gradual rebalancing of Italian households' portfolios towards asset management products.

Credit conditions improve …

Growth in private-sector lending strengthened in the autumn while business lending expanded for the first time in almost four years. Credit supply conditions continued to ease: the average rate on new loans to firms is at a historically very low level and the differential with respect to the corresponding euro-area average has been wiped out (at the end of 2012 it was equal to around 1 percentage point). The dispersion of lending conditions by sector of activity and firm size remains considerable, though it has diminished with respect to the peaks reached during the recession.

… and the cyclical recovery is reflected in loan quality and banks' profitability

Thanks to the gradual improvement in economic activity, the flow of new non-performing loans and of new bad debts has continued to abate with respect to the record volumes observed in 2013. In the first nine months of 2015 the profitability of Italy's leading banking groups increased compared with the previous year and capital adequacy was strengthened. The improvement in banks' balance sheets looks set to continue in 2016, as a consequence of the expected consolidation of the recovery.

The recovery has the potential to strengthen in the next two years …

Output is estimated to have risen by 0.8 per cent overall in 2015 or by 0.7 per cent based on the quarterly accounts, which are adjusted for calendar effects; it could increase by around 1.5 per cent in 2016 and in 2017. Inflation should climb gradually, reaching 0.3 per cent this year and 1.2 per cent in 2017. Despite sluggish growth to date, investment could benefit from the more favourable outlook for demand and funding conditions and from the effects of the stimulus measures contained in the Stability Law. The recovery in disposable income, in part associated with the stronger labour market, is expected to boost consumption.

… but economic policy support is decisive …

These projections are largely aligned with those of July but the relative weight of the contributing factors has changed: the weaker stimulus from foreign trade, owing to the slowdown in the emerging economies, is expected to be replaced by a greater contribution from demand both in Italy and in the euro area, supported by economic policies such as the Eurosystem's asset purchase programme and Government measures, and by the improvement in credit conditions.

… as downside risks emerge that must be countered

Significant risks remain, however, most notably those associated with international developments, as highlighted again in recent weeks. In particular, there is the possibility that the slowdown of the emerging economies could turn out to be more severe and lengthier than assumed to date, with heavy repercussions on financial and foreign exchange markets. At the same time monetary policymakers must take decisive action to combat the downside risks to inflation, which could stem either from lower-than-expected growth in demand, should there continue to be ample spare production capacity for an extended period, or from further drops in commodity prices, were they to trigger second-round effects on wage growth. In order for our forecasting scenario to come about, the confidence of households, firms and financial operators must remain unshaken in Italy and in the euro area, and economic policies to support the economy must be pursued with determination.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Prospects are improving slightly in the advanced economies, however, they remain uncertain and exposed to risks in China and in the other emerging economies. The projections for world growth this year and next envisage a modest acceleration with respect to 2015, but they have been revised downwards again. Commodity prices have fallen below the record lows reached in the 2008-09 crisis. The Federal Reserve's decision to begin raising interest rates in December did not have any adverse repercussions.

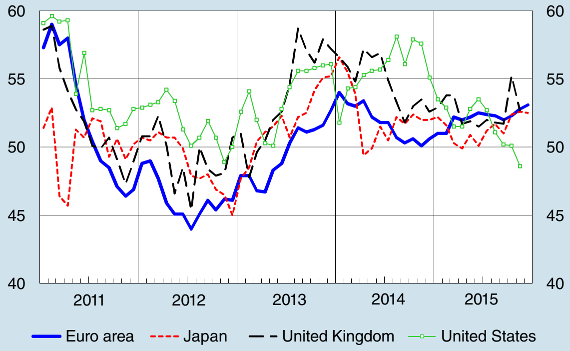
There is growth in the advanced economies ...

In the third quarter economic activity in the main advanced countries outside the euro area was stronger than expected in the United States (2.0 per cent on an annualized basis) and in Japan (1.0 per cent), and somewhat below expectations in the United Kingdom (1.8 per cent). The latest indicators suggest that the expansion continued in the fourth quarter, despite signs of a slowdown in manufacturing in the United States (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 it remains weak in the emerging economies

The economic situation in the main emerging economies remains weak overall, with highly disparate trends across countries: alongside the deepening of the recession in Brazil, there was the improvement in India's economic position and the slowing of the contraction in output in Russia. In China, at the beginning of the year, the disappointing performance posted by the manufacturing PMIs helped reignite fears from last summer of a sharper slowdown in the economy over the coming months. Recent demand and supply trends confirm that the process of shifting the economy towards consumption and services is moving forward; the deceleration in investment reflects a weakening in imports. The economic data available indicate that China's GDP continued to expand in the fourth quarter at a pace similar to that of the previous quarter (6.9 per cent year-on-year), supported by expansionary policies adopted by the authorities.

Growth could strengthen slightly in 2016 and 2017 ...

The projections released in November by the OECD forecast a gradual acceleration in global economic activity this year and next. However, the growth projections for 2016 were revised downwards compared with previous figures, particularly for Japan, Russia and Brazil (Table 1).

... but the expansion of world trade continues to be modest

World trade continued to expand in the third quarter of 2015, although in the emerging economies the recovery in trade, which had fallen sharply in the first half of the year, was less than expected. Overall, in the first nine months of the year, the increase was barely 1.2 per cent with respect to the same period of 2014. World trade continued to recover, albeit at a slower pace, in the fourth quarter: in November the OECD estimates put world trade growth at 2.0 per cent in 2015 (half of that estimated in June) and 3.6 per cent in 2016.

Table 1

Macroeconomic projections
(changes and percentage points)

	2015	November 2015 forecasts 2016	November 2015 forecasts 2017	Difference Nov. 2015/ Sept. 2015: 2015	Difference Nov. 2015/ Sept. 2015: 2016
GDP					
World	**2.9**	**3.3**	**3.6**	**-0.1**	**-0.3**
Advanced countries					
of which: Euro area	1.5	1.8	1.9	-0.1	-0.1
Japan	0.6	1.0	0.5	0.0	-0.2
UK	2.4	2.4	2.3	0.0	0.1
US	2.4	2.5	2.4	0.0	-0.1
Emerging countries					
of which: Brazil	3.1	-1.2	1.8	-0.3	-0.5
China	6.8	6.5	6.2	0.1	0.0
India (1)	7.2	7.3	7.4	0.0	0.0
Russia (2)	4.0	-0.4	1.7	-0.9	-1.2
World trade (2) (3)	**2.0**	**3.6**	**4.8**	**-1.9**	**-1.7**

Source: OECD, *OECD Economic Outlook*, No. 98, November 2015.
(1) Data refer to the tax year starting in April. – (2) The differences for Russia and world trade were calculated based on the data contained in the *OECD Economic Outlook* of June 2015. – (3) Goods and services.

Oil prices weaken again ...

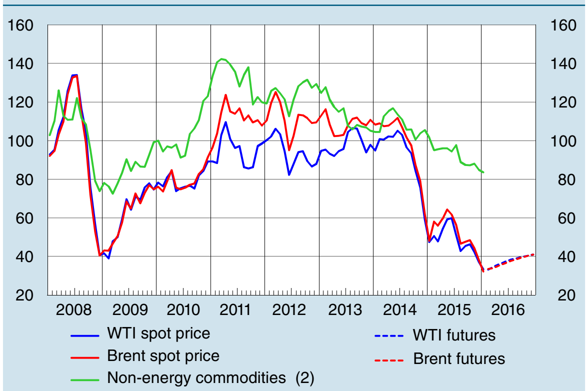
Oil prices turned weaker in December; by the end of the first ten days of January they had fallen below the lowest level seen since 2008, to around $32 a barrel (Figure 2). This development reflected OPEC's decision to abandon the strategy it has followed since 1992 of fixing an agreed production target. In doing so, OPEC indicated its willingness to allow prices to decline in a setting in which Iran is also expected to gradually increase its supply of oil following the lifting of international sanctions. Futures contacts indicate expectations of a very limited rise in oil prices over the next few months. The prices of non-energy commodities continued to fall.

... and consumer price inflation is still low

Consumer price inflation remained very low in all the main advanced economies (Figure 3). In November the US consumption deflator stood at 0.5 per cent (1.3 per cent excluding food and energy products). Inflation was equal to 0.3 per cent

Figure 2

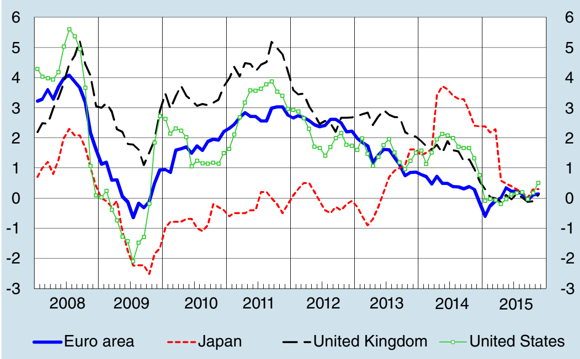
Commodities prices (1)
(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average data through December 2015; the last data refer to 8 January 2016. – (2) Goldman Sachs Commodity Index excluding energy products (January 2010=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.

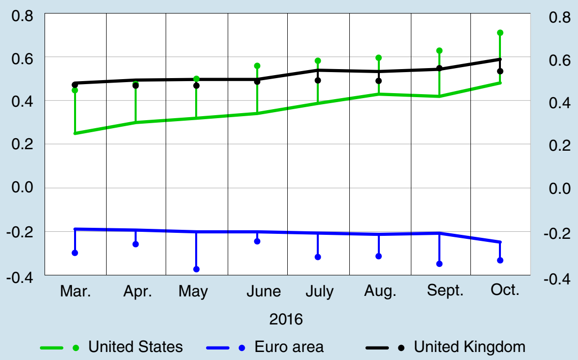
in Japan, and turned barely positive in the UK (0.1 per cent). With regard to the main emerging economies, inflation continued to be moderate in China (1.5 per cent in November), was consistent in India with the target set by its central bank (5.4 per cent), remained high in Russia (15 per cent), and rose even further in Brazil (10.5 per cent).

The hike in official interest rates by the Federal Reserve has a modest impact

In its meeting of 15-16 December, the Federal Open Market Committee (FOMC) of the Federal Reserve decided to raise the target range for the federal funds rate by 25 basis points (to 0.25-0.50 per cent), thereby beginning the monetary policy normalization process. This increase – the first since 2006 – marks the end of the zero interest rate policy that was adopted in December 2008. The FOMC's decision, widely expected since the end of October, had a modest impact on international financial and currency markets. The rate hike was mainly prompted by the significant improvement in employment; the FOMC also emphasized that monetary conditions remain accommodative and will continue to support improvement in labour market conditions and the return of inflation to the medium-term target. The FOMC projects a gradual increase in official rates, which should go up by 1 percentage point in the course of 2016 according to the average opinion of its members, compared with an increase in the expected rates implied by market prices, which could also reflect risk premiums, equal to about 50 basis points (Figure 4).

Figure 4

Overnight interest rates implied by derivative instruments (1)
(monthly values; percentage points)



Sources: Based on Bank of Italy and Thomson Reuters Datastream data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid lines indicate the interest rates forecast on 16 October 2015, the dots show those forecast on 8 January 2016.

Monetary policies remain expansionary in the other economies

Of the other main advanced economies, the central banks of Japan and the United Kingdom have not changed their policies, which remain strongly expansionary. In the UK in particular, market participants do not expect official rates to rise before the end of June of this year. Among the emerging economies, China has adopted an expansionary monetary policy, with its central bank having again reduced the required reserve ratio and the reference rate on deposits and bank loans and injected liquidity through short-term repos, in part to offset interventions in support of the exchange rate. The reference rates in the other emerging countries remained unchanged.

1.2 THE EURO AREA

Growth in the euro area continues but remains frail. The rapid weakening of the impetus from exports has been gradually compensated so far by the positive contribution of internal demand, but risks to economic activity stem from the uncertainty concerning developments in the world economy and the geopolitical situation. Inflation remains very low, owing in part to the fall in oil prices. The Governing Council of the European Central Bank has expanded its monetary stimulus and is prepared, if necessary, to intensify the use of all the tools at its disposal.

Growth continues in the third quarter ...

In the third quarter of 2015 the GDP of the euro area increased by 0.3 per cent compared with the previous quarter, driven by internal demand. The increased stimulus provided by household expenditure and the positive contribution of changes in stocks more than compensated for the weakening of investment. Foreign trade subtracted 0.3 percentage points from GDP growth, reflecting the fall in exports and a further rise in imports. GDP grew by 0.3 per cent in Germany and France and by 0.2 in Italy (Figure 5).

... as well as in the fourth

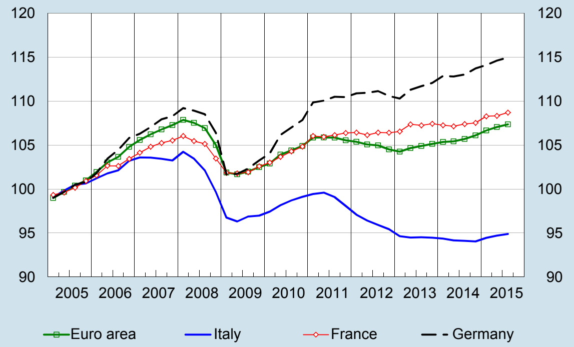
The most recent data indicate that economic activity in the euro area continued to expand in the autumn months at rates similar to those of the summer, with quite uniform performances among the major countries. In December, the Bank of Italy's €-coin indicator of the underlying GDP trend in the euro area rose to its highest level since July 2011 (Figure 6). The level of consumer and business confidence, sustained by favourable signs concerning employment, suggests that the recovery will continue. The Paris terror attacks in November appear to have had limited impact to date on consumer and business confidence in the euro area as a whole. In France, however, there are concerns on the possible repercussions on the services sector, particularly in tourism, the restaurant industry, and leisure activities.

The risks are connected with emerging markets and geopolitical tensions

The outlook for growth in the euro area is clouded by downside risks in connection with the persistent uncertainty on demand conditions in important outlet markets, especially in the emerging economies. Moreover, heightening geopolitical tensions, especially in the Middle East, could have repercussions on the climate of confidence and slow the global upswing in consumption and economic activity. These factors could hinder the revival of investment in productive capital, which slowed down in the summer months following its protracted growth since mid-2014.

Figure 5

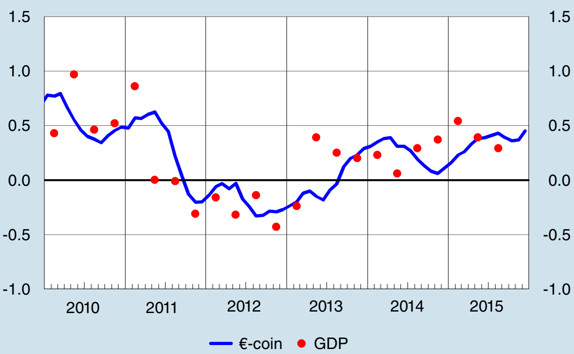
GDP of the euro area and the main area countries (1)
(quarterly data; indices, 2005=100)



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

Figure 6

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



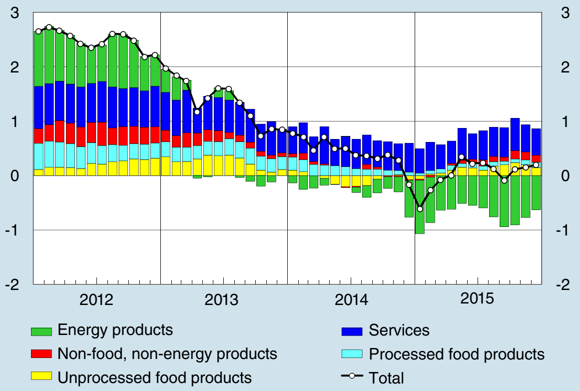
Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area' in *Economic Bulletin*, July 2009. Details on the indicator are available at *https://www.bancaditalia.it/media/notizia/indicatore-coin-dicembre-2015*. 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.

Inflation remains weak ...

Preliminary data put consumer price inflation at 0.2 per cent in December, lower than expected, and even excluding the more volatile components it was stable at 0.9 per cent (Figure 7). The slackness of the overall index continues to reflect the downtrend in energy prices (-5.9 per cent). In November there was an increase in the share of elementary items in the basket that recorded a negative change in prices (24 per cent, compared with 20 per cent in October). Among the core items, reductions were registered for 31 per cent of goods and just 8 per cent of services. ECB staff projections released in December indicate that consumer price inflation will rise to 1.0 per cent in 2016 (from zero in 2015), in line with the expectations of the professional forecasters surveyed by Consensus Economics.

Figure 7

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



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices; for December 2015, preliminary estimates.

Figure 8

Swap-implied inflation expectations (1)
(daily data; per cent)

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

... although long-term expectations are improving

Short- and medium-term inflation expectations as implied by inflation swap rates displayed high volatility during the autumn while remaining largely unchanged throughout the period (Figure 8); five-year inflation expectations five years ahead rose by 0.1 percentage points, to 1.7 per cent, sustained by the ECB's announcement that it would broaden the scope of its expansive measures and by the decisions it took at the beginning of December (see the box 'Euro-area inflation expectations and monetary policy measures').

EURO-AREA INFLATION EXPECTATIONS AND MONETARY POLICY MEASURES

The objective of the monetary policy decisions taken by the Governing Council of the ECB during 2015 was to counter the risk that persistent downward pressures on prices, triggered in part by the drop in raw material prices, would impact on long-term inflation expectations and heighten the risk of deflation.

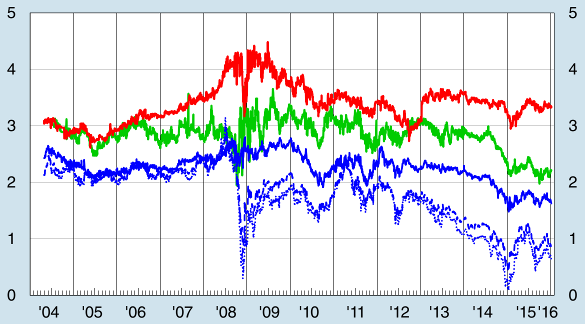
Weak inflation expectations are a global phenomenon: in recent years, the United States and the United Kingdom have also witnessed a substantial lowering of long-term expectations (those implied by five-year inflation swaps five years ahead; see Figure A). Since the end of 2014, however, the risk of expectations falling for an extended period below the level consistent with the definition of price stability has increased particularly in the euro area, most likely owing to persistently slack economic activity.

A measure of that risk can be extrapolated from the probability that shocks affecting short-term expectations, such as changes in relative prices, will be passed on to long-term expectations. Figure B presents an estimate of this measure,[1] which had increased in the euro area before the new monetary policy measures; it decreased sharply afterwards but remained volatile.

[1] The indicator is based on the probability of co-movement of long-term and short-term inflation expectations. Technically, it is calculated as an odds ratio over a rolling window of 250 working days and ranges from zero to infinity; an increase indicates a closer link between sharp decreases in short-term and in long-term expectations; low values indicate that long-term expectations are better anchored. For details on how the indicator is constructed see F. Natoli and L. Sigalotti, 'An indicator of inflation expectations anchoring', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming.

Figure A

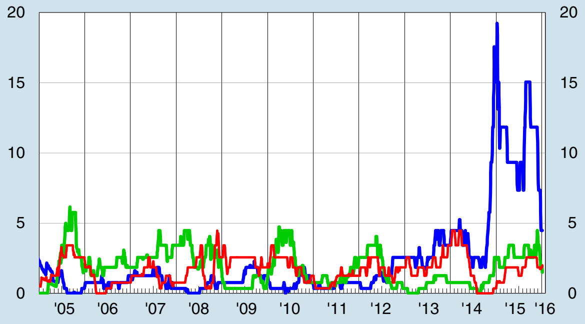
Swap-implied inflation expectations (1)
(daily data; per cent)



Source: Bloomberg.
(1) Expected inflation rates implied by 5-year forward inflation swaps 5 years ahead in the United States, United Kingdom and euro area. For the euro area, includes the expected inflation rates implied by 3- and 5-year inflation swaps.

Figure B

Co-movement of short- and long-term inflation expectations (1)
(daily data)



Source: Based on Bloomberg data.
(1) See footnote 1 of the text.

For the euro area, the indicator climbed from October 2014 until mid-January 2015, on the eve of the extension of the asset purchase programme to include public sector securities. No increases were recorded in the United States or the United Kingdom in that time.

The launch of the programme caused a substantial drop in the indicator, which fell by more than half between January and May, though without returning to its earlier values. It rose briefly in August last year when the outlook for prices deteriorated in response to global factors, such as the downgrading of growth prospects in the emerging economies and low oil prices, and to the appreciation of the euro. That increase was absorbed in October, however, when the ECB Governing Council announced a possible further expansionary shift in monetary policy, and again at the beginning of December when new monetary measures were introduced.

The ECB Governing Council expands its monetary stimulus

The Eurosystem's asset purchase programme is proving effective in supporting economic activity in the euro area (see the box 'The effects of the Eurosystem's asset purchase programme'), but global economic conditions are slowing the return of inflation to levels in line with the objective of price stability. In the meeting held on 3 December, the Governing Council of the ECB expanded its monetary stimulus with a package of measures: (a) it lowered the interest rate on the Eurosystem deposit facility by 10 basis points, to -0.30 per cent; (b) it extended the purchase programme for a further six months (to March 2017 or beyond) and expanded the range of eligible assets to include euro-denominated marketable debt instruments issued by regional and local governments located in the euro area; (c) it decided to reinvest principal payments on the securities purchased under the programme as they mature, for as long as necessary; and (d) it announced that it would continue conducting the main refinancing operations and three-month longer-term refinancing operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the last reserve maintenance period of 2017. The Governing Council will make a greater use of all the tools at its disposal insofar as this is deemed necessary in order to secure a return of inflation rates towards levels consistent with price stability.

THE EFFECTS OF THE EUROSYSTEM'S ASSET PURCHASE PROGRAMME

The extension of the Eurosystem's asset purchase programme to public sector securities (APP) was announced by the Governing Council of the ECB in November 2014. Since then, its effects on financial conditions and the real economy in the euro area and Italy have been significant and largely consistent with initial assessments. However, the emergence of new downside risks has indicated the need for a broadening of the programme.

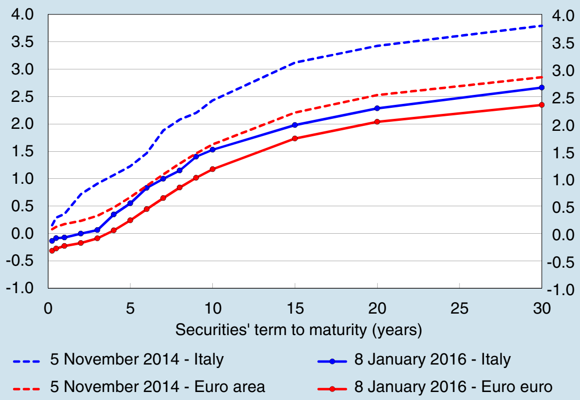
Our estimates[1] suggested that the APP could have led to a reduction of 85 basis points in the long-term interest rates on Italian government securities and a depreciation of the euro of 11.4 per cent against the dollar and 6.5 per cent in nominal effective terms. Between November 2014 and the beginning of January 2016, the yields on ten-year government securities decreased by about 40 basis points in the euro area and 90 basis points in Italy (Figure A). In the same period, the adjustment of portfolios towards financial assets in other currencies led to a depreciation of the euro of 13 per cent against the dollar and 6 per cent in nominal effective terms.

The effects of the APP gradually spread to market segments whose securities are not directly involved in the purchases, such as corporate bonds and stocks. In the latest euro-area bank lending survey, banks report that the programme has improved their financing conditions and expect this trend to continue in the coming months. Since November 2014 the stock market indices are up by 3 per cent in the euro area and 2 per cent in Italy. Investors shifted their portfolios away from government securities and towards other financial assets, helping to transmit the effects of the programme.

The data available confirm the view that the APP, together with the other monetary policy measures adopted throughout 2014, has also had a positive impact on credit supply conditions. The cost of new loans to households and firms in the euro area has fallen by 60 and

Figure A

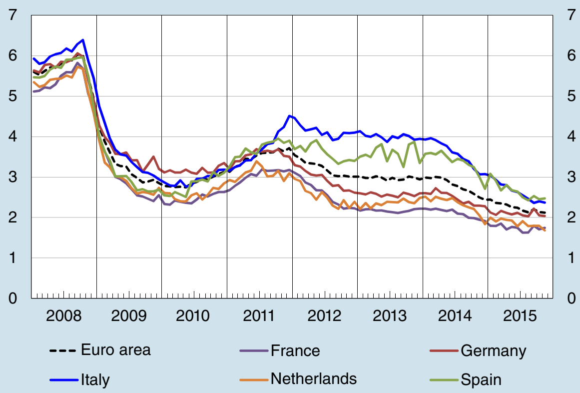
Term structure of the yields on government securities
(percentage points)



Sources: Bloomberg and ECB.

Figure B

Interest rates on loans to firms (1)
(percentage points)



Source: ECB.
(1) Average of interest rates on new short- and medium-to-long-term loans weighted using the 24-month moving average of new loan disbursements. Includes overdrafts.

[1] For Italy, see the box 'The macroeconomic impact for Italy of the Eurosystem's Asset Purchase Programme', *Economic Bulletin,* No. 2, 2015, and P. Cova and G. Ferrero, 'The Eurosystem's asset purchase programmes for monetary policy purposes', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), No. 270, 2015.

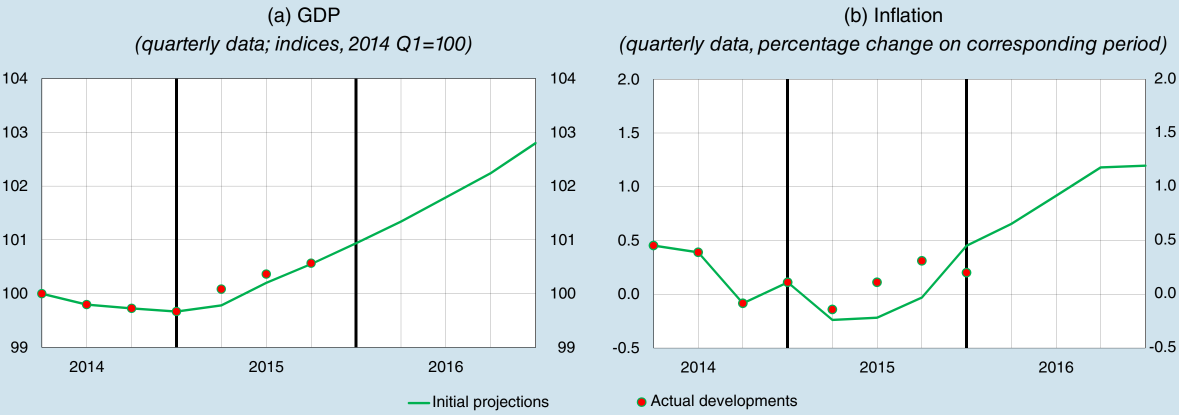
70 basis points, respectively, since mid-2014. The drop has been greater in the countries hit hardest by the sovereign debt crisis, and this has played a role in reducing the dispersion of financing terms in the euro area (Figure B). For Italian firms, the cost of borrowing has come down by 120 basis points.

The transmission of the improvement in conditions on the financial and currency markets to developments in economic activity and prices has proceeded so far largely in line with the assessments conducted at the inception of the APP. For Italy, the estimates obtained at the beginning of last year using the Bank of Italy's econometric model indicated a contribution of the purchase programme to GDP growth equal to 0.5 percentage points in 2015 and 0.8 percentage points in 2016. The same estimates suggested the impact on consumer price inflation would be 0.5 percentage points in 2015 and 0.7 percentage points in 2016. Figure C shows that in the first three quarters of last year the trend of GDP and inflation was consistent with those estimates, but inflation subsequently weakened in the fourth quarter, mainly owing to global conditions.[2] In the case of the euro area as well, the available findings confirm that the APP is having a positive impact on economic activity. According to Eurosystem staff assessments, the purchase programme will add almost 1 percentage point to economic growth in the area between 2015 and 2017; in the absence of the purchase programme, the inflation forecast for 2016 in the euro area would currently be about half a percentage point lower.[3]

In the future, however, the impulse of monetary policy will have to counter the effects of the weakening of foreign demand as well as those of the drop in oil prices recorded in the second half of 2015, owing to the fact that the expansion of world trade has fallen far short of what was expected in the first months of last year, the negative contribution of commodity prices to inflation is greater than initially hypothesized, and there remains the risk that these trends will start to affect expectations again (see Section 2.10 and the box 'Euro-area inflation expectations and monetary policy measures').[4] To offset these dynamics, in its meeting at the beginning of December the Governing Council of the ECB decided to expand the asset purchase programme and is prepared, if necessary, to intervene further.

Figure C

Effects of the APP in Italy: initial projections and actual developments



[2] The projections presented in Figure C incorporate the estimates of the macroeconomic effects of the APP that were included in the box 'The macroeconomic impact for Italy of the Eurosystem's Asset Purchase Programme' in *Economic Bulletin*, No. 2, 2015. The actual trend displayed by inflation in the fourth quarter of 2015 incorporates the provisional figure for December.
[3] M. Draghi, 'Global and domestic inflation', speech at the Economic Club of New York, 4 December 2015.
[4] ECB, *December 2015 Eurosystem staff macroeconomic projections for the euro area*, 2015.

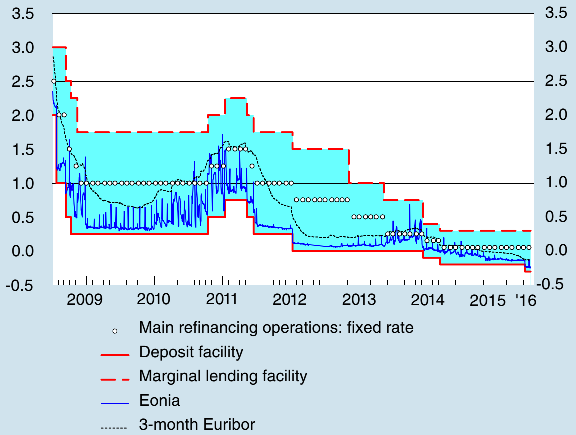
The reduction in the deposit facility rate was reflected in a similar decrease in the Eonia (down to -0.24 per cent) and was gradually transmitted to the other money market rates (Figure 9).

As at 8 January 2016 the APP brought total purchases of government securities, covered bank bonds and asset-backed securities worth €500 billion, €144 billion and €15 billion, respectively. At the end of December, purchases of Italian government securities amounted to some €79 billion (€73 billion by the Bank of Italy), with an average residual maturity of 9.3 years.

The sixth targeted longer-term refinancing operation (TLTRO) was settled on 16 December; 55 euro-area banks participated, bidding for €18.3 billion. Bank of Italy counterparties were assigned €2.7 billion. The funds allocated to the euro-area banking system through the TLTROs total €418 billion (€118 billion to Italian banks).

Figure 9

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



Sources: ECB and Thomson Reuters Datastream.

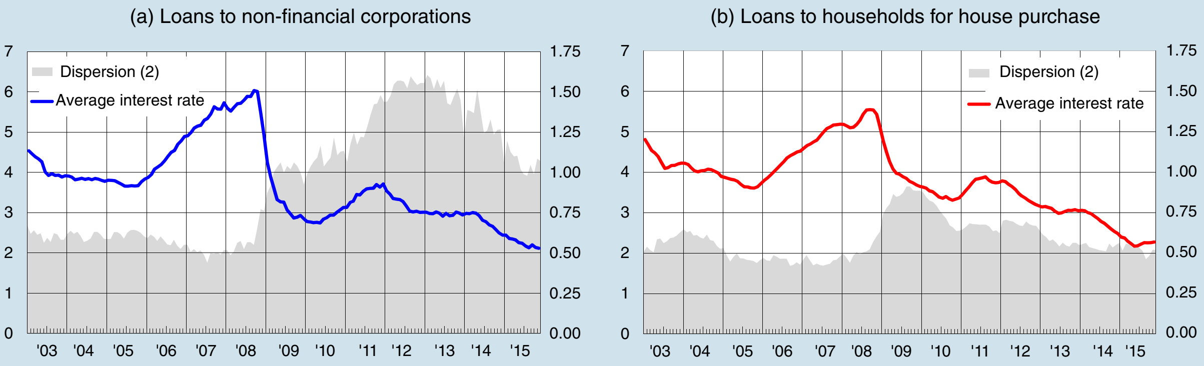
Banks' liquidity deposited with the Eurosystem in excess of reserve requirements rose to €660 billion (from €517 billion in mid-October).

The expansion of credit to households and firms continues

The monetary expansion is being transmitted to the credit market. In the three months ending in November, lending to non-financial corporations of the euro area increased further (at an annual rate of 1.8 per cent, adjusted for seasonal factors and the accounting effect of securitizations). The rate of growth in lending to households remained stable at 1.9 per cent. In November the average interest rates on new loans to non-financial corporations and households were at historically very low levels of 2.1 and 2.3 per cent (Figure 10).

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.

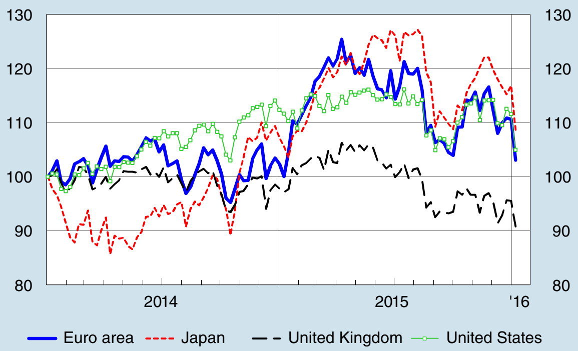
1.3 WORLD FINANCIAL MARKETS

Since the beginning of last December a new wave of uncertainty has adversely affected the prices of the riskiest assets, particularly in emerging countries, and in January tensions resurfaced on the Chinese market. The accentuation of the expansive cast of monetary conditions in the euro area has led to a reduction in sovereign spreads and a depreciation of the euro.

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.

Tensions re-emerge on the stock markets ...

Between the beginning of October and the end of November the stock market indices in advanced (Figure 11) and emerging economies had recovered most of the losses recorded over the summer, gaining 8 and 5 per cent respectively (Figure 12). From the beginning of December a new phase of uncertainty caused a drop in the prices of the riskiest assets, especially in emerging countries, where capital outflows resumed and stock market indices fell again to below the levels recorded at the end of September.

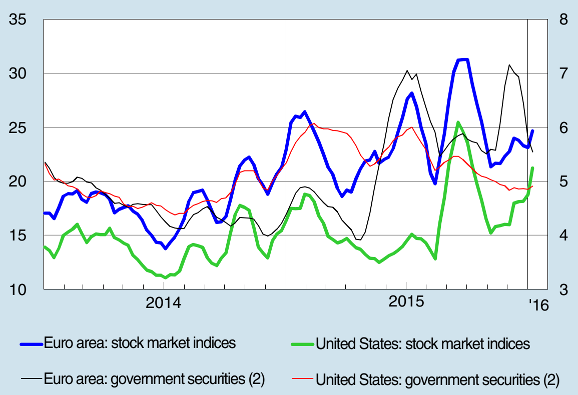
... especially in China ...

Significant tensions re-emerged on the Chinese market in January, triggered by macroeconomic data that were less favourable than the expectations and by the intensification of depreciation pressures on the exchange rate and uncertainties over its future performance: in the first ten days of the month share prices fell by more than 10 per cent and the renminbi depreciated by 1.5 per cent against the dollar. The Chinese authorities have intervened on several occasions to support the markets, using capital injection operations and automatic trade interruptions There were also very significant losses on the financial markets of the developed countries and other emerging economies.

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.

... which are also reflected in private risk premiums

Risk premiums on bonds issued by private non-financial corporations started to climb again in December, especially in the dollar-denominated segment (Figure 13), which was affected by the worsening of oil companies' financial conditions due to the fall in crude oil prices. Banks' credit risk premiums, inferred by five-year credit default swaps, decreased both in the euro area and the United States.

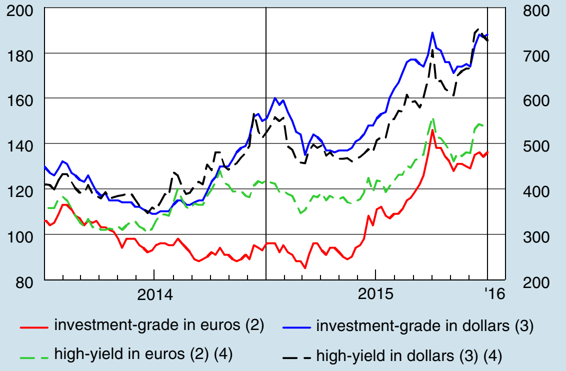
Euro-area sovereign spreads decline further

The ECB's move to strengthen the asset purchase programme had beneficial effects on euro-area sovereign spreads (Figure 14). From the beginning of October, when expectations for an expansion of the programme began to firm up, the yield

Figure 13

Yield spreads between bonds of non-financial corporations and government securities in euros and dollars (1)

(end-of-week data; basis points)

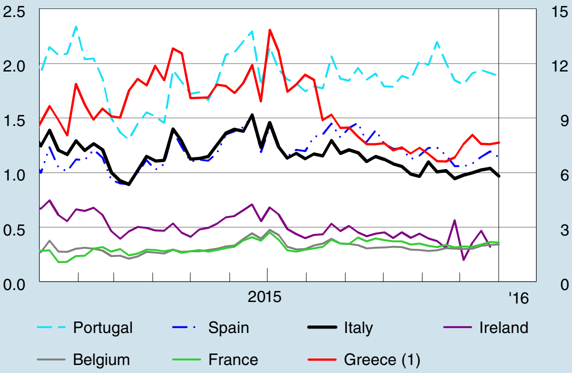


Source: Merrill Lynch.
(1) Investment-grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High-yield bonds are those issued by corporations rated below those grades. – (2) Fixed-rate bonds with a residual maturity of not less than 1 year, issued on the Euromarket;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

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.

spreads on ten-year government securities compared with Germany fell in Italy, Spain and Ireland while they remained more or less stable elsewhere.

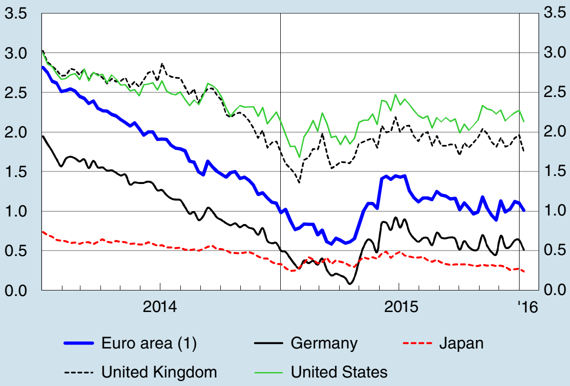
The Fed's increase has limited repercussions on markets

The start of the Federal Reserve's increase in interest rates, decided in the meeting of 15-16 December, has had limited effects overall on long-term yields. In anticipation of the move, the yields on ten-year US government securities rose by

Figure 15

Yields on 10-year government bonds

(end-of-week data; per cent)

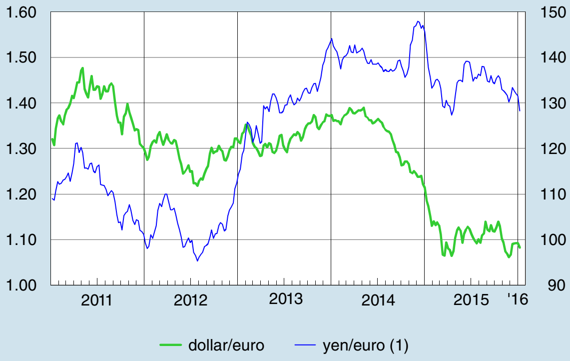


Source: Based on Thomson Reuters Datastream data.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

Figure 16

Bilateral exchange rates

(average weekly data)



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

about 25 basis points between the middle of October and the middle of December; they then fell back slightly after the announcement. Thanks to the gradual nature of the manoeuvre and its prior communication, the serious contagion effects feared by some observers did not materialize: long-term yields in developed and emerging economies remained stable (Figure 15).

The euro depreciates

The accentuation of the ECB's expansive monetary policy stance and the start of the increase in interest rates in the United States affected the exchange rate of the euro, which has depreciated by about 4 per cent against the dollar and 3 per cent against the yen since mid-October (Figure 16). Since the preparatory work for the Eurosystem's asset purchase programme began (6 November 2014), the euro has depreciated by 13 per cent against the dollar and by 6 per cent in nominal effective terms.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

In Italy the recovery is proceeding gradually. The boost from exports has weakened; after supporting activity in the last four years, foreign sales are now being curbed, as in the rest of the euro area, by the drop in demand outside Europe. Exports are being gradually replaced by domestic demand, especially consumption and inventory restocking. The favourable conditions in manufacturing are being flanked by signs of an expansion in services and, following a protracted recession, of stabilization in the construction sector. Investment prospects remain uncertain, however.

Household consumption supports the expansion in activity during the summer

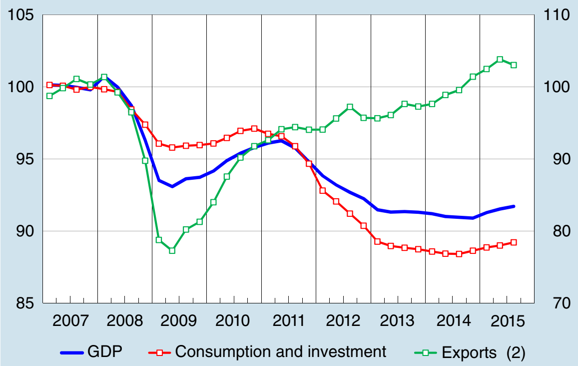
In the third quarter GDP expanded by 0.2 per cent compared with the previous quarter, just short of expectations (Figure 17; Table 2). Net exports shaved four decimal points off GDP growth, mainly owing to the drop of 0.8 per cent in exports, which like those of the other large economies in the area were affected by the slowdown in the main emerging economies. The increase of 0.4 per cent in household consumption (the same as in the previous quarter) and that of stocks, which added three decimal points to the expansion of output, more than offset the 0.4 per cent decline in investment, which mostly involved expenditure on machinery and equipment and intangible goods. Investment in capital goods nevertheless expanded by 4.1 per cent compared with a year earlier. On the supply side, value added increased in almost all the main sectors of activity and, after a protracted slump, stabilized in construction.

The recovery appears to proceed in the fourth quarter

The latest available data suggest that in the fourth quarter GDP recorded a

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)

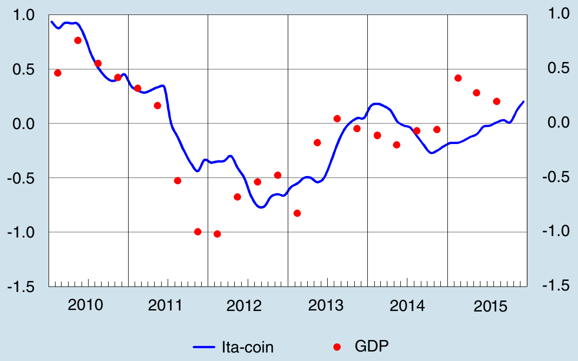
	2014 Q4	2014 (2)	2015 Q1	2015 Q2	2015 Q3
GDP	-0.1	-0.4	0.4	0.3	0.2
Total imports	0.4	2.9	2.5	1.6	0.5
National demand (3)	-0.5	-0.6	0.8	0.3	0.6
National consumption	0.3	0.1	0.1	0.2	0.4
household spending (4)	0.2	0.4	0.1	0.4	0.4
other spending (5)	0.5	-0.7	..	-0.4	0.3
Gross fixed investment	0.1	-3.5	1.2	-0.1	-0.4
construction	-0.4	-5.0	0.6	-0.5	..
other investment goods	0.7	-1.9	1.9	0.3	-0.7
Change in stocks (6) (7)	-0.7	-0.1	0.5	0.2	0.3
Total exports	1.9	3.1	1.0	1.3	-0.8
Net exports (7)	0.4	0.1	-0.4	..	-0.4

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.

further increase of 0.2 per cent, similar to that of the third. The slightly positive contribution from manufacturing now appears to have been joined by a strengthening upturn in services and more favourable signs in the real estate sector. In December the Bank of Italy's Ita-coin indicator, which provides real-time estimates of the underlying trend in GDP rose to 0.2, confirming the positive trend under way since November 2014 (Figure 18).

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. Further details are available at http://www.bancaditalia.it/statistiche/tematiche/indicatori/indicatore-ciclico-coincidente/index.html. 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.

The expansion should continue in the early part of the year

The leading indicators suggest that the recovery will strengthen in the early part of the year. The measures to boost purchases of capital goods contained in the 2016 Stability Law should sustain investment right from the first quarter; capital formation should also be buoyed by investment in construction, benefiting from the strengthening signs of a revival in the real estate market, observable from mid-2015 onwards (see Section 2.10). The current assessments and forecasts of households and firms regarding the general economic situation are still favourable.

Consumer price inflation remains low

According to preliminary estimates consumer price inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), fell to 0.1 per cent in December. The weakness of prices reflected a decline in core inflation to 0.5 per cent, together with the steep drop in the prices of energy products.

2.2 FIRMS

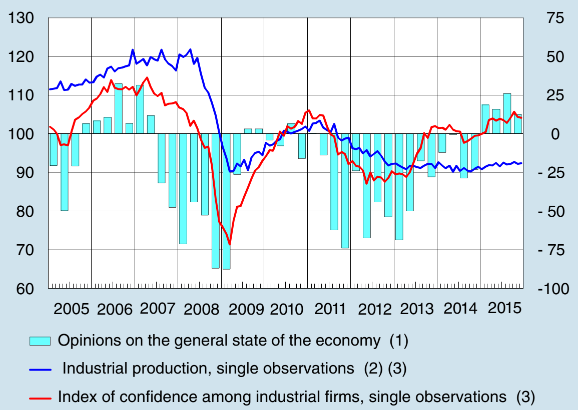
The consolidation of economic activity was seen across all the main sectors, with the exception of construction where the prolonged slump was nevertheless interrupted. Business confidence improved; the share of firms expecting to invest more in the first half of 2016 predominated. The performance of foreign demand is however a source of uncertainty.

Manufacturing continues to recover

Our estimates suggest that in the last quarter of 2015 manufacturing activity increased, but at a slightly lower rate than that recorded in the third quarter (Figure 19). Industrial production declined in November by 0.5 per cent compared with October. For 2015

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, December 2015, *Supplements to the Statistical Bulletin*, forthcoming. – (2) Industrial production adjusted for seasonal and calendar effects; for December 2015, estimated data. – (3) Index, 2010=100.

as a whole industrial production, as compared with 2014, is expected to record its first upturn since 2011 (around 1.0 per cent).

Business confidence remains high ...

Business confidence remained high during the autumn, driven by more favourable opinions about the general state of the economy. Developments in foreign demand in the ensuing months was however an element of uncertainty, as shown by the results of the quarterly survey conducted in December by the Bank of Italy in collaboration with *Il Sole 24 Ore*.

... but the recovery in investment is still uneven

Investment declined by 0.4 per cent in the third quarter following a cumulative gain of 0.9 per cent between the summers of 2014 and 2015 mainly due to the drop in purchases of equipment and machinery and of intangible goods; instead the decline in the construction sector came to a halt. According to the quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore*, respondents expected investment spending to increase in the first half of 2016 compared with the second half of last year (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

ITALIAN FIRMS' INVESTMENT ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

In December the Bank of Italy and *Il Sole 24 Ore* conducted their quarterly survey on a sample of firms in industry excluding construction, in services, and in construction, all with 50 or more employees, (see Survey on Inflation and Growth Expectations, December 2015, in *Supplements to the Statistical Bulletin*, forthcoming). For the majority of entrepreneurs (about 70 per cent), the general state of the economy had remained stable since the September survey; the balance of 'better' and 'worse' responses remained significantly positive, even if declining, mainly as a result of the less favourable opinions voiced by the more export-oriented companies. Firms expected their activities to continue to reap the benefits of exchange-rate developments, lower oil prices and, above all, increased demand for their products: nevertheless they thought global uncertainty caused by economic and geopolitical factors would continue to act as a brake.

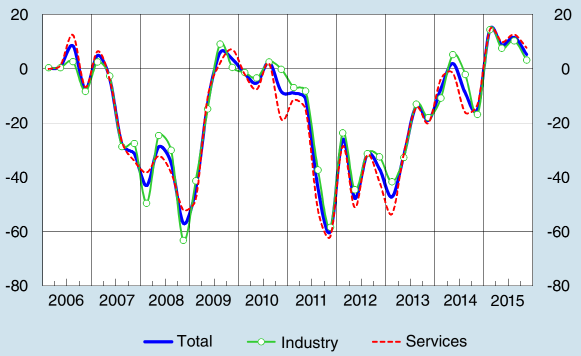
Investment conditions continued to remain stable for most firms; the balance of 'better' and 'worse' responses was positive, although lower both in the industrial sector (in particular for export-oriented firms) and in the services sector (Figure A). In 2016 as a whole, investment spending in nominal terms was expected to increase by comparison with 2015, starting as early as the current quarter (see the table). Indications of strengthening investment activity were seen in the buoyant trend of confidence in the capital goods sector. Firms with the best conditions for obtaining credit showed the highest propensity to increase their investment spending in 2016 (Figure B).

In the survey, firms were asked if the government's incentive to invest in capital goods (referred to as 'super amortization') included in the 2016 Stability Law would influence their

Figure A

Firms' assessment of investment conditions compared with the previous quarter (1)

(quarterly data; percentage points)



(1) Balance between judgments of improvement and of deterioration by comparison with the previous quarter as 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 December 2015 and published in *Supplements to the Statistical Bulletin*, forthcoming.

Firms' investment expectations (1)
(per cent)

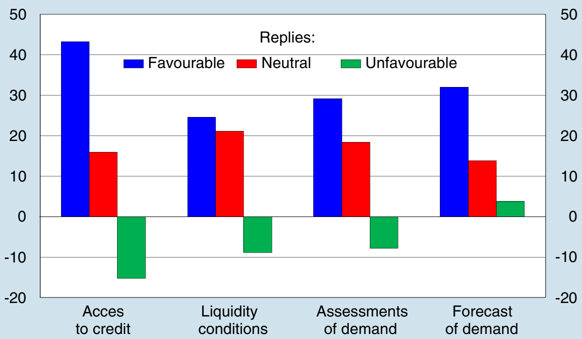
	Industry excluding construction	Services	Industry excluding construction and services
	Investment expenditure planned for 2016 compared with investment in 2015		
Higher	37.2	33.1	35.2
About the same	44.1	48.9	46.5
Lower	18.7	18.0	18.4
	Investment expenditure planned for the first half of 2016 compared with investment in the second half of 2015		
Higher	33.9	28.7	31.4
About the same	51.4	52.1	51.7
Lower	14.7	19.2	16.9

(1) Percentages weighted by number of firms in the quarterly Survey on Inflation and Growth Expectations conducted by the Bank of Italy with *Il Sole 24 Ore* in December 2015 and published in *Supplements to the Statistical Bulletin*, forthcoming. Rounding may cause discrepancies.

spending plans (at the time of the interviews the law had not yet been passed). About half the firms replied that the incentive would have a positive effect on investment; the share was highest for industry excluding construction, especially the larger ones. For about 13 per cent of entrepreneurs the impact of the incentive would be 'fairly' or 'very' important; this percentage doubled for firms that had already expressed their intention to increase investment spending in 2016. The findings regarding construction firms showed improved confidence in the sector: the opinions on their own sector in the coming months produced a positive balance for the first time since December 2012, when the survey was extended to include this sector; investment plans for 2016 envisaged an increase in spending for the current six months and for the year as a whole, particularly in the case of firms that are very active in residential housing.

Figure B

Firms' investment expectations for 2016 (1)
(percentage points)



(1) Balance between the percentage of firms in services and in industry excluding construction that expect their nominal investment expenditure to be higher in 2016 than in the previous year and the percentage that expect it to be lower, subdivided by responses to questions on access to credit, expected liquidity conditions, assessment and forecast of demand for the firm's own products in the quarterly Survey on Inflation and Growth Expectations conducted quarterly by the Bank of Italy with *Il Sole 24 Ore* in December 2015 and published in *Supplements to the Statistical Bulletin,* forthcoming.

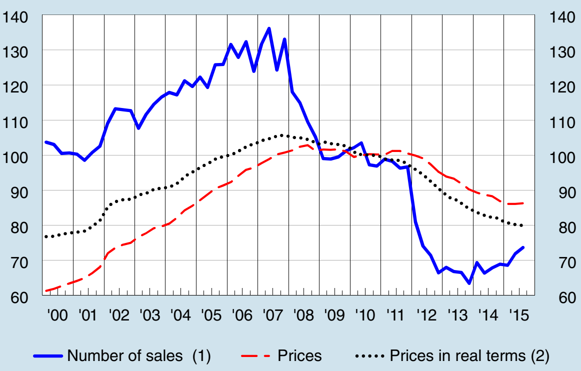
Signs of optimism in the construction sector increase

In the fourth quarter as a whole, the construction firms' confidence index stabilized at one of the highest levels seen since the start of the financial crisis in 2008-09. This increased optimism was also confirmed by the results of October's Italian Housing Market Survey conducted in collaboration with Tecnoborsa. Estate agents are optimistic for both their own reference markets and for Italy as a whole, in line with the latest trends: in the third quarter house sales continued to grow (by 2.5 per cent on the previous quarter) and house prices rose for the first time in four years by 0.2 per cent on the previous period (Figure 20). The Bank of Italy-*Il Sole 24 Ore* survey reported that construction firms expressed positive opinions about their own sector both currently and looking ahead.

Figure 20

House prices and sales

(quarterly data; index, 2005=100)

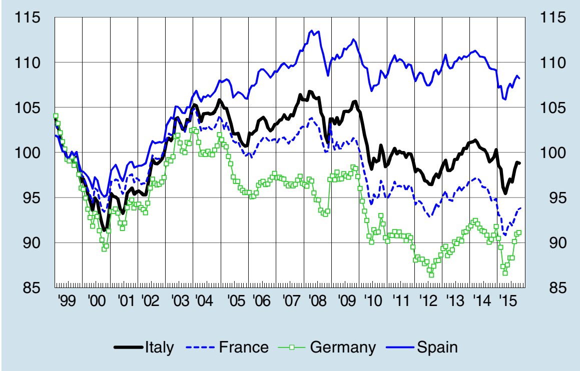


Sources: Based on data from Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and Consulente immobiliare.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index.

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 October 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), No. 280, 2015.

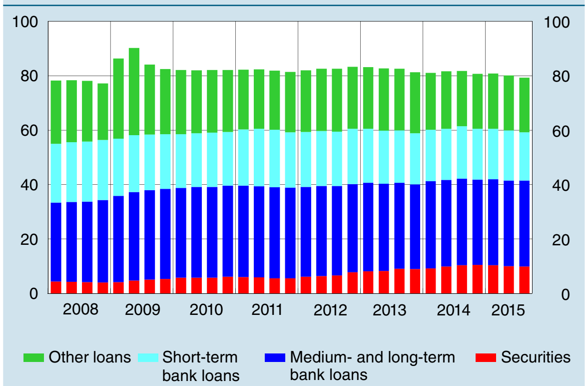
Competitiveness improves

Provisional assessments for November and December indicate that price competitiveness, measured on the basis of producer prices of manufactured goods, improved by about 1 percentage point compared with the previous two months. Italian exporters are expected to record a cumulative gain of 4 percentage points since the start of 2014, benefiting from the fall in value of the euro (Figure 21).

Figure 22

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, reflecting revised estimates of intra-firm loans.

Corporate profitability improves

Estimates based on national accounts show that the ratio of gross operating profit to value added in the twelve months ending last September rose slightly, albeit remaining at historically low levels. Corporate external financing requirements declined due to an increase in self-financing, which more than offset the increase in investment expenditure. The decline in net interest expenses contributed to the growth in self-funding, calculated as the difference between gross operating profit and total interest costs. In September the total corporate debt as a percentage of GDP declined further to 79 per cent from 80 per cent in June (Figure 22).

Lending to firms increases

In the three months ending in November bank lending to firms turned to significant growth for the first time since the end of 2011; lending to manufacturing firms strengthened further (see Section 2.7).

Net bond issues turn positive but are still weak

In the third quarter, Italian firms' net bond issues were positive at €1.2 billion (Table 7). Provisional data from Dealogic indicate that net issues were low in October and November. In the summer, the gross equity issues of non-financial corporations resident in Italy increased slightly, although the total remained modest.

2.3 HOUSEHOLDS

Household spending continued to rise, again providing substantial stimulus to GDP growth. The most recent data on household confidence and disposable income are consistent with a further expansion of consumption in the last quarter of 2015, in line with that of the preceding two quarters.

The recovery in consumption continues

In the third quarter, household spending grew by 0.4 per cent, as in the second. The upswing in consumption, though more pronounced in the durable goods sector (0.6 per cent), also involved non-durables (0.3 per cent for the second consecutive quarter) and services (0.2 per cent). In the last three months of 2015 new car registrations increased further (by 4.3 per cent, recording growth of 15.7 per cent for the year as a whole). In the first nine months real disposable income was 0.9 per cent higher than in the same period of 2014 (Figure 23), benefiting from the expansion of employment; the propensity to save increased.

Household confidence stays at historically high levels

The consumer confidence index remained at historically high levels in December. In the autumn, households expressed optimism on the general state of the economy; on the personal front, employment expectations improved, in line with the recovery in the labour market (see Section 2.5); however, expectations on household finances remain more cautious, which could mean a continuation of prudent spending behaviour.

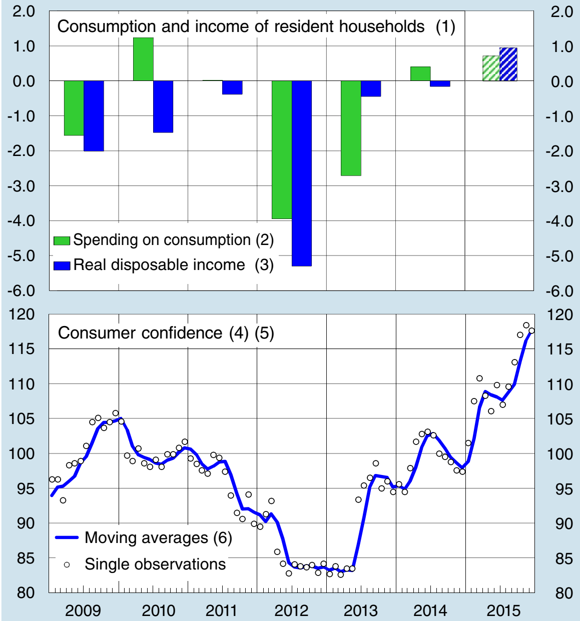
Household debt falls slightly while debt service is practically unchanged

Over the summer months Italian household debt decreased slightly to 62.5 per cent of disposable income, from 62.7 per cent in June (Figure 24), remaining far below the euro-area average (about 96 per cent at the end of June). In the same period households' debt servicing costs (interest plus repayment of principal) were nearly unchanged at 9.5 per cent of disposable income. The latest data show a reduction in the interest rates on new mortgage loans, from levels that were already low by historical standards (see Section 2.7).

Figure 23

Consumption, disposable income and consumer confidence

(percentage changes and indices)

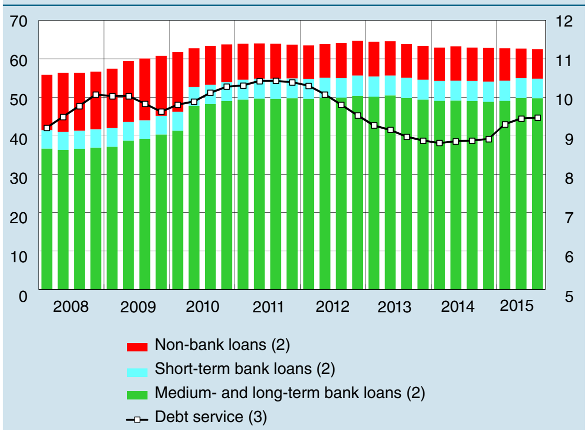


Source: Based on Istat data.
(1) Percentage changes on the previous year. Up to 2014, annual data; for 2015 percentage changes in the first 9 months compared with the same period of 2014. – (2) Chain-linked values. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, 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.

Figure 24

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. The data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology see the note in 'Monetary and Financial 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.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Weak demand in the emerging economies weighed on exports, which ceased to expand in the summer months. Foreign orders, however, indicate that the outlook remains favourable. The current account surplus increased, thanks to lower energy outlays and the strong performance of the travel account balance. Foreign investors confirmed their interest in Italian government securities.

Goods exports fall ...

Following a protracted expansionary phase, in the third quarter exports fell by 0.8 per cent in volume terms compared with the previous period, owing to the contraction in the goods component; sales of services instead continued to expand, as in the early part of the year.

The decline in goods exports was driven by the drop in sales, which was more pronounced than in the previous quarter, to emerging markets and the countries that produce raw materials. Exports to China, the OPEC countries and Turkey recorded an especially sharp contraction; by contrast, those to EU markets fell only moderately. Notwithstanding the unfavourable world economic outlook, sales in the mechanical machinery and equipment and pharmaceutical sectors continued to expand, while those of refined petroleum products and metal products retrenched.

... and imports slow

Imports, which grew by 0.5 per cent in volume terms, slowed with respect to the early part of the year, owing to the slackening pace of goods imports. Imports of services turned upwards again (1.0 per cent). Purchases of electronic and pharmaceutical products and of energy commodities lost ground, following their robust expansion in the first half of 2015; purchases of transport equipment instead continued to grow.

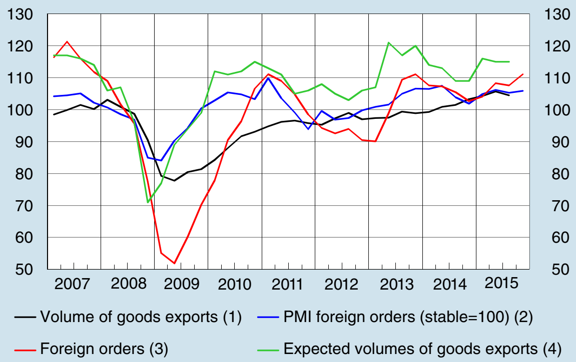
The outlook for foreign orders remains positive

According to the latest data, after falling again in October goods exports at current prices recovered in non-EU markets in November. Favourable indications for foreign demand continue to come from the manufacturing PMI index for foreign orders and the comparable Istat indicator, which in recent months both recorded increases and are well above the threshold compatible with an expansion in sales (Figure 25).

Figure 25

Export volumes, manufacturing firms' foreign orders and expectations (1)

(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; percentage balance of replies of 'increasing' and 'decreasing', minus the average, plus 100. – (4) Based on Istat's quarterly survey of firms' expectations 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.-Oct. 2014	Jan.-Oct. 2015
Current account	**14.3**	**30.8**	**21.6**	**24.6**
Goods	36.0	49.2	39.0	41.3
non-energy products (2)	87.6	90.4	74.1	68.3
energy products (2)	-51.6	-41.2	-35.1	-27.0
Services	0.7	-1.3	-0.3	1.1
Primary income	-4.4	-0.5	-3.1	-3.6
Secondary income	-18.1	-16.6	-14.0	-14.2
Capital account	**0.2**	**3.4**	**1.4**	**0.4**
Financial account	**11.0**	**46.2**	**29.4**	**27.4**
Direct investment	0.6	5.0	12.9	10.0
Portfolio investment	-14.6	-4.5	-32.7	48.1
Derivatives	3.0	-3.6	-1.8	-0.8
Other investment	20.4	50.2	51.8	-30.4
Change in official reserves	1.5	-1.0	-0.9	0.4
Errors and omissions	**-3.5**	**12.0**	**6.3**	**2.3**

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

The current account surplus is still large

In the first ten months of 2015 the current account recorded a surplus of €24.6 billion, up from €21.6 billion in the same period of the previous year (Table 3). The increase was determined by the higher goods surplus, which in turn was driven by the reduction in energy expenditure, as well as by the improvement in the services account, thanks to the contribution of the balance on travel. In the third quarter the seasonally adjusted current account balance stood at 2.1 per cent of GDP, up from 1.7 per cent in the second.

Foreign investors continue to favour government securities

Net foreign purchases of Italian government securities in September and October wholly offset the disposals recorded in August, mostly in connection with the substantial net redemptions of securities made by the Treasury (see the box 'Investment in Italian government securities in 2015'). In the first ten months of 2015 government securities purchases accounted for more than 90 per cent of the total value of net foreign investment in Italian portfolio securities (€61.8 billion).

INVESTMENT IN ITALIAN GOVERNMENT SECURITIES IN 2015

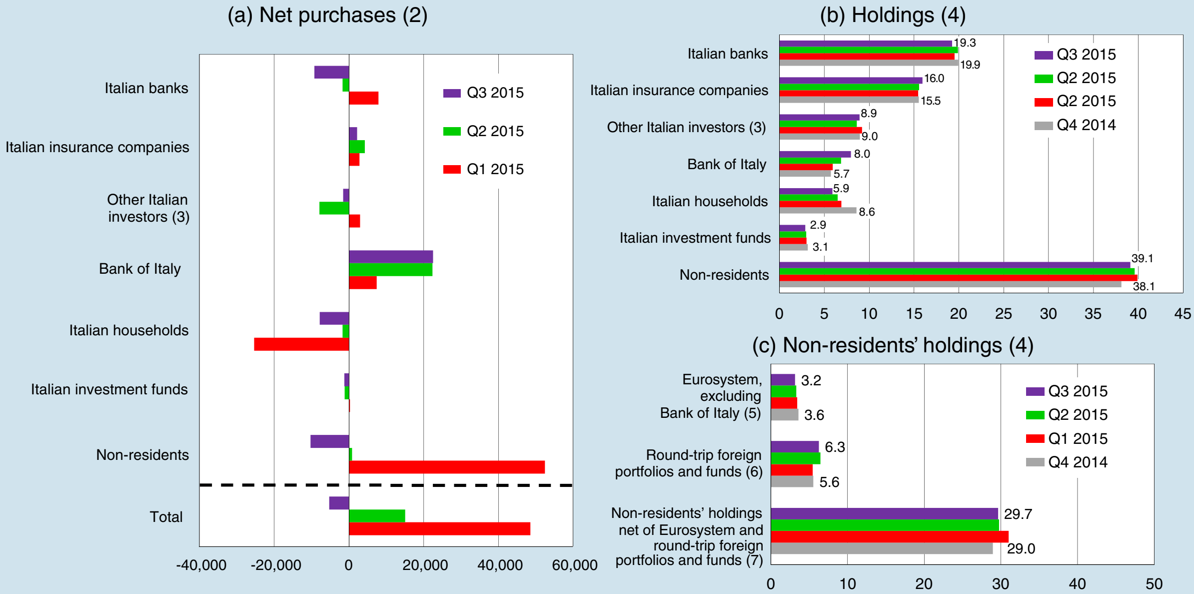
In 2015 substantial purchases of Italian government securities were made by the Bank of Italy, which beginning in March intervened in the secondary market under the Eurosystem's asset purchase programme (Figure A.a). By the end of December the Bank had acquired securities worth some €73 billion, with an average residual maturity of about nine years.

At the same time, there were continued purchases by foreign investors, who again, as in 2014, displayed strong interest in Italian securities. By contrast, the volume held by Italian households shrank, as portfolios were shifted progressively towards the asset management industry. Nevertheless, by international

Figure A

Italian government securities: breakdown by category of holder (1)

(quarterly data)



Sources: Financial accounts and estimates based on Assogestioni and ECB data.
(1) Preliminary data at market prices and net of securities held by Italian general government entities. – (2) Millions of euros. – (3) Non-financial corporations, pension funds, and other types of investor. – (4) Percentage shares. – (5) Estimate, based on market sources, of the volume of Italian public sector securities held by the Eurosystem (net of holdings of the Bank of Italy) under the Securities Markets Programme and the Public Sector Purchase Programme. – (6) Securities held by portfolios and investment funds managed by foreign institutions but attributable to Italian investors. Data partly estimated. – (7) Securities held by foreign investors net of those held by the Eurosystem (excluding the Bank of Italy) and of foreign-managed portfolios and investment funds attributable to Italian investors.

standards the industry – investment funds in particular – remains relatively under-represented within Italian households' portfolios.

As a result of these developments, the share of Italian government securities held by the Bank of Italy increased by 2.3 percentage points to 8.0 per cent at the end of September (Figure A.b) and that of non-resident investors by 1 point, from 38.1 to 39.1 per cent. Net of Eurosystem holdings (excluding the Bank of Italy) and round trip foreign-managed portfolios and investment funds attributable to Italian investors (Figure A.c), we estimated non-residents' share at the end of the third quarter at 29.7 per cent, up 0.7 points since the end of 2014, based on Assogestioni and ECB data. Meanwhile the share held by resident banks declined by 0.6 percentage points and that held by households more sharply, by 2.7 points. The proportion held by Italian insurance companies instead rose slightly, by 0.5 points.

Balance of payments data, which are available up to October, indicate that overall net purchases of Italian government securities by non-residents dipped slightly in August but picked up again in September and October. In the course of the year their evolution was closely correlated with the Treasury's net issues (Figure B). Over the first ten months of 2015 foreign investment amounted to €58.0 billion, including €22.2 billion after the introduction of the asset purchase programme; it was concentrated in the medium- and long-term component.

Figure B

Net foreign investment in Italian government securities

(monthly data; billions of euros)

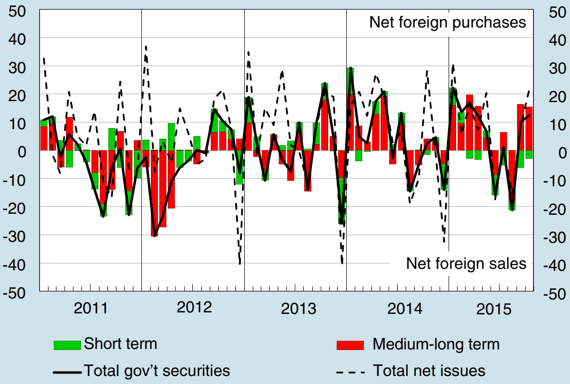
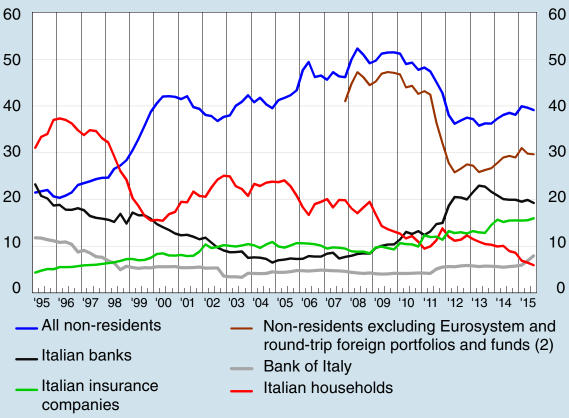


Figure C

Italian government securities: breakdown by holder, 1995-2015 (1)

(quarterly data; percentage shares)



Sources: Financial accounts and estimates based on Assogestioni and ECB data.
(1) Preliminary data at market prices, net of securities held by Italian general government entities. Data for a subset of holders (see Figure A). – (2) Securities held by foreign investors net of those held by the Eurosystem (excluding the Bank of Italy) and of foreign-managed portfolios and investment funds attributable to Italian investors.

From a longer-term perspective, the percentage of Italian government securities held by foreign investors (net of those held by the Eurosystem and of foreign-based portfolios and funds attributable to Italian investors) is 12 points lower than before the sovereign debt crisis, although it has risen by about 4 points since the low level of the first half of 2012 (Figure C). The share held by domestic banks, which as in other countries had increased during the sovereign debt crisis in Italy, has come down significantly (by 3.7 points) from its mid-2013 peak, while that held by Italian households has been declining since 2009.

While slowing compared to the early part of the year, residents' portfolio investment abroad continued with a net investment of €109.9 billion from the start of the year through October, up from €73.1 billion in the same period in 2014.

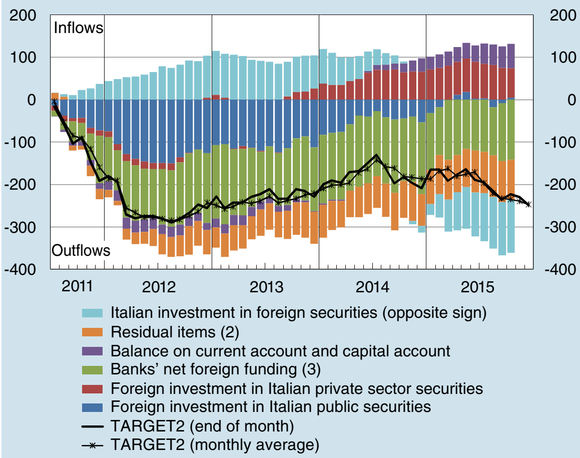
The TARGET2 liability position increases as the asset purchase programme continues

The Bank of Italy's debtor position in TARGET2 averaged €247 billion in December, compared with €232 billion in September (Figure 26). The latest data indicate that the patterns observed from August through October are mainly linked, as in the previous months, to the creation of liquidity by the Bank of Italy within the framework of the Eurosystem's asset purchase programme; this liquidity was used both by the banks, to curb the relatively higher cost of funding on the international interbank market, and by private investors (though less than in previous months), to increase the share of foreign securities in their portfolios.[1]

Figure 26

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 capital flows since July 2011. – (2) Direct foreign investments, derivatives, other investment, errors and omissions. – (3) Includes funding intermediated by resident central counterparties.

At the end of last September Italy's net international debtor position was €471.3 billion, equal to 28.9 per cent of GDP. The deterioration of about 3 percentage points of output with respect to the second quarter is largely ascribable to the fall in the market values of foreign portfolio securities held by residents. This figure will probably be revised soon to incorporate previously undeclared foreign assets under the voluntary disclosure procedure for the declaration for tax purposes of capital held abroad: based on the information provided to date by Italy's Revenue Agency, the net position should improve by about 3.5 points of GDP.

2.5 THE LABOUR MARKET

The number of persons employed continued to increase in the third quarter, particularly among young people and in the services industry. The composition of employment continued to shift towards more stable contract arrangements. The unemployment rate hit its lowest level since the end of 2012. In the autumn months employment stagnated but firms' expectations regarding employment prospects continue to be marked by cautious optimism.

The number of jobs continues to grow

In the summer months the number of employed as reported in seasonally adjusted national accounts data rose by 0.4 per cent on the previous period (0.8 per cent in private services; 0.2 per cent in industry excluding construction). According to Istat's labour force survey, in October-November employment fell slightly compared with the summer, although it remained substantially higher than reported for the same period of 2014.

The number of hours worked rose in the third quarter, and was reflected in a significant decline in recourse to wage supplementation benefits (-19.9 per cent in hours authorized compared with the spring months; Figure 27; Table 4). The labour input in construction fell, offsetting the increase reported in the previous quarter.

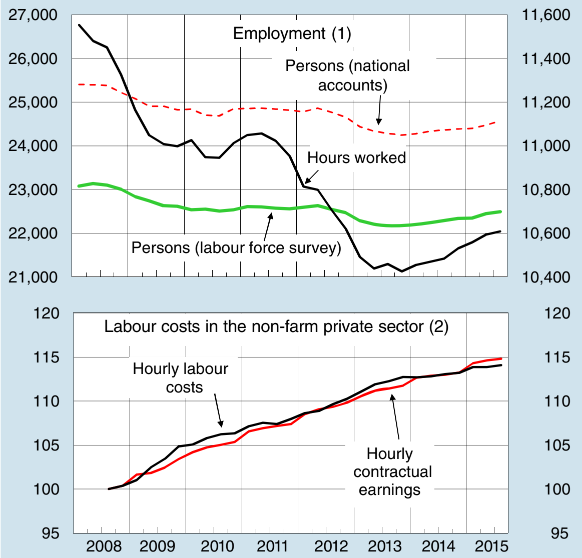
[1] For an explanation of the link between the TARGET2 balance and the channels for creating and using liquidity and the balance of payments identity, see the box 'The TARGET2 balance in the last three years', in *Economic Bulletin*, No. 3, 2015.

The share of open-ended contracts increases

While self-employment stagnated, payroll jobs increased (0.5 per cent compared with the summer; 1.4 per cent on the same period of 2014), as a result of both the further rise in stable employment contracts and the acceleration of fixed-term contracts. There was also a rise in the number of fixed-term contracts converted into open-ended contracts; according to data on the fixed-term employed released by INPS, in the first ten months of 2015 stable contracts, both new contracts and those converted from fixed-term contracts, represented 38.2 per cent of new employment relationships (8.2 percentage points more than in the same period of 2014). The shift towards open-ended contracts is attributable to the effects of social contribution relief and the new rules on individual dismissals from early 2015 onwards introduced by the Jobs Act (see the box 'Hirings: the effects of the labour market measures as reflected in the administrative data', in *Economic Bulletin*, No. 4, 2015).

Figure 27

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			
	Q3 2015	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Total persons in work	**24,570**	**0.1**	**0.1**	**0.3**	**0.4**
of which: industry excl. construction	4,220	0.2	-0.6	..	0.2
private services (1)	10,607	0.1	0.6	..	0.8
Employees	18,332	..	0.1	0.5	0.5
Self-employed	6,238	0.3	0.1	-0.3	0.1
Hours worked	**10,608**	**0.5**	**0.3**	**0.3**	**0.1**
of which: industry excl. construction	1,851	0.8	-0.2	-0.6	0.5
private services (1)	4,866	0.4	0.5	0.4	0.9
Employees	7,225	0.3	0.6	0.4	0.3
Self-employed	3,383	0.9	-0.5	0.2	-0.2
Job seekers	**2,973**	**-0.2**	**-5.1**	**0.6**	**-5.2**
Labour force	**25,468**	**0.2**	**-0.6**	**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.

The unemployment rate falls, even for young people

The unemployment rate fell in the third quarter to 11.7 per cent, the lowest level reported since the end of 2012. The rate declined even further to 11.4 per cent on average in October-November (Figure 28). The fall in unemployment also reflects the decline in the participation rate, which hit 63.7 per cent in November (from 64.3 per cent in June), after the considerable increase reported in the second half of 2014.

As a result of the increase in employment among those aged 15 to 24 years, the youth unemployment rate fell significantly, to 38.1 per cent in November (down approximately 4 percentage points from June), although it remains historically high.

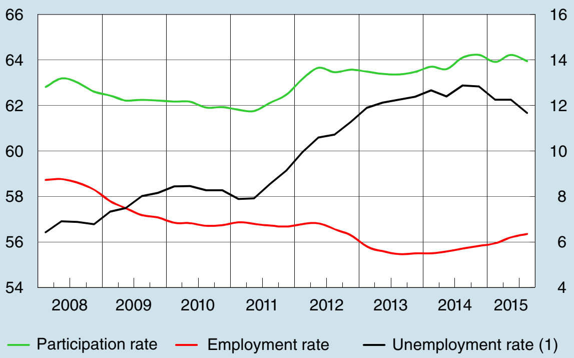
The cost of labour grows more slowly than wages owing to social contribution relief

In the third quarter the rise in hourly labour costs in the non-farm private sector, stable at around 1 per cent (compared with the year-earlier period), was still less than that of actual wages (1.3 per cent) owing to the effect of social contribution relief on new hires since the beginning of 2015 (Figure 27). The rise in contractual wages, equal to 1.6 per cent, reflects the inflation projections made for the 2013-14 period and incorporated into current contracts. Unit labour costs for industry excluding construction continued to slow as they have been doing since the first quarter of 2015; during the summer months the growth in unit labour costs declined to 0.8 per cent from 2.1 per cent in the previous period following significant gains in hourly productivity.

Figure 28

Participation, employment and unemployment rates

(seasonally adjusted quarterly data; per cent)



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

The employment outlook remains moderately positive

Firms' expectations for employment prospects over the next three months, as reported in surveys conducted by Istat and the Bank of Italy with *Il Sole 24 Ore*, continue to be marked by cautious optimism. The business survey conducted in September by the Bank of Italy (see 'Business Outlook Survey of Industrial and Service Firms', in *Supplements to the Statistical Bulletin*, No. 59, 2015) indicates that the employment outlook for the largest firms has improved.

Nominal wage growth slows

Wage growth is expected to progressively decline as a result of low inflation projections and the possibility that some of the upcoming contract renewals will incorporate wage increases that are lower than the estimated change in prices (as has already occurred in the chemicals and pharmaceuticals industry, for which the agreed increase under the most recent contract is around half of that for the previous three-year period).

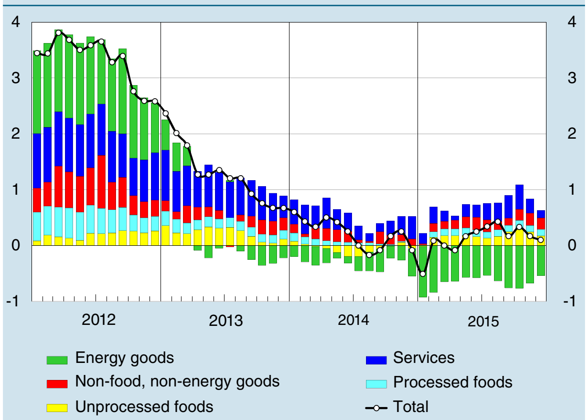
2.6 PRICE DEVELOPMENTS

Consumer price inflation remains very low, reaching 0.1 per cent in December. In the closing months of 2015 the fall in energy prices continued to weigh down the overall price index; core inflation, which excludes food and energy products, also remains extremely low. The expectations of households and firms indicate a slight recovery in prices during 2016.

Figure 29

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; for December 2015, provisional estimates.

Table 5

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

	HICP (1)			CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index
2011	2.9	2.0	2.6	2.8	–	1.3	5.1
2012	3.3	2.0	2.5	3.0	–	1.7	4.1
2013	1.3	1.3	1.1	1.2	–	1.1	-1.2
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8
2015	(0.1)	(0.7)	....	(0.1)	–	....	....
2014 – Jan.	0.6	0.9	0.3	0.7	0.2	0.9	-1.5
Feb.	0.4	0.9	0.1	0.5	-0.1	0.9	-1.7
Mar.	0.3	0.9	-0.1	0.4	0.0	0.8	-1.9
Apr.	0.5	1.1	0.2	0.6	0.0	1.0	-1.7
May	0.4	0.8	0.0	0.5	0.0	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	-3.0
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	-3.5
Sept.	0.2	0.8	0.1	0.2	0.0	0.8	-3.9
Oct.	0.3	0.9	0.3	0.3	0.2	0.9	-3.7
Nov.	0.2	0.7	0.1	0.1	-0.2	0.6	-4.2
Dec.	(0.1)	(0.5)	....	(0.1)	....	....	....

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

Inflation remains very low

In the latter part of 2015 inflation remained barely positive. According to provisional data, the twelve-month change in the HICP fell to 0.1 per cent in December (Figure 29). The performance of the index was affected by the decrease in the core component (to 0.5 per cent, from 0.7 in November; Table 5), following the slowdown in the prices of services. The fall in energy product prices remains pronounced. November, the latest period for which complete information on the HICP basket is available, showed an increase in the share of elementary items with negative changes (32 per cent, up from 29 in October), reflecting the greater proportion in the service sector.

Producer prices continue to fall

Producer price pressures remain very weak. Producer prices recorded a new, sharp reduction in November; the barely positive trend in the producer prices of non-food final consumption goods (0.2 per cent over twelve months) did not offset the steep decline in energy prices (-10.7 per cent).

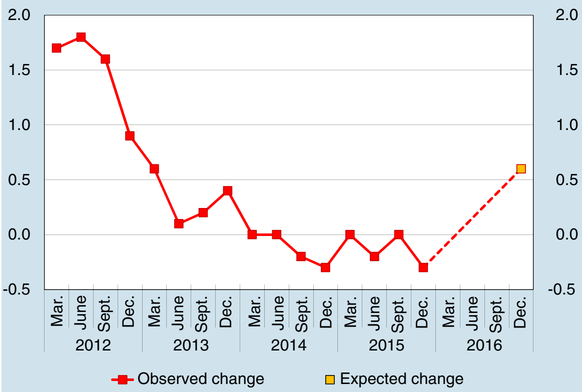
In 2016 the upturn in inflation is expected to be modest

The most recent surveys show that households and firms expect a limited recovery in prices. The results of the latest survey of businesses conducted by the Bank of Italy together with *Il Sole 24 Ore* indicate a moderate increase in price lists over the next twelve months (Figure 30). The professional forecasters surveyed in December by Consensus Economics predict a gradual rise in inflation in 2016. According to the surveys carried out in December by Istat, households believe that inflation will remain low over the next year; the share of consumers expecting a fall in prices was practically stable (3.8 per cent, as against 4.0 in November). The balance between the percentage of manufacturing companies expecting a rise in their products' sales prices and those anticipating a fall diminished on average in the fourth quarter compared with the third.

Figure 30

Developments 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, December 2015, *Supplements to the Statistical Bulletin*, No. 1, 2016, forthcoming.

2.7 BANKS

Lending to the non-financial private sector gained strength in the autumn. Credit supply standards continued to ease; the cost of loans to households and firms is at historically very low levels, benefiting from the expansive measures taken by the ECB. The gradual improvement in economic activity is having a positive impact on banks' credit quality, profitability and capital adequacy.

The growth of credit to the non-financial private sector strengthens

Lending to the non-financial private sector grew on a seasonally adjusted, annualized basis, reaching 1.5 per cent in the three months to November (Figure 31.a). For the first time since the end of 2011 the growth in lending to firms reached significantly positive levels (1.5 per cent). Lending to households also gathered pace; the growth in loans for house purchase turned positive from the summer onwards, boosted by low interest rates.

Lending to businesses picks up, but with marked disparities

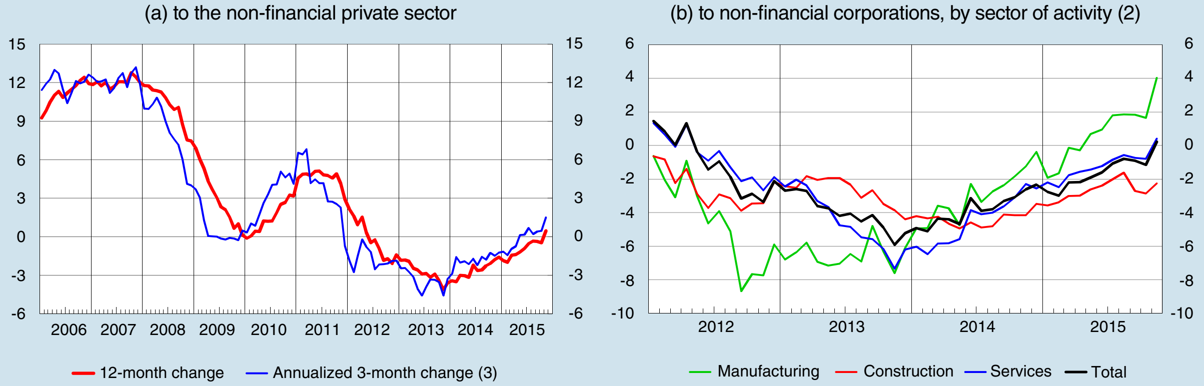
Loans to firms are rising, but unevenly according to sector of activity and size class of firms (see the box 'Recent trends in lending to firms according to sector of activity'). The expansion in lending to manufacturing firms, broadly based across product categories, rose to a twelve-month rate of 4.0 per cent in November, up from 1.9 per cent (Figure 31.b);[2] the change in lending to service businesses turned slightly positive, though it was curbed by the decline in loans to firms connected with the real estate sector. Credit continued to contract in the construction sector (-2.3 per cent) and non-manufacturing industry. The gap between the trend of lending to firms with 20 or more workers and loans to smaller businesses remains substantial, the former increasing by 0.7 per cent, the latter decreasing by 2.1 per cent. The expansion of lending to firms without non-performing loans strengthened further.

[2] The changes in bank loans and deposits in the twelve months to November could be influenced by a base effect connected with the different deadlines for self-assessed taxation, set at 30 November in 2015 and 1 December in 2014.

Figure 31

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.

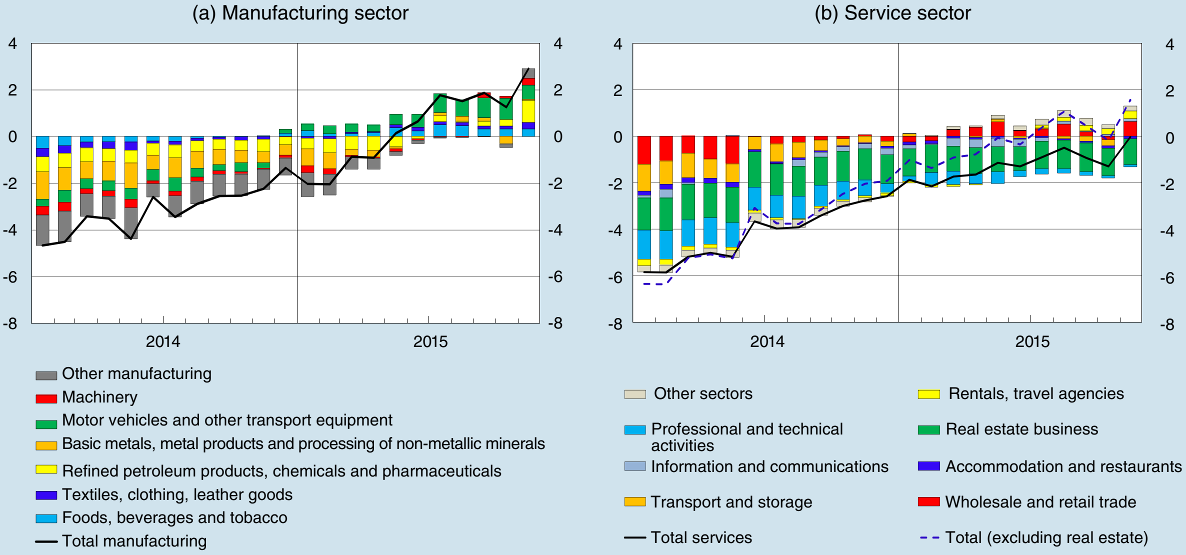
RECENT TRENDS IN LENDING TO FIRMS ACCORDING TO SECTOR OF ACTIVITY

The contraction in lending to non-financial corporations in Italy moderated steadily throughout 2015, benefiting from strengthening economic activity and the banks' easier terms of credit. The improvement was sharpest in manufacturing, where lending growth came back into positive territory in May, and somewhat less marked in services, where the credit contraction essentially

Figure A

Corporate lending by sector of economic activity (1)

(monthly data; 12-month percentage changes and contributions of business areas to sectoral growth, in percentage points)



Source: Central Credit Register.
(1) Loans to non-financial corporations by banks and other financial companies.

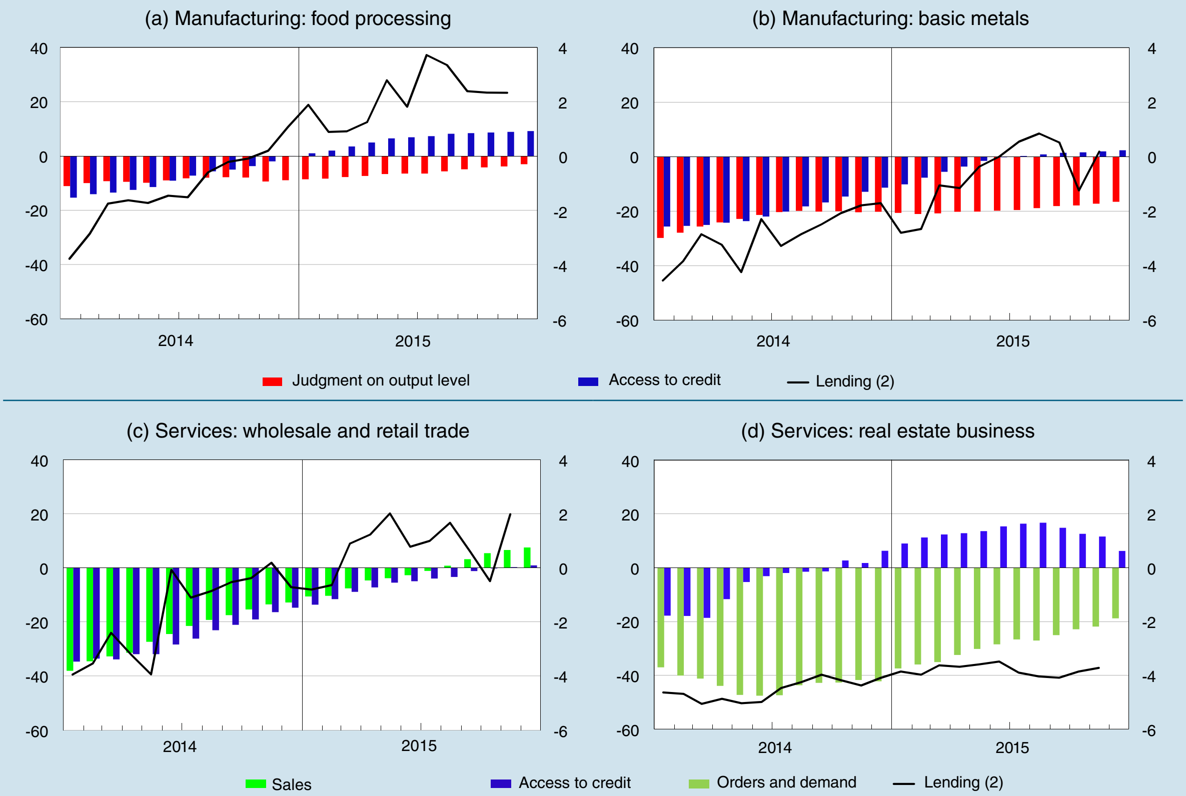
ceased during the summer months. The lending decline in construction, while abating, remained pronounced.

The recovery in lending to manufacturing companies, which initially involved only food processing and transport equipment, gradually spread to all product sectors (Figure A).[1] In services,[2] the trend was heavily affected by the contraction in lending to firms engaged in real estate business.[3] Other important business areas, including wholesale and retail trade, scored positive variations in credit. Excluding real estate businesses, loans to service firms had already returned to growth in July.

Figure B

Trend in lending to manufacturing and service firms and firms' judgments by business area (1)

(12-month percentage changes and net percentages)



Sources: Central Credit Register and Istat, *Indagini sul clima di fiducia delle imprese manifatturiere e dei servizi*.
(1) Firms' judgment on output levels (orders and demand for service firms, sales trend for wholesale and retail trade) and the Istat indicator of access to credit are calculated as the balance, in percentage points, between the percentages of firms indicating improvement and deterioration since the previous quarter (rolling 12-month averages). – (2) Right-hand scale.

[1] Manufacturing absorbs more than a quarter of all lending to non-financial corporations; the largest share (over 60 per cent) goes to firms in basic metals, food processing, textiles, and machinery production.
[2] Lending to service firms accounts for about half of all corporate lending; the largest shares of it go to retail and wholesale trade (32 per cent) and real estate business (29 per cent).
[3] Here, the term 'business' designates the various sub-systems that make up an economic sector. It refers to an aggregation of divisions (two digits) in the NACE 2007 classification. Real estate business comprises the sale or purchase, rental and management of properties, either on own or third parties' behalf.

According to the data from Istat's monthly survey of business confidence, for manufacturing firms the recovery in lending benefited from the gradual improvement in credit supply, which spread to all business areas within the sector. Responses on levels of output, however, continue to differ according to product category (Figure B).

Among service firms, the sharp downturn in real estate lending was mainly due to the sector's persistent weakness, despite the improvement in credit supply conditions from the start of the year. Firms in retail and wholesale trade reported a moderate expansion of credit, accompanied throughout 2015 by the progressive easing of supply restrictions and by more favourable judgments on sales.

The still strongly negative trend in construction loans would appear to stem on the one hand from the persistent difficulties afflicting the building industry and on the other from banks' continuing highly prudent lending policies, presumably also in connection with the large proportion of non-performing loans, around 50 per cent, in this industry.

Between August and November Italian banks' total funding fell (Table 6) owing to the decline in bonds and other wholesale funding, which in part reflected their good liquidity position. By contrast, residents' deposits expanded slightly.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	August 2015	November 2015	August 2015	November 2015
Assets				
Loans to Italian residents (4)	1,818	1,831	0.2	0.6
of which: to firms (5)	801	804	-0.8	0.2
to households (6)	608	620	0.3	0.8
Claims on central counterparties (7)	90	96	6.6	1.1
Debt securities excluding bonds of resident MFIs (8)	530	532	-1.8	-3.8
of which: securities of Italian general government entities	413	416	1.0	-2.1
Claims on the Eurosystem (9)	25	20	141.1	63.4
External assets (10)	342	337	13.1	7.3
Other assets (11)	1,140	1,149	-6.7	-6.6
Total assets	**3,945**	**3,966**	**-0.7**	**-1.5**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,364	1,371	3.9	2.8
Deposits of non-residents (10)	328	319	4.3	0.1
Liabilities towards central counterparties (7)	158	144	27.6	10.6
Bonds (13)	419	410	-13.6	-13.4
Liabilities towards the Eurosystem (9)	158	154	-3.4	-11.7
Liabilities connected with transfers of claims	125	122	-8.8	-12.0
Capital and reserves	443	450	5.2	5.4
Other liabilities (14)	950	995	-6.4	-3.3
Total liabilities	**3,945**	**3,966**	**-0.7**	**-1.5**

Source: Supervisory reports.
(1) The data for November 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.

Supply conditions continue to improve ...

The banks interviewed as part of the bank lending survey reported a further easing of their lending policies in the third quarter of 2015 (see the box 'Credit supply and demand'). According to the business surveys conducted in December, the easing continued in the fourth quarter, particularly in the manufacturing sector.

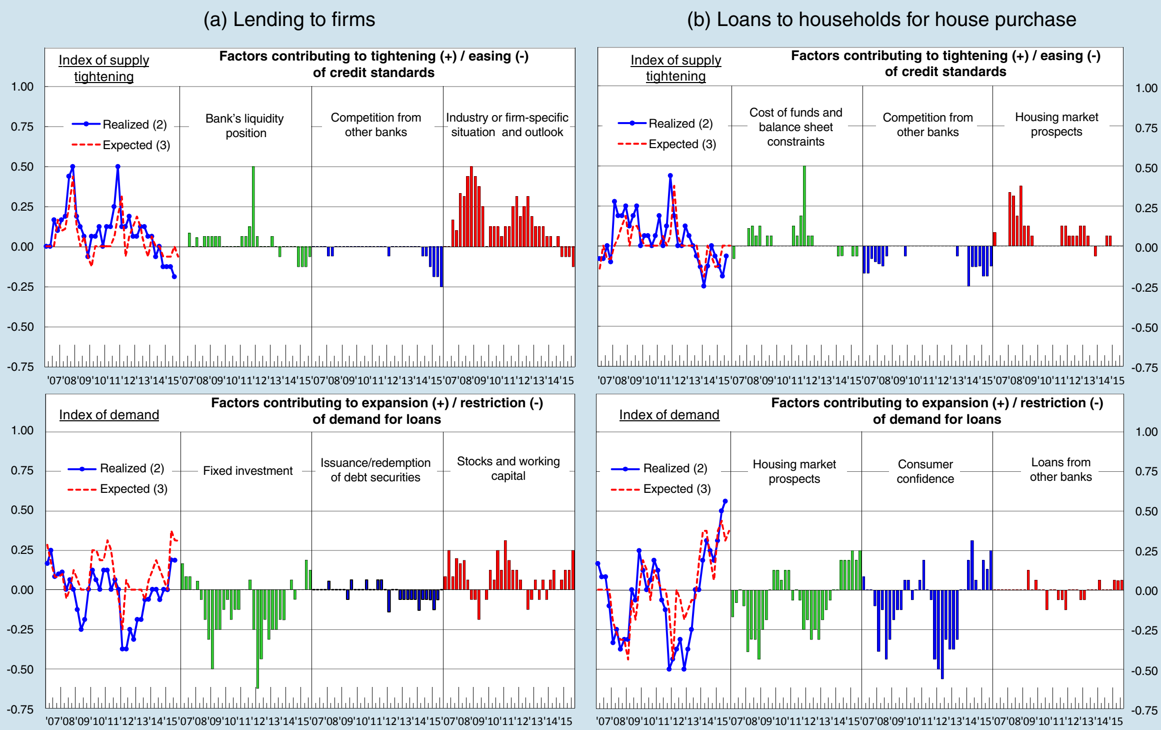
CREDIT SUPPLY AND DEMAND

According to the Italian banks interviewed in September's quarterly euro-area bank lending survey, in the third quarter of 2015 credit supply conditions for loans to firms and mortgage loans to households continued to ease (Figure A).[1] In both cases the improvement mainly reflected competitive pressures among banks. As for firms, this was also associated with the lower perceived risk of certain sectors or firms and with lower costs of funding and fewer balance sheet constraints on banks.

For the most part the easing of credit supply conditions led to a further reduction in interest margins. For business lending, the banks also reported a modest increase in the amount lent and a slight lengthening of maturities.

Figure A

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



Source: Euro-Area Bank Lending Survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme. For supply conditions: 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand: 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the time of the survey. – (3) Forecasts made in the preceding quarter.

[1] Eight of Italy's major banking groups took part in the survey, which was completed on 30 September. The results for Italy are available for consultation on the Bank's website at www.bancaditalia.it, while those for the euro area can be found at www.ecb.int; the survey results for the fourth quarter of 2015 will be published on 19 January 2016.

According to the banks interviewed, demand for business loans continued to grow, buoyed by low interest rates and higher funding requirements for fixed investments, stocks and working capital. There was also increased demand for home mortgages, driven mainly by particularly low interest rates, as well as the improvement in the outlook for the real estate market and in consumer confidence.

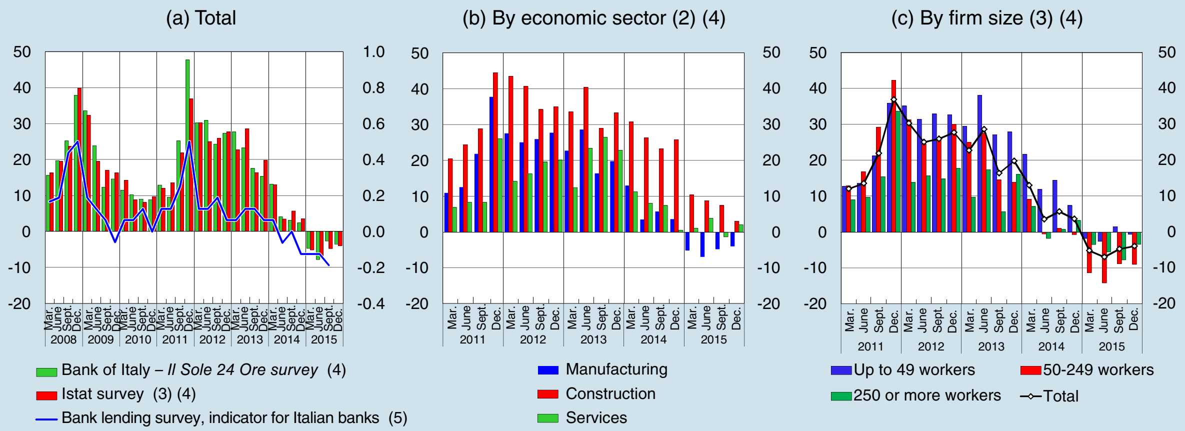
In their responses to the questions specifically on the effects of the Eurosystem's asset purchase programme,[2] the banks reported that the liquidity obtained was mainly used for lending to firms and, to a lesser extent, households. The programme also helped bring about a slight easing in credit supply conditions and an improvement in the terms and conditions applied to firms. Its impact on bank profitability was reported to be somewhat positive overall, reflecting in particular capital gains on the sale of negotiable instruments.

The results of the business surveys, which are available for the final quarter of the year, show a further improvement in lending conditions, although they continue to vary by sector of economic activity and firm size.

According to Istat's business confidence survey conducted in December (which also polls firms with fewer than 50 employees), lending conditions have improved moderately for manufacturing firms, especially large firms, while conditions have tightened somewhat for construction companies and service firms (Figure B). Analogous results for the manufacturing and construction sector were found in the survey conducted by the Bank of Italy and *Il Sole 24 Ore* on a sample of medium-sized and large firms (at least 50 workers).

Figure B

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 is taken from the end-of-quarter observations: in June 2013 some methodological changes involving the sample and data observation techniques were made that preclude direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, business confidence surveys. – (3) Istat, business confidence survey in the manufacturing area. – (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. – (5) Right-hand scale.

[2] These questions were posed to the banks for the first time in the March 2015 survey; the results are analysed in *Economic Bulletin*, No. 2, 2015.

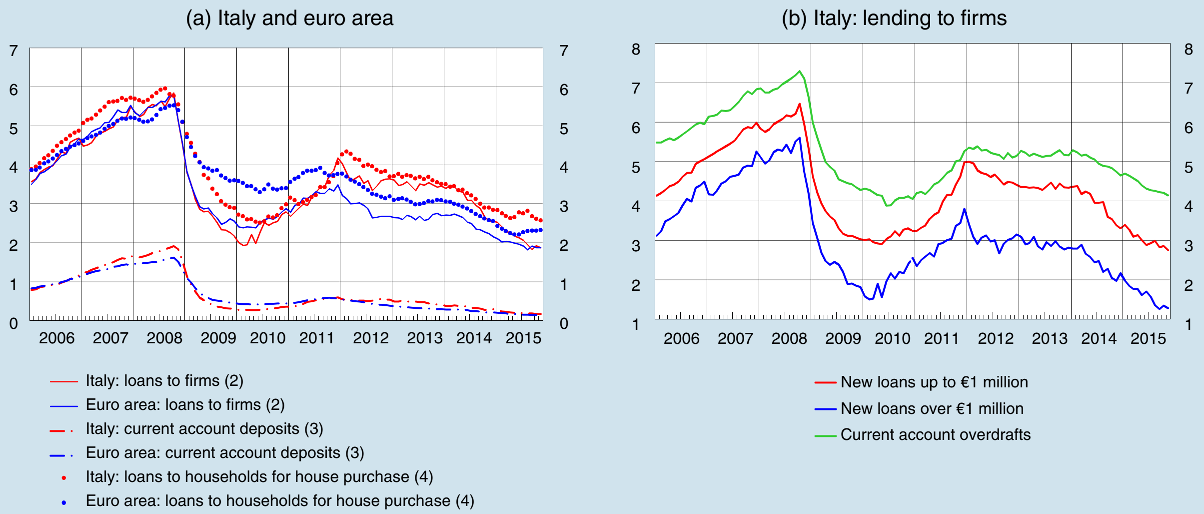
... and the average cost of new loans stands at historically very low levels

Between August and November the average interest rate on new loans to firms remained practically stable at 1.9 per cent, an extremely low level by historical standards (Figure 32). The spread with the corresponding average rate in the euro area fell to nil (it had been equal to about 100 basis points at the end of 2012) and turned slightly negative for loans of more than €1 million. The dispersion of the loan terms and conditions applied to the different types of borrower remains high, though not as great as during the global crisis. The difference between the cost of loans of less than €1 million and those of greater amount is still large in Italy (around 150 basis points, compared with 120 in the euro area). The cost of new loans to households came down by two tenths of a percentage point, to 2.6 per cent; the spread with the euro-area average declined to less than 30 basis points.

Figure 32

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.

New bad debts decline in relation to the stock of loans

Following the gradual improvement in economic activity, in the third quarter the flow of new non-performing loans fell as a ratio to outstanding loans[3] on a seasonally adjusted and annualized basis to 3.6 per cent, from 3.8 per cent in the previous quarter (for firms, to 5.4 per cent, from 6.1 per cent). The flow of new bad debts fell more markedly to 2.4 from 2.9 per cent of the stock of outstanding loans, particularly for firms (down 0.8 percentage points to 3.7 per cent), most notably in the construction sector (down 2.0 percentage points to 7.5 per cent). The improvement looks set to continue in 2016 for firms and households alike, as a consequence of the expected strengthening of the cyclical recovery (see *Financial Stability Report*, No. 2, 2015).

The profitability of the largest banking groups improves ...

According to consolidated quarterly reports, in the first nine months of 2015 the profitability of the five largest banking groups, while continuing to be low, improved with respect to the same period of the previous year: ROE, calculated on an annual basis, rose to 5.5 per cent, compared with 2.5 per cent in the year-

[3] Quarterly flow of non-performing loans (past-due exposures or breaches of overdraft limits, other non-performing loans and bad debts) as a ratio to the stock of performing loans at the end of the previous quarter.

earlier period. The improvement stemmed mainly from the 7.5 per cent growth in fee income, mostly in connection with asset management, and from the 24.0 per cent decrease in loan loss provisions. Gross income rose slightly by 1.8 per cent, while operating costs remained basically stable; as a result, the cost-income ratio came down from 63.0 to 62.2 per cent. Operating profit rose by 4.1 per cent.

... and the banking system's capital base strengthens

Capital strengthening is proceeding. At the end of September the highest quality capital (CET1) and total own funds of the banking system were equal on average to respectively 12.3 and 15.1 per cent of risk-weighted assets, up slightly with respect to the end of June.

The crisis of four small and medium-sized banks reaches resolution

On 22 November 2015 the Government and the Bank of Italy, in close cooperation, acted to resolve the crisis of four small and medium-sized banks under special administration, which together accounted for about 1 per cent of the total national market in terms of deposits. The measures adopted have guaranteed the business continuity and rehabilitation of the four banks and the preservation of jobs in the interest of the local economies in which the banks operate, fully protecting households' and firms' savings held in the form of deposits and ordinary bonds. The losses that the four banks accumulated over time were absorbed first of all by shares and subordinated bonds, in conformity with the prerequisite for the orderly solution of banking crises under the European rules transposed into Italian law by Legislative Decree 180/2015 of 16 November.[4]

2.8 THE FINANCIAL MARKETS

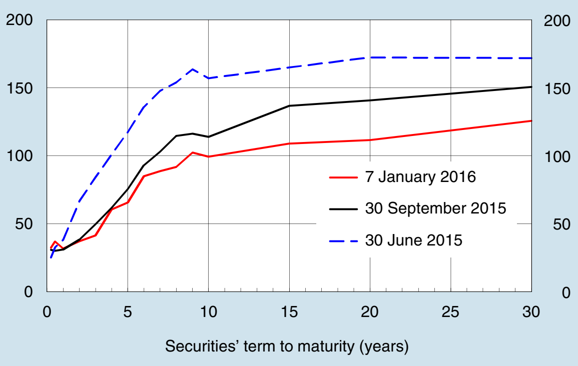
After the turbulence experienced in the summer months, the conditions on Italian financial markets improved in the fourth quarter, thanks in part to the expansionary stance of the single monetary policy. Since the beginning of December, however, share prices have been affected by new tensions in the global financial markets.

Sovereign spreads diminish ...

In the fourth quarter, yields on Italian government securities fell, albeit slightly, across all maturities. The further reduction in the yield spread between ten-year Italian and German government securities stemmed partly from expectations that the Eurosystem would strengthen its asset purchase programme. The yield spread decreased by 20 basis points, to about 1 percentage point at the start of January (Figure 33).

Figure 33

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



Source: Based on Bloomberg data.

... as do bank risk premiums

The premiums on credit default swaps of the major Italian banks fell by an average of about 15 basis points; they were not affected to any appreciable extent by the measures taken in late November to resolve the crisis of

[4] See on the Bank of Italy's website '*Information on the resolution to the crisis at four banks under special administration*', '*Decreto salva-banche: risposte alle dieci domande dei risparmiatori*' (only in Italian), and *Indagine conoscitiva sul sistema bancario italiano* (Testimony of Carmelo Barbagallo before the Chamber of Deputies for the fact-finding inquiry on the Italian banking system on 9 December 2015; only in Italian).

four small- and medium-sized banks. The reduction in the credit risk premiums for Italian non-financial corporations was of similar magnitude (17 basis points).

Net redemptions of bank bonds continue

Over the summer, there were further net bond redemptions by banks both in Italy and in the euro area, amounting to €27 billion and €60 billion respectively (Table 7). In the fourth quarter, according to preliminary Dealogic data on gross issues, the volume of placements by Italian banks fell to €6 billion from €8 billion in the previous quarter.

Share prices fall

After recovering a large part of the losses they had incurred during the summer, stock prices began to decline again at the end of 2015 and in January in response to tensions in the global financial markets (see Section 1.3). Since the beginning of October, the Italian stock market index has fallen 2 per cent, compared with an increase of 3 per cent in the index for the euro area (Figure 34). Nevertheless, for 2015 as a whole the Italian stock market registered the largest gain among those of the main euro-area countries.

The net inflow of savings to investment funds decreases

According to Assogestioni data, the net inflow of savings to Italian and foreign open-end investment funds, which had been substantial in the second quarter, fell to €16 billion in the third. The decrease was mainly ascribable to the bond sector.

2.9 THE PUBLIC FINANCES

Preliminary data suggest that in 2015 general government net borrowing diminished from 3 per cent of GDP in 2014 to near the 2.6 per cent level estimated in the Government's planning documents last autumn. According to official forecasts, net borrowing is set to decline further to 2.4 per cent of GDP in 2016, although the structural deficit would increase by about half a percentage point. The compliance of Italy's budget position with the European rules will be assessed by the European Commission within the next few months.

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy (2)		
2013	-80.3	-17.1	22.8	-74.5
2014	-153.0	-17.1	3.9	-166.2
2014 – Q1	-48.5	-8.6	3.3	-53.8
Q2	-28.3	1.8	-1.5	-28.0
Q3	-37.6	-6.9	2.9	-41.7
Q4	-38.7	-3.4	-0.8	-42.8
2015 – Q1	-42.0	-5.8	1.7	-46.1
Q2	-26.4	-5.1	-3.6	-35.1
Q3	-26.7	0.0	1.2	-25.5
		Euro area		
2013	-377.9	-73.4	81.1	-370.2
2014	-387.6	21.4	56.1	-310.1
2014 – Q1	-116.7	-27.2	19.4	-124.5
Q2	-70.5	69.9	18.0	17.5
Q3	-80.7	-4.3	13.2	-71.7
Q4	-119.7	-17.0	5.4	-131.4
2015 – Q1	-73.3	68.9	18.2	13.8
Q2	-70.6	10.5	0.7	-59.4
Q3	-60.4	45.9	17.2	2.8

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.

Figure 34

Share prices (1)
(daily data; indices: 3 January 2011=100)

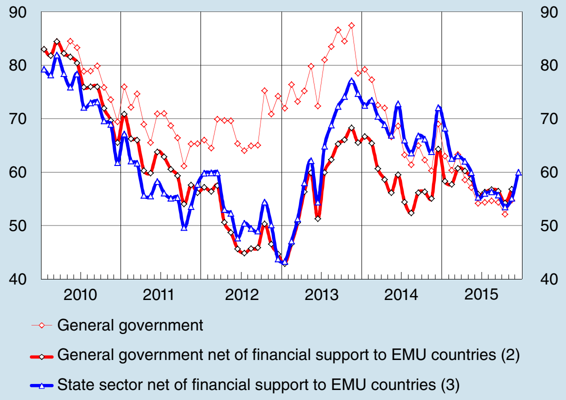
Source: Thomson Reuters Datastream.
(1) Indices: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

The cash basis data are consistent with a reduction in net borrowing in 2015

The state sector borrowing requirement decreased by about €15 billion in 2015 to €60 billion (Figure 35). In the first eleven months the general government borrowing requirement, net of privatization receipts, came to €59.7 billion, a decrease of €14.3 billion compared with the year-earlier period. Net of the effects of financial transactions that do not affect net borrowing and of the provisions for the payment of overdue general government debts, the reduction is more modest. Overall, these cash basis figures are consistent with a reduction in net borrowing from 3 per cent of GDP in 2014 to nearly the level forecast by the Government (2.6 per cent) in 2015 (Table 8).

Figure 35

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



Source: For the state sector, Ministry of Economy and Finance.
(1) Net of privatization receipts. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism. – (3) Excluding liabilities in respect of bilateral loans to other EMU countries and the contribution of capital to the ESM; loans disbursed through the EFSF are not counted in the state sector borrowing requirement.

According to estimates released by Istat, general government net borrowing was equal to 2.9 per cent of GDP in the first nine months of the year, compared with 3.3 per cent in the same period of 2014 (Table 9). The improvement was due to an increase in revenue (0.8 per cent) in connection with rises of 1.9 per cent in direct tax proceeds, 1.1 per cent in indirect taxes and 1.2 per cent in social security contributions as well as a reduction in interest expenditure. Non-interest spending increased, mainly reflecting the rise in social benefits in cash due to the income tax credit in favour of lower-income employees (awarded from May 2014 onwards).

Table 8

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

	2013	2014	2015	2016
Net borrowing	47.3	49.0	….	….
% of GDP (2)	2.9	3.0	2.6	2.4
Primary surplus	30.6	26.0	….	….
% of GDP	1.9	1.6	1.7	….
Interest payments	77.9	75.0	….	….
% of GDP	4.8	4.6	4.3	4.2
Debt	2,069.7	2,135.9		
% of GDP (3)	128.8	132.3	132.8	131.4

Source: For the items of the 2013-14 general government consolidated accounts, Istat; for 2015 and for interest payments and debt in 2016, Ministry of Economy and Finance Draft Budgetary Plan 2016; for 2016 net borrowing, based on data from the Update to the Economic and Financial Document for 2015, the Draft Budgetary Plan 2016 and the 2016 Stability Law.
(1) Rounding may cause discrepancies. – (2) The figure for 2016 includes the total effect of the 2016 Stability Law enacted by Parliament (footnote 6 in the text). – (3) Figures for 2016 are those given in the Draft Budgetary Plan 2016 published prior to Parliament's enactment of the 2016 Stability Law.

The debt-to-GDP ratio edges up in 2015

General government debt amounted to €2,211.9 billion at the end of November, up €50.8 billion from a year earlier. Given the sharp fall in the Treasury's liquid balance in December and taking account of the presumable general government cash surplus for the month, it can be estimated that at the end of the year the ratio of debt to GDP was slightly higher than at the end of 2014 (when it stood at 132.3 per cent). The Government forecasts that the ratio will begin to decline in 2016.

In the autumn the Government requests additional flexibility

In July, at the conclusion of the European semester, the EU Council called on Italy to make a further improvement of 0.1 percentage points in the structural budget balance, while granting the margin of 0.4 points that the Government had requested in view of the structural reforms enacted. In the autumn, the Government applied for another 0.4 points of budget flexibility, deriving mainly from the investment clause. The latest official plans for 2016 accordingly project a worsening of the structural balance. In November the Commission signalled a risk of non-compliance with the Stability and Growth Pact, although it acknowledged that the conditions for granting additional flexibility might obtain. It announced that Italy's position will be assessed in the next few months. The Eurogroup endorsed the Commission's opinion.

Table 9

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

	9 months 2014	9 months 2015	Change on corresponding 9 months 2014	Change on corresponding 9 months 2015
TOTAL EXPENDITURE	**582,676**	**583,522**	**0.1**	**0.1**
Current expenditure net of interest payments	485,105	491,047	0.6	1.2
of which: compensation of employees	113,214	112,456	-0.6	-0.7
intermediate consumption	64,106	64,832	-0.6	1.1
social benefits in cash	229,402	234,177	2.3	2.1
Interest payments	55,357	51,192	-3.3	-7.5
Capital expenditure	42,214	41,283	-1.2	-2.2
of which: gross fixed investment	25,590	25,596	-10.2	0.0
TOTAL REVENUE	**543,659**	**548,079**	**0.7**	**0.8**
Current revenue	540,796	545,964	1.1	1.0
of which: direct taxes	156,260	159,186	-0.6	1.9
indirect taxes	182,587	184,516	3.4	1.1
social security contributions	150,275	152,093	0.3	1.2
Capital revenue	2,863	2,115	-41.2	-26.1
of which: capital taxes	913	649	-66.6	-28.9
NET BORROWING	**39,017**	**35,443**		
% of GDP	3.3	2.9		
Primary balance	**16,340**	**15,749**		
% of GDP	1.4	1.3		

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

Parliament approves the 2016 Stability Law

On 22 December Parliament approved the Stability Law for 2016. The budget for the year reduces revenue by €18.0 billion and expenditure by €0.4 billion, thus increasing net borrowing by €17.6 billion, or 1.1 per cent of GDP, with respect to the deficit of 1.4 per cent of GDP projected on a current legislation basis (Table 10).[5] The planned deficit is accordingly set at 2.4 per cent of GDP. The main measures, already present in the initial budget bill, are the cancellation for 2016 of the safeguard clauses enacted with the 2014 and 2015 Stability Laws (which would mainly have increased consumption taxes), the abolition of the tax on ownership of the primary residence, and the extension of employment incentives.[6]

[5] The draft budget bill presented by the Government in October envisaged widening the deficit by 0.9 per cent of GDP (to 2.2 per cent) and allowed for a further increase of 0.2 points to 2.4 per cent, mainly in order to bring the corporate income tax rate reduction forward from 2017 to 2016. Originally, this possibility was subject to the granting of additional flexibility in the path towards structural budget balance in view of the costs arising from immigration. By comparison with the original bill, the final law approved by Parliament contained a Government-sponsored amendment allocating the additional resources deriving from the expansion of the deficit (from 2.2 to 2.4 per cent of GDP) to a series of measures, mostly for 2016 alone and largely in the spheres of security and cultural activities.

[6] L.F. Signorini, '*Audizione preliminare all'esame della manovra economica per il triennio 2016-18*', testimony before the Senate, Rome, 3 November 2015.

Table 10

Effects of the measures in the 2016 Stability Law on the general government consolidated accounts (1)
(millions of euros)

	2016	2017	2018
PROCUREMENT OF RESOURCES	**12,687**	**9,973**	**11,413**
Measures that increase revenue (A)	**4,778**	**1,524**	**1,561**
Voluntary disclosure	2,000	0	0
Reduction of the fund for tax reduction	810	413	411
Increased taxation of gaming	771	771	771
Proceeds from competitive tenders for concession of gaming licences	508	0	0
Revaluation of land, shareholdings and corporate assets	369	130	130
Reduction of fund for second-level collective bargaining	321	210	249
Measures that reduce expenditure (B)	**-7,909**	**-8,449**	**-9,853**
Current expenditure	-4,711	-6,643	-7,896
Regions	*-1,850*	*-4,993*	*-6,131*
Health care (financing of National Health Fund)	*-1,783*	*0*	*0*
Central government departments	*-920*	*-895*	*-919*
Containment of staff costs (limitation of hiring and accessory payments)	*-114*	*-227*	*-389*
Pension measures	*-44*	*-528*	*-457*
Capital expenditure	-3,198	-1,806	-1,957
USE OF RESOURCES	**30,312**	**29,109**	**27,522**
Measures that reduce revenue (C)	**-22,763**	**-23,959**	**-23,330**
Abrogation of safeguard clauses (2014 and 2015 Stability Laws)	-16,814	-11,088	-9,394
Municipal services tax – exemption for primary residence and tenants	-3,591	-3,591	-3,591
Municipal property tax – exemption of agricultural land, installed machinery, and other measures (including induced effects on income tax)	-1,037	-876	-942
Reduction in company income tax rate	0	-2,978	-3,970
Extension of contribution relief for open-ended employment contracts (net effect)	-834	-1,544	-988
Tax relief on productivity bonuses and fringe benefits	-438	-594	-589
Accelerated depreciation on tangible capital goods	-170	-943	-1,258
Changes to special tax regime for very small taxpayers (net effect)	283	-512	-293
Ecobonus and tax credits (net effect)	24	-460	-968
Regional tax on productive activities – abrogation for farms and fisheries	-167	-196	-196
Other net revenue (including effects induced by expenditure provisions)	-19	-1,178	-1,141
Measures that increase expenditure (D)	**7,549**	**5,150**	**4,193**
Current expenditure	4,670	3,811	3,070
Measures to fight poverty and social exclusion	*886*	*1,316*	*1,340*
Security and bonus for law enforcement personnel	*711*	*0*	*0*
Urban redevelopment and security in outlying city neighbourhoods	*500*	*0*	*0*
Contribution to provinces and metropolitan cities	*495*	*470*	*470*
Fund for extraordinary expenses	*487*	*658*	*-1*
Contract renewals	*300*	*300*	*300*
Sectoral measures for new hirings (universities, health, judicial system, diplomatic corps)	*164*	*261*	*305*
Cultural activities	*390*	*0*	*0*
Other net current expenditure	*738*	*806*	*656*
Capital expenditure	2,879	1,339	1,123
Local government	*676*	*10*	*10*
Tax credit for investment in southern regions	*617*	*617*	*617*
School construction	*480*	*0*	*0*
Fund for extraordinary expenses	*145*	*196*	*0*
Security	*270*	*0*	*0*
Other	*691*	*515*	*496*
Net change in revenue (E=A+C)	**-17,985**	**-22,435**	**-21,769**
Net change in expenditure (F=B+D)	**-360**	**-3,299**	**-5,660**
Current	*-41*	*-2,831*	*-4,826*
Capital	*-319*	*-467*	*-834*
Change in net borrowing (G=F-E)	**17,624**	**19,136**	**16,109**
per cent of GDP (2)	*1.1*	*1.1*	*0.9*

(1) Based on the official projections set forth in the parliamentary measure relating to 'Disposizioni per la formazione del bilancio annuale e pluriennale dello Stato' (Stability Law for 2016; A.S. 2111-B). The financial effects produced by the recalculation of the appropriations given in the tables annexed to the Stability Law (details in Annex 3 of the measure) have been classed as expenditure increases or decreases (current or capital) according to their impact (upward or downward), as in the annex cited. – (2) Projected nominal GDP based on Draft Budgetary Plan 2016.

2.10 PROJECTIONS

The projections for growth and inflation presented in this *Economic Bulletin* point to a strengthening of the economic recovery in Italy (Table 11), based on the assumption that the weaker stimulus provided by foreign trade as a result of the global economic slowdown will be replaced by a greater contribution on the part of domestic and euro-area demand. For this to happen, the Eurosystem's asset purchase programme must continue to produce effects, the fiscal policy stance has to remain non-restrictive, and credit conditions need to improve. There continue to be downside risks for economic activity stemming from the outlook for the emerging economies, geopolitical tensions, and the ensuing uncertainty afflicting the corporate sector, which could reduce its propensity to invest.

Table 11

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

	2015	2016	2017
GDP (1)	0.7 (1)	1.5	1.4
Household consumption	0.9	1.6	1.4
Government consumption	0.4	0.6	-0.3
Gross fixed investment	0.5	2.7	2.2
of which: in machinery, equipment and transport equipment	2.1	5.4	3.1
Total exports	3.8	3.9	5.6
Total imports	5.5	4.7	5.1
Change in stocks (2)	0.4	0.1	0.0
HICP	0.1	0.3	1.2
HICP net of food and energy	0.7	0.7	0.9
Employment (3)	0.8	0.9	0.9
Unemployment rate (4)	11.9	11.1	10.7
Export competitiveness (5)	3.9	1.4	0.4
Current account balance (6)	2.0	2.1	2.3

Sources: Based on Bank of Italy and Istat data.
(1) Changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. Without this adjustment, which is not made to annual data, GDP growth is estimated to be 0,8 per cent in 2015. – (2) Includes valuables. Contribution to GDP growth in percentage points. – (3) Standard labour units – (4) Annual averages; per cent. – (5) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products); a positive value indicates a gain in competiveness. – (6) Per cent of GDP.

The scenario assumes a gradual recovery in the euro area ...

In line with the assessments of the leading international organizations, in the forecasting scenario we posit that after slackening in 2015 world trade will gradually return to growth in the next two years (see the box 'The technical assumptions'). However, with economic growth slowing in the emerging countries, the expansion of Italy's exports, weighted by destination market, will depend mainly on a stronger recovery in the euro area. Oil prices are expected to remain low, following the trend implied in the prices of futures contracts in the last ten days, partly owing to weak growth in the emerging economies and partly to the expected increase in oil supply from Iran now that sanctions have been lifted (see Section 1.1).

... an expansionary monetary policy ...

We project that conditions on the financial and foreign exchange markets will remain favourable thanks to the expansionary policies adopted by the Governing Council of the ECB. The yield on ten-year BTPs, which was about 1.5 per cent at the beginning of January, should stay close to its current level; the euro to dollar exchange rate, which is down about 13 per cent from the beginning of November 2014 when the asset purchase programme was announced, is expected to remain at the current rate.

... and favourable credit conditions

We also hypothesize that the expansionary stance of monetary policy and the gradual recovery in economic activity will continue to foster an improvement in credit conditions. The average rate on business loans, including overdrafts, which fell by almost 1 percentage point in the course of last year, from 3.6 per cent in 2014 to 2.7 per cent, should decrease to 2.4 per cent in 2017, owing in part to a progressive diminution in borrowers' riskiness. Accordingly, next year new bad debts for households and firms should return to the levels observed before the sovereign debt crisis. Business loans, which are now expanding, are expected to accelerate gradually over the next quarters; lending to households will continue to strengthen.

THE TECHNICAL ASSUMPTIONS

The main assumptions underlying the macroeconomic scenario are:

a) International trade, after slowing to an average of 1.5 per cent in 2015, grows by 3.5 per cent in 2016 and by 4.2 per cent in 2017; foreign demand, weighted according to the importance of the markets for Italian exports, expands at a faster rate of just under 0.5 percentage points on average for the next two years;[1]

b) the dollar-euro exchange rate, which averaged 1.11 in 2015, stands at 1.09 in 2016 and 2017;[2]

c) a barrel of Brent crude oil, which averaged around $53 in 2015, remains below an average of $40 in 2016 and then rises to $46 in 2017 in line with futures prices;

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

	2015	2016	2017
International trade	1.5	3.5	4.2
Potential foreign demand	2.0	3.9	4.4
Dollar/euro (1)	1.11	1.09	1.09
Nominal effective exchange rate (2)	4.6	0.3	0.0
Crude oil price (1) (3)	52.6	39.7	46.4
Three-month Euribor (1)	0.0	-0.2	-0.1
1-year BOTs (1)	0.1	-0.1	0.1
10-year BTPs (1)	1.7	1.9	2.2

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

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

e) the yield on ten-year BTPs, which was 1.7 per cent in 2015, rises to 1.9 per cent in 2016 and to 2.2 per cent in 2017, in line with market expectations;

f) the forecasting scenario takes into account the measures supporting economic activity contained in the last Stability Law (see Section 2.9) and in previous stability laws prepared by the Government. These include: the elimination of the municipal services tax (TASI) on the primary residence and other property tax reliefs; support for lower incomes; the reduction of social security contributions for new employees on permanent contracts; the reduction of corporate income tax (IRES) and the regional tax on productive activities (IRAP); and incentives for investment in capital goods.

[1] Our growth assumptions for international trade and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented in December's macroeconomic projections for the euro area prepared by the Eurosystem staff, updated to take account of the latest cyclical developments.
[2] The technical assumptions for interest rates, exchange rates and oil prices are calculated on the basis of spot and forward prices in the markets in the ten working days up to 12 January.

The scenario takes account of fiscal policy

The scenario takes account of the effects of the measures to support economic activity incorporated in the last Stability Law (see Section 2.9) and in the ones adopted earlier by the Government: eliminating the municipal services tax (TASI) on the primary residence and introducing other property tax relief; providing support for lower incomes; reducing social security contributions for new employees on permanent contracts; reducing corporate income tax (IRES) and the regional tax on productive activities (IRAP); and offering incentives for investment in capital goods.

GDP growth in Italy is moderate in 2015 and strengthens in 2016-17...

We estimate that GDP expanded by 0.8 per cent in 2015; based on quarterly data which are adjusted for calendar effects, it grew by 0.7 per cent (Table 11). The result reflects the contribution of the domestic demand components, which was only partly offset by the effect of opposite sign of foreign trade. The recovery is expected to become more robust in 2016-17 (Figure 36), driven mainly by domestic demand while foreign trade will pick up more slowly. Overall, GDP should expand by 1.5 per cent in 2016 and continue to grow at a similar pace in 2017 (Figure 37) even after the investment incentives contained in the Stability Law come to an end.

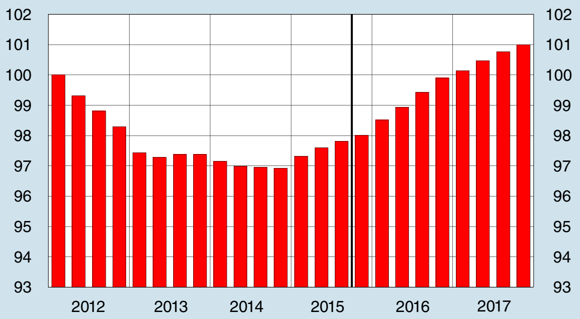
... thanks to expansionary measures

GDP growth will be largely due to the effects of expansionary policies. The Eurosystem's asset purchase programme should contribute about 1.5 percentage points in 2016-17 through its impact on the exchange rate, interest rates and credit conditions, and fiscal policy about 0.4 points. The positive effects of the tax relief for households as well as the measures to support business (reduction of social security contributions for new employees on permanent contracts, reduction of IRES and IRAP, and incentives for investment in capital goods) should be only partly offset by the measures for funding coverage. The drop in oil prices under way since 2014 will add about 0.8 percentage points to output in 2016-17, The contribution of international trade to GDP growth will be considerably below its historical average and the projection contained in the July Bulletin.

Figure 36

GDP projections: quarterly profile (1)

(Index, 2011 Q1=100)

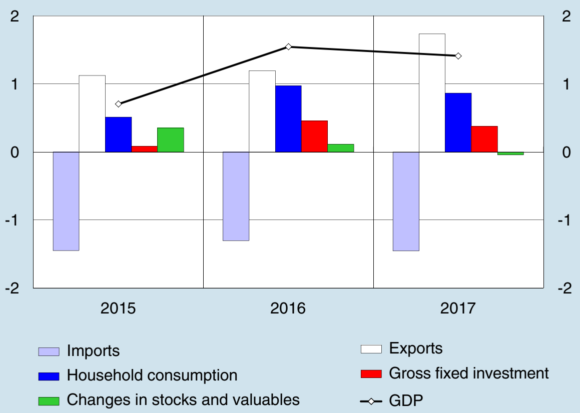


Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to 2015 Q3; projections thereafter.

Figure 37

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

(percentage points)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted.

Exports are affected by the global slowdown but benefit from the exchange rate

After being held down by weakening foreign demand in the second half of 2015, export growth is projected to gain pace gradually, reaching an average annual rate of over 5 per cent in the last year of the forecasting period compared with 3.8 per cent in 2015. Overall, exports will expand more rapidly than our trading partners' demand thanks to the competitiveness gains associated with the euro's substantial depreciation since the middle of 2014.

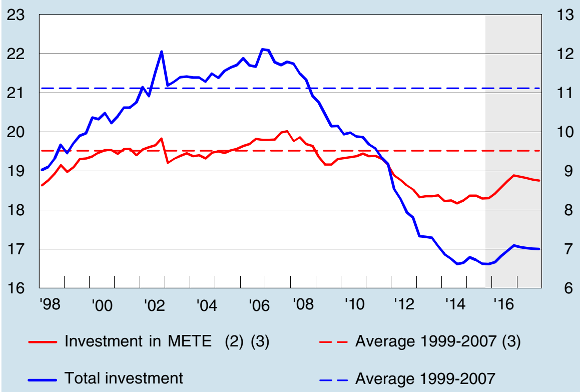
Demand and support measures foster investment

Capital formation, which remained slack throughout the second half of 2015, will pick up over the next two years, growing at an annual average rate of over 2 per cent. The recovery will reflect mainly the upturn in production assets, which will benefit from the Government's stimulus package as well as from a better outlook for demand and more favourable financing conditions. It is estimated that, by reducing the cost of capital for firms and encouraging them to bring expenditure forward, the incentives to invest in capital goods will add about 2.5 percentage points overall to the growth of investment in production assets. Investment in construction, especially residential building, is expected instead to remain slack owing to the slow recovery of the housing market: after contracting in 2015, it will stagnate this year and return to growth only in 2017. At the end of the forecasting horizon the ratio of investment in machinery, equipment and transport equipment to GDP will be close to the average for the ten years before the crisis (1998-2007), while the ratio of total investment expenditure to GDP will remain below it (Figure 38).

Figure 38

Investment as a percentage of GDP (1)

(quarterly data)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. – (2) Investment in machinery, equipment and transport equipment (METE). – (3) Right-hand scale.

Consumption picks up slowly ...

Household consumption will continue to expand as real disposable income recovers thanks to the improvement in labour market conditions and the Government's stimulus package. The support for lower incomes and property tax relief are expected to contribute some 0.6 percentage points to GDP growth in the next two years. Low interest rates will help to boost household spending. Consumption expanded by almost 1 per cent in 2015 and is expected to accelerate to about 1.5 per cent on average this year and next. Spending on durables will continue to increase, though at a slower pace than in 2015. The household saving rate should stabilize at around 10 per cent over the forecasting horizon.

... partly thanks to the stronger labour market

Employment, measured in standard labour units, is projected to continue rising over the next two years at an average annual rate of 0.9 per cent in response to the improved outlook for demand and also, in part, to the Government's measures to reduce labour costs. It is estimated that reducing social security contributions for new permanent employees will not only generate a widespread shift to this form of contract but could also boost employment by about 0.3 percentage points in the three years of the forecast. The unemployment rate should continue to come down during the same period, falling below 11 per cent in 2017.

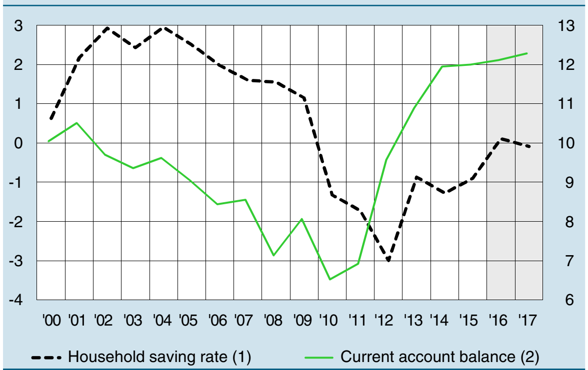
The balance of payments stays in surplus despite rising imports

Imports are projected to grow on average by almost 5 per cent annually, driven by the aggregate demand components with the highest import content (capital investment and exports). The current account surplus, which is estimated at 2.0 per cent of GDP in 2015, is expected to increase to 2.3 per cent in 2017 (Figure 39), an improvement for the most part attributable to the reduced energy deficit.

Figure 39

Household saving rate and current account balance

(percentage points)



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

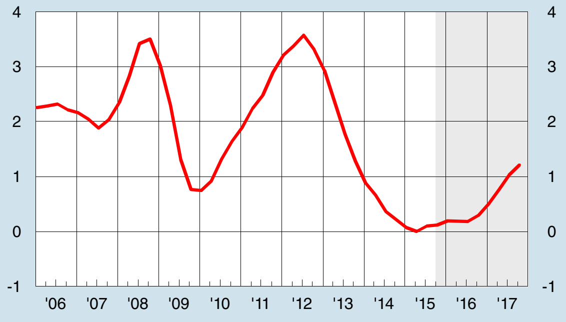
Inflation increases very slowly

Inflation, measured by the harmonized index of consumer prices, is projected to rise very gradually from 0.1 per cent in 2015 to 0.3 per cent this year and 1.2 per cent next (Figure 40). Core inflation will increase by 0.7 per cent in 2016 and 0.9 per cent in 2017. Domestic inflation, measured by the GDP deflator, will rise gradually over the forecasting horizon to reach 1.2 per cent in 2017. A factor in the low rate of inflation will be the small growth in nominal wages attributable to the outcome of recently renewed employment contracts and of those due to be signed this year and next, which are expected to incorporate pay rises in line with forecasts net of inflation due to imported energy products. Profit margins in the private sector will return to growth, by an annual average of 1 per cent, thanks to the cyclical upturn and to lower competitive pressures from abroad.

Figure 40

Consumer price inflation

(quarterly data; percentage change on year-earlier period; 4-term moving averages)



Sources: Based on Bank of Italy and Istat data.

The growth forecast is in line with July's estimate ...

The forecast for growth is generally in line with the estimates set out in the July Bulletin, although there has been some change in the role of the contributory factors. While external conditions appear generally less favourable, the internal situation will strengthen. The impact of the downward revisions to foreign demand (which will deduct some 0.6 percentage points from growth over the entire forecasting horizon) will be almost entirely offset by the improved performance of interest rates and oil prices, as well as by the contribution of the additional expansionary measures of the Stability Law. Inflation forecasts have been revised down by about 0.8 percentage points for 2016, mainly owing to the drop in the prices of energy raw materials.

... and the estimates of other organizations

The projections for GDP growth presented in this scenario are generally in line with those formulated by the other leading organizations (Table 12). Our inflation forecast for 2016 is on average lower than that of the other analysts.

Table 12

Other organizations' forecasts for Italy

(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2016	2017	2016	2017
IMF (October)	1.3	1.2	0.7	1.0
OECD (November)	1.4	1.4	0.8	1.1
European Commission (November)	1.5	1.4	1.0	1.9
Consensus Economics (December)	1.3	…	0.8	…

Sources: IMF, *World Economic Outlook*, October 2015; OECD, *OECD Economic Outlook*, 98, November 2015; European Commission, *European Economic Forecast Autumn 2015*, November 2015; Consensus Economics, *Consensus Forecasts*, December 2015.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

There are risks for growth ...

The risks for growth are predominantly on the downside (Figure 41). The main factors overshadowing economic activity are associated with the international situation. The slowing of growth in China and the emerging countries could turn out to be sharper and more prolonged than projected. A larger than expected slowdown in world trade could have repercussions on domestic demand as well if increased uncertainty about export growth were to lead to more cautious decision-making regarding investment. Geopolitical tensions, for the most part associated with the unstable situation in the Middle East and aggravated by the recent terrorist attacks, could impact on the confidence of households and firms.

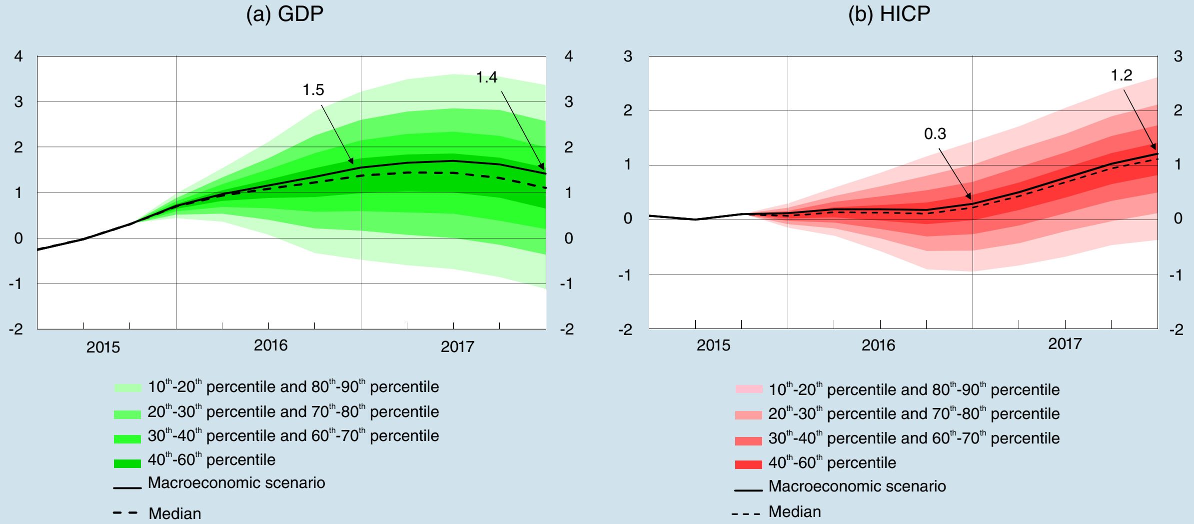
... and for inflation

The downside risks for inflation stem from the possible effect on raw material prices of a sharper than expected slowing of growth in the emerging economies and a smaller than expected upturn in demand leading to a prolonged period of high levels of unused production capacity. There is also a risk that if inflation is lower than forecast this might have a second-round effect on wage increases, as in some of the recently signed contracts parts of pay rises are linked

Figure 41

Distribution of probabilities of GDP and HICP projections (1)

(percentage changes on year-earlier period; 4-term moving averages)



(1)The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The distribution takes account of asymmetric shocks to the equations that reflect the main risk factors by the procedure described in C. Miani and S. Siviero, '*A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts*', Banca d'Italia, Temi di Discussione (Working Papers), No. 758, 2010. The figure shows year-on-year percentage changes of 4-term moving averages. The value corresponding to the 4th quarter of each year coincides with the average annual percentage change.

to shifts in the rate of inflation away from the current forecasts. On the other hand, prices could be buoyed by a further depreciation of the euro if monetary policy in the area were to diverge further from that followed elsewhere.

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	..
Q3	2.0	3.0	2.0	1.8	0.3	3.7	0.6	2.2	2.3	0.7	2.3	-0.3	-0.7

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	1.4	1.7	1.0	1.9	0.4	2.5	0.5	1.7	1.7	1.2	3.1	-0.3	-0.2
2014	..	-0.9	-0.5	0.1	..	1.3	0.3	..	..	8.4	7.2	..	0.2
2013 – Q1	4.0	3.0	1.8	2.6	0.5	-1.7	-0.4	2.2	2.2	16.4	3.1	1.7	0.3
Q2	3.1	4.0	2.4	2.7	0.5	12.5	2.5	3.2	3.2	13.8	13.0	-0.1	-2.2
Q3	2.0	1.3	0.8	0.2	..	7.9	1.6	3.4	3.5	-1.3	7.5	-1.4	1.0
Q4	-0.7	-0.5	-0.3	..	..	4.5	0.9	1.3	1.3	-0.6	11.3	-2.0	0.7
2014 – Q1	5.0	9.5	5.6	-0.5	-0.1	11.3	2.4	5.9	5.9	25.5	26.3	-0.9	-2.0
Q2	-7.2	-17.8	-11.7	-0.9	-0.2	-17.6	-4.2	-10.4	-11.2	1.5	-16.2	3.8	5.0
Q3	-2.8	..	..	0.9	0.2	-3.5	-0.8	-2.9	-3.0	6.5	4.3	0.2	-2.5
Q4	1.8	1.4	0.8	1.5	0.3	-0.2	..	0.4	0.5	12.0	3.2	1.4	-0.7
2015 – Q1	4.4	1.2	0.7	0.9	0.2	6.4	1.4	4.3	4.4	8.0	7.1	..	2.1
Q2	-0.5	-2.1	-1.3	1.7	0.4	0.9	0.2	0.4	0.4	-16.0	-10.1	-0.9	1.2
Q3	1.0	1.5	0.9	1.1	0.2	1.2	0.3	0.5	0.5	11.1	7.0	0.5	-0.8

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	2.1	10.0	4.1	-3.6	3.6	-0.3	0.8	0.8	11.3
2011	1.6	4.3	2.3	0.1	3.2	1.6	0.0	-0.1	6.5
2012	-0.9	-1.0	-0.9	-4.6	-1.9	-3.3	-1.2	-0.2	2.6
2013	-0.3	1.3	0.1	-3.6	-1.5	-2.6	-0.7	0.2	2.1
2014	0.9	4.5	1.9	-0.5	3.3	1.3	0.8	0.9	4.1
2013 – Q3	0.2	1.3	0.6	0.6	1.2	0.9	0.3	0.2	0.5
Q4	0.2	0.5	0.3	-0.7	1.5	0.4	0.1	0.2	1.1
2014 – Q1	0.2	1.2	0.5	0.5	0.3	0.4	0.0	0.2	0.8
Q2	0.1	1.1	0.4	-1.4	0.4	-0.5	0.2	0.2	1.0
Q3	0.3	1.5	0.6	-0.1	0.9	0.4	0.4	0.3	1.6
Q4	0.4	1.2	0.6	0.2	1.0	0.6	0.5	0.2	1.2
2015 – Q1	0.5	1.9	0.9	1.3	1.7	1.5	0.5	0.5	1.3
Q2	0.4	0.9	0.5	-0.9	1.1	0.1	0.3	0.3	1.6
Q3	0.3	0.9	0.5	-0.2	0.2	0.0	0.4	0.6	0.2
				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	1.2	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 – Q3	0.1	-0.1	….	….	….	0.3	0.2	0.2	-0.1
Q4	0.2	-0.3	….	….	….	0.3	0.2	-0.1	-0.1
2014 – Q1	0.3	-0.6	….	….	….	0.0	0.2	0.7	-0.5
Q2	0.1	-0.4	….	….	….	-0.1	0.1	0.1	-0.2
Q3	0.3	0.0	….	….	….	0.4	0.0	0.3	0.4
Q4	0.3	-0.8	….	….	….	0.2	0.1	-0.1	0.0
2015 – Q1	0.3	-1.3	….	….	….	-0.1	-0.3	0.2	-0.3
Q2	0.4	0.9	….	….	….	0.2	0.6	0.3	0.8
Q3	0.3	-1.0	….	….	….	0.2	-0.1	0.2	-0.4

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

Table A4

Sources and uses of income: Italy (1)
(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2010	1.7	12.4	3.7	-3.6	3.1	-0.5	1.2	0.6	11.8
2011	0.6	0.5	0.6	-3.7	..	-1.9	..	-1.8	5.2
2012	-2.8	-8.1	-4.0	-9.3	-9.2	-9.3	-3.9	-1.4	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 – Q3	..	2.4	0.5	-0.2	..	-0.1	0.1	-1.0	1.6
Q4	..	-0.1	-0.1	-2.7	0.3	-1.3	0.2	0.1	-0.4
2014 – Q1	-0.1	0.5	..	-0.8	-2.1	-1.5	0.2	-0.2	0.4
Q2	-0.2	0.9	..	-1.5	0.2	-0.7	0.1	-0.7	1.3
Q3	-0.1	1.2	0.2	-1.1	-0.8	-0.9	..	0.5	0.7
Q4	-0.1	0.4	..	-0.4	0.7	0.1	0.2	0.5	1.9
2015 – Q1	0.4	2.5	0.9	0.6	1.9	1.2	0.1	..	1.0
Q2	0.3	1.6	0.6	-0.5	0.3	-0.1	0.4	-0.4	1.3
Q3	0.2	0.5	0.3	..	-0.7	-0.4	0.4	0.3	-0.8
	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 – Q3	0.2	-0.3	0.1	0.2	..	0.1	0.3	0.4	..
Q4	0.3	-0.8	0.1	0.3	-1.2	-0.4	..	0.3	-0.2
2014 – Q1	0.4	-0.8	0.2	-0.5	0.5	..	0.1	0.3	0.1
Q2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	..	-0.2	-0.3
Q3	0.2	-0.4	0.1	0.4	1.2	0.8	-0.1	0.1	0.3
Q4	0.3	-0.9	..	0.2	0.7	0.4	..	0.3	-0.3
2015 – Q1	-0.1	-0.8	-0.2	-0.4	-1.6	-1.0	-0.1	-0.5	-0.4
Q2	0.1	1.2	0.3	-0.2	0.9	0.4	0.3	..	0.4
Q3	0.4	-2.1	-0.1	0.4	0.5	0.5	-0.1	0.3	-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	2.2	2.3	2.8	0.6	0.0
2012	3.3	1.2	-1.0	-2.2	2.1
2013	2.9	0.9	-0.6	-1.5	2.0
2014	1.7	0.1	0.5	0.4	1.6
2013 – Q1	4.6	2.0	-1.4	-3.4	2.5
Q2	2.1	0.0	-0.9	-0.9	2.1
Q3	2.6	-0.3	-1.0	-0.8	2.9
Q4	2.1	1.9	1.3	-0.5	0.3
2014 – Q1	1.4	0.3	0.9	0.6	1.1
Q2	2.3	0.7	0.5	-0.3	1.5
Q3	1.8	0.4	0.6	0.2	1.4
Q4	1.5	-0.7	0.2	1.0	2.2
2015 – Q1	1.7	0.8	1.3	0.5	0.9
Q2	1.4	0.9	1.8	0.9	0.5
Q3	0.8	0.5	1.5	1.0	0.3
			Services		
2011	1.8	1.2	1.7	0.5	0.6
2012	2.2	0.8	-0.1	-0.9	1.4
2013	2.1	1.1	0.1	-1.0	1.0
2014	1.2	0.1	1.0	0.9	1.0
2013 – Q1	2.7	1.3	-0.5	-1.8	1.4
Q2	1.9	1.0	0.0	-1.0	0.9
Q3	1.9	1.2	0.4	-0.8	0.7
Q4	1.8	0.8	0.6	-0.2	1.0
2014 – Q1	1.2	0.4	1.1	0.7	0.8
Q2	1.1	0.1	0.9	0.8	1.0
Q3	1.1	0.0	0.9	1.0	1.1
Q4	1.2	-0.1	1.1	1.2	1.3
2015 – Q1	1.2	0.3	1.3	1.0	0.9
Q2	1.1	0.3	1.5	1.2	0.9
Q3	0.9	0.0	1.5	1.5	0.9
			Total economy		
2011	2.1	1.6	1.7	0.1	0.5
2012	2.6	1.0	-0.7	-1.6	1.7
2013	2.3	1.3	-0.2	-1.4	1.1
2014	1.3	0.3	0.9	0.6	1.0
2013 – Q1	3.2	1.7	-1.0	-2.6	1.5
Q2	2.0	1.0	-0.4	-1.4	1.0
Q3	2.0	1.0	0.0	-1.0	1.0
Q4	1.8	1.2	0.7	-0.4	0.7
2014 – Q1	1.2	0.5	1.1	0.6	0.7
Q2	1.4	0.4	0.8	0.4	1.0
Q3	1.2	0.2	0.8	0.6	1.0
Q4	1.2	-0.2	0.8	1.0	1.4
2015 – Q1	1.3	0.3	1.1	0.8	0.9
Q2	1.1	0.3	1.5	1.1	0.8
Q3	0.8	0.1	1.4	1.3	0.7

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	2.4	1.4	-3.2	-4.5	1.0
Q2	3.2	1.2	-2.6	-3.7	2.0
Q3	2.9	-0.8	-2.9	-2.2	3.7
Q4	2.7	0.6	-0.7	-1.3	2.1
2014 – Q1	2.0	-0.9	0.1	1.0	2.9
Q2	1.5	-1.3	-0.8	0.5	2.8
Q3	1.3	-2.5	-1.4	1.2	3.9
Q4	0.7	-3.6	-1.5	2.2	4.5
2015 – Q1	2.1	-1.3	-0.5	0.8	3.4
Q2	1.5	-0.7	0.4	1.1	2.1
Q3	1.5	0.7	1.3	0.6	0.8
		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	-1.6	-1.6	0.9
Q2	1.0	1.1	-1.1	-2.2	-0.1
Q3	0.8	1.5	-0.7	-2.1	-0.6
Q4	2.5	0.9	-0.7	-1.6	1.6
2014 – Q1	1.4	0.4	-0.1	-0.4	1.0
Q2	0.2	-0.4	0.1	0.5	0.7
Q3	0.3	-0.3	0.1	0.4	0.7
Q4	-0.4	-0.8	0.1	0.9	0.3
2015 – Q1	-0.7	-1.0	0.1	1.1	0.3
Q2	-0.4	-0.7	0.4	1.1	0.3
Q3	-0.5	-1.1	0.5	1.6	0.6
		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	1.4	0.8	-2.2	-3.0	0.6
Q2	1.8	1.7	-1.7	-3.3	0.1
Q3	1.4	1.1	-1.2	-2.3	0.3
Q4	2.5	1.0	-0.8	-1.8	1.5
2014 – Q1	1.5	0.2	-0.1	-0.3	1.3
Q2	0.5	-0.6	-0.3	0.3	1.1
Q3	0.6	-0.6	-0.4	0.2	1.2
Q4	-0.2	-1.5	-0.5	1.0	1.3
2015 – Q1	0.0	-1.1	-0.1	1.0	1.1
Q2	0.1	-0.9	0.3	1.2	0.9
Q3	0.0	-0.5	0.6	1.2	0.6

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

Table A7

Harmonized index of consumer prices: main euro-area countries

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food
2011	2.3	1.1	2.5	1.2	2.9	2.0	3.1	1.2	2.7	1.4
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	0.7	1.6	1.2	1.3	1.3	1.5	1.3	1.4	1.1
2014	0.6	1.0	0.8	1.1	0.2	0.7	-0.2	-0.1	0.4	0.8
2013 – Jan.	1.4	0.9	1.9	1.1	2.4	1.7	2.8	2.1	2.0	1.3
Feb.	1.2	0.7	1.8	1.2	2.0	1.4	2.9	2.1	1.8	1.3
Mar.	1.1	0.8	1.8	1.8	1.8	1.5	2.6	2.2	1.7	1.5
Apr.	0.8	0.5	1.1	0.6	1.3	1.2	1.5	1.8	1.2	1.0
May	0.9	0.6	1.6	1.1	1.3	1.4	1.8	2.0	1.4	1.2
June	1.0	0.5	1.9	1.2	1.4	1.2	2.2	1.9	1.6	1.2
July	1.2	0.7	1.9	1.2	1.2	1.0	1.9	1.5	1.6	1.1
Aug.	1.0	0.6	1.6	1.2	1.2	1.2	1.6	1.4	1.3	1.1
Sept.	1.0	0.8	1.6	1.3	0.9	1.3	0.5	0.5	1.1	1.0
Oct.	0.7	0.9	1.2	1.0	0.8	1.2	0.0	-0.1	0.7	0.8
Nov.	0.8	1.0	1.6	1.7	0.7	1.1	0.3	0.0	0.9	0.9
Dec.	0.8	0.8	1.2	0.7	0.7	0.9	0.3	-0.1	0.8	0.7
2014 – Jan.	0.8	0.8	1.2	1.2	0.6	0.9	0.3	-0.1	0.8	0.8
Feb.	1.1	1.4	1.0	1.2	0.4	0.9	0.1	0.0	0.7	1.0
Mar.	0.7	1.1	0.9	0.9	0.3	0.9	-0.2	-0.3	0.5	0.7
Apr.	0.8	1.2	1.1	1.4	0.5	1.1	0.3	0.1	0.7	1.0
May	0.8	1.1	0.6	0.7	0.4	0.8	0.2	-0.1	0.5	0.7
June	0.6	0.9	1.0	1.1	0.2	0.7	0.0	-0.1	0.5	0.8
July	0.6	0.9	0.8	1.2	0.0	0.5	-0.4	-0.1	0.4	0.8
Aug.	0.5	1.2	0.8	1.2	-0.2	0.4	-0.5	0.0	0.4	0.9
Sept.	0.4	0.9	0.8	1.2	-0.1	0.5	-0.3	-0.2	0.3	0.8
Oct.	0.5	0.8	0.7	1.1	0.2	0.6	-0.2	-0.2	0.4	0.7
Nov.	0.4	0.7	0.5	0.9	0.3	0.6	-0.5	-0.2	0.3	0.7
Dec.	0.1	0.7	0.1	1.2	-0.1	0.7	-1.1	-0.1	-0.2	0.7
2015 – Jan.	-0.4	0.4	-0.5	0.9	-0.5	0.5	-1.5	0.0	-0.6	0.6
Feb.	-0.3	0.3	0.0	1.1	0.1	0.9	-1.2	0.0	-0.3	0.7
Mar.	0.0	0.4	0.2	1.0	0.0	0.4	-0.8	0.0	-0.1	0.6
Apr.	0.1	0.5	0.3	1.1	-0.1	0.3	-0.7	0.0	0.0	0.6
May	0.3	0.7	0.7	1.4	0.2	0.7	-0.3	0.3	0.3	0.9
June	0.3	0.7	0.1	0.9	0.2	0.7	0.0	0.4	0.2	0.8
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
Oct.	0.2	0.8	0.2	1.4	0.3	0.9	-0.9	0.6	0.1	1.1
Nov.	0.1	0.7	0.3	1.2	0.2	0.7	-0.4	0.7	0.2	0.9
Dec.	0.3	0.8	(0.2)	....	(0.1)	(0.5)	(-0.1)	....	(0.2)	(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	30,779	49,204	-1,258	-532	-16,634	3,355	-942	4,297
2013 – Q4	9,731	11,166	-632	1,464	-2,267	2,301	-510	2,811
2014 – Q1	-404	8,337	-2,593	878	-7,027	-587	-515	-72
Q2	6,251	12,196	791	-3,787	-2,948	281	-158	439
Q3	9,898	12,581	1,546	-1,100	-3,129	423	43	381
Q4	15,034	16,090	-1,002	3,477	-3,531	3,238	-311	3,549
2015 – Q1	587	9,480	-2,586	843	-7,150	-262	-244	-18
Q2	6,262	12,361	1,341	-5,119	-2,321	-349	-587	238
Q3	11,637	13,588	2,065	-33	-3,983	-13	-211	198
2013 – 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.	-1,504	782	-706	170	-1,750	-118	-108	-10
Feb.	429	3,157	-842	392	-2,278	-134	-115	-19
Mar.	671	4,397	-1,044	316	-2,999	-335	-292	-43
Apr.	2,578	4,047	-169	-234	-1,066	-13	-76	63
May	746	4,199	226	-3,020	-659	-4	-68	64
June	2,927	3,949	734	-534	-1,223	298	-14	312
July	7,331	7,323	1,066	121	-1,179	195	37	157
Aug.	1,459	2,665	-65	-60	-1,082	157	12	146
Sept.	1,108	2,592	545	-1,162	-868	71	-6	77
Oct.	5,903	5,884	-15	958	-924	1,317	-65	1,382
Nov.	3,011	3,963	-637	645	-960	1,168	-58	1,226
Dec.	6,121	6,244	-350	1,874	-1,647	753	-188	942
2015 – Jan.	-1,789	742	-720	-18	-1,792	-6	-18	12
Feb.	1,045	4,162	-908	113	-2,322	-10	-14	4
Mar.	1,331	4,577	-958	748	-3,035	-246	-212	-35
Apr.	2,851	4,282	13	-440	-1,005	-176	-199	24
May	1,672	4,643	509	-3,153	-327	-174	-197	23
June	1,740	3,436	819	-1,526	-990	1	-191	192
July	8,272	8,366	1,199	143	-1,435	18	-69	87
Aug.	1,640	2,493	406	69	-1,328	22	-58	80
Sept.	1,725	2,730	460	-245	-1,220	-52	-84	31
Oct.	(6,131)	(5,880)	(285)	(718)	(-752)	(1,040)	(-157)	(1,197)

(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)

(12-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					
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	-0.6	-2.0	-1.9	-2.5	-1.5	-0.1	-1.6	-0.6
2015 – Mar.	1.3	-0.9	-2.0	-1.8	-2.6	-1.5	0.1	-2.4	-0.9
June	3.5	-1.6	-1.5	-1.2	-2.5	-1.4	0.5	-0.6	-0.3
Sept.	2.7	-1.3	-0.9	-0.5	-2.6	-1.5	0.9	-1.8	0.1
Oct.	3.0	-0.7	-1.2	-0.7	-3.4	-2.1	1.0	0.6	0.0
Nov.	1.2	1.9	0.3	0.7	-1.5	-0.9	1.2	0.2	0.8
				South and Islands					
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	-1.5
2015 – Mar.	-4.1	-5.3	-1.0	-0.7	-1.9	-1.1	-0.4	0.6	-1.1
June	-4.1	-4.7	-0.5	0.0	-1.7	-0.8	0.0	-0.6	-0.6
Sept.	-8.4	-2.3	-0.3	0.1	-1.4	-0.7	0.5	-2.7	-0.7
Oct.	-5.6	-1.5	-0.4	0.1	-1.7	-0.9	0.7	-1.8	-0.4
Nov.	-5.5	-1.1	0.4	0.8	-0.7	-0.3	1.1	-4.6	0.1
				Italy					
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	-0.6	-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	-1.4	-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	-2.4	-1.3	0.4	-0.6	-0.3
Sept.	1.7	-1.3	-0.8	-0.4	-2.3	-1.3	0.8	-1.9	-0.1
Oct.	2.2	-0.8	-1.0	-0.6	-3.0	-1.8	1.0	0.3	0.0
Nov.	0.6	1.8	0.3	0.7	-1.4	-0.8	1.1	-0.3	0.7

Source: Supervisory reports.
(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
Sept.	-3.5	0.5	-4.4	-1.9	-2.3	-0.1	-12.2	36.9	3.2	24.8	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	14.9	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	-10.6	0.0
July	-2.7	0.3	-1.6	7.4	0.2	-2.4	0.9	-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	0.1	-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	0.2	18.3	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	6.8	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	0.6	-14.5	0.0	-0.6	-14.5	0.0
July	-3.1	-0.2	0.0	0.3	-1.9	-0.4	-5.1	4.7	-0.2	-0.4	0.0
Aug.	0.9	0.5	-2.3	-13.4	-0.2	-0.2	-15.2	22.5	-1.5	7.3	0.0
Sept.	-1.3	0.3	-2.1	11.2	-0.1	0.6	8.2	9.7	4.9	17.9	0.0
Oct.	-0.6	-0.1	-1.4	22.8	-0.4	-0.6	19.8	-17.7	1.1	2.1	0.0
Nov.	-0.7	-0.8	-0.4	0.9	0.4	0.3	0.5	7.3	1.7	7.8	0.0

(1) For more information, see the Methodological Appendix in '*Monetary and Financial Indicators. The Public Finances, borrowing requirement and debt*' *Supplements to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

Table A11

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	*of which:* in connection with EFSF loans	General government debt	*Memorandum item:* Treasury's liquid balances (2)	*of which:* investments of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
2012	160.2	20.8	151.6	1.502.4	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
Sept.	173.1	16.8	123.6	1.725.9	127.3	42.2	33.9	2.192.0	64.0	53.8	27.3	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	2.107.6	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	46.1	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	44.1	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	44.3	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	41.8	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	2.219.3	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	41.8	33.9	2.200.2	96.2	57.2	26.6	58.2
Aug.	174.4	16.5	125.7	1.715.9	127.5	41.6	33.9	2.185.1	73.7	58.7	27.0	58.2
Sept.	173.1	16.8	123.6	1.725.9	127.3	42.2	33.9	2.192.0	64.0	53.8	27.3	58.2
Oct.	172.5	16.7	122.2	1.748.7	126.9	41.6	33.9	2.211.9	81.7	52.7	29.3	58.2
Nov.	171.8	15.9	121.8	1.749.1	127.3	41.8	33.9	2.211.9	74.4	51.0	30.2	58.2

(1) For more information, see the Methodological Appendix in 'Monetary and Financial Indicators. The Public Finances, borrowing requirement and debt', *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.