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EUROSISTEMA

Economic Bulletin

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SYMBOLS AND CONVENTIONS

Unless indicated otherwise, figures have been computed by the Bank of Italy.

In the following tables:

–	the phenomenon in question does not occur
....	the phenomenon occurs but its value is not known
..	the value is known but is nil or less than half the final digit shown
::	the value is not statistically significant
()	provisional; estimates are in italics

OVERVIEW

Growth slows in the emerging economies

The expansion continues in the United States and the other advanced countries, while the emerging economies remain a risk factor for world growth. Fears of a hard landing in China have abated, but its economy continues to slow. The drop in oil prices has not led to a strengthening of global economic activity. The IMF and the OECD have revised downwards their forecasts for growth and international trade. The expansionary stance of monetary policy has intensified in the advanced countries.

Stock markets reflect uncertainty about growth and the direction of banking regulation

Concerns about global growth triggered large price decreases on international financial markets in the early months of this year, which have since been reabsorbed to some degree. The performance of bank stock has been extremely poor throughout the euro area and especially in Germany and Italy. Markets are paying closer attention to credit quality, partly owing to operators' uncertainty about the direction of banking regulation.

The measures taken by the ECB's Governing Council …

Growth continues in the euro area, although the risks associated with foreign demand and the uncertain geopolitical situation have increased. The inflation rate stands at zero, reflecting among other things the ample slack in the labour market. The ECB's Governing Council has introduced a substantial package of expansionary measures over and above what observers expected. It consists of an increase in the size and composition of securities purchases, a further reduction of official rates, and new measures to refinance banks at exceptionally favourable conditions.

… can support economic activity through several channels

Once the new measures had been announced, monetary and financial conditions became more expansionary: yields on public and private sector securities diminished, risk premiums were reduced, and share prices picked up; the euro appreciated, however. Overall, the new measures should support economic activity through several channels: by helping the flow of credit to the economy and lowering its cost; by ensuring certainty as to the availability and cost of bank funding; by cutting the cost of capital for businesses; by bolstering the value of households' real and financial wealth; and by providing a stimulus to the real estate market. Support for economic activity and employment is a sine qua non to bring inflation back to levels consistent with price stability.

In Italy the economy continues to recover…

In Italy, the cyclical upturn continued in the last quarter of 2015, although at a slower pace, driven by stronger consumption and faster investment growth. According to the latest indicators, in the early months of this year economic activity received a boost from the revival of manufacturing, combined with a more solid recovery in the service sector and building industry. Firms are still optimistic about the outlook for the coming months, although they show signs of caution. We project that growth will be modest again in the first quarter of this year but slightly stronger than in the previous three months.

… but the outlook for exports is less certain

Meanwhile, in Italy too, the outlook for foreign demand reflects increased uncertainty about the trend in world trade. The drop in sales on non-EU markets at the beginning of the year could affect firms' investment plans despite the *boost they have received from the temporary incentives included in the last Stability Law.*

Analysts have revised their forecasts for 2016

Given the trends observed in the last quarter of 2015, which were not as good as expected, the main institutions and leading forecasters have slightly revised, by a few tenths of a percentage point, their 2016 growth estimates for Italy, which are now widely put at between 1.0 and 1.2 per cent. There is virtually no change in the projections for 2017.

The labour market shows signs of considerable improvement

The final data signal an upturn in employment in 2015 that exceeds our forecasts of one year ago (0.8 per cent, against the 0.5 per cent predicted in January 2015), despite the partial correction in the early months of this year owing to the reduction in social contribution relief. Trends in employment reflected both the recovery of economic activity and the measures adopted by the Government. There are signs that the new employment contract arrangements and, more particularly, social contribution relief, have caused a shift in hiring towards new open-ended contracts and an expansion of overall employment levels. Unemployment remains high, however, with young people especially hard hit.

Negative inflation is partly a reflection of weak aggregate demand

Inflation is back in negative territory, partly owing to the slump in the prices of energy commodities but also to the persistently and historically low levels of core inflation. Households and firms expect price growth to remain weak in the rest of the year too. In Italy and in the euro area, ample margins of unutilized production capacity and slack in the labour market are effectively dampening price and wage dynamics.

Lending turns gradually upwards; bank deposits increase

The gradual recovery in lending is proceeding, aided by the expansionary spur of monetary policy measures; loans to manufacturing firms are growing at rates of over 3 per cent; those to the construction sector and smaller companies continue to decline. For the banking system as a whole, funding has not been affected by the recent financial tensions: the increase in deposits and the expansion of international interbank borrowing have more than offset the reduction in bonds.

Non-performing loans cease to grow

The persistently high volume of non-performing loans is squeezing banks' profitability and could limit the disbursement of new credit; however, as the recovery proceeds, there are growing signs of improvement in credit quality. In the fourth quarter of 2015 the flow of new non-performing loans declined again, continuing the trend under way for around a year. Moreover, provisional data suggest that for the first time since the outbreak of the financial crisis the value of non-performing loans in absolute terms has fallen slightly and they have stopped growing as a proportion of total lending. The government guarantee scheme for the securitization of bad debts can ensure their more rapid divestment. At the beginning of April it was announced that a private investment fund would be created to support future capital increases by banks and help divest non-performing debt currently weighing on Italian banks' balance sheets.

The government presents the 2016 Economic and Financial Document

In 2015 the ratio of general government net borrowing to GDP fell by almost half a percentage point, to 2.6 per cent. In the Government's planning scenarios presented in the 2016 Economic and Financial Document it is forecast to decline to 2.3 per cent this year and to 1.8 per cent in 2017. Cyclically adjusted and net of one-off measures the deficit is projected to increase by 0.7 percentage points in 2016 before contracting by 0.1 points in 2017. The ratio of public debt to GDP should begin to decline this year, though at a slower pace than forecast last autumn. Italy's budgetary position will be assessed by the European Commission after its forecasts are updated in May.

Growth must be consolidated

The prerequisite for a lasting return of inflation to levels consistent with price stability, in the euro area and in Italy, is the reactivation of idle productive capacity and job creation. The consolidation of growth is also vital *in order to ward off the formation of negative spirals between stock price movements and the credit market, speed up the elimination of non-performing loans in the banking system, and ensure that the ratio of public debt to GDP continues to decline. The boost from monetary policy measures will continue to provide support to economic activity and prices for as long as deemed necessary; the entire toolbox of economic policies must help attain this objective.*

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

The global economy and world trade show increasing weakness, although with significant differences from area to area: in the United States the expansion continues, albeit with some uncertainty, while in the emerging economies the prospects remain fragile and represent the main risk factor for growth and world financial markets. Crude oil prices remain weak, and their fall has not boosted the world economy. The monetary policy stance in the main advanced economies has become more accommodative.

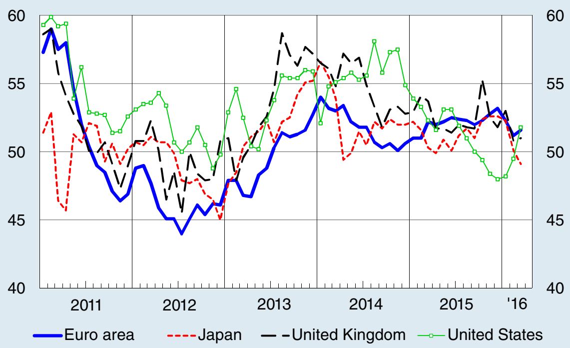
Growth continues in the advanced economies ...

Among the main advanced economies outside the euro area, the United States saw an expansion in economic activity in the fourth quarter of 2015 (1.4 per cent on an annualized basis), while Japan experienced a contraction (-1.1 per cent) and the United Kingdom recorded an acceleration (2.4 per cent). The indicators available for the first quarter of this year suggest an overall strengthening of growth compared with the previous period, despite softness in manufacturing (Figure 1).

Figure 1

Manufacturing PMIs in the main advanced economies (1)

(monthly data)



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

... but the emerging economies remain weak

The economic situation in the emerging economies remains fragile (see the box 'Risk factors for the emerging economies'). The recession has worsened in Brazil, in part because of the political crisis, and has continued in Russia, although there are some signs of it easing. In China, in the fourth quarter of 2015, GDP growth decelerated to 6.8 per cent compared with the corresponding period of 2014; the most recent economic indicators confirm a slowdown in manufacturing, accompanied by a pronounced decline in imports and exports. Among the main emerging economies, only India continues to display rapid growth.

RISK FACTORS FOR THE EMERGING ECONOMIES

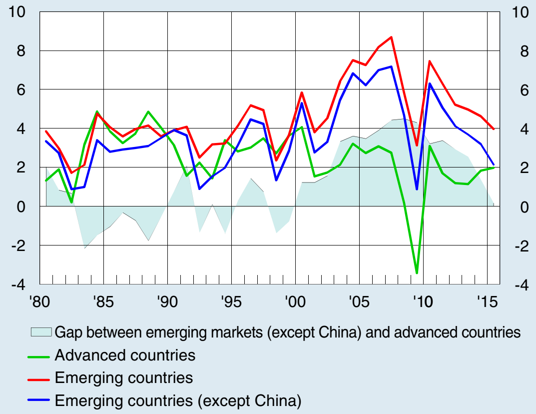
When the IMF and the OECD published their latest forecasting scenarios they pinpointed the development of the emerging economies as the main risk factor for world growth and financial stability. Over the last two years, the slowing of economic activity in these countries has often gone hand in hand with tensions on financial, foreign exchange and raw materials markets. When figures for the Chinese economy released last summer and in the first two months of this year proved far worse than expected, global financial markets promptly experienced heavy losses and high volatility (see *Economic Bulletin*, No. 1, 2016).

The slowdown in the emerging economies, under way for five years, has accelerated recently. The positive gap with respect to the advanced countries, which reached a maximum in 2009, has progressively narrowed (Figure A), virtually disappearing in 2015 if one excludes China, where the rate of growth of 6.9 per cent was nonetheless the lowest since 1990. The slowdown is partly of structural origin, caused by the fading benefits of economic reform and of the boost to world trade from China's integration into the world economy. The situation has been further aggravated by specific and cyclical factors, including the delicate shift of China's economy towards consumption and services and the economic and political crisis in Brazil.

In the last two years, stock market indices in the emerging countries have dropped more sharply than in the advanced economies and sovereign spreads have reached the highest levels since 2008. The rating agencies have downgraded the credit rating or outlook of many countries since 2015 (Brazil, China, Colombia, Ecuador, Kazakhstan, Nigeria, Poland, Russia, South Africa and Venezuela). There has been a sharp depreciation in the last two years in the currencies of the emerging countries, especially of the exporters of raw materials and those with the greatest external imbalances (Brazil, Russia and South Africa), which lately, and for the first time since 1988, has been accompanied by capital outflows, most notably in the case of China (Figure B).

Figure A

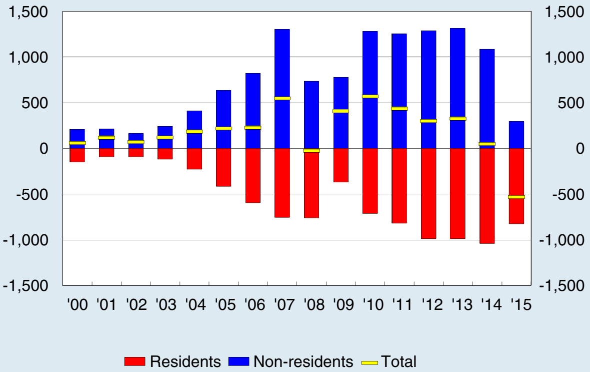
Growth in the advanced and emerging countries
(annual data; growth rates on previous year)



Source: Based on IMF data.

Figure B

Net capital flows to emerging countries (1)
(annual data; millions of dollars)



Source: Institute of International Finance.
(1) Excludes changes in official reserves.

The cyclical reversal in raw material prices began more than five years ago following a long period of increases. Metal prices fell by 50 per cent between the end of 2010 and December 2015; the downturn in oil prices came later but was particularly sharp, plummeting by 70 per cent in the 18 months from June 2014 to December 2015. Many economies that depend on raw material exports, especially in Latin America, have seen their terms of trade worsen considerably,[1] and in many of them GDP contracted in 2015 (see the box 'The decline in oil prices and global growth') while the depreciation of their currencies fuelled inflationary tensions.

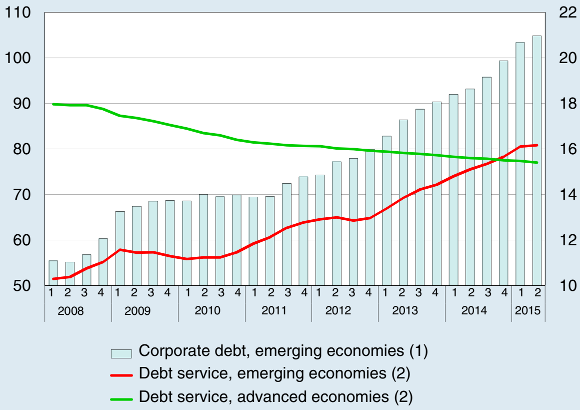
[1] IMF, *Regional Economic Outlook. Western Hemisphere: Adjusting Under Pressure*, October 2015.

The persistent deterioration in the terms of trade is a major risk factor for the emerging economies that export raw materials, notably Brazil and Venezuela. Brazil is experiencing the deepest and longest recession since the beginning of the 1980s; Venezuela, whose oil industry accounts for 47 per cent of tax revenue and more than 97 per cent of exports, is struggling to obtain the foreign currency to pay for its imports, estimated to have fallen 20 per cent in value in 2015,[2] and to service its debt.

Figure C

Non-financial corporate debt and debt service

(quarterly data)



Source: Based on BIS data.
(1) Per cent of GDP. – (2) Right-hand scale; per cent.

Another major risk factor is debt. Non-financial corporate debt has grown very rapidly in the emerging countries, especially Brazil, China, India, Malaysia, the Czech Republic, Russia, Turkey and Hungary, almost doubling in relation to GDP over the last seven years; the cost of debt service has risen dramatically (see Figure C). In China, total non-financial debt increased from 150 per cent of GDP in 2007 to over 250 per cent last year, while non-financial corporate debt rose from about 100 to over 160 per cent of GDP. The majority of loans went to state-controlled firms in sectors bogged down by over-investment, while non-performing loans increased in the banking industry. The Chinese Government recently announced its intention to eliminate some of this over-investment and has drawn up a plan to securitize NPLs; however, rebalancing the economy and repairing bank balance sheets could come with high costs, both to society and in terms of consensus.

The slowing of growth in the emerging countries, and especially in China, has a significant impact on the global economy. According to our estimates and those of the main international organizations, every percentage point of permanent decline in China's growth rate causes a reduction of about one third of a percentage point in global GDP growth, considering only the dampening effect on trade (see the box 'The slowdown in China and the repercussions for the world economy', *Economic Bulletin*, No. 4, 2015). The impact would be greater, though harder to quantify, if slower growth in the emerging economies were accompanied by a sharp increase in financial instability. The financial system's heightened role in the transmission of shocks originating in the emerging countries is illustrated by the notable impact that their stock markets and foreign exchange trends have had on the advanced economies' financial markets in recent months.

Growth in the emerging countries is also reflected in Italian exports, particularly of goods, 30 per cent of which are directed there (about the same as Germany's share). In the last two years our total exports have increased by about 8 per cent in volume: while exports to the advanced countries have grown by more than 12 per cent, those to the emerging countries have fallen by over 2 percentage points, and by 2.1 per cent in the case of China.

[2] Venezuela no longer regularly publishes official national accounts statistics. The last figures available were issued in January this year and were updated to the third quarter of 2015.

The projections for economic growth are revised downwards ...

The forecasts released in April by the IMF revise downward the projected growth of the world economy by 0.2 percentage points for this year and by 0.1 points for 2017. The economic outlook has deteriorated in all the main advanced economies, as well as in Russia and Brazil among the emerging economies, while the outlook for China has improved (Table 1). The global economy is expected to grow by 3.2 per cent on average in 2016, just below the pace of 2015. The forecasts released in February by the OECD revised downward the projected growth of the world economy by 0.3 percentage points both this year and next to 3.0 and 3.3 per cent respectively.

... as are those for world trade

World trade, which slumped sharply in the first quarter of 2015, grew by barely 2.8 per cent on average for the year; the rate of expansion of Chinese imports was the lowest since the end of the 1990s. Preliminary data for the first quarter of 2016 indicate that trade contracted again for the emerging Asian economies, particularly China. Against this background, the IMF has revised downward its projections of world trade growth this year to 3.1 per cent; our estimates indicate risks of even more modest growth.

Oil prices remain weak

In the first quarter oil prices displayed volatility, reflecting uncertainty about the outlook for demand and the supply policies of the oil-producing countries. In February they fell to a 13-year low ($28 a barrel for WTI; Figure 2). Subsequent signals of a decline in production in the United States and the effects – still uncertain – of the agreement by Saudi Arabia, Russia and other oil producers to limit pumping helped to support crude oil prices, pushing them to around $40 a barrel at the start of April. However, futures contracts point to much more modest price increases this year owing to expectations of abundant supply – consequent to Iran's return to the export market after the repeal of international sanctions – while demand for oil was still checked by the slowdown in the emerging economies. The prices of non-energy commodities are just above the lows reported at the end of 2015.

Table 1

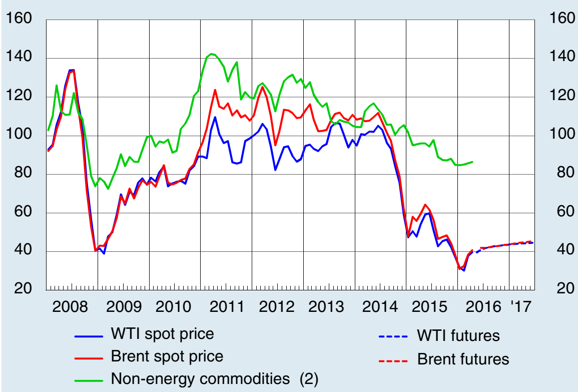
Macroeconomic projections
(changes and percentage points)

	January 2016 forecasts		April 2016 forecasts		Difference Apr. 2016/ Jan. 2016	
	2016	2017	2016	2017	2016	2017
GDP						
World	**3.4**	**3.6**	**3.2**	**3.5**	**-0.2**	**-0.1**
Advanced countries						
of which: Euro area	1.7	1.7	1.5	1.6	-0.2	-0.1
Japan	1.0	0.3	0.5	-0.1	-0.5	-0.4
UK	2.2	2.2	1.9	2.2	-0.3	0.0
US	2.6	2.6	2.4	2.5	-0.2	-0.1
Emerging countries						
of which: Brazil	-3.5	0.0	-3.8	0.0	-0.3	0.0
China	6.3	6.0	6.5	6.2	0.2	0.2
India	7.5	7.5	7.5	7.5	0.0	0.0
Russia	-1.0	1.0	-1.8	0.8	-0.8	-0.2
World trade	**3.4**	**4.1**	**3.1**	**3.8**	**-0.3**	**-0.3**

Source: IMF, *World Economic Outlook,* April 2016.

Figure 2

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



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average data through March 2016; the last data refer to 8 April 2016. – (2) Goldman Sachs Commodity Index excluding energy products (January 2010=100).

THE DECLINE IN OIL PRICES AND GLOBAL GROWTH

The price of oil fell by about 70 per cent between June 2014 and March this year. The decrease has triggered a massive transfer of resources from oil exporting countries to net importers, which is estimated to have amounted in 2015 to around 0.5 per cent of GDP in the United

States and more than 1 per cent in the four leading euro-area economies.[1] Experience suggests that this redistribution of resources should have imparted a strong stimulus to global demand: reduced energy expenditure should have boosted demand in the importing countries, while the contraction of consumption and investment in the exporting countries should have been offset in part by lower saving rates.

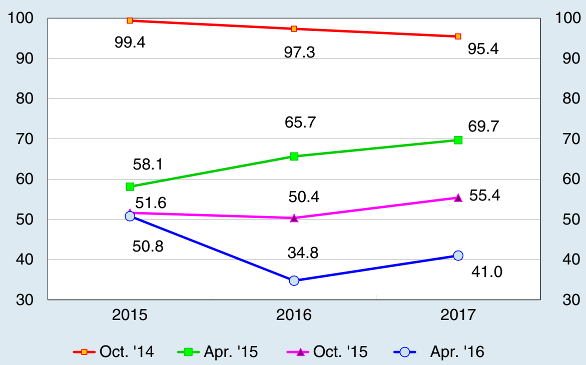
Figures for the last two years do not appear to bear out this hypothesis, however. According to some economists, the fact that the substantial drop in oil prices has not generated more robust global growth is one of the biggest economic surprises of 2015.[2]

From October 2014 to April 2016, every downward adjustment of actual and expected oil prices met with a deterioration in the outlook for world growth. As in the past, the impact on raw material exporting countries has been negative, but growth forecasts have been revised down or left unchanged in the importing countries as well. In the United States, average annual GDP growth for the period 2015-17 has been adjusted down by about 0.5 percentage points; in the euro area output growth is forecast to remain more or less stable. The adjustments are based above all on trends in investment: the projected rate of expansion has been revised downwards on all time horizons (Figure A).

Figure A

Revisions to IMF forecasts

(a) Oil prices
(average annual data; dollars per barrel)



(b) GDP and investment
(annual data; percentage changes and differences in percentage points)

		GDP			Investment (1)		
		2015	2016	2017	2015	2016	2017
World	October 2014	3.8	4.0	4.1	5.1	5.5	5.2
	April 2016	3.1	3.2	3.5	2.3	3.8	4.6
	Difference	-0.7	-0.8	-0.6	-2.8	-1.7	-0.6
United States	October 2014	3.1	3.0	2.9	6.9	6.6	5.9
	April 2016	2.4	2.4	2.5	3.7	3.6	4.4
	Difference	-0.7	-0.6	-0.4	-3.2	-3.0	-1.5
Euro area	October 2014	1.4	1.7	1.7	2.2	3.1	3.0
	April 2016	1.6	1.5	1.6	2.7	2.5	2.8
	Difference	0.2	-0.2	-0.1	0.5	-0.6	-0.2
Oil exporters	October 2014	3.2	3.9	3.9	2.5	3.2	3.3
	April 2016	0.1	0.8	2.1	-6.1	1.7	3.7
	Difference	-3.1	-3.1	-1.8	-8.6	-1.5	0.4

Source: IMF, *World Economic Outlook*, various years.
(1) The last available projection for World and Oil exporters is October 2015.

A number of factors can explain these trends. First, some of the reduction in oil prices recorded since June 2014 – about a third in our estimates, which mirror those of other analysts[3] – is due to the decline in demand (Figure B) and particularly to the sharp slowdown of the Chinese economy, above all in the top oil consuming sectors (see the box 'The fall in the price of oil', *Economic Bulletin*, No. 1, 2015).

[1] The estimates are based on the difference between the average price of oil in the second half of 2015 ($47 per barrel) and in 2014 ($98.9 per barrel) and on the net imports of crude oil in 2014 for each of the countries considered.
[2] K. Rogoff, 'Oil prices and global growth', *Project Syndicate. The World's Opinion Page*, 14 December 2015.
[3] J. Hamilton, 'Common factors in commodity and asset markets', *Econbrowser*, 13 September 2015.

Second, unlike earlier instances, the sharp drop in oil prices of the last two years has impacted significantly on the expenditure of exporting countries. The resulting contraction in foreign demand has had an indirect adverse effect on importing countries,[4] which has been amplified by the increasingly close integration between advanced and emerging countries.[5]

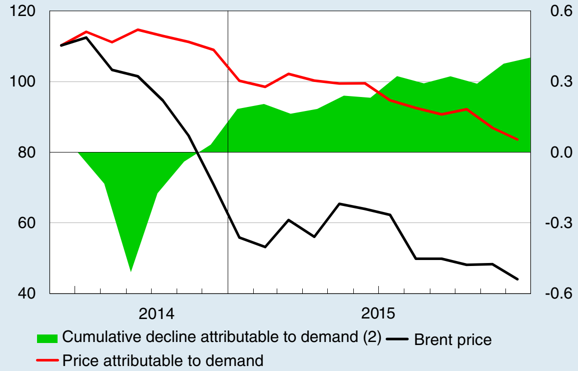
An exercise using the Bank of Italy's quarterly model shows the role played by this factor: the reduction in the price of Brent compared with the July 2014 forecasts contributed 0.6 percentage points to GDP growth in Italy in 2015. Instead, the slowdown in world trade with respect to the forecasts made in 2014 cut 0.3 points off GDP growth. Slack global demand has therefore roughly halved the boost provided by lower oil prices.

Other factors may have mitigated the effects of the drop in oil prices on the economies of importing countries, such as (a) less oil dependence than in the past; (b) the fact that the fall in prices has aggravated deflationary pressures and pushed up real interest rates at a time when official ones are close to zero; and (c) the increased importance of the mining, quarrying, oil and gas industry in countries like the United States, which have experienced a particularly large and sudden cut-back in investment (Figure C).

Figure B

Trend in oil prices and contribution of demand factors (1)

(dollars per barrel and share of total)

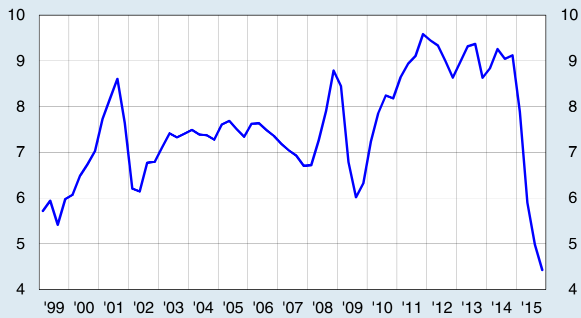


Source: Based on CEIC and Thomson Reuters Datastream data.
(1) Obtained from a regression of changes in the price of Brent on changes in the price of copper, world demand and electricity consumption in China. – (2) Right-hand scale.

Figure C

United States: investment in the energy sector (1)

(quarterly data; percentage share)



Source: Based on Bureau of Economic Analysis data.
(1) Share of investment in mining, quarrying, oil and gas sector over total investment in machinery and equipment in industry excluding construction.

The sharp slowdown in the oil industry in the US and the rest of the world has also had repercussions for the financial system. Data from the BIS indicate that, mainly as a result of the shale revolution, corporate debt in the oil and gas industry tripled between 2006 and 2014 to about $3,000 billion to support increased investment. The prolonged phase of low prices that followed generated losses, and the number of small and medium-sized firms in the sector that have run aground or are in serious difficulty has increased; almost all of them have had their credit rating downgraded.

To conclude, the evidence to date suggests that the fall in oil prices has had positive effects on growth, but these have varied from one country to another and have generally been weaker than expected.

[4] P. Krugman, 'Oil goes nonlinear', *The New York Times. The Opinion Pages*, 16 January 2016.
[5] M. Riggi and F. Venditti, 'The time varying effect of oil price shocks on euro-area exports'. *Journal of Economic Dynamics and Control*, 59, 2015, pp. 75-94, also published in the series Temi di Discussione (Working Papers), No. 1035, Banca d'Italia, 2015.

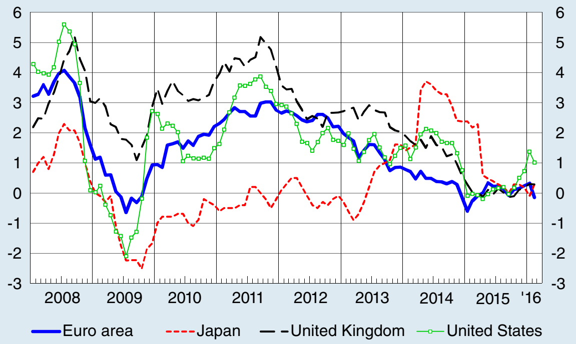
Consumer price inflation turns upwards again in the United States

Consumer price inflation reflects national, as well as global, factors; it remains very low in Japan and the United Kingdom, while it has risen in the United States (Figure 3). In February the increase in the consumption deflator remained close to zero in Japan and the UK (0.3 per cent in both countries), while in the US it stood at 1.0 per cent (2.3 per cent excluding food and energy products). In the main emerging economies, inflation continued to be moderate in China (2.3 per cent), was consistent with the central bank's target in India (5.3 per cent), and was high in Brazil (10.4 per cent) and in Russia (8.1 per cent), where it did, however, come down sharply compared with January.

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.

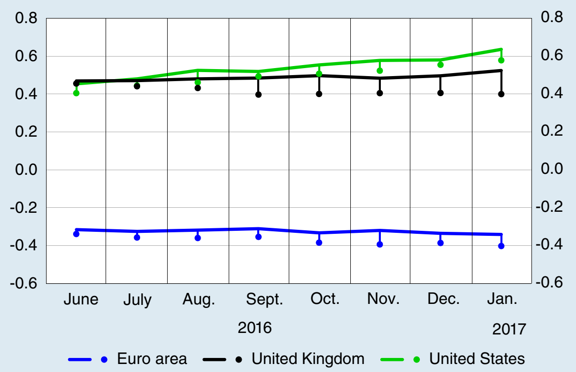
The Fed signals a more gradual rise in official interest rates

The Federal Open Market Committee (FOMC) of the Federal Reserve left official interest rates unchanged in the first quarter and revised downward its assessment of the pace of monetary policy normalization, in part due to the uncertainties weighing on the prospects for the global economy. According to the median opinion expressed by its members at its March meeting, official rates will be raised by a total of 50 basis points in 2016, rather than the 100 basis points projected in December. The expected rates implied by market prices indicate forecasts of even more gradual increases (25 basis points in 2016; 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 January 2016, the dots show those forecast on 6 April 2016.

In the other economies monetary policies are more expansive

To combat deflationary pressures, the Bank of Japan for the first time set a negative interest rate on banks' reserve accounts with it (-0.1 per cent); in order to limit the possible impact on banks' profitability, the negative rate will apply only to a minimal portion (equivalent to around 4.5 per cent of GDP) of the banks' reserves. The Chinese central bank, which at the end of last year had injected liquidity into the banking system, made its monetary policy stance even more expansive by reducing the reserve ratios; the rate of growth in lending, already high, accelerated further. India reduced its reference rate by 25 basis points, while the rates in the other main emerging economies remained unchanged.

1.2 THE EURO AREA

The cyclical upswing has continued in the euro area, driven by domestic demand. However, export growth is still weak and the risks associated with the uncertain geopolitical situation are heightening.

Inflation rate stands at zero, held in check by oil price trends but also by still ample spare production capacity and labour market slack. The Governing Council of the ECB has strengthened monetary stimulus with a comprehensive package of expansionary measures.

Growth in the euro area continues ...

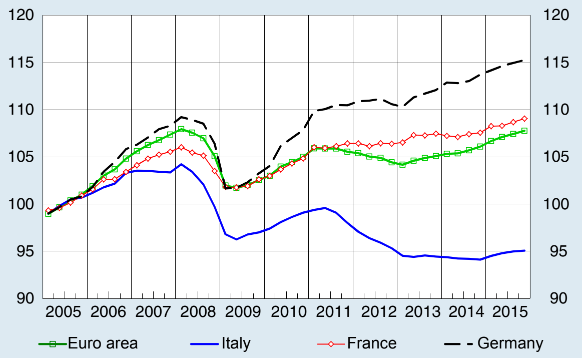
In the fourth quarter of 2015 euro-area GDP grew at the same rate as in the third (0.3 per cent on the previous period). The main stimulus to output expansion came from domestic demand, mostly driven by the acceleration in public investment and consumption, as well as by a further increase in household spending. Foreign trade made a negative contribution to GDP growth reflecting, as in the third quarter, a smaller increase in exports than in imports.

GDP rose by 0.3 per cent in Germany and France, while the variation was barely positive in Italy at 0.1 per cent (Figure 5). The German economy benefited from the upward trend in the domestic components of demand while exports fell, especially towards non-EU countries. In France, economic activity was encouraged by the acceleration in investment; conversely, household consumption weakened for the first time since 2014: there was a fall in spending on energy because of mild autumn weather, accompanied by a slowdown in spending on hotels and restaurants consequent on last November's terror attacks in Paris.

Figure 5

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

(quarterly data; indices, 2005=100)



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

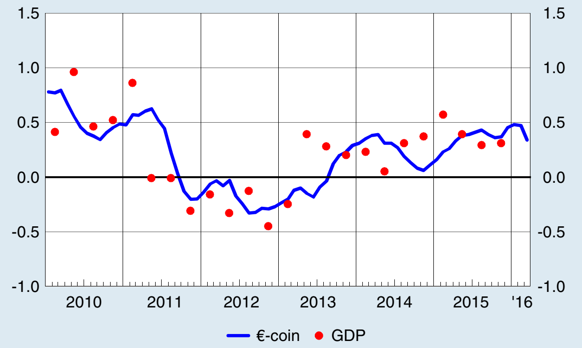
... also into the start of this year ...

The available indicators suggest that in the first quarter of 2016 the expansion of economy activity in the area is likely to have been slightly faster than in the three previous months. In March the €-coin indicator developed by the Bank of Italy, which estimates the underlying trend of GDP in the euro area, fell to 0.34 from 0.47 in February (Figure 6). In the winter months households' expectations concerning the general economic situation deteriorated, although they remained at a historically high level. The effects of the Brussels terror attacks in March could undermine consumer confidence in the months to come. Business confidence, while deteriorating, remained at a level consistent with continued economic growth.

Figure 6

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

(percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July 2009. Details on the indicator are available at https://www.bancaditalia.it/media/notizia/indicatore-coin-marzo-2016. For GDP, quarterly data; changes on previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter, net of the most erratic components.

... but downside risks remain

There are downside risks for recovery in the area stemming from the uncertainty caused by the slowdown in demand from the emerging economies, rising geopolitical tensions and the heightened volatility on the financial markets observed since the start of the year.

The inflation rate is zero ...

In March the twelve-month rate of consumer price inflation was nil (from -0.2 per cent in February; Figure 7). Alongside a sharper fall in energy prices, core inflation remained persistently weak, inching up to 1.0 per cent from 0.8 per cent in February, reflecting the still ample margins of spare production capacity and labour market slack. Also in March, the share of elementary items in the general index with negative price changes fell to 24 per cent from 28 per cent in February; among the core components, the share fell to 17 per cent from 23 per cent.

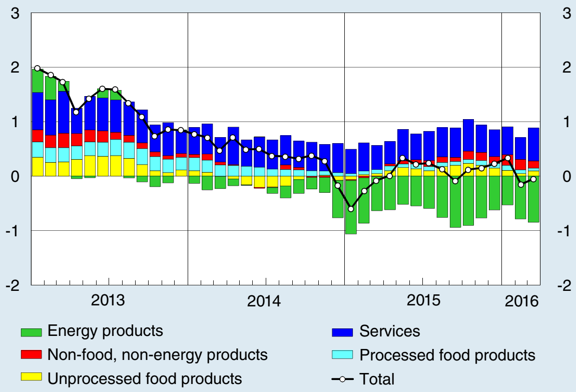
... and looks likely to remain weak

The ECB staff projections released in March indicate that inflation is likely to remain very low on average this year (0.1 per cent compared with zero in 2015); the estimates of the professional forecasters polled by Consensus Economics have been revised steadily downwards since last summer and now stands at 0.3 per cent (see the box 'A measure of inflation tendencies in the euro area'). In the early months of the year, inflation expectations calculated on the basis of inflation swap yields declined across all time horizons. Short- and medium-term expectations are 0.6 and 0.7 per cent respectively (Figure 8); for the five-year inflation expectations five years ahead, at the end of February a new all-time low was recorded of less than 1.4 cent, which subsequently gave way to a slight recovery.

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.

Figure 8

Inflation expectations implied by inflation swaps (1)

(daily data; per cent)

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

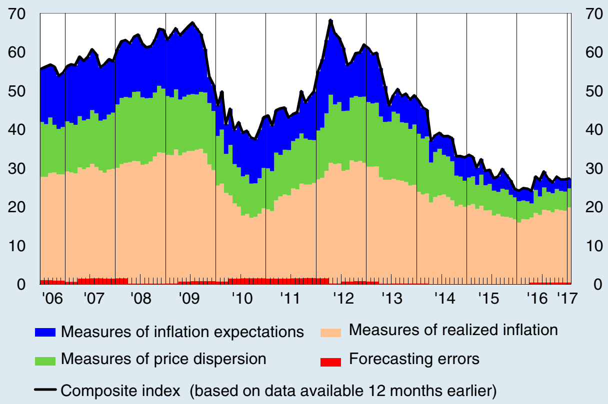
A MEASURE OF INFLATION TENDENCIES IN THE EURO AREA

Trends in inflation in the euro area, net of the more volatile components, can be gauged in various ways. With the aim of condensing the data available, the Bank of Italy has developed a composite index based on a selection of variables relating to the principal determinants of price dynamics.

The elementary indicators included in the composite index belong to four different categories: (a) measures of actual inflation (core components, producer price pressures and domestic components); (b) measures of dispersion among countries and among elementary items in the HIPC basket; (c) two-year projections of the annual variation in the HIPC, labour incomes per employee and profit margins (calculated by the ECB and Eurosystem staff); and (d) measures of inflation expectations. The composite index derived by combining these indicators is linked to the probability that inflation will return to a level of at least 1.9 per cent within a given time horizon (which may vary between 3 and 24 months).[1]

The figure shows the projection for 12 months and the contribution of each of the principal categories of elementary indices. The composite index has been declining steadily since mid-2012. Last January, the latest month for which complete data are available, the probability of an inflation rate of 1.9 per cent or more over the subsequent 12 months was still very low. Especially pronounced indications of price weakness derived from inflation expectations and the diffusion of downward price pressures among euro-area countries.

Composite indicator of inflation tendencies and the contributions of the components (1)
(monthly data)



(1) The vertical axis shows the composite index, constructed as the aggregate of the probabilities, derived from the component indicators, of inflation of 1.9 per cent or more; the horizontal axis gives the dates for which this probability is estimated on the basis of the data available 12 months earlier.

Estimates over longer periods also suggest that the probability of inflation's returning to 1.9 per cent or more remains modest; the value of the index projected for mid-2017 is considerably below the historical average.[2] The strengthening of the accommodative monetary policy measures decided by the ECB Governing Council in March serves to counteract these tendencies.

[1] The time series for each indicator is converted, by means of a probit model, into the series of the probability that inflation will be equal to or greater than 1.9 per cent over a given period (which can range between 3 and 24 months). The composite index is then obtained by extracting the first principal component from the time series of the probabilities estimated over the horizon selected.
[2] The average over the sample period is about 50.

The ECB's Governing Council approves a package of expansionary measures

At its meeting in early March the Governing Council of the ECB adopted a comprehensive package of measures to support the recovery and the return of the rate of inflation to below, but close to, 2 per cent. The official interest rates were cut and the asset purchase programme (APP) was expanded. In order to encourage the flow of credit to households and firms it was also decided to introduce four new targeted longer-term refinancing operations offering attractive funding conditions (TLTRO II) starting in June (see the box 'The monetary policy measures adopted in March').

THE MONETARY POLICY MEASURES ADOPTED IN MARCH

At its meeting of 10 March 2016 the Governing Council of the ECB adopted a series of new, expansionary monetary policy measures, including the following: (a) reductions of 5 basis points in the rates on main refinancing operations and the marginal lending facility, respectively to 0.00 per cent and 0.25 per cent, and of 10 basis points on the Eurosystem deposit facility, to -0.40 per cent; (b) an increase of monthly purchases under the expanded asset purchase programme (APP) from €60 billion to €80 billion;[1] (c) the inclusion on the list of assets eligible for regular purchases

[1] In order to guarantee the orderly conduct of the asset purchase programme, the Council raised the ceiling on purchases from a single issuer or of a single security issue by eligible international organizations and multilateral development banks from 33 to 50 per cent.

of investment grade euro-denominated bonds issued by non-bank corporations established in the euro area, within the framework of a new corporate sector purchase programme (CSPP);[2] (d) a new series of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years and highly advantageous terms.

TLTRO II will be launched starting in June 2016 and operations will be quarterly. Counterparties can borrow amounts of up to 30 per cent of their stocks of eligible loans outstanding at 31 January 2016.[3] Initially the interest rate will be equal to that on main refinancing operations in effect at the time the funds are allotted, but it may be lowered, as a function of lending by each bank, as far as the rate on the deposit facility, which is currently negative.[4] The maximum borrowing allowance is about €300 billion for Italian counterparties. This takes account of the possibility for banks to roll over the amounts borrowed under TLTRO into TLTRO II, benefiting from the latter's more favourable conditions in terms of both lower cost and the elimination of the requirement for early repayment when a bank fails to reach its lending benchmark.

Following the announcement of these decisions, whose scope exceeded market expectations, monetary and financial conditions became more expansionary.

Very-short-term interest rates moved promptly to reflect the lowering of the Eurosystem deposit facility rate. In the week following the Governing Council meeting, the yields on long-term government bonds, which in the preceding weeks had already been declining as expectations of expansionary monetary policy measures strengthened, fell by another 10 basis points on average in the euro area to 0.9 per cent and by 15 points in Italy to 1.3 per cent. The yield spread between ten-year Italian and German government bonds narrowed by 10 basis points. The yields on investment grade bonds in the area fell by 15 basis points, and the decline was transmitted also to high-yield and bank bonds, even though these are not among the assets to be purchased under CSSP. Share prices gained 1 per cent in the euro area and 2 per cent in Italy. However, the euro appreciated by 1 per cent in nominal effective terms and by 3 per cent against the dollar, owing in part to expectations of a slower normalization of US monetary conditions.

The evidence to date is that the measures adopted since mid-2014 are lowering the cost of bank credit to firms and households (see the box 'The effects of the Eurosystem's asset purchase programme', *Economic Bulletin,* No. 1, 2016). In the Eurosystem's bank lending survey, the area's banks have reported that they are using the funds raised by sales of government securities to finance lending to businesses.

The Governing Council's recent measures may also impact on economic activity through several channels. The new targeted longer-term refinancing operations will enable banks to be certain of the availability and the cost of funding, thus preventing the potential repercussions of financial market volatility on the flow of credit to the real economy. The expansion of the APP favours lower yields and higher prices of financial and real assets, which may be transmitted (a) to consumer spending, through the wealth effect (in Italy, a 10 per cent rise in the value of financial assets can increase household consumption by 0.5 per cent in the medium term, and a comparable increase

[2] ECB, '*ECB adds corporate sector purchase programme (CSPP) to the asset purchase programme (APP) and announces changes to APP*', press release, 10 March 2016.

[3] As under the TLTRO, eligible loans are those to firms and households, excluding house purchase mortgages.

[4] ECB, '*ECB announces new series of targeted longer-term refinancing operations (TLTRO II)*', press release, 10 March 2016.

in real estate wealth can increase consumption by 0.7 per cent); (b) to overall investment through the increase in share prices and the decrease in the cost of capital, and (c) to residential investment by shoring up house prices. The inclusion of non-bank corporate bonds among APP eligible assets can further strengthen the transmission of monetary policy impulses to credit conditions in the overall economy.

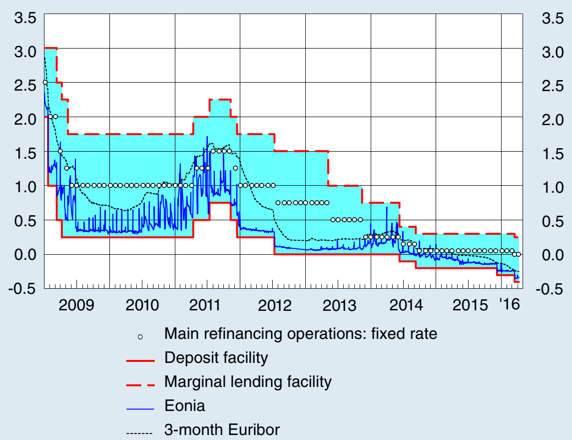
In turn, support for economic activity, and hence for employment, is essential to affect price and wage dynamics. There is evidence that since the outbreak of the financial crisis the responsiveness of wages and prices to economic conditions has increased in some of the main euro-area countries (see the box 'Wage growth, unemployment and inflation outlook'). In Italy, according to our estimates, in the long run a 1 percentage point reduction in the unemployment rate could produce an increase in yearly wage growth of about 0.3 percentage points.

The lowering of the rate on the Eurosystem deposit facility produced a similar change in the Eonia overnight rate (to -0.33 per cent) and this was gradually transmitted to the other short-term money market rates (Figure 9).

Figure 9

Official interest rates and money market rates in the euro area

(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

Under the APP, as at 8 April, government securities had been purchased for a value of €671 billion, covered bank bonds for €167 billion and asset-backed securities for €19 billion. At the end of March, the Eurosystem had bought about €105 billion worth of Italian government securities, of which €97 billion by the Bank of Italy, with average residual maturity of 9.4 years.

The seventh targeted longer-term refinancing operation was settled on 30 March. The participants comprised 19 euro-area banks, which obtained a total of €7.3 billion; the Bank of Italy's counterparties were allotted €0.2 billion. The funds allocated to the euro-area's banking system through the TLTROs total €425 billion overall, of which €118 billion to Italian intermediaries.

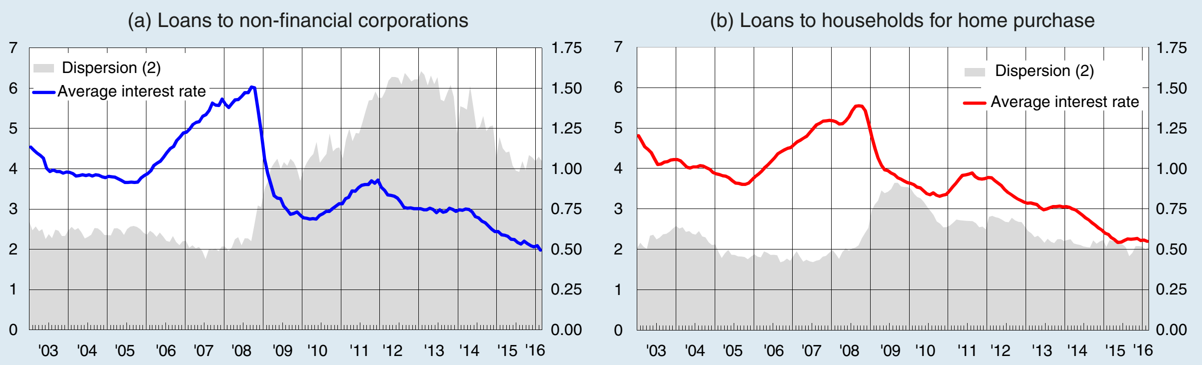
The liquidity held by banks with the Eurosystem in excess of the reserve requirement increased to around €740 billion from €650 billion in mid-January.

The gradual expansion of credit to households and firms continues

The growth in lending continued to benefit from the expansionary monetary policy measures, despite the weakness of the global macroeconomic framework, still high credit risk and the incomplete deleveraging process in the principal economic sectors. In the three months ending in February, business loans in the area increased by 2.1 per cent on an annual basis, compared with 0.9 per cent in November (adjusted for seasonal factors and the accounting effect of securitizations). The rate of growth in lending to households slipped to 1.3 per cent compared with 1.9 per cent in November. The average rates on new loans to firms and to households for home purchase have remained at historically very low levels; the dispersion between countries stands at the lowest levels since 2009 (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

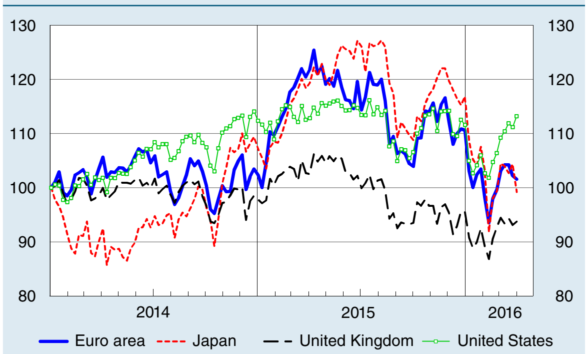
In the first two months of the year renewed fears for growth in the emerging economies triggered sharp falls in prices on global financial markets, with the riskiest securities especially hard hit. The tensions later abated somewhat, but stock market indices remain highly volatile. The euro appreciated against the dollar.

The climate of uncertainty is apparent in the high volatility of share prices ...

In the early weeks of 2016 world stock market indices fell to their lowest levels in two years (Figure 11); bank stocks incurred particularly heavy losses in the euro area (see the box 'The fall in share prices' in Section 2.8). The slides in share prices were caused by the downward revisions to global growth expectations by market operators, greater risk aversion and a significant increase in expected volatility (Figure 12). From mid-February onwards stock market indices rallied, but in several areas were still below the levels recorded at the start of the year; the recovery was accompanied by more reassuring news on growth prospects in the advanced countries, expectations that monetary policy in the euro area and in the other advanced economies would remain very expansionary, the stabilization of China's exchange rate, and the upturn in commodity prices.

Figure 11

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



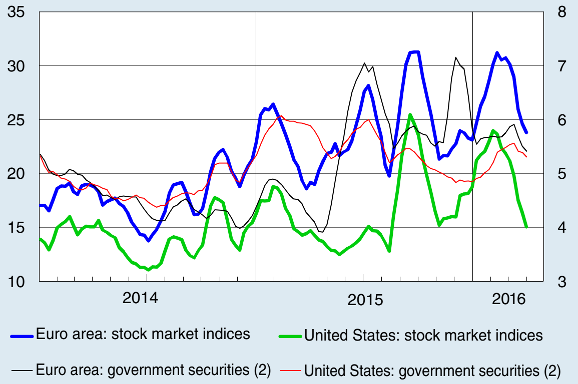
Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

... and in short-lived tensions on corporate and government bonds

The yield spreads of non-financial corporations' bonds over euro-area and US government securities, though quite volatile, diminished slightly overall in the first quarter of 2016 (Figure 13). Banks' credit risk premiums gauged by five-year credit default swap spreads rose by 40 basis points in the euro area and to a lesser

Figure 12

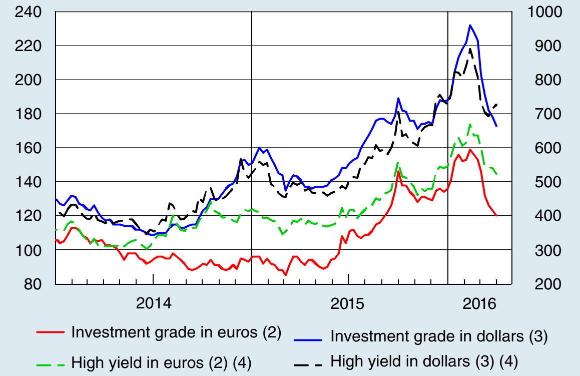
Implied volatility of share and government securities prices (1)
(end-of-week data; percentage points)



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

Figure 13

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

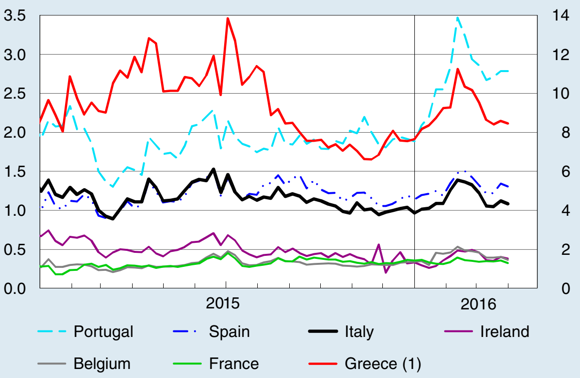


Source: Merrill Lynch.
(1) Investment grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High yield bonds are those issued by corporations rated below those grades. – (2) Fixed rate bonds with a residual maturity of not less than 1 year, issued in the Euromarket;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

extent in the United States. Investors' continued preference for assets reputed to be safer contributed to a widening of sovereign spreads in some euro-area countries in January and in the first ten days of February (Figure 14). Spreads subsequently returned to levels close to those recorded at the end of 2015, owing in part to the measures adopted by the ECB in early March (see the box 'The monetary policy measures adopted in March').

Figure 14

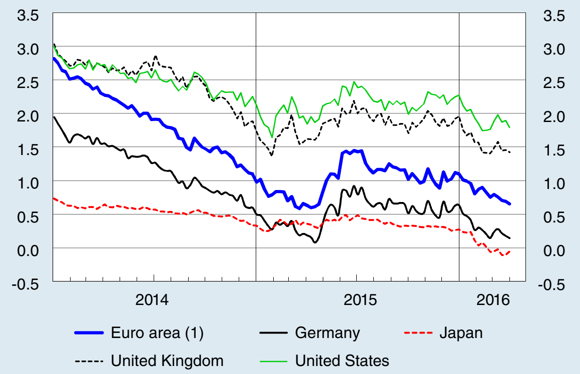
Yield spreads between 10-year government bonds and the corresponding German Bund
(end-of-week data; percentage points)



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

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.

Long-term interest rates in the advanced economies decline

Nominal long-term interest rates in the main advanced countries diminished markedly (Figure 15), reflecting the more expansionary monetary policy stance of the ECB and the Bank of Japan, expectations of more gradual increases in the federal funds rate and the effects of the shift in investors' portfolios towards less risky securities.

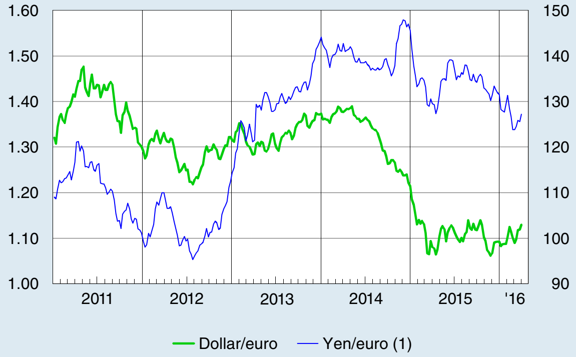
The euro appreciates against the dollar

In the first quarter as a whole the euro appreciated by 3 per cent against the dollar and by 1 per cent in nominal effective terms, while it depreciated by 6 per cent against the yen (Figure 16). From mid-March onwards the upward trend against the dollar strengthened further, in part following expectations of a more gradual normalization of monetary conditions in the United States.

Figure 16

Bilateral exchange rates

(average weekly data)



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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

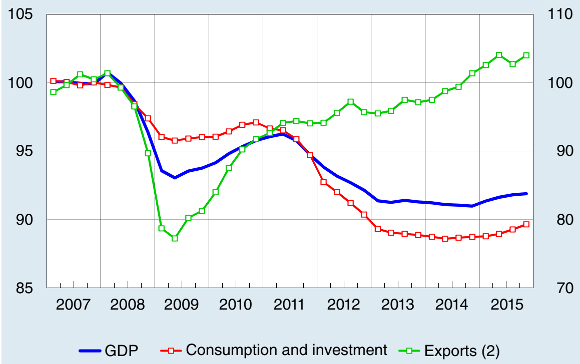
The recovery of the Italian economy is continuing at a modest pace. In the final part of last year, GDP growth was sustained by consumption and investment, but was held back by the stalling of inventory replenishment. Looking ahead, the expansion of the manufacturing cycle could be affected by uncertainty in foreign demand, while there are prospects of a gradual firming of the recovery in the service sector and especially in construction.

In the autumn the recovery was mainly sustained by consumption and investment

In the fourth quarter of 2015 GDP increased by 0.1 per cent compared with the previous three months (Figure 17; Table 2), slowing by comparison with the previous quarters. Growth was sustained by another increase in household spending (0.3 per cent, against 0.5 in the previous quarter) and by the acceleration in investment (to 0.8 from 0.2 per cent) which involved all the components except machinery and equipment purchases, which were probably postponed until 2016 in order to benefit from the tax reliefs introduced by the Stability Law approved at the end of last year. After the temporary decline in the third quarter, exports returned to growth (1.3 per cent) at a slightly higher pace than imports (1.0 per cent). By contrast, GPD growth was curbed by 0.4 percentage points by the negative change in stocks, partly reflecting the more uncertain outlook for demand and the consequent caution of firms in restocking their inventories. On the supply side, value added rose slightly in the service sector and significantly in construction for the first time since mid-2010, while it practically stagnated in industry excluding construction.

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)

	2015				2015 (2)
	Q1	Q2	Q3	Q4	
GDP	0.4	0.3	0.2	0.1	0.8
Total imports	2.9	1.6	-0.2	1.0	6.0
National demand (3)	0.9	0.3	0.5	..	1.1
National consumption	-0.1	0.2	0.4	0.3	0.5
household spending (4)	0.1	0.4	0.5	0.3	0.9
other spending (5)	-0.7	-0.3	0.2	0.6	-0.7
Gross fixed investment	0.6	..	0.2	0.8	0.8
construction	..	-0.2	0.2	0.9	-0.5
other investment goods	1.3	0.2	0.1	0.7	2.2
Change in stocks (6) (7)	0.8	0.1	0.2	-0.4	0.5
Total exports	1.2	1.4	-1.3	1.3	4.3
Net export (7)	-0.4	..	-0.3	0.1	-0.3

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the changes in stocks and in 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.

The expansion appears to have continued in early 2016 ...

Based on the most recent information and according to our estimates the increase in GDP in the first quarter of 2016 was barely greater than that for the previous three months. Alongside the revival of manufacturing, support also appears to have come from the recovery in services and construction. In March the Bank of Italy's Ita-coin indicator, which provides real-time estimates of the underlying trend in GDP, slipped to 0.10, from 0.20 in February, reflecting a modest decline in household confidence and uncertainty about foreign trade; however, it remains consistent with the continuation of the modest recovery on average for the quarter (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; changes on the previous quarter. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

... and in the spring

The leading indicators suggest that the moderate expansion will continue in the second quarter, despite the uncertainty engendered by the outlook for foreign demand. The improvement in investment conditions, stemming in part from the stimulus measures for the purchase of capital goods that were definitively approved at the end of last year as part of the Stability Law for 2016, is expected to give a new boost to capital formation. The moderate cyclical recovery continues in the construction sector.

Consumer price inflation has turned negative again since February

In March, inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), was negative for the second consecutive month (-0.2 per cent over twelve months, as in February). The prices of energy products slumped again; core inflation remains extremely low, though it picked up slightly to 0.8 per cent.

Growth in 2016 is revised marginally downwards

Based on the performances observed in the last quarter of 2015, which were less favourable than predicted, the main international institutions and private analysts have made marginal downward corrections to their estimates of growth for Italy for 2016, which the majority of forecasters now put at between 1.0 and 1.2 per cent (Table 3). The forecasts for 2017 have remained essentially unchanged.

Table 3

Forecasts for GDP growth

(percentage changes on previous year)

	Latest			Previous		
		2016	2017		2016	2017
IMF	Apr.	1.0	1.1	Jan.	1.3	1.2
MEF (1)	Apr.	1.2	1.4	Sept.	1.6	1.6
Consensus Economics (2)	Mar.	1.1 [1.0;1.2]	1.3 [1.1;1.4]	Jan.	1.3 [1.2;1.5]	1.3 [1.2;1.6]
OECD	Feb.	1.0	1.4	Nov.	1.4	1.4
European Commission	Feb.	1.4	1.3	Nov.	1.5	1.4

Sources: IMF, *World Economic Outlook,* April 2016 and *World Economic Outlook: Update,* January 2016; Ministry of Economy and Finance, *Economic and Financial Document 2016* and *Update to the Economic and Financial Document 2015;* Consensus Economics, *Consensus Forecasts*, 7 March 2016 and *Consensus Forecasts*, 14 January 2016; OECD, *Interim Economic Outlook*, February 2016 and *OECD Economic Outlook,* 98, November 2015; European Commission, *European Economic Forecast: Winter 2016*, February 2016 and *European Economic Forecast: Autumn 2015*, November 2015.
(1) Planning scenario – (2) The 25th and 75th percentiles respectively of the distribution of the forecasts of analysts polled by Consensus Economics are shown in square brackets.

2.2 FIRMS

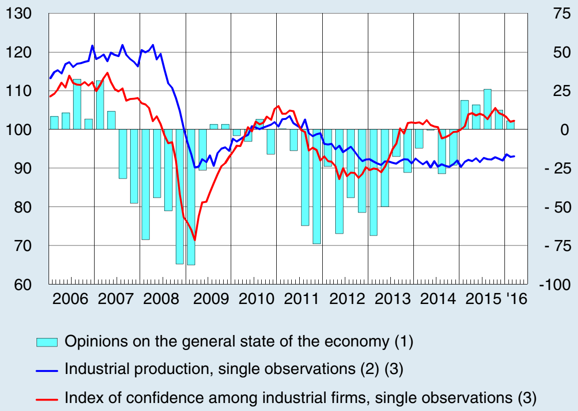
Industrial production has returned to growth since the beginning of the year, the moderate expansion in services has continued and the signs of recovery in construction have strengthened. Confidence indicators, while deteriorating slightly compared with the strongly positive signals of last autumn, remain at high levels in all the main sectors: the share of firms expecting a further increase in investment expenditure in 2016 is greater than that expecting a decrease. However, the outlook for foreign demand and geopolitical tensions continue to generate uncertainty.

Manufacturing picks up again

Following a pause at the end of 2015, which was partly due to the statistical effects of the holiday season, manufacturing recovered strongly in January; despite the modest decrease recorded in February (the last month for which the data are available), according to our estimates manufacturing output increased by nearly 1 percentage point on average in the first quarter (Figure 19).

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, March 2016, *Supplements to the Statistical Bulletin*, No. 17, 2016. – (2) Industrial production adjusted for seasonal and calendar effects; for March 2016, estimated data. – (3) Index, 2010=100.

Business confidence, while declining, remains high

At the beginning of the year the index of business confidence declined in the main sectors of economic activity but remained at high levels; PMI indices continue to point to expansion. The outlook for foreign demand has dimmed; according to the quarterly survey of firms conducted in March by the Bank of Italy and *Il Sole 24 Ore*, the uncertainty stemming from economic and political factors remains a major impediment to economic activity.

The recovery in investment continues

In the fourth quarter of 2015 investment went up by 0.8 per cent; it grew by the same percentage in the year as a whole, ending the contraction under way since the onset of the global financial crisis. The sharp, renewed rise in spending on transport equipment and a pick-up in intangible goods were joined last autumn by an upswing in construction investment (0.9 per cent), which consolidated the positive signals that had emerged in the previous quarters. Only investment in machinery and equipment declined, by 0.6 per cent, presumably owing to firms' postponement of investment to 2016 to take advantage of the tax incentives introduced by the Stability Law passed at the end of last year. The recent Bank of Italy-*Il Sole 24 Ore* survey indicates that the share of firms in industry excluding construction and in services expecting an increase in their investment expenditure this year was about 19 percentage points higher than the share expecting a decrease (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

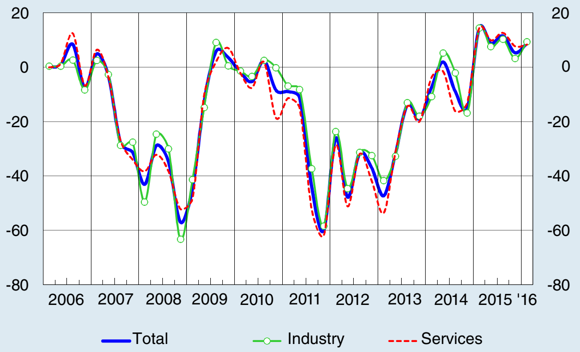
In March the Bank of Italy and *Il Sole 24 Ore* conducted their quarterly survey on a sample of industrial (excluding construction), service and construction firms with 50 or more employees (see Survey on Inflation and Growth Expectations, March 2016, in *Supplements to the Statistical*

Bulletin, forthcoming). Over 70 per cent of firms continue to report the general state of the economy to be substantially stable. Firms, and exporting firms in particular, are more optimistic about the way their business conditions will develop in the next few months, thanks above all to the positive trend in demand and to low oil prices. However, signs of uncertainty linked to the outlook for the global economy and to geopolitical tensions stand confirmed.

Assessments of investment conditions are beginning to improve, especially in the industrial sector (Figure A) and among strongly export-oriented companies. Overall, 35 per cent of companies plan to increase their nominal investment expenditure in 2016 and 16 per cent to reduce it (table); in particular, the share of large firms envisaging stepped-up investment for the current year has risen. The companies planning to increase investment in 2016 coincide with those expressing a positive opinion on the conditions for obtaining credit and on the demand, both current and expected, for their products (Figure B).

Figure A

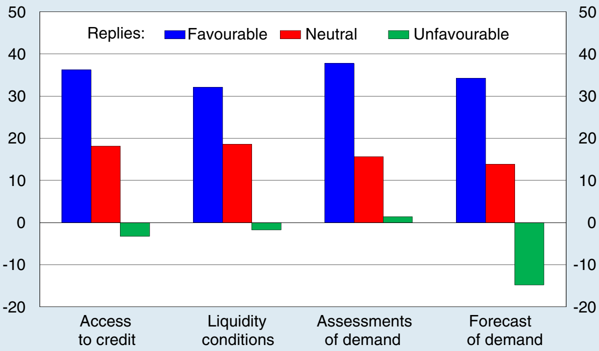
Firms' assessments of investment conditions compared with the previous quarter (1)
(quarterly data; percentage points)



(1) Balances 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 March 2016 and published in *Supplements to the Statistical Bulletin*, forthcoming.

Figure B

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



(1) Balances 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, assessments and forecasts of demand for the firm's own products in the quarterly *Survey on Inflation and Growth Expectations* conducted by the Bank of Italy with *Il Sole 24 Ore* in March 2016 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	38.7	31.5	35.2
About the same	44.0	52.8	48.3
Lower	17.3	15.7	16.5
	Investment expenditure planned for the first half of 2016 compared with investment in the second half of 2015		
Higher	29.1	23.3	26.2
About the same	50.1	60.6	55.3
Lower	20.8	16.1	18.5

(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 March 2016 and published in *Supplements to the Statistical Bulletin*, forthcoming. Rounding may cause discrepancies.

With regard to the assessments of the effects of the recent 'extra depreciation' measure to encourage investment in capital goods, the share of firms that consider this measure 'fairly' or 'very' important for their expenditure plans is again around 12 per cent. The incidence of this assessment is evenly distributed by business sector and size class.

Construction companies also expect an expansion of investment in 2016 as a whole, with 29 per cent of them planning to increase their expenditure already in the first half of the year. The picture seems especially positive for the residential sector.

Favourable signals emerge in construction

According to the quarterly Italian Housing Market Survey conducted by the Bank of Italy in collaboration with Tecnoborsa, in the fourth quarter of 2015 operators' expectations improved for both their own reference markets and for the national market. In the same period, the number of house sales increased for the third consecutive quarter, leading to a rise of 6.5 per cent in 2015 as a whole, up from 2.9 per cent in 2014 (Figure 20).

The fall in house prices under way since mid-2011 came to a halt. Following a strong recovery in the fourth quarter (up by 1.3 per cent compared with the previous period), construction activity grew by 0.4 per cent in January, measured using a three-term moving average. In the first quarter the confidence of construction firms ebbed slightly, but expectations for orders and employment remain optimistic. The Bank of Italy-*Il Sole 24 Ore* survey reported that construction firms expressed more favourable opinions on demand and employment than in December.

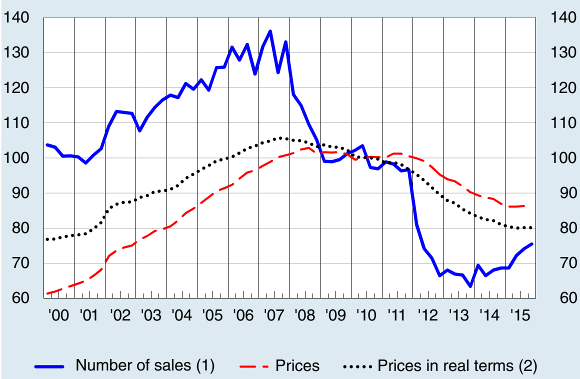
Price competitiveness in non-euro area markets improves

Despite the nominal appreciation of the euro in the first quarter of 2016, Italian firms' price competitiveness, as measured by the producer prices of manufactures, was about 2 percentage points better than at the beginning of 2014 (Figure 21). In the last two years the moderate deterioration of competitiveness in euro-area markets has been more than offset by gains in other markets, which reflected the depreciation of the euro. Over the same period, French and Spanish firms scored competitiveness gains of 4 and 3 percentage points respectively, while German firms lost almost 1 percentage point.

Figure 20

House prices and sales

(quarterly data; indices, 2010=100)

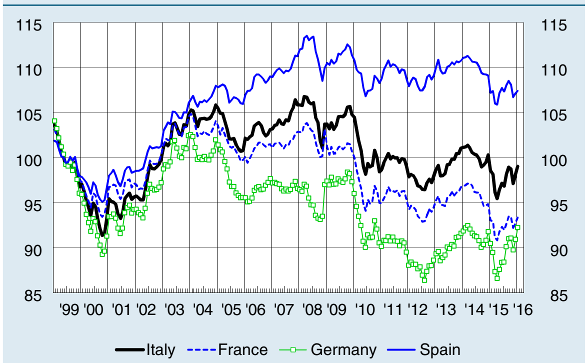


Sources: Based on data from Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and Consulente immobiliare.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index.

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 January 2016. For the method of calculation 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.

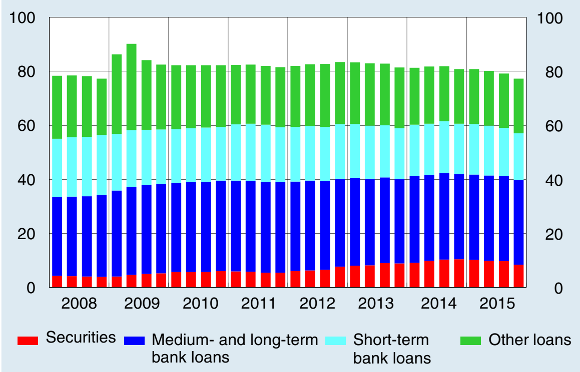
Corporate profitability remains stable

Based on Istat data and on our estimates, the ratio of gross operating profit to value added remained constant in the twelve months ending last December. Corporate external financing requirements eased slightly thanks to an increase in self-financing while investment was practically unchanged in proportion to value added. The growth in self-financing, calculated as the difference between gross operating profit and total interest costs, was due to a further reduction in net interest expenses. Total corporate debt declined further in the fourth quarter of 2015 from 79 to 77 per cent of GDP (Figure 22).

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.

Lending to manufacturing firms increases

In February the twelve-month rate of growth of bank loans to non-financial corporations was slightly positive, while growth in lending to manufacturers remained quite brisk (see Section 2.7).

Recourse to the bond market remains moderate

In the fourth quarter of 2015, Italian firms' net bond issues were practically nil (€0.1 billion; Table 7) and gross issuance was modest. Provisional data from Dealogic indicate negative net issues (-€5 billion) for the first quarter of 2016.

2.3 HOUSEHOLDS

Household consumption continues to strengthen, buoyed by the moderate recovery in disposable income and the stabilization of real estate prices. The latest data point to a further increase in household spending in the first quarter of 2016, despite consumers' more prudent assessments of the general state of the economy.

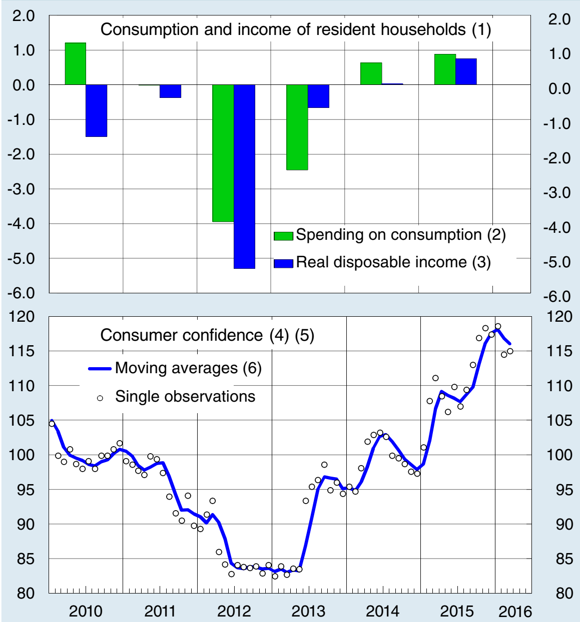
Household consumption continues to recover ...

The rise in household consumption that began in the summer of 2013 continued in the fourth quarter of 2015, albeit at a slightly slower rate (0.3 per cent against 0.5 per cent in the third quarter). Consumption was bolstered by that of services, while the goods component stagnated. A contribution to the spending recovery came from the first increase in real disposable income since 2008 (up 0.8 per cent on the previous year; Figure 23), partly the result of the improvement

Figure 23

Consumption, disposable income and consumer confidence

(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. – (2) Chain-linked 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.

in the labour market (see Section 2.5). The gradual abatement of the uncertainty regarding the value of real estate following the stabilization of housing prices under way since the summer of 2015 (see Section 2.2) is likely lessening the dampening effect it previously had on household consumption.

... also in the first quarter of 2016

The latest data are consistent with a continuation of the moderate upward trend in household spending into the beginning of 2016. The rise in new car registrations strengthened in the first quarter, after the annual average increase of 15.3 per cent recorded in 2015. In the same quarter, the index of consumer confidence, though decreasing, remained at high levels. Households expressed more cautious assessments of the general performance of the economy and expectations of employment, while their opinions regarding household finances improved.

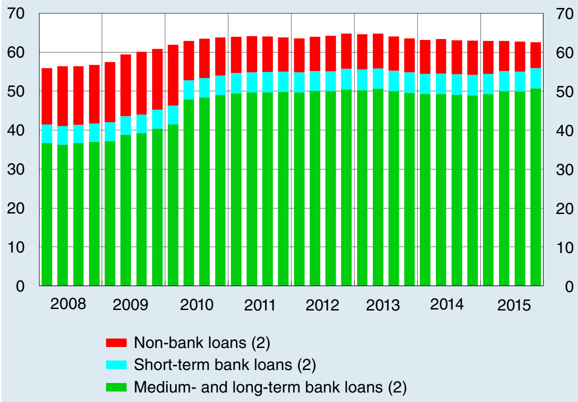
Household debt falls slightly

Over the autumn months Italian household debt edged down to 62.6 per cent of disposable income, from 62.7 in September (Figure 24), remaining far below the euro-area average (about 97 per cent at the end of September). Debt servicing costs (interest plus repayment of principal) remained practically stable. 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 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.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports returned to growth, driven by their robust expansion on EU markets. Demand on non-EU markets remains slack, with increased uncertainty surrounding the outlook for foreign sales. The current account surplus improved further.

Exports grow (especially to EU countries) ...

In the fourth quarter of 2015 exports of goods and services increased by 1.3 per cent in volume terms compared with the third quarter, recouping the decline registered in the previous period. The greatest boost came from sales of goods in EU countries (especially Germany and the United Kingdom), while the contribution of non-EU markets was smaller, owing to the weakness and unevenness of the recovery in world trade: the growth in exports to China and Japan was offset by the further contraction of sales in oil-producing countries and the stagnation of exports to the United States, which had been growing rapidly at the beginning of 2015.

At the sector level, the increase in export volumes was led by investment goods and non-durable consumer goods. Exports of motor vehicles confirmed their exceptional growth of the previous months, expanding by more than 30 per cent in 2015 as a whole.

... and so do imports

Total imports returned to growth (1.0 per cent in volume), albeit at a slower pace compared with the first half of the year. In the merchandise component, non-durable consumer goods boasted the strongest quarterly growth, in keeping with the gradual recovery in households' consumption expenditure; imports of energy products, by contrast, declined.

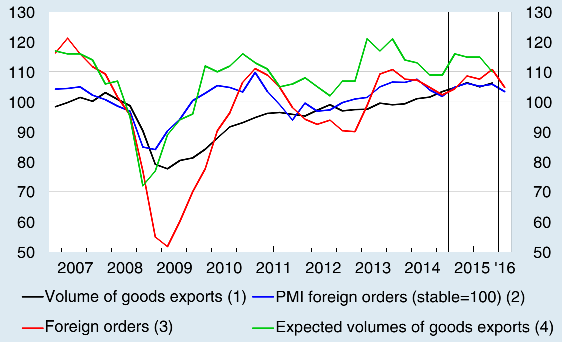
But the outlook for foreign orders shows growing uncertainty

The data for the first months of this year show a decline in goods exports at current prices in January; this reflected the slump in sales on non-EU markets, partially erased in February. Business surveys point to growing uncertainty in the outlook for foreign demand: the manufacturing PMI index regarding foreign orders, while remaining at levels compatible with an expansion of sales, deteriorated, as did Istat's comparable qualitative indicator (Figure 25).

Figure 25

Export volumes, manufacturing firms' foreign orders and expectations

(seasonally adjusted quarterly data; indices)



Sources: Istat, Markit and Thomson Reuters Datastream.
(1) Index, 2007=100 (national accounts data) – (2) Quarterly average of the PMI indicator plus 50. – (3) Quarterly average based on Istat's monthly survey of firms; 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.

The current account surplus widens further

The current account balance continued to improve, reaching €35.8 billion for the year 2015 as a whole (2.2 per cent of GDP), up from €29.7 billion in 2014 (Table 4). The increase observed in the final months of last year was driven mainly by the improvement in the merchandise balance, which in turn was due both to the decrease in expenditure for energy products and to the increase in the surplus for non-energy products.

Table 4

Italy's balance of payments (1)

(billions of euros)

	2014	2015	Jan. 2015	Jan. 2016
Current account	**29.7**	**35.8**	**-1.8**	**-1.1**
Goods	47.9	53.8	0.8	1.0
non-energy products (2)	89.3	85.6	3.6	2.9
energy products (2)	-41.5	-31.7	-2.8	-1.9
Services	-0.8	-1.4	-0.8	-0.7
Primary income	-1.5	-2.0	..	0.2
Secondary income	-15.8	-14.6	-1.7	-1.6
Capital account	**3.4**	**2.6**	**..**	**..**
Financial account	**43.5**	**49.4**	**-4.3**	**1.7**
Direct investment	2.3	11.4	1.3	-0.3
Portfolio investment	-4.5	99.7	-16.8	19.8
Financial derivatives	-3.6	3.4	0.2	1.2
Other investment	50.2	-65.6	11.0	-18.9
Change in reserve assets	-1.0	0.5	..	-0.1
Errors and omissions	**10.4**	**10.9**	**-2.5**	**2.8**

(1) Based on the international standards in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6), 2009. For January 2016, provisional data. – (2) Based on Istat's foreign trade data.

Foreign purchases of Italian government securities develop in line with net issues

In 2015 net foreign investment in Italian portfolio securities was equal to €22.5 billion, of which €21.1 billion in public debt securities; the decline in purchases of Italian government securities recorded in the last two months of the year (by a total of €36.7 billion in November and December) was linked, as usual, to the issuance policy followed by the Italian Treasury, which made substantial net redemptions in December.[1] Purchases resumed in January, even if for modest amounts.

On the asset side, residents continued to invest in foreign portfolio securities (€122.2 billion in 2015 as a whole); the purchases made in the most recent months (€19.0 billion from November through January) consisted mainly of long-term bonds, while foreign investment funds attracted less interest.

[1] On the relation between net issues by the Treasury and net foreign investment in Italian government securities, see the box 'Investment in Italian government securities in 2015', in *Economic Bulletin*, No. 1, 2016.

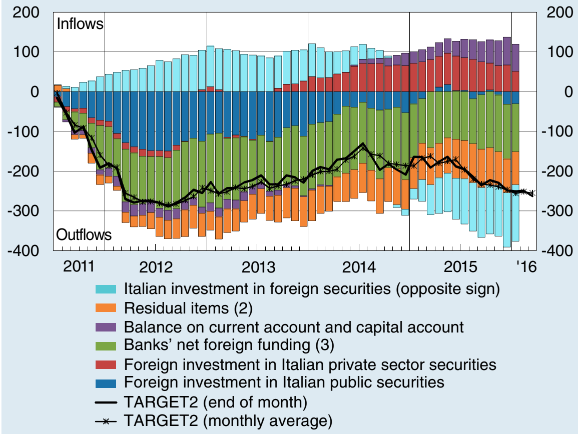
The behaviour of the TARGET2 debit balance reflects the continuation of the APP

The Bank of Italy's debtor position in TARGET2 averaged €255 billion in March, up from €247 billion in December (Figure 26). The increase recorded from October through January (the last month for which comparison with the balance-of-payments data is possible) reflected the above-mentioned foreign disposals of Italian portfolio securities and residents' net purchases of foreign assets, which were partially offset by an increase in resident banks' net funding on international markets and by the current account surplus. In a broader perspective, the behaviour of the balance from March 2015 onwards reflects the liquidity creation by the Bank of Italy under the Eurosystem's expanded asset purchase programme (APP);[2] this liquidity is used by Italian banks to curb the relatively higher cost of funding on the international interbank market.

At the end of the fourth quarter Italy's net international investment position was negative by €436.2 billion, equal to 26.7 per cent of GDP. The improvement compared with the previous period came from the surplus on current and capital accounts for the quarter. The figure for Italy's net positions will soon be revised to incorporate previously undeclared foreign assets under the voluntary disclosure procedure for the declaration for tax purposes of capital illegally held abroad: based on the information provided to date by Italy's Revenue Agency and on preliminary estimates, as at the end of 2015 Italy's net position should improve by slightly less than three percentage points of GDP.

Figure 26

TARGET2 balance and cumulative balance-of-payments flows (1)
(monthly data; billions of euros)



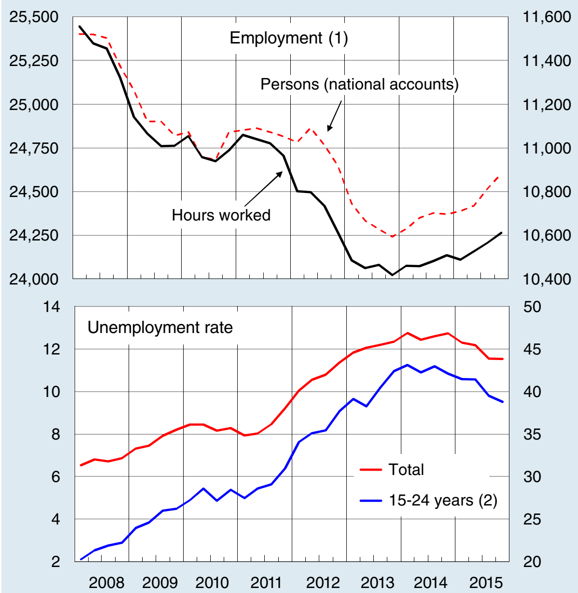
(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's debit balance vis-à-vis the ECB in the TARGET2 payment system may reflect investments in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and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

2.5 THE LABOUR MARKET

The fourth quarter of 2015 saw a further gain in employment, which in part benefited from an anticipation effect arising from the scheduled reduction starting from January 2016 in social contribution relief on new hires. This gain was partly offset by a slight decline in the first two months of this year. Firms' expectations for employment prospects are favourable. Wage growth has slowed.

Figure 27

Employment and unemployment
(seasonally adjusted quarterly data)



Source: Istat, quarterly national accounts and labour force survey.
(1) Thousands of persons (left-hand scale); millions of hours (right-hand scale). – (2) Right-hand scale.

[2] For a description of the link between the TARGET2 balance and the liquidity creation and investment channels and the balance of payments accounting identity, see the box 'The TARGET2 balance in the last three years', in *Economic Bulletin*, No. 3, 2015.

Table 5

Employment and hours worked

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

	Number	Change			
	Q4 2015	Q1 2014	Q2 2015	Q3 2015	Q4 2015
Total persons in work	**24,602**	**0.1**	**0.1**	**0.4**	**0.3**
of which: industry excl. construction	4,194	-0.6	..	0.3	0.6
private services (1)	10,600	0.5	..	0.8	0.1
Employees	18,421	0.1	0.4	0.5	0.6
Self-employed	6,181	-0.1	-0.6	..	-0.5
Hours worked	**10,611**	**-0.2**	**0.4**	**0.4**	**0.4**
of which: industry excl. construction	1,830	-1.0	0.4	0.5	0.9
private services (1)	4,817	0.1	0.1	0.8	-0.1
Employees	7,266	..	0.6	0.6	0.7
Self-employed	3,345	-0.7	-0.2	-0.2	-0.2

Source: Istat, quarterly national accounts.
(1) Does not include services to households and individuals.

Employment rises in the fourth quarter of 2015 ...

In the fourth quarter of 2015 the number of persons employed as reported in seasonally adjusted national accounts data rose by 0.3 per cent compared with the previous period. Employment gained pace in industry excluding construction, where it rose for the second straight quarter, and slowed in private services (Figure 27; Table 5); it fell again in construction. The number of hours worked rose by 0.4 per cent. The number of authorized hours of wage supplementation continued to decline (-12.4 per cent). According to Istat's preliminary labour force survey, in January-February employment fell slightly.

... particularly among workers with open-ended contracts ...

Payroll jobs rose by 0.6 per cent in the fourth quarter of 2015 compared with the previous period, driven by the increase in open-ended employment contracts. By contrast, the contraction in self-employment, under way since last spring, grew sharper (-0.5 per cent).

... partly as a consequence of social contribution relief

The rise in open-ended employment benefited from the decision by employers to take advantage of social contribution relief available until the end of last year before its reduction took effect starting at the beginning of 2016. According to data released by INPS, almost 60 per cent of the new open-ended employment contracts in 2015 as a whole claimed the contribution exemptions and this percentage rose steadily throughout the year, exceeding 80 per cent in December. In January the balance of new hires and terminations of employment relationships, while positive, was about 50,000 employees lower than in the same month of 2015 as a result of the sharp drop in new open-ended employment contracts.

The youth unemployment rate falls

The unemployment rate in the fourth quarter stood at 11.5 per cent, the lowest it had been since the start of 2013, in part reflecting the rise in the participation rate; the rate for persons between 15 and 24 years of age fell to 38.8 per cent (from 39.5 per cent in the previous period), following an increase in the number of employed (Figure 27). In January-February unemployment was marginally higher under both definitions.

Labour costs rise more slowly than wages owing to social contribution relief

In the final quarter of 2015 hourly labour costs in the non-farm private sector rose less than wages (up 1.1 and 1.4 per cent respectively on the same period of 2014) as a result of social contribution relief on new hires (Figure 28). While productivity remained stable, unit labour costs in industry excluding construction rose by 1.2 per cent, 1 percentage point lower than in the same period of 2014.

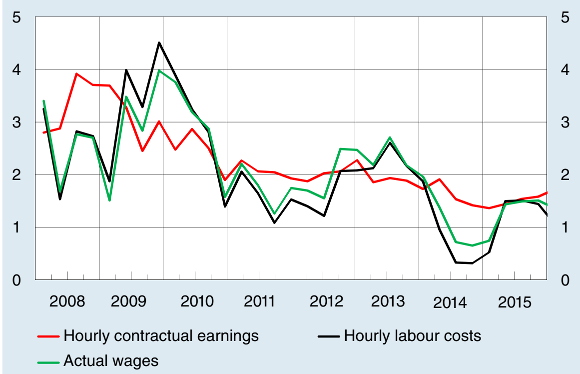
Wage growth slows

In the autumn months contractual wages in the non-farm private sector rose by 1.7 per cent compared with the corresponding period of 2014 (Figure 28). In December, 13 of the 59 private-sector contracts monitored by Istat expired, including those for the metal and engineering industry, raising the share of private sector employees awaiting a new contract from 21 to 52 per cent. In the first two months of 2016, in the absence of contract renewals, contractual wages decelerated sharply (to 1.0 per cent growth on average over the corresponding period); if none of the contracts expiring in 2016 are renewed, the increase in wages would average about 0.7 per cent for the year (see the box 'Wage growth, unemployment and inflation expectations').

Figure 28

Labour costs in the non-farm private sector (1)

(quarterly data; percentage change on the corresponding period)



Source: Istat, quarterly national accounts and survey of contractual earnings.
(1) Seasonally adjusted quarterly data for hourly labour costs and actual wages.

WAGE GROWTH, UNEMPLOYMENT AND INFLATION EXPECTATIONS

In Italy private sector wage growth has slowed considerably since the start of the global financial crisis in 2007 and has diminished more sharply in the last two years, to an average of around 1 per cent on a twelve-month basis, less than half the rate recorded in the preceding two-year period. The reduction in wage growth, in turn, has contributed to the decline in core inflation, which fell from 1.6 to 0.7 per cent in the same period.

Estimations of a Phillips curve (which links changes in wages to the unemployment rate and inflation expectations) demonstrate that the responsiveness of actual wages both to changes in the unemployment rate and to inflation expectations as measured using Consensus Economics forecasts (figure) has progressively increased. The median of these estimates shows that a reduction of 1 percentage point in the unemployment rate corresponds to additional annual wage growth of 0.15 percentage points in the short term and around 0.3 points in the long term. The contribution of the less than full utilization of the labour force to low inflation therefore does not appear to be negligible.

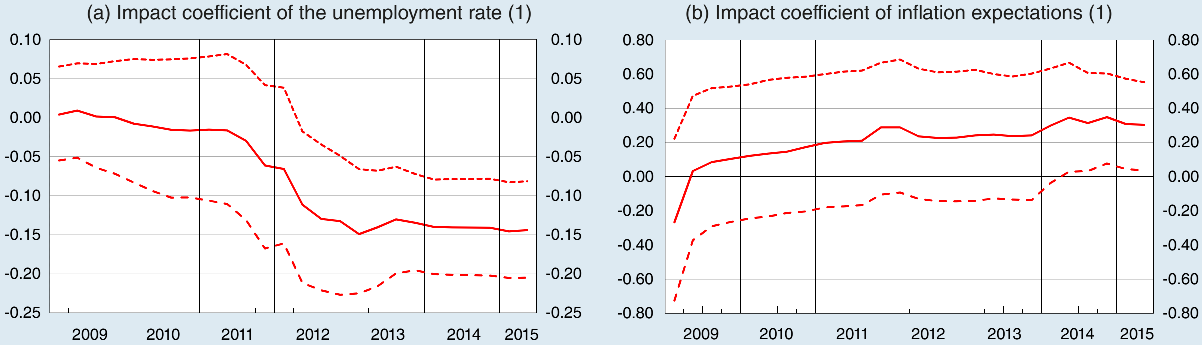
In a situation characterized by persistent downward pressures on prices, revisions in inflation expectations, among other factors, inevitably play an increasingly significant role in wage bargaining, so it is important to stabilize them. For example, in Italy, the national-level collective bargaining system envisages three-year agreements and wage increases determined taking account of Istat's forecasts of the changes in the harmonized index of consumer prices (HICP), excluding imported energy products, for the three-year reference period.[1] Since 2014 there have been significant gaps between the inflation forecasts incorporated into the contracts and actually observed inflation; to avoid a repetition of these

[1] However, the parties are free to negotiate contracts of different duration and wage increases not in line with expected price developments.

disparities, several new contracts signed in 2015 provided that, starting from June 2017, the parties would annually check the difference between the actual inflation rate in the preceding year and the forecast used for the contract renewal and, if necessary, would adjust the subsequent wage increases.

Wage Phillips curve

(quarterly data)



Source: Based on Istat and Consensus Economics data.

(1) Non-parametric estimations based on quarterly data: median (continuous line) and the 16th and 84th percentiles (broken lines). The model estimated is: $\pi_t^w = c + B_t^1 \cdot \pi_{t-1}^w + B_t^2 \cdot E\pi_{t|t+1}^p + B_t^3 \cdot U_t + \epsilon_t$, where π_t^w is the trend growth for actual wages in the private sector; $E\pi_{t|t+1}^p$ is the average of one-year inflation expectations surveyed by Consensus Economics; U_t is the unemployment rate. The coefficients reported in the figure are B_t^3 (Panel a) and B_t^2 (Panel b).

The employment outlook is favourable

Firms' expectations for employment prospects in the second quarter, as reported in surveys conducted by Istat and the Bank of Italy with *Il Sole 24 Ore*, remain favourable. The survey conducted in March by the Bank of Italy (see 'Survey on Inflation and Growth Expectations March 2016', in *Supplements to the Statistical Bulletin*, No. 17, 2016) indicates slightly better employment prospects both in industry excluding construction and in services; the percentage of firms that expect to cut their workforce in the coming quarter declined.

2.6 PRICE DEVELOPMENTS

Consumer prices have begun to decrease again since February in Italy. The main factor in the decrease was the sharp decline in the more volatile components, especially energy products; core inflation remained historically low at below 1 per cent. The expectations of households and firms indicate that this phase of slack prices will continue for the rest of the year; analysts also expect consumer price inflation to remain at barely positive levels on average in 2016.

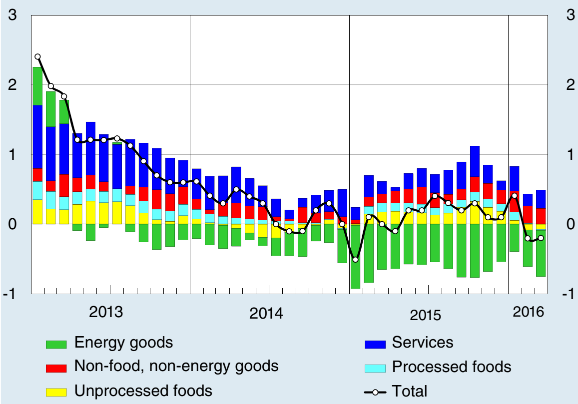
Inflation becomes negative again

Since February the twelve-month change in the HICP has become negative again, registering -0.2 per cent in March (Figure 29). Downward pressures have come above all from the accentuated fall in energy and food prices; the

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.

Table 6

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
2012	3.3	2.0	2.5	3.0	–	1.7	4.1
2013	1.2	1.2	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	0.0	0.0	–	0.5	-3.4
2015 – Jan.	-0.5	0.5	-0.6	-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	0.5	-0.1	-0.1	0.0	0.3	-3.0
Apr.	-0.1	0.3	-0.2	-0.1	0.1	0.3	-3.0
May	0.2	0.6	0.1	0.1	0.1	0.6	-2.6
June	0.2	0.7	0.1	0.2	0.1	0.6	-3.0
July	0.4	1.0	0.3	0.2	-0.1	0.7	-3.0
Aug.	0.3	1.0	0.2	0.2	0.0	0.7	-3.5
Sept.	0.2	0.9	0.1	0.2	0.0	0.8	-3.9
Oct.	0.3	1.0	0.2	0.3	0.2	0.9	-3.7
Nov.	0.1	0.7	0.1	0.1	-0.2	0.6	-4.1
Dec.	0.1	0.5	0.1	0.1	-0.1	0.4	-3.9
2016 – Jan.	0.4	0.9	0.4	0.3	-0.2	0.7	-3.0
Feb.	-0.2	0.5	-0.2	-0.3	-0.2	0.5	-4.1
Mar.	-0.2	0.8	-0.3	-0.2	0.1	0.7	....

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 because 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 overall index.

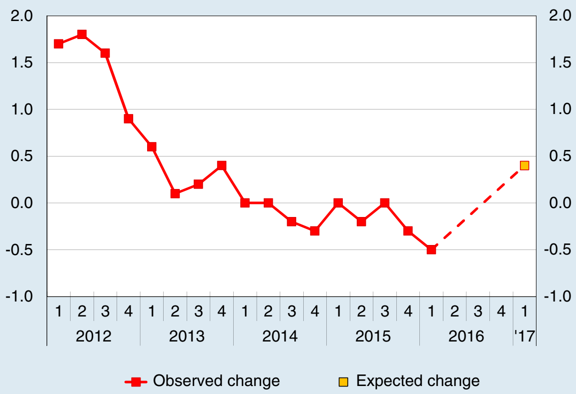
outlook for inflation continues to reflect core inflation, which remains very low at 0.8 per cent (Table 6). March showed that the share of elementary items in the overall index with negative changes decreased to 30 per cent (from 32 per cent in February); the share for core components fell from 26 to 21 per cent.

Producer prices continue to fall

Producer price pressures remain very weak. Producer prices recorded a new decrease in February (-4.1 per cent over twelve months, from -3.0 in January): the further, sharp fall in energy prices was flanked by a slight decrease in the producer prices of non-food final consumption goods. Wage growth also remained moderate at the beginning of the year (see Section 2.5). In the fourth quarter of 2015 the share of profits in value added decreased marginally compared with the third quarter, remaining at a historically low level (40.5 per cent).

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 average of responses to questions concerning the observed percentage change in firms' own sales prices over the past 12 months and the expected change over the next 12 months. Bank of Italy - *Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, March 2016, *Supplements to the Statistical Bulletin*, No. 17, 2016.

Inflation is expected to remain extremely low in 2016

The most recent surveys have shown that households and firms expect price dynamics to remain slack. The firms interviewed for the March quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* envisage a modest increase in list prices over the next twelve months (Figure 30). According to Istat's survey, the balance between manufacturing companies expecting to raise prices and those expecting to lower them fell on average during the first quarter and in fact turned negative again. The share of consumers expecting prices to remain stable or fall over the next twelve months increased to 58.3 per cent from 56.8 in the fourth quarter of 2015. The analysts interviewed in March by Consensus Economics expect inflation to average 0.2 per cent in 2016.

2.7 BANKS

Lending has continued to recover gradually, thanks in part to the assistance of monetary policy measures. Despite the volatility on the financial markets, the banking system as a whole has not experienced overall funding strains. The improvement in the economic outlook has had a positive

Table 7

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	November 2015	February 2016	November 2015	February 2016
Assets				
Loans to Italian residents (4)	1,831	1,818	0.6	0.3
of which: to firms (5)	804	792	0.2	0.3
to households (6)	620	618	0.8	1.0
Claims on central counterparties (7)	96	102	1.1	1.1
Debt securities excluding bonds of resident MFIs (8)	531	523	-4.3	-5.6
of which: securities of Italian general government entities	416	415	-2.1	-3.3
Claims on the Eurosystem (9)	20	19	63.4	89.1
External assets (10)	337	335	7.4	1.8
Other assets (11)	1,147	1,180	-6.7	-3.8
Total assets	**3,963**	**3,977**	**-1.6**	**-1.4**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,371	1,386	2.8	2.9
Deposits of non-residents (10)	319	322	0.1	-2.4
Liabilities towards central counterparties (7)	144	176	10.6	4.6
Bonds (13)	410	385	-13.4	-16.0
Liabilities towards the Eurosystem (9)	154	152	-11.7	7.2
Liabilities connected with transfers of claims	123	117	-11.7	-13.7
Capital and reserves	450	448	5.4	-0.1
Other liabilities (14)	992	992	-3.7	-1.3
Total liabilities	**3,963**	**3,977**	**-1.6**	**-1.4**

Source: Supervisory reports.
(1) The data for February 2016 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 serving households and units not classified elsewhere. – (7) Only repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (9) Accounts with the Eurosystem for monetary policy operations; see 'Monetary and Financial Indicators. Money and Banking', in *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, derivatives, and some minor items.

impact on the trend and the stock of non-performing loans; banks' profitability, although still low by historical standards, is improving. The institution of a private investment fund to support future increases in banks' capital and assist in the disposal of non-performing loans has been announced.

Bank funding remains stable

Bank funding remained stable between November and February (Table 7). The growth of deposits and the expansion of foreign interbank funding more than offset the reduction in retail bonds, a trend under way since 2012, and the fall in wholesale bonds, which was partly ascribable to the recent strains in the banking sector.

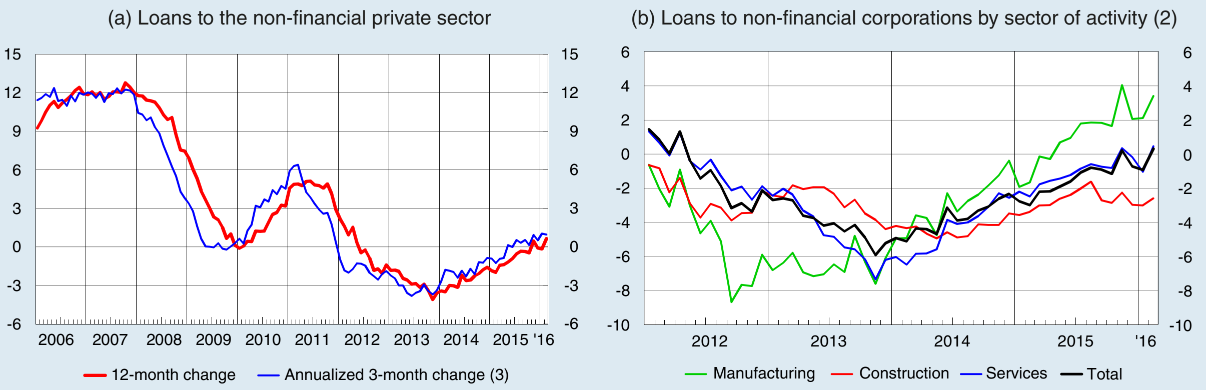
Lending to the non-financial private sector grows moderately

In the three months ending in February, lending to the non-financial private sector grew by 1.0 per cent on a seasonally adjusted, annualized basis (Figure 31.a). The rate of growth of lending to firms reached a moderately positive level (0.7 per cent) while that to households accelerated (1.3 per cent), in part supported by the growth in consumer credit reflecting the improvement in the labour market conditions and the outlook for disposable income (see Section 2.3). Loans for house purchase increased by 0.9 per cent.

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. In conformity with the guidelines of the European Statistical System, the models used to make seasonal adjustments are reviewed annually to ensure they correctly represent the dynamics of the time series. Consequently, direct comparison between the series shown in the graph and that of the series presented in previous issues of the Economic Bulletin may not be possible.

Loans to manufacturing firms grew by 3.4 per cent and to service firms by 0.5 per cent in the twelve months ending in February (Figure 31.b), while lending to the construction sector declined at a similar rate to that observed last autumn (-2.6 per cent). There remains a gap between the rate of growth in lending to non-financial firms with 20 or more workers and to smaller businesses (0.6 per cent and -2.8 per cent respectively).

Supply conditions continue to ease

The banks interviewed for the bank lending survey reported a further easing of their lending policies and a strengthening of households and firms' demand for credit in the fourth quarter of 2015 (see the box 'Credit supply and demand'). More recent information emerging from last March's business surveys confirm that credit conditions remained generally favourable in the first quarter of 2016 as well.

CREDIT SUPPLY AND DEMAND

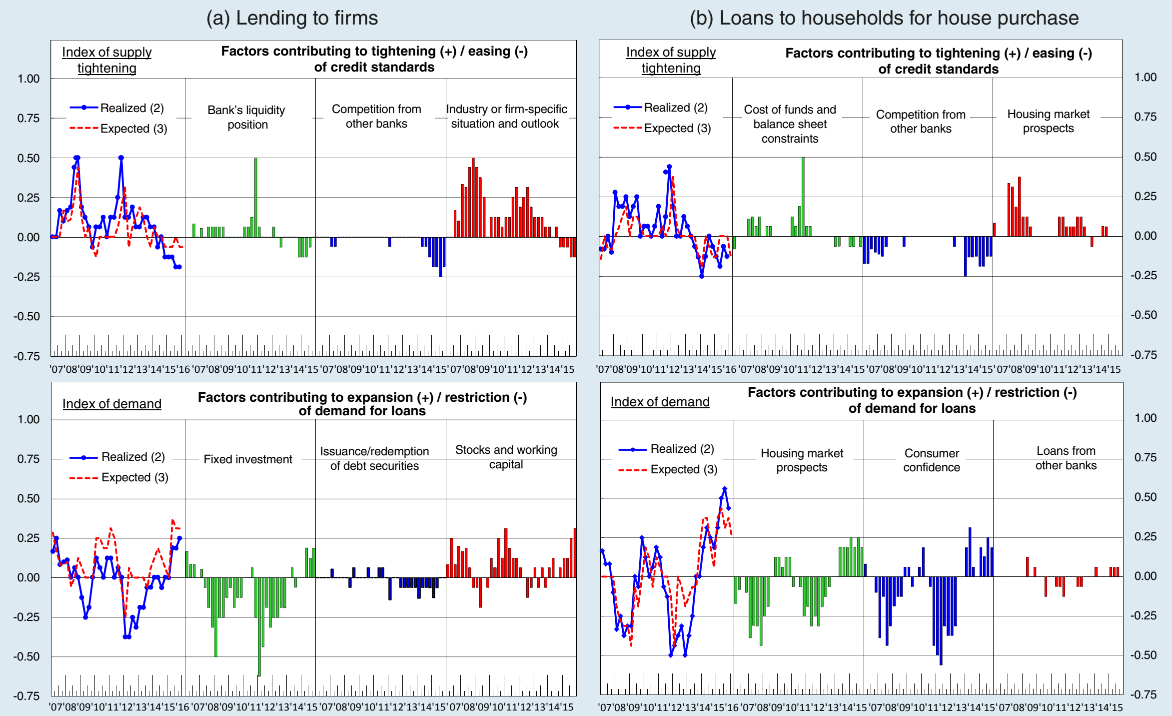
According to the Italian banks interviewed in December's quarterly euro-area bank lending survey, in the fourth quarter of 2015 credit standards for both loans to firms and mortgage loans to households continued to ease, albeit slightly, mainly reflecting competitive pressures among banks (Figure A).[1]

The more favourable supply conditions led to a reduction in the margins applied to average loans; for business loans, the banks also reported a modest decrease in non-interest rate charges and interest margins on riskier operations.

The banks surveyed reported that the demand for business loans continued to grow, buoyed by low borrowing costs and spurred by funding requirements for inventories and working capital and, to a lesser extent, for fixed investments. The demand for loans for house purchase also remained strong, driven by particularly low interest rates, against the background of greater consumer confidence and an improvement in the general economic outlook.

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.

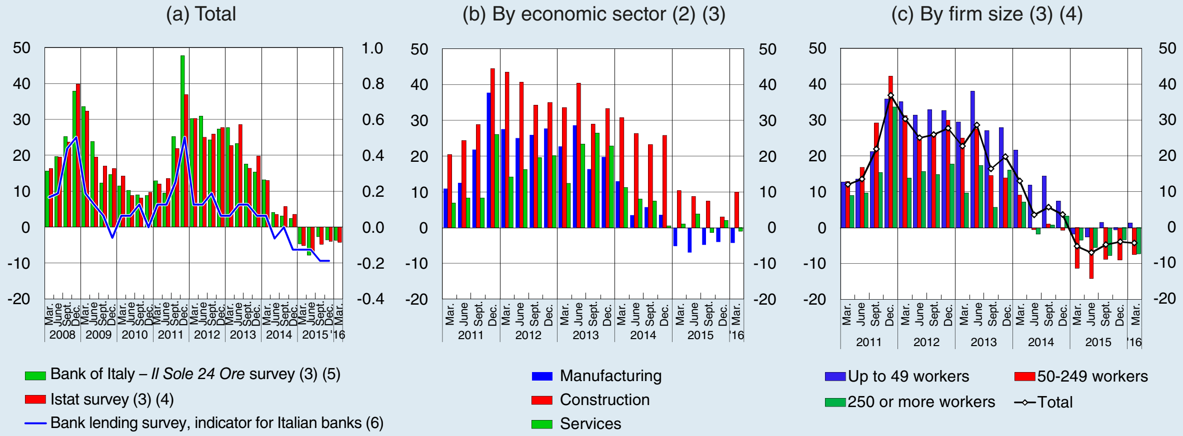
[1] Eight of Italy's major banking groups took part in the survey, which was completed on 30 December. The results for Italy are available for consultation on the Bank's website at www.bancaditalia.it, while those for the euro area can be found at www.ecb.int. The survey results for the first quarter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

In their responses to the questions specifically on the targeted longer-term refinancing operations launched by the ECB in September 2014, the banks reported that the recent reduction in the use of the operations was largely due to the absence of funding restraints and to concerns about insufficient demand for loans.[2] At the same time, the banks also indicated that the liquidity obtained was used to replace other refinancing operations with the Eurosystem and for lending, especially to firms; it also contributed to a moderate easing in the terms and conditions applied to new loans.

The results of the business surveys conducted in March regarding the first quarter of the year indicate that credit access conditions remained favourable on the whole, in a context still marked by variations among sectors of economic activity and firm size.

Figure B

Firms' access to credit (1)



(1) The Bank of Italy-*Il Sole 24 Ore* survey is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and 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) 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. – (4) Istat, business confidence survey in the manufacturing sector. – (5) Survey on Inflation and Growth Expectations conducted by the Bank of Italy and *Il Sole 24 Ore*, published in *Supplements to the Statistical Bulletin*. – (6) Right-hand scale.

According to Istat's business confidence survey (which also polls firms with fewer than 50 employees), credit access conditions improved moderately over the previous quarter for service firms while they tightened further for construction companies. Credit access conditions continued to ease for manufacturing firms, especially large companies (Figure B).

Similar findings come from 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).

[2] These questions were posed to the banks in the surveys of September and December 2014 and June 2015; the results are analysed in *Economic Bulletin*, No. 1, 2015 and *Economic Bulletin*, No. 3, 2015.

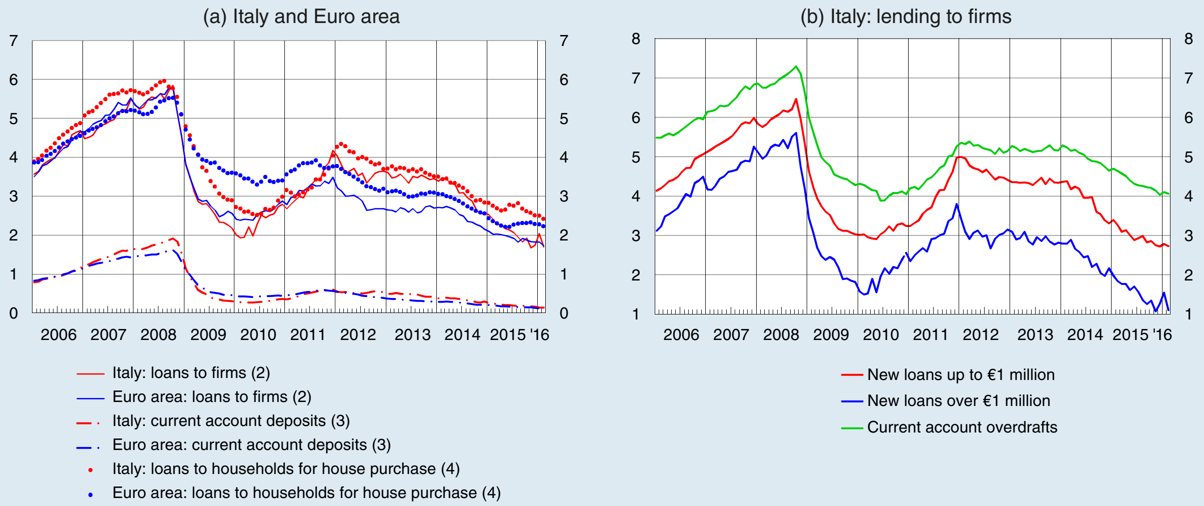
The average cost of new loans is at a historically low level

In February the average interest rate on new loans to firms was 1.7 per cent, a level low by historical standards (Figure 32). The cost of new loans for amounts of over €1 million and up to €1 million remained approximately at the November levels (1.1 per cent and 2.7 per cent respectively). The rate applied to new mortgage

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 collected 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.

loans fell by about 20 basis points to 2.7 per cent for fixed rate loans, while staying virtually stable at 2 per cent for variable rate mortgages; overall, the spread with the euro-area average remains small (20 basis points).

Non-performing loans stop increasing ...

The improvement of the economy is reflected in the sharp reduction in the flow of new non-performing loans,[3] which in the fourth quarter of 2015 fell to 3.3 per cent of the stock of outstanding loans on a seasonally adjusted, annualized basis; loans to firms accounted for all of the decline. Furthermore, provisional data indicate that non-performing loans have fallen slightly in absolute terms for the first time since 2008 and that their share of all loans stopped increasing (to stand at 18.2 per cent in terms of gross values, and at 10.9 per cent net of the write-downs already made in banks' balance sheets).

... and the economic outlook has a positive effect on profitability

The start of the recovery has also had positive effects on banks' profitability; in 2015 that of the five largest groups, while still below the levels recorded before the global financial crisis, increased: ROE increased to 4.6 per cent (compared with -1.8 per cent in 2014). The improvement stemmed mainly from the 7.2 per cent growth in fee income, mostly in connection with asset management, and from the 48.1 per cent decrease in loan loss provisions consequent to the decline in loan impairment rates.

In the fourth quarter of 2015, the capital endowment of the five largest banking groups remained stable; at the end of the year their common equity tier 1 (CET1) and total own funds were equal on average to respectively 11.8 and 15.2 per cent of risk-weighted assets.

A government guarantee scheme to facilitate securitizations of bad debts is introduced ...

A state guarantee on securitizations of bad debts was introduced. This government-guarantee scheme was previously agreed with the European Commission so that the latter would not consider the measure a form of state aid. The scheme allows banks to buy a state guarantee for the senior tranches of securities resulting from the securitization of bad debts, paying the State fees structured so as to encourage

[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.

the rapid repayment of the underlying assets.[4] Together with the previously introduced measures to reduce credit recovery times (see *Economic Bulletin*, No. 3, 2015), the guarantee scheme will encourage the transfer of bad debts and the development of the market in non-performing loans, allowing investors to make their choices within a well-defined regulatory framework.

... and the mutual bank reform is passed

The mutual banks' reform was also passed at this time, providing for the establishment of a cooperative banking group comprising the affiliated mutual banks (*banche di credito cooperativo*). Furthermore, to encourage the capitalization of the individual banks, the law raises the maximum amount of capital that can be held by a single member and increases the minimum number of members of such banks. The reform of this sector, together with that of the popolari banks (*banche popolari*), will strengthen the capacity of the financial sector to contribute to the economic recovery.

At the beginning of April the creation was announced of an alternative investment fund of a private nature, called 'Atlante', to support future increases in banks' capital and, above all, to dispose of the large amount of non-performing loans currently weighing on Italian banks' balance sheets. The Government has also announced that it will shortly adopt new measures to reduce credit recovery times.

2.8 THE FINANCIAL MARKETS

At the start of the year, the Italian financial markets too were affected by the turbulence caused by the worsening of the global macroeconomic outlook and the emergence of new fears concerning European banks' profitability and the quality of their assets. Share prices fell markedly. Market conditions calmed again, owing in part to the expansionary stance of the single monetary policy, but remained volatile.

Share prices fall

Since the beginning of the year, the Italian stock market index has fallen 15 per cent (6 per cent for the euro area as a whole; Figure 33). Prices fell sharply in January and the first ten days of February, but part of the losses were subsequently recouped (see the box 'The fall in stock market prices in the euro area and in Italy').

Figure 33

Share prices (1)

(daily data; indices, 3 January 2011=100)

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

As in other euro-area countries, such as Germany and Ireland, the stock market decline affected banking shares in particular, which experienced an average loss of 37 per cent in the first six weeks of the quarter (38 per cent in Germany, 23 per cent in Ireland).

The fall in the overall stock market index for the period as a whole is largely due to the higher risk premium demanded by investors, as well as worsening corporate earnings expectations. The negative impact of these factors was somewhat offset by the decrease in interest rates, itself partially attributable to the expansionary monetary policy measures taken by the ECB at the start of March. By the end of March the expected volatility of Italian share prices implied by the prices of stock index

[4] See C. Barbagallo, *Misure urgenti concernenti la riforma delle banche di credito cooperativo e altre misure in materia bancaria*, testimony before the Chamber of Deputies, Rome, 1 March 2016.

THE FALL IN STOCK MARKET PRICES IN THE EURO AREA AND IN ITALY

The stock markets of the main euro-area countries fell sharply at the beginning of 2016, losing about 17 per cent on average in the euro area, 18 per cent in Germany, 16 per cent in France, 24 per cent in Italy and 19 per cent in Spain between the beginning of the year and the second week of February (see Section 2.8). The area's banking sector, which fell by 26 per cent, fared worse than the overall index, with bank shares in Germany and Italy (down 38 and 37 per cent respectively) bearing the brunt.

The situation is due in part to a worsening of profit expectations for listed companies. Financial analysts have slashed this year's forecasts of profit growth for listed companies in the euro area and in Italy, to 1 and 3 per cent respectively at the end of March, from about 8 and 20 per cent at the close of 2015 (Figures A and B). Much of the adjustment reflects an expectation that world growth will slow more than projected. However, a substantial share of the price drop is due not to lower expectations of profit growth but to a large rise in risk premiums, partly in response to the more cautious attitude of investors and partly to the greater perceived risk of the economic and financial situation, also borne out by a rise in the expected volatility of shares (Figure C).

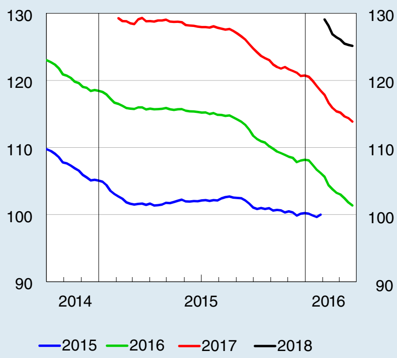
Among the concerns most often cited by investment bank analysts are (a) the possibility that the monetary authorities in China and the emerging countries might try to halt massive capital outflows with large devaluations, undermining the stability of the foreign exchange markets and the global economy; (b) the risk that further decreases in the prices of raw materials, and of energy in particular, could bring more downward pressure to bear on inflation, jeopardizing the sustainability of public and private debt; and (c) the possibility that after the recent bond market tensions and the worse than expected macroeconomic scenario a negative spiral could form between the tightening of financial conditions and the further weakening of the economy, with risks for financial stability as well.

But specific factors, too, have played a role in the increase in the risk premiums on bank stocks. Variations in the performance of individual banks' share prices since last summer have stemmed mainly from fears over asset quality and transparency. There is evidence that lately the markets have paid much more attention to these factors than ever before. Indeed, it seems difficult to ascribe the sensitivity of share prices to asset quality indicators solely to the deterioration in the macroeconomic scenario.

Investors' emphasis on the characteristics of bank assets is probably partly due to uncertainty among operators as to the direction bank regulation is taking in the euro area and to the as yet incomplete banking union.

Figure A

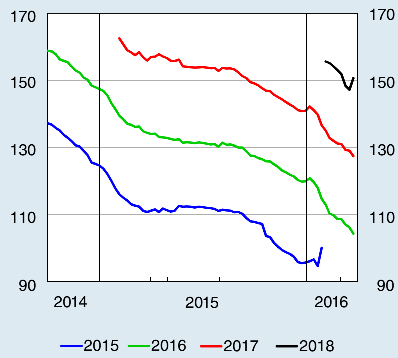
Expected profit of euro-area listed companies
(weekly data; indices, last forecast 2015=100)



Source: IBES.

Figure B

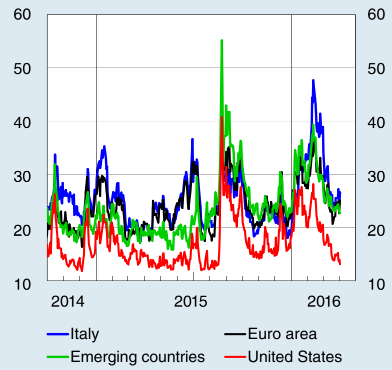
Expected profit of Italian listed companies
(weekly data; indices, last forecast 2015=100)



Source: IBES.

Figure C

Expected volatility of share indices
(daily data; per cent)



Source: Thomson Reuters Datastream.

options, which had jumped in the first half of the quarter, had subsided to the levels registered at the beginning of 2016.

Sovereign spreads are volatile ...

Yields on Italian govern-ment securities were affec-ted only modestly by the financial market tensions and then declined progressively from the middle of February due to mounting expectations for new monetary stimulus measures; for the first quarter as a whole, yields came down by 30 basis points on medium- and long-term maturities. In the same period the yield spread between ten-year Italian and German government bonds was volatile (Figure 34), owing among other things to portfolio shifts to less risky assets like the German Bund; in the first few days of April the yield spread was near the values recorded at the beginning of the year, around 1.1 percentage points.

... while bank risk premiums grow

The premiums on credit default swaps of the major Italian banks shot up to an average of 390 basis points in mid-February but fell in the subsequent weeks; in the first quarter as a whole they rose by 120 basis points. The tensions in the banking sector were heightened by investors' intensified scrutiny of asset quality in connection with uncertainty about the direction of banking regulation. By contrast, the credit risk premiums for Italian non-financial corporations diminished slightly, benefiting from the Eurosystem's announcement that it would extend its asset purchase programme to corporate bonds (see the box 'The monetary policy measures adopted in March' in Section 1.2).

Net redemptions of bank bonds continue

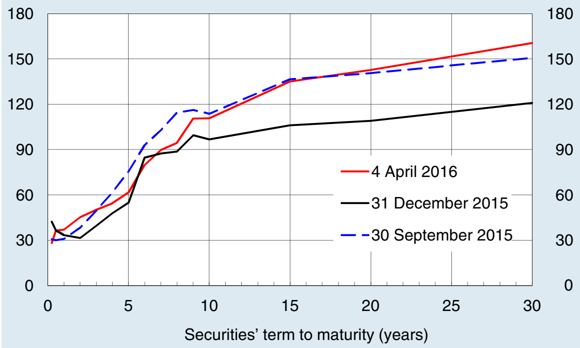
In the fourth quarter of 2015 there were further net bond redemptions by banks both in Italy and in the euro area, amounting to €11 billion and €87 billion respectively (Table 8). In the first quarter, according to preliminary Dealogic data on gross issues, the volume of placements by Italian banks reached €12 billion from €6 billion in the previous quarter.

The net inflow to investment funds decreases

According to Assogestioni data, the net inflow of sav-ings to Italian and foreign

Figure 34

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



Source: Based on Bloomberg data.

Table 8

Net bond issues (1)
(billions of euros)

		Banks	Other financial corporations	Non-financial corporations	Total
			Italy (2)		
2014		-153.0	-17.1	3.9	-166.2
2015		-105.7	-15.4	-1.8	-122.8
2014	Q1	-48.5	-8.6	3.3	-53.8
	Q2	-28.3	1.8	-1.6	-28.1
	Q3	-37.6	-6.9	2.9	-41.7
	Q4	-38.7	-3.4	-0.7	-42.7
2015	Q1	-42.0	-5.8	0.4	-47.4
	Q2	-26.4	-5.2	-3.6	-35.1
	Q3	-26.7	0.0	1.2	-25.5
	Q4	-10.6	-4.4	0.1	-14.9
			Euro area		
2014		-391.6	21.1	57.6	-312.9
2015		-290.9	135.7	55.4	-99.9
2014	Q1	-116.5	-27.3	19.4	-124.3
	Q2	-70.5	69.6	18.5	17.6
	Q3	-80.7	-4.3	13.2	-71.8
	Q4	-124.0	-16.9	6.4	-134.4
2015	Q1	-73.4	64.6	18.0	9.2
	Q2	-69.9	10.5	0.2	-59.2
	Q3	-60.3	34.1	16.0	-10.2
	Q4	-87.3	26.5	21.1	-39.8

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.

open-end investment funds declined further in the last quarter of 2015 to €10 billion, from €16 billion in the previous quarter. The decrease was mainly ascribable to flexible funds.

2.9 THE PUBLIC FINANCES

General government net borrowing declined by 0.4 percentage points with respect to GDP in 2015, in line with the Government's estimates. The ratio of debt to GDP rose marginally, by 0.2 percentage points to 132.7 per cent, compared with an increase of 16 points in the three years 2012-14. In the Government's planning scenario for 2016-17 net borrowing and debt are projected to decline; in the coming weeks the European Commission will assess the scenario's compliance with European fiscal rules.

In 2015 net borrowing diminishes

In 2015 net borrowing came to 2.6 per cent of output (Table 9), in line with the Government's estimate in last April's 2015 Economic and Financial Document and confirmed in October's 2016 Draft Budgetary Plan (Table 10). The reduction of 0.4 percentage points with respect to 2014 stems from the fall in interest payments, while the primary surplus remained stable at 1.6 per cent of GDP. According to the Commission's latest forecast, on average the primary budgetary position in the other euro-area countries was balanced.

Expenditure holds stable; investment outlays increase

In 2015 both total general government expenditure and primary current expenditure were largely unchanged (Table 11) after years in which they had already been held to modest growth (average yearly increases in 2009-14 of 0.9 and 1.6 per cent respectively). Social benefits in cash increased, partly reflecting the full implementation of the tax credit for payroll employees with medium-low incomes. Compensation of employees instead declined for the fifth successive year, mainly owing to the measures holding down turnover and wages. Around half of the increase of 10.7 per cent in capital outlays reflected that in gross fixed investment and investment grants, which together rose by 5.8 per cent. In the three years 2012-14 these two aggregates had fallen by 7.3 per cent on average overall. Interest expenses diminished for the third consecutive year in 2015 (-7.9 per cent),

Table 9

General government balances and debt (1)
(billions of euros and per cent of GDP)

	2012	2013	2014	2015
Net borrowing	47.5	47.0	48.9	42.4
% of GDP	2.9	2.9	3.0	2.6
Primary surplus	36.0	30.6	25.4	26.1
% of GDP	2.2	1.9	1.6	1.6
Interest payments	83.6	77.6	74.3	68.4
% of GDP	5.2	4.8	4.6	4.2
Debt	1,990	2,070	2,136	2,172
% of GDP	123.3	129.0	132.5	132.7

Source: The items of the general government consolidated accounts are based on Istat data.
(1) Rounding may cause discrepancies in totals.

Table 10

Public finance objectives and estimates for 2015
(per cent of GDP)

	General government			*Memorandum item:* real GDP growth rate (%)
	Net borrowing	Primary surplus	Debt (1)	
Objectives				
April 2014 (2) (3)	1.8	3.3	133.3	1.3
September 2014 (4)	2.9	1.6	133.4	0.6
September 2015 (5)	2.6	1.7	132.8	0.9
Estimates				
April 2015 (6)	2.5	1.7	132.4	0.7
September 2015 (5)	2.6	1.7	132.8	0.9
October 2015 (7)	2.6	1.7	132.8	0.9
Outturn (8)	**2.6**	**1.6**	**132.7**	**0.8**

(1) The estimates and objectives given in the official documents are not fully consistent with one another in that they account for the effects of Italy's share of the financial support given to EMU countries in difficulty and its capital contribution to the ESM in a non-homogeneous manner. – (2) 2014 Economic and Financial Document. – (3) Data provided in accordance with ESA 1995 accounting rules; economic planning documents published from September 2014 onwards conform with ESA 2010 accounting rules.– (4) Update of the 2014 Economic and Financial Document. – (5) Update of the 2015 Economic and Financial Document. – (6) 2015 Economic and Financial Document. – (7) Italy's 2016 Draft Budgetary Plan. – (8) Net borrowing, primary balance and GDP growth are based on Istat data.

Table 11

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

	2014	2015	% change 2014	% change 2015
EXPENDITURE				
Final consumption expenditure	312.6	310.3	-0.9	-0.7
of which:				
compensation of employees	163.6	161.7	-0.7	-1.1
intermediate consumption	88.6	88.8	-1.1	0.3
social benefits in kind	43.8	44.2	0.5	0.9
Social benefits in cash	326.9	333.0	2.2	1.9
Interest payments	74.3	68.4	-4.2	-7.9
Other expenditure	68.1	63.5	3.0	-6.7
Current expenditure	**765.2**	**759.7**	**0.5**	**-0.7**
% of GDP	47.5	46.4		
Current expenditure net of interest payments	**690.9**	**691.2**	**1.1**	**0.0**
% of GDP	42.9	42.2		
Investment (1)	36.9	37.3	-4.1	1.0
Investment grants	13.2	15.7	-5.8	19.1
Other capital expenditure	10.2	13.8	92.3	34.7
Capital expenditure	**60.3**	**66.7**	**4.4**	**10.7**
Total expenditure net of interest payments	**751.2**	**758.0**	**1.3**	**0.9**
% of GDP	46.6	46.3		
TOTAL EXPENDITURE	**825.5**	**826.4**	**0.8**	**0.1**
% of GDP	51.2	50.5		

	2014	2015	% change 2014	% change 2015
REVENUE				
Direct taxes	237.9	242.4	-1.2	1.9
Indirect taxes	248.2	249.3	4.0	0.5
Social security contributions	214.3	218.5	-0.4	2.0
Production for market and for own use	37.0	37.8	1.1	2.4
Other current revenue	32.1	30.6	2.6	-4.4
Current revenue	**769.5**	**778.7**	**0.9**	**1.2**
% of GDP	47.7	47.6		
Capital revenue	**7.1**	**5.4**	**-23.8**	**-24.6**
of which:				
Capital taxes	1.6	1.1	-61.9	-32.1
TOTAL REVENUE	**776.6**	**784.0**	**0.6**	**1.0**
% of GDP	48.2	47.9		
of which:				
Taxes and social security contributions	43.6	43.5		
NET BORROWING	**48.9**	**42.4**		
% of GDP	3.0	2.6		
Primary balance	**25.4**	**26.1**		
% of GDP	1.6	1.6		
Memorandum item:				
GDP	1,611.9	1,636.4		1.5

Source: Based on Istat data.
(1) Includes proceeds of property sales entered with a negative sign.

owing in part to the public securities purchase programme decided by the Governing Council of the ECB in January 2015.

The fiscal ratio is practically unchanged

In 2015 general government revenue rose by 1.0 per cent; the increase was ascribable to growth in current revenue, which was only partly offset by the decline in capital revenue. Direct tax revenue rose by 1.9 per cent, mainly driven by personal income tax proceeds; at 0.5 per cent, the increase in indirect tax revenue was more modest. The ratio of tax and social security contribution receipts to GDP declined by 0.1 percentage points (to 43.5 per cent), after increasing by 2 points in the three years 2012-14. If the tax credit for employees with medium-low incomes is counted as a decrease in revenue, the fiscal ratio is estimated to have declined by 0.3 points with respect to 2014.

Table 12

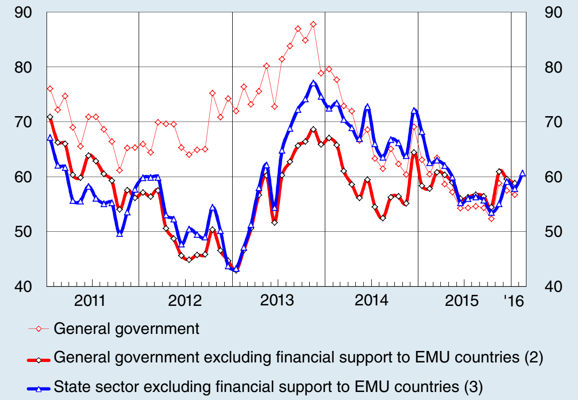
General government financial balances and debt
(billions of euros and per cent of GDP)

	2012	2013	2014	2015
Borrowing requirement	66.3	77.0	65.8	50.9
% of GDP	4.1	4.8	4.1	3.1
Net borrowing requirement (1)	74.2	78.8	69.1	57.5
% of GDP	4.6	4.9	4.3	3.5
Debt	1,989.8	2,069.8	2,136.2	2,171.7
% of GDP	123.3	129.0	132.5	132.7
Memorandum item:				
Privatization receipts	7.9	1.9	3.3	6.6
% of GDP	0.5	0.1	0.2	0.4

(1) Net of privatization receipts.

Figure 35

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



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

The borrowing requirement falls

In 2015 the general government borrowing requirement, net of privatization receipts, came down by €11.6 billion, to €57.5 billion (Table 12 and Figure 35). In addition to the decrease in net borrowing, the reduction mainly reflected the decline in payments of overdue commercial debts and in Italy's financial assistance to the EMU countries.

The public debt ratio rises marginally

General government debt rose by €35.5 billion (Table 13 and Figure 36). The increase in liabilities in connection with the overall borrowing requirement for 2015 (€50.9 billion) was offset by the reduction in the Treasury's liquid balance, which contracted by €10.7 billion to €35.7 billion, and by issue discounts and

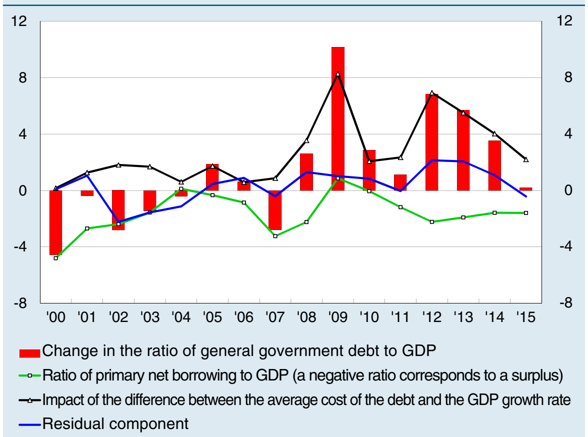
Table 13

Changes in general government debt and its components
(billions of euros)

	2012	2013	2014	2015
Change in the debt = (a)+(b)+(c)+(d)	**82.0**	**80.1**	**66.4**	**35.5**
(a) Total borrowing requirement	66.3	77.0	65.8	50.9
of which: support to EMU countries	29.5	13.0	4.7	-2.1
(b) Change in the Treasury's liquid balance	10.1	3.2	8.8	-10.7
(c) Issue discounts and premiums	5.6	-0.1	-8.7	-5.1
(d) Euro equivalent of foreign currency liabilities	-0.1	-0.1	0.5	0.3

Figure 36

General government debt: trend and determinants of the changes
(annual data; per cent of GDP)



Source: For the state sector, Ministry of Economy and Finance.

premiums (€5.1 billion). The ratio of the public debt to GDP rose marginally, from 132.5 to 132.7 per cent, against an increase of 16 percentage points in the three years 2012-14.

The state sector borrowing requirement increases in the first quarter of 2016, mainly reflecting extraordinary operations

The state sector borrowing requirement amounted to €26.4 billion in the first quarter, up by €2.9 billion on the year-earlier period. The worsening is mostly due to extraordinary financial operations (such as the discontinuation of the transfer to Treasury accounts of the liquid balances held by the Chambers of Commerce with the banking system, which reduced the borrowing requirement in 2015) and to a number of temporal factors, in particular the deferral to the second half of this year of the revenue from the public television licence fees.

The Government approves the 2016 Economic and Financial Document

On 8 April the Government approved the 2016 Economic and Financial Document. The new planning scenario indicates a slowing of fiscal consolidation by comparison with last autumn's projections. The net borrowing target is set at 2.3 per cent of GDP in 2016 and 1.8 per cent in 2017 (compared with 1.1 per cent in the 2016 Draft Budgetary Plan; Table 14). In structural terms (i.e. cyclically adjusted and net of one-off measures) the deficit is projected to increase by 0.7 percentage points this year before contracting by 0.1 points in 2017. The medium-term objective should be attained in 2019 rather than next year. The ratio of the public debt to GDP is forecast to begin to decline this year; the expected reduction will, however, be smaller than indicated last autumn (0.3 percentage points against 1.4 points). In 2019 the ratio is forecast to be 123.8 per cent. The improvement by comparison with 2015 is expected to come from growing primary balances (from 1.7 per cent of GDP this year to 3.6 per cent in 2019), an acceleration in nominal output and steadily declining interest expenses. In part in the light of these plans Italy's budgetary position will be assessed by the European Commission after it updates its forecasts in May.

Table 14

Outcomes and official objectives for the main general government aggregates (1)

(billions of euros and per cent of GDP)

	2015	2016	2017	2018
Net borrowing	42.4	....	....	....
% of GDP	2.6	2.3	1.8	0.9
Primary surplus	26.1	....	....	....
% of GDP	1.6	1.7	2.0	2.7
Interest payments	68.4	....	....	....
% of GDP	4.2	4.0	3.8	3.6
Structural net borrowing	....	....	....	....
% of GDP	0.6	1.2	1.1	0.8
Debt	2,171.7	2,213.8	2,242.5	2,259.1
% of GDP	132.7	132.4	130.9	128.0

Source: For the items of the general government consolidated accounts for the year 2015, based on Istat data; for the years 2016-18, 2016 Economic and Financial Document.
(1) Rounding of decimal points may cause discrepancies in totals.

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: euro area (1)

(percentage change on 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					
2011		1.6	4.3	2.3	-0.2	3.6	1.6	0.0	-0.1	6.5
2012		-0.9	-1.0	-0.9	-4.2	-2.4	-3.3	-1.2	-0.2	2.6
2013		-0.3	1.3	0.1	-3.6	-1.5	-2.6	-0.6	0.2	2.1
2014		0.9	4.5	1.9	-0.5	3.3	1.3	0.8	0.8	4.1
2015		1.6	5.7	2.8	0.7	4.8	2.7	1.7	1.3	5.0
2013 –	Q4	0.2	0.5	0.3	-0.6	1.2	0.3	0.2	0.2	1.1
2014 –	Q1	0.2	1.2	0.5	0.5	0.4	0.4	0.0	0.2	0.8
	Q2	0.1	1.1	0.4	-1.4	0.5	-0.5	0.2	0.2	1.0
	Q3	0.3	1.5	0.6	0.0	1.1	0.5	0.4	0.3	1.6
	Q4	0.4	1.2	0.6	0.3	0.6	0.5	0.5	0.2	1.2
2015 –	Q1	0.6	2.1	1.0	1.0	1.9	1.4	0.5	0.5	1.4
	Q2	0.4	1.0	0.6	-1.0	1.2	0.1	0.3	0.3	1.7
	Q3	0.3	1.2	0.6	0.0	0.8	0.4	0.5	0.3	0.2
	Q4	0.3	0.9	0.5	1.1	1.6	1.3	0.2	0.6	0.2
					Implicit prices					
2011		1.1	5.9	….	….	….	1.6	2.3	0.8	3.6
2012		1.2	2.6	….	….	….	1.2	1.9	0.8	1.9
2013		1.3	-1.3	….	….	….	0.4	1.1	1.2	-0.4
2014		0.9	-1.7	….	….	….	0.5	0.5	0.8	-0.7
2015		1.2	-2.1	….	….	….	0.7	0.2	0.6	0.1
2013 –	Q4	0.2	-0.3	….	….	….	0.3	0.2	-0.1	-0.1
2014 –	Q1	0.3	-0.7	….	….	….	0.0	0.2	0.6	-0.5
	Q2	0.1	-0.4	….	….	….	-0.1	0.1	0.0	-0.2
	Q3	0.2	0.0	….	….	….	0.4	0.0	0.3	0.4
	Q4	0.4	-0.9	….	….	….	0.3	0.1	0.0	0.0
2015 –	Q1	0.3	-1.4	….	….	….	0.1	-0.3	0.3	-0.3
	Q2	0.3	1.1	….	….	….	0.1	0.5	0.1	0.8
	Q3	0.3	-1.1	….	….	….	0.2	-0.1	0.2	-0.4
	Q4	0.3	-1.0	….	….	….	0.2	0.1	0.1	-0.5

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

Table A2

Sources and uses of income: Italy (1)

(percentage changes on 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					
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	-2.3	-1.9	-8.0	-5.1	-6.6	-2.5	-0.3	0.6
2014	-0.3	3.2	0.4	-5.0	-1.7	-3.4	0.6	-1.0	3.1
2015	0.8	6.0	1.9	-0.5	2.2	0.8	0.9	-0.7	4.3
2013 – Q4	-0.1	..	-0.1	-2.8	0.1	-1.4	0.2	0.1	-0.4
2014 – Q1	-0.1	0.3	..	-0.8	-2.3	-1.6	0.3	-0.2	0.4
Q2	-0.1	1.3	0.2	-1.7	0.3	-0.7	0.2	-0.8	1.3
Q3	..	1.2	0.2	-0.4	-0.1	-0.3	0.1	0.4	0.6
Q4	-0.1	0.6	0.1	-0.6	0.6	..	0.1	..	2.0
2015 – Q1	0.4	2.9	0.9	..	1.3	0.6	0.1	-0.7	1.2
Q2	0.3	1.6	0.6	-0.2	0.2	..	0.4	-0.3	1.4
Q3	0.2	-0.2	0.1	0.2	0.1	0.2	0.5	0.2	-1.3
Q4	0.1	1.0	0.3	0.9	0.7	0.8	0.3	0.6	1.3
				Implicit prices					
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	1.2	-1.8	0.6	0.1	..	..	1.2	0.3	-0.3
2014	0.8	-2.5	0.1	..	0.2	0.1	0.2	0.1	-0.3
2015	0.8	-2.7	..	-0.3	0.7	0.2	0.1	-0.1	-0.4
2013 – Q4	0.3	-0.8	0.1	0.4	-1.2	-0.4	-0.1	0.1	-0.2
2014 – Q1	0.4	-0.7	0.2	-0.4	0.7	0.2	0.1	0.1	0.1
Q2	-0.2	-0.6	-0.3	-0.1	-0.2	-0.2	..	-0.3	-0.3
Q3	..	-0.2	..	0.3	0.8	0.6	-0.1	0.1	0.4
Q4	0.7	-1.2	0.3	0.2	0.5	0.3	0.1	0.2	-0.2
2015 – Q1	..	-1.2	-0.3	-0.5	-0.4	-0.5	-0.1	..	-0.4
Q2	..	1.1	0.2	-0.3	0.3	..	0.3	-0.4	0.4
Q3	0.5	-1.9	..	0.4	0.2	0.3	-0.1	0.2	-0.3
Q4	0.3	-1.3	..	0.1	0.2	0.2	0.1	0.1	-0.3

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

Table A3

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			
2012	3.3	1.2	-1.0	-2.2	2.1
2013	2.9	0.9	-0.6	-1.5	2.0
2014	1.8	0.4	0.6	0.2	1.4
2015	1.2	1.1	1.8	0.7	0.1
2013 – Q1	4.6	1.9	-1.6	-3.4	2.6
Q2	2.0	0.0	-0.9	-0.8	2.1
Q3	2.6	-0.2	-0.9	-0.7	2.8
Q4	2.1	1.9	1.4	-0.6	0.1
2014 – Q1	1.4	0.5	1.1	0.5	0.8
Q2	2.3	1.0	0.6	-0.5	1.2
Q3	1.8	0.5	0.5	0.0	1.3
Q4	1.6	-0.3	0.2	0.6	1.9
2015 – Q1	1.9	1.2	1.2	0.0	0.7
Q2	1.5	1.2	1.8	0.6	0.3
Q3	1.0	1.1	1.9	0.8	-0.1
Q4	0.9	0.2	1.1	0.9	0.8
			Services		
2012	2.2	0.8	-0.1	-0.9	1.4
2013	2.1	1.1	0.1	-1.0	1.0
2014	1.0	0.1	1.0	1.0	1.0
2015	1.1	0.2	1.5	1.3	0.9
2013 – Q1	2.7	1.3	-0.6	-1.8	1.4
Q2	1.9	1.0	0.0	-1.0	0.9
Q3	1.9	1.2	0.4	-0.9	0.7
Q4	1.8	0.8	0.6	-0.2	1.0
2014 – Q1	1.0	0.3	1.2	0.8	0.7
Q2	1.1	0.1	0.9	0.8	1.0
Q3	1.0	0.0	1.0	1.0	1.0
Q4	1.1	-0.1	1.1	1.3	1.2
2015 – Q1	1.3	0.4	1.3	1.0	0.9
Q2	1.2	0.4	1.6	1.1	0.8
Q3	1.1	0.0	1.5	1.5	1.1
Q4	1.4	0.1	1.6	1.4	1.2
			Total economy		
2012	2.6	1.0	-0.7	-1.6	1.7
2013	2.3	1.3	-0.2	-1.4	1.0
2014	1.2	0.3	0.9	0.6	0.9
2015	1.1	0.4	1.5	1.2	0.7
2013 – Q1	3.2	1.6	-1.0	-2.6	1.5
Q2	2.0	1.0	-0.4	-1.3	1.0
Q3	2.1	1.1	0.0	-1.1	1.0
Q4	1.8	1.2	0.7	-0.4	0.6
2014 – Q1	1.1	0.6	1.2	0.6	0.5
Q2	1.4	0.5	0.8	0.3	0.9
Q3	1.1	0.2	0.8	0.6	0.9
Q4	1.2	-0.1	0.8	0.9	1.3
2015 – Q1	1.4	0.5	1.2	0.7	0.9
Q2	1.2	0.5	1.5	1.0	0.7
Q3	1.0	0.2	1.5	1.2	0.8
Q4	1.2	0.2	1.5	1.3	1.0

Source: Based on Eurostat data.
(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 A4

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			
2012	2.8	1.6	-2.6	-4.2	1.1
2013	2.6	0.6	-2.3	-2.8	2.0
2014	1.7	-0.4	-0.7	-0.3	2.2
2015	1.7	1.2	1.3	0.1	0.5
2013 – Q1	2.2	1.1	-3.3	-4.4	1.1
Q2	3.0	1.0	-2.6	-3.6	2.0
Q3	2.7	-1.0	-3.2	-2.1	3.8
Q4	2.5	1.1	-0.3	-1.4	1.4
2014 – Q1	1.9	0.2	0.6	0.4	1.7
Q2	1.5	0.2	-0.2	-0.4	1.3
Q3	1.4	-0.9	-1.0	-0.1	2.3
Q4	1.2	-1.0	-0.9	0.1	2.2
2015 – Q1	2.7	1.6	-0.2	-1.7	1.1
Q2	2.0	0.8	0.7	-0.1	1.3
Q3	1.9	1.7	1.5	-0.2	0.2
Q4	1.5	0.3	1.1	0.8	1.2
			Services		
2012	0.2	-0.9	-2.1	-1.1	1.2
2013	1.2	0.7	-1.2	-1.9	0.4
2014	-0.5	-0.4	0.3	0.7	-0.1
2015	0.0	-0.6	0.4	1.0	0.6
2013 – Q1	0.7	-0.3	-1.9	-1.6	1.1
Q2	0.7	0.7	-1.4	-2.1	0.0
Q3	1.1	1.8	-0.7	-2.4	-0.7
Q4	2.0	0.8	-0.7	-1.5	1.2
2014 – Q1	0.3	0.2	0.2	0.1	0.1
Q2	-0.3	-0.2	0.4	0.7	-0.1
Q3	-0.6	-0.6	0.3	0.9	-0.1
Q4	-1.1	-1.1	0.4	1.4	-0.1
2015 – Q1	-0.2	-0.6	0.2	0.8	0.4
Q2	0.3	-0.3	0.4	0.7	0.6
Q3	0.2	-0.7	0.5	1.2	0.9
Q4	-0.2	-0.5	0.5	1.0	0.3
			Total economy		
2012	1.1	0.1	-2.4	-2.5	1.0
2013	1.6	1.1	-1.5	-2.6	0.5
2014	0.2	-0.2	-0.2	0.1	0.4
2015	0.4	-0.3	0.6	0.9	0.7
2013 – Q1	1.3	0.6	-2.3	-2.9	0.7
Q2	1.5	1.5	-1.8	-3.2	0.0
Q3	1.6	1.3	-1.2	-2.5	0.2
Q4	2.1	1.1	-0.8	-1.8	1.0
2014 – Q1	0.8	0.3	0.1	-0.2	0.5
Q2	0.1	-0.1	0.0	0.1	0.2
Q3	0.0	-0.4	-0.2	0.2	0.4
Q4	-0.5	-1.1	-0.2	0.9	0.6
2015 – Q1	0.5	-0.2	0.0	0.3	0.8
Q2	0.7	-0.3	0.4	0.6	1.0
Q3	0.6	-0.2	0.6	0.8	0.8
Q4	0.2	-0.1	0.8	1.0	0.4

Source: Based on Istat data.
(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.

Harmonized index of consumer prices: Italy and other main euro-area countries

(indices, 2015=100; percentage changes on the year-earlier period)

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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	1.2	1.2	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
2015	0.1	0.6	0.1	1.1	0.1	0.7	-0.6	0.3	0.0	0.8
2014– Jan.	0.8	0.8	1.1	1.1	0.6	0.9	0.3	-0.1	0.8	0.8
Feb.	1.1	1.4	1.0	1.1	0.4	0.8	0.1	0.0	0.7	1.0
Mar.	0.8	1.1	0.8	0.8	0.3	0.8	-0.2	-0.3	0.5	0.7
Apr.	0.8	1.2	1.2	1.4	0.5	1.1	0.3	0.1	0.7	1.0
May	0.8	1.1	0.7	0.7	0.4	0.8	0.2	-0.1	0.5	0.7
June	0.6	0.9	0.9	1.1	0.3	0.7	0.0	-0.1	0.5	0.8
July	0.6	0.9	0.7	1.1	0.0	0.5	-0.4	-0.1	0.4	0.8
Aug.	0.5	1.2	0.8	1.2	-0.1	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	0.8	1.1	0.2	0.5	-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	0.0	1.1	0.0	0.7	-1.1	-0.1	-0.2	0.7
2015 –Jan.	-0.4	0.4	-0.4	1.0	-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	0.5	-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	0.6	1.4	0.2	0.6	-0.3	0.3	0.3	0.9
June	0.3	0.7	0.2	0.8	0.2	0.7	0.0	0.4	0.2	0.8
July	0.2	0.8	0.1	0.9	0.4	1.0	0.0	0.5	0.2	1.0
Aug.	0.1	0.6	0.1	1.1	0.3	1.0	-0.5	0.4	0.1	0.9
Sept.	0.1	0.7	-0.1	1.0	0.2	0.9	-1.1	0.4	-0.1	0.9
Oct.	0.2	0.8	0.2	1.3	0.3	1.0	-0.9	0.6	0.1	1.1
Nov.	0.1	0.7	0.2	1.2	0.1	0.7	-0.4	0.7	0.1	0.9
Dec.	0.3	0.8	0.2	1.0	0.1	0.5	-0.1	0.6	0.2	0.9
2016 –Jan.	0.3	0.9	0.4	1.1	0.4	0.9	-0.4	0.7	0.3	1.0
Feb.	-0.1	0.7	-0.2	0.8	-0.2	0.5	-1.0	0.8	-0.2	0.8
Mar.	-0.1	0.7	0.1	1.3	-0.2	0.8	-1.0	0.8	-0.0	1.0

Source: Based on Eurostat data.
(1) Weighted average of the indices of the countries belonging to the euro area at the date shown.

Table A6

Industrial production and business opinion indicators: Italy (1)

(seasonally adjusted data)

	Industrial production (2)					Business opinion indicators (3)				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	Level of orders			Expected demand in 3 months	Stocks of finished goods vis-à-vis normal
						Domestic	Foreign	Total		
2009	93.5	97.9	89.9	91.7	97.6	-56.3	-59.3	-56.9	-6.1	2.5
2010	100.0	100.0	100.0	100.0	100.0	-29.8	-27.4	-27.0	12.3	-1.5
2011	100.4	97.7	104.1	100.5	97.9	-25.2	-15.1	-19.8	9.2	2.1
2012	94.4	93.5	98.0	91.7	95.4	-43.3	-27.4	-36.9	-3.1	3.3
2013	91.5	91.3	93.4	90.5	90.2	-44.3	-18.4	-32.1	4.1	1.5
2014	90.5	90.6	93.4	90.0	85.4	-33.1	-15.3	-19.3	8.9	2.1
2015	92.1	91.5	97.5	89.8	87.5	-21.7	-13.1	-12.8	12.3	3.1
2008 – Q1	120.3	108.1	126.9	130.2	110.0	-13.7	-11.7	-10.0	14.0	4.0
Q2	119.8	106.6	124.8	126.9	109.7	-21.3	-19.0	-17.7	10.3	5.0
Q3	112.7	103.5	116.2	121.0	106.9	-30.0	-24.7	-26.0	4.0	6.3
Q4	104.4	102.9	106.8	107.0	102.5	-45.0	-42.3	-44.7	-13.0	6.7
2009 – Q1	93.4	97.1	92.1	91.5	97.4	-63.7	-63.3	-61.7	-24.0	6.7
Q2	91.4	95.8	86.6	88.1	96.8	-61.0	-66.3	-62.0	-7.3	3.3
Q3	92.6	97.7	86.3	89.4	97.7	-54.0	-58.3	-56.3	2.0	1.7
Q4	94.9	99.6	90.9	94.5	98.7	-46.7	-49.0	-47.7	5.0	-1.7
2010 – Q1	97.3	99.6	94.5	96.4	101.5	-39.0	-41.7	-38.7	8.3	-3.0
Q2	99.2	99.3	98.6	99.4	99.0	-32.7	-29.7	-30.0	12.0	-2.7
Q3	100.4	100.0	101.8	99.5	97.1	-25.7	-24.0	-22.3	13.0	-1.3
Q4	101.3	98.6	102.2	102.4	102.1	-21.7	-14.3	-17.0	15.7	1.0
2011 – Q1	102.0	98.4	105.0	102.9	100.0	-20.3	-10.0	-14.0	15.0	0.3
Q2	102.0	99.7	105.3	102.4	97.6	-20.3	-12.0	-14.7	14.0	0.7
Q3	100.7	97.2	105.4	100.8	98.7	-26.7	-16.0	-22.3	7.3	4.0
Q4	98.7	96.0	102.3	98.2	95.8	-33.3	-22.3	-28.3	0.3	3.3
2012 – Q1	96.2	93.7	99.8	94.2	98.2	-38.3	-26.0	-32.3	-1.3	3.3
Q2	94.9	93.9	97.6	92.9	95.0	-44.7	-27.7	-37.0	-2.7	4.7
Q3	94.9	94.3	99.2	91.7	96.6	-45.0	-26.3	-38.0	-4.0	3.7
Q4	92.3	91.9	96.8	88.5	91.3	-45.3	-29.7	-40.3	-4.3	1.7
2013 – Q1	91.8	92.0	92.4	89.4	92.9	-46.0	-30.0	-39.3	-1.0	3.0
Q2	91.5	90.3	94.4	89.9	90.0	-48.7	-21.7	-38.7	-0.3	2.7
Q3	91.5	91.5	93.2	91.6	88.9	-43.3	-11.7	-29.0	7.3	0.7
Q4	92.0	91.3	93.5	92.3	89.2	-39.3	-10.3	-21.3	10.3	-0.3
2014 – Q1	91.7	91.4	94.5	91.9	85.2	-36.3	-13.3	-19.7	9.7	-0.7
Q2	91.3	91.3	92.9	90.9	87.2	-31.7	-13.7	-17.3	10.3	1.3
Q3	90.7	90.8	93.4	90.1	85.4	-33.7	-16.0	-20.0	7.7	4.0
Q4	91.1	90.9	95.3	89.5	84.5	-30.7	-18.3	-20.0	8.0	3.7
2015 – Q1	91.4	91.4	95.5	89.5	86.9	-26.3	-16.3	-15.3	11.0	3.3
Q2	92.0	91.1	97.3	89.6	87.4	-22.3	-12.3	-12.0	13.0	2.7
Q3	92.4	91.2	98.1	89.5	89.6	-20.7	-13.3	-13.0	12.3	3.0
Q4	92.4	90.9	98.0	90.2	85.9	-17.3	-10.3	-10.7	13.0	3.3
2016 – Q1	….	….	….	….	….	-18.7	-16.0	-13.3	10.0	3.7

Source: Based on Istat data.
(1) Annual industrial production data are not calendar adjusted. – (2) Indices, 2010=100. – (3) Average balances of the responses to the survey of business confidence in the manufacturing sector.

Table A7

Labour force, employment and unemployment: Italy

(data not seasonally adjusted; thousands of persons; unemployment rates and activity rates in percentages)

	In employment							Job seekers	Labour force	Unemployment rate	Participation rate ages 15-64
	Agriculture	Industry excluding construction	Construction	Services	Centre and North	South and Islands	Total				
2010	849	4,556	1,889	15,233	16,364	6,163	22,527	2,056	24,583	8.4	62.0
2011	832	4,602	1,791	15,374	16,419	6,179	22,598	2,061	24,660	8.4	62.1
2012	833	4,524	1,700	15,508	16,410	6,156	22,566	2,691	25,257	10.7	63.5
2013	799	4,449	1,553	15,390	16,289	5,901	22,191	3,069	25,259	12.1	63.4
2014	812	4,509	1,484	15,474	16,423	5,856	22,279	3,236	25,515	12.7	63.9
2015	843	4,507	1,468	15,646	16,514	5,950	22,465	3,033	25,498	11.9	64.0
2010 – Q1	780	4,559	1,908	15,174	16,345	6,076	22,421	2,224	24,644	9.0	62.2
Q2	861	4,555	1,908	15,332	16,454	6,203	22,657	2,048	24,705	8.3	62.3
Q3	863	4,542	1,869	15,175	16,281	6,169	22,450	1,822	24,272	7.5	61.3
Q4	892	4,566	1,871	15,251	16,378	6,202	22,580	2,129	24,709	8.6	62.3
2011 – Q1	790	4,620	1,808	15,319	16,430	6,107	22,536	2,105	24,642	8.5	62.0
Q2	820	4,577	1,861	15,455	16,479	6,234	22,713	1,904	24,617	7.7	61.9
Q3	873	4,567	1,775	15,357	16,376	6,196	22,572	1,862	24,434	7.6	61.5
Q4	844	4,643	1,721	15,363	16,392	6,179	22,571	2,374	24,945	9.5	62.8
2012 – Q1	794	4,580	1,709	15,340	16,342	6,082	22,424	2,729	25,153	10.8	63.3
Q2	875	4,467	1,762	15,597	16,473	6,229	22,702	2,651	25,353	10.5	63.8
Q3	835	4,503	1,675	15,604	16,441	6,176	22,617	2,439	25,056	9.7	62.9
Q4	829	4,548	1,653	15,491	16,383	6,138	22,521	2,945	25,466	11.6	63.9
2013 – Q1	766	4,482	1,535	15,341	16,174	5,951	22,125	3,221	25,346	12.7	63.6
Q2	787	4,381	1,552	15,499	16,312	5,906	22,218	3,029	25,248	12.0	63.3
Q3	833	4,411	1,563	15,393	16,328	5,872	22,201	2,812	25,012	11.2	62.7
Q4	810	4,521	1,563	15,325	16,343	5,876	22,219	3,212	25,431	12.6	63.8
2014 – Q1	727	4,478	1,471	15,350	16,220	5,805	22,026	3,447	25,472	13.5	63.9
Q2	799	4,501	1,496	15,520	16,467	5,850	22,317	3,102	25,419	12.2	63.6
Q3	855	4,509	1,515	15,519	16,521	5,878	22,398	2,975	25,374	11.7	63.6
Q4	867	4,549	1,454	15,505	16,483	5,892	22,375	3,420	25,794	13.3	64.7
2015 – Q1	772	4,436	1,454	15,497	16,306	5,852	22,158	3,302	25,460	13.0	63.9
Q2	815	4,504	1,530	15,648	16,526	5,970	22,497	3,101	25,598	12.1	64.2
Q3	890	4,550	1,481	15,724	16,631	6,014	22,645	2,677	25,322	10.6	63.6
Q4	895	4,539	1,408	15,716	16,594	5,964	22,559	3,053	25,612	11.9	64.5

Source: Istat, labour force survey.

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
2012	-6,938	16,829	-130	-4,121	-19,516	3,959	1,835	2,124
2013	14,096	36,063	244	-4,154	-18,056	181	-3,142	3,322
2014	29,726	47,867	-837	-1,492	-15,812	3,386	-942	4,328
2015	35,785	53,838	-1,390	-2,036	-14,627	2,638	-1,098	3,736
2014 – Q1	-469	8,106	-2,461	657	-6,770	-587	-515	-72
Q2	5,882	11,863	869	-4,009	-2,842	281	-158	439
Q3	9,516	12,170	1,649	-1,325	-2,978	423	43	381
Q4	14,796	15,727	-894	3,185	-3,222	3,269	-311	3,580
2015 – Q1	697	9,738	-2,767	780	-7,054	-294	-276	-18
Q2	6,432	12,703	1,322	-4,823	-2,771	-349	-587	238
Q3	13,104	13,945	2,023	-91	-2,772	-13	-211	198
Q4	15,551	17,452	-1,969	2,097	-2,029	3,294	-24	3,318
2014 – Jan.	-1,531	705	-667	97	-1,665	-118	-108	-10
Feb.	413	3,082	-800	318	-2,188	-134	-115	-19
Mar.	649	4,319	-995	242	-2,917	-335	-292	-43
Apr.	2,506	3,941	-145	-308	-982	-13	-76	63
May	558	4,084	252	-3,094	-683	-4	-68	64
June	2,818	3,839	763	-608	-1,176	298	-14	312
July	7,218	7,172	1,103	47	-1,103	195	37	157
Aug.	1,397	2,557	-34	-134	-993	157	12	146
Sept.	901	2,441	580	-1,238	-882	71	-6	77
Oct.	5,817	5,753	18	864	-818	1,317	-65	1,382
Nov.	2,917	3,841	-604	549	-869	1,168	-58	1,226
Dec.	6,062	6,134	-309	1,772	-1,535	784	-188	973
2015 – Jan.	-1,757	810	-790	-26	-1,749	-17	-29	12
Feb.	1,091	4,250	-972	102	-2,290	-23	-27	4
Mar.	1,364	4,678	-1,004	705	-3,015	-254	-220	-35
Apr.	3,158	4,395	7	-234	-1,011	-176	-199	24
May	1,519	4,761	506	-3,102	-645	-174	-197	23
June	1,756	3,548	810	-1,487	-1,115	1	-191	192
July	8,828	8,529	1,184	117	-1,002	18	-69	87
Aug.	2,121	2,584	393	59	-915	22	-58	80
Sept.	2,155	2,832	446	-268	-854	-52	-84	31
Oct.	5,222	5,542	-303	496	-513	1,303	-4	1,306
Nov.	4,036	5,167	-975	366	-522	1,160	6	1,154
Dec.	6,293	6,743	-690	1,235	-995	831	-26	858
2016 – Jan.	(-1,068)	(1,038)	(-651)	(186)	(-1,641)	(-23)	(-24)	(1)

(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: Total	Firms: Medium and large	Firms: Small (2)	Firms: Small – *of which:* producer households (3)	Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
						Centre and North				
2013 –	Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.7	-3.6	-3.8
2014 –	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	-1.2	-0.9	-0.5	-2.6	-1.5	0.9	-1.5	0.1
	Dec.	0.5	-2.1	-0.9	-0.5	-2.9	-1.9	1.2	-2.0	-0.3
2016 –	Jan.	1.8	0.1	-1.2	-0.8	-2.9	-1.8	1.3	-1.7	0.0
	Feb.	1.8	0.7	0.2	0.7	-2.1	-1.2	1.3	4.3	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 –	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
	Dec.	-4.3	-2.2	0.1	0.5	-1.0	-0.5	1.2	-3.3	0.2
2016 –	Jan.	-6.1	-3.4	-0.1	0.2	-1.0	-0.4	1.4	-5.5	-0.1
	Feb.	-4.6	-0.2	0.3	0.6	-0.3	0.2	1.6	-5.6	0.4
						Italy				
2013 –	Dec.	-2.8	-4.9	-5.1	-5.3	-3.9	-3.0	-0.9	-3.5	-3.6
2014 –	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	-1.6	-0.1
	Dec.	0.1	-2.1	-0.7	-0.3	-2.5	-1.6	1.2	-2.1	-0.2
2016 –	Jan.	1.1	0.0	-1.0	-0.6	-2.5	-1.4	1.3	-2.1	0.0
	Feb.	1.3	0.7	0.2	0.7	-1.7	-0.8	1.4	3.2	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. 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.

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)
2013	-1.8	-2.2	-11.0	91.7	-3.6	4.8	80.2	-3.2	-10.0	77.0	13.0
2014	14.7	-1.1	-16.0	82.0	-5.0	-1.2	74.5	-8.8	-28.0	65.8	4.7
2015	5.1	-1.5	-9.5	44.2	1.6	-1.1	40.2	10.7	8.0	50.9	-2.1
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	33.3	0.6	4.2	39.5	-30.4	-8.6	9.1	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	0.5	3.1	2.1	3.6	4.1
2014 – Mar.	6.3	-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	49.7	-43.3	-27.0	6.4	4.3
Sept.	-3.7	0.3	-4.9	-20.7	-0.1	-2.4	-31.8	53.7	-1.6	21.9	0.4
Dec.	9.8	-0.6	-13.0	6.1	-1.1	0.6	2.5	5.2	7.1	7.7	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	18.4	-22.0	6.8	-3.6	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
Dec.	5.1	-0.8	-8.6	-18.9	0.3	1.5	-20.6	28.3	23.8	7.7	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	4.3	0.0
June	4.3	0.1	-0.9	-16.4	-2.2	0.6	-14.6	-0.0	-0.6	-14.6	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	-0.2	-0.6	20.0	-17.7	1.1	2.3	0.0
Nov.	-0.7	-0.8	-0.4	0.9	4.3	0.3	4.4	7.3	1.7	11.7	0.0
Dec.	6.3	0.1	-6.8	-42.6	-3.8	1.8	-45.0	38.7	21.0	-6.2	0.0
2016 – Jan.	1.6	0.6	4.5	17.1	-0.3	-0.6	22.3	-27.8	-22.1	-5.5	0.0
Feb.	-2.6	-1.0	-1.1	25.0	0.9	-0.3	21.9	-11.2	-0.5	10.8	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.

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)
2013	158.5	18.6	140.6	1,593.9	131.0	45.9	34.1	2,069.8	37.6	10.0	24.7	55.6
2014	173.2	17.5	124.5	1,667.8	126.0	44.6	36.0	2,136.2	46.4	38.0	25.7	60.3
2015	178.3	16.0	115.0	1,707.2	127.6	43.5	33.9	2,171.7	35.7	30.0	26.9	58.2
2013 – Mar.	160.6	19.4	156.5	1,544.0	133.6	41.4	28.0	2,036.1	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,578.8	134.2	45.6	32.2	2,077.1	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,573.3	132.1	44.4	32.9	2,069.1	40.8	12.1	26.3	51.5
Dec.	158.5	18.6	140.6	1,593.9	131.0	45.9	34.1	2,069.8	37.6	10.0	24.7	55.6
2014 – Mar.	164.7	18.1	144.1	1,636.7	130.5	44.6	34.2	2,120.6	61.9	16.5	25.1	55.6
June	167.1	17.8	142.5	1,685.7	127.2	46.4	35.6	2,168.8	105.3	43.5	25.8	59.9
Sept.	163.4	18.2	137.5	1,662.7	127.1	44.0	36.0	2,134.7	51.6	45.1	24.9	60.3
Dec.	173.2	17.5	124.5	1,667.8	126.0	44.6	36.0	2,136.2	46.4	38.0	25.7	60.3
2015 – Mar.	171.6	16.7	130.0	1,712.0	130.2	41.9	33.9	2,185.8	78.9	63.8	23.2	58.2
June	176.7	16.3	128.0	1,728.5	129.6	42.1	33.9	2,205.0	100.9	57.0	25.5	58.2
Sept.	173.2	16.8	123.6	1,726.2	127.3	42.0	33.9	2,192.4	64.0	53.8	27.3	58.2
Dec.	178.3	16.0	115.0	1,707.2	127.6	43.5	33.9	2,171.7	35.7	30.0	26.9	58.2
2015 – Jan.	174.5	17.2	131.9	1,691.8	124.9	44.1	36.0	2,167.2	82.8	56.1	21.0	60.3
Feb.	171.2	16.4	131.7	1,696.5	129.3	41.7	33.9	2,170.5	79.1	67.0	20.2	58.2
Mar.	171.6	16.7	130.0	1,712.0	130.2	41.9	33.9	2,185.8	78.9	63.8	23.2	58.2
Apr.	170.7	16.6	129.0	1,723.5	131.3	41.6	33.9	2,196.1	83.1	57.6	23.6	58.2
May	172.4	16.2	128.9	1,744.9	131.9	41.5	33.9	2,219.6	100.9	56.4	25.2	58.2
June	176.7	16.3	128.0	1,728.5	129.6	42.1	33.9	2,205.0	100.9	57.0	25.5	58.2
July	173.6	16.0	128.0	1,729.6	127.7	41.7	33.9	2,200.6	96.2	57.2	26.6	58.2
Aug.	174.5	16.5	125.7	1,716.2	127.5	41.5	33.9	2,185.4	73.7	58.7	27.0	58.2
Sept.	173.2	16.8	123.6	1,726.2	127.3	42.0	33.9	2,192.4	64.0	53.8	27.3	58.2
Oct.	172.6	16.7	122.2	1,749.0	127.1	41.4	33.9	2,212.4	81.7	52.7	29.3	58.2
Nov.	171.9	15.9	121.8	1,749.5	131.4	41.7	33.9	2,216.3	74.4	51.0	30.2	58.2
Dec.	178.3	16.0	115.0	1,707.2	127.6	43.5	33.9	2,171.7	35.7	30.0	26.9	58.2
2016 – Jan.	179.8	16.7	119.6	1,723.7	127.3	43.0	33.9	2,193.4	63.5	52.1	26.5	58.2
Feb.	177.3	15.7	118.5	1,748.2	128.2	42.7	33.9	2,214.9	74.7	52.6	27.6	58.2

(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.