BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

3 | 2016

July 2016

BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 3 / 2016
July

Other economic publications of the Bank of Italy:

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

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

Economie Regionali
A series of reports on the regional economies

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

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

Newsletter
News on recent research work and conferences

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

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

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

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

Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

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

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

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

CONTENTS

LIST OF BOXES

SYMBOLS AND CONVENTIONS

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

In the following tables:

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

OVERVIEW

The outcome of the referendum in the United Kingdom ...

The consultative referendum of 23 June in the United Kingdom, in which the majority voted for the country to leave the European Union, has created an unprecedented situation in the history of European integration whose ultimate repercussions cannot readily be foreseen. The IMF has judged the resulting uncertainty to pose a risk to the global economy.

... affects the markets ...

The impact on the foreign exchange and financial markets was immediate; the monetary authorities immediately took countervailing action, which helped to absorb some of the shock in the days that followed. The pound depreciated; the euro, though gaining against sterling, weakened against the other main currencies, remaining practically unchanged in nominal effective terms. Yields on euro-area government securities, benefiting from the Eurosystem purchase programme, were unaffected, while share prices fell steeply.

... and particularly bank shares

The widespread increase in risk aversion had an especially strong impact on the share prices of the sectors considered most exposed to an economic slowdown, with euro-area bank stock prices especially hard hit. From the date of the referendum up to 8 July, bank shares lost 29 per cent in Italy, 26 per cent in Germany and 23 per cent on average in the euro area. The slump in Italian bank shares was aggravated by the recession's heavy legacy of non-performing loans and by fears that current market conditions may make it harder for banks to dispose of such exposures or to raise capital.

The ECB Governing Council stands ready to intervene if necessary with all available instruments

The ECB is ready to intervene if warranted and is in close contact with the other central banks, fulfilling its mandate of ensuring price stability and financial stability in the euro area. The area-wide cyclical expansion appears to have proceeded in the second quarter, albeit at a slower pace than in the first, and consumer price inflation edged back into positive territory in June; growth and inflation should be stimulated by the monetary policy measures already in place. An additional contribution could come from the impact on credit supply of the new series of targeted refinancing operations launched in June, under which Italian banks have been allocated about €139 billion so far (€29 billion net of repayments of the funds obtained in the first series).

In Italy, the recovery continues at a slower pace

The recovery has proceeded gradually in Italy, driven by domestic demand, even though exports have suffered from the weakness of non-EU markets. Household consumption has benefited from the increase in disposable income and the improvement in the job market; investment has continued to grow, buoyed among other things by the incentives introduced with the last Stability Law. However, the cyclical indicators suggest that, as in the euro area as a whole, GDP expanded more slowly in the second quarter than in the first.

Firms are planning to increase investment

In our surveys, conducted before the British referendum, firms indicated that they planned to increase investment during the year (still historically low as a percentage of GDP), thanks in part to easier access to credit and to the tax incentives enacted last December; the rate of capital formation is likely to be higher among companies that do business mainly on the domestic market and among larger firms. Around 60 per cent of the industrial firms surveyed intend to expand plant capacity, mostly on the strength of their perception *of more favourable demand developments. Still, the surveys reveal that uncertainty about the international context remains a significant deterrent to more decisive expansion of investment by Italian firms.*

Employment continues to improve

Though more slowly than in the previous year, when social contribution relief on new hires was applied in toto, the rise in the number of persons in work continued in the first quarter of the year. The overall unemployment rate remained stable owing to the increase in labour market participation, but unemployment among young people diminished further.

Inflation stays negative

Consumer price inflation has been negative since February; its performance reflects the decline in energy prices, but also the very low rate of core inflation, which continues to show the effects of ample margins of unutilized production capacity. Households and firms expect the rise in prices to remain modest in the coming months. According to professional forecasters, consumer price inflation will be barely positive on average this year.

The recovery is gradually benefiting credit growth and quality

Lending to the non-financial private sector is expanding at a modest pace, though more strongly in the sectors where the economic recovery has taken firmer root. Loans to firms as a whole are stagnating but those to manufacturing companies are increasing apace. Credit quality is gradually benefiting from the cyclical recovery: in the first quarter of 2016 the ratio of new non-performing loans to outstanding loans declined further; for banking groups, the stock of NPLs also fell as a percentage of outstanding loans compared with the previous quarter, both gross and net of write-downs.

Measures to safeguard financial stability are being considered

The widespread uncertainty in the markets prompted the Italian Government to notify the European Commission, which has given its approval, of its intention before the year is out and only if necessary to guarantee new issues of bank liabilities; the guarantee will be priced at market terms and comply with the rules on State aid. Market conditions could generate systemic risks for individual member states and for the euro area as a whole, requiring some form of public financial backstop. With reference to the results of stress tests, EU rules explicitly envisage precautionary recapitalization for banks in order to prevent serious disruptions to the economy and to safeguard financial stability.

The prospect of Brexit may affect the economic outlook …

Our projections, prepared as part of the Eurosystem staff macroeconomic projections and released on 6 June, indicated growth of the Italian economy driven by domestic demand in the three years 2016-18 and a very gradual rise in the rate of inflation. The effects on the macroeconomic outlook of the referendum on the United Kingdom's exit from the European Union are still hard to evaluate; in any event, the risks have increased considerably.

… though with limited direct effects …

The effect of Brexit on the forecasting scenario depends on mostly hypothetical outcomes. The implications for the projections of movements in the financial, foreign exchange and commodity markets observed after the referendum are minimal. More serious repercussions on economic activity could materialize in the coming months if there were to be a sharp decline in activity in the UK, which could be transmitted to Italy via trade or a cutback in the investment plans of firms active on the British market. These channels could have a perceptible but limited effect on GDP. In this case, and considering the latest data for the second quarter of 2016, growth could come to slightly less than 1 per cent this year and about 1 per cent in the next.

… but risks that have to be countered

Years of global crisis suggest that the risks could mount rapidly and considerably, with major repercussions on Europe's and Italy's economies if financial market tensions spread and *were not countered by decisive use of the economic policy tools available, if banking tensions emerged and no prompt action were taken to safeguard financial stability, or if business and household confidence were substantially undermined. These risks can be warded off by a resolute monetary, macroprudential and fiscal policy response and by the European authorities' success in dispelling the fears for the cohesion of the Union.*

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The global economy continues to show weakness: the projections for world trade growth made by the main international organizations have been revised downwards once again. The risks have heightened following the referendum in which the United Kingdom voted in favour of leaving the European Union; economic policy makers have given assurances that they are ready to take action to counter tensions and support growth.

The outcome of the United Kingdom referendum increases risks

The results of the Brexit referendum held on 23 June, in which the majority voted to leave the EU, will have a profound effect on relations between these two areas (see the box 'The implications of the referendum for relations between the United Kingdom and the European Union'). The Brexit result increased the volatility of international financial markets and, although its consequences are difficult to judge, it has heightened the risks for global growth, the outlook for which is already suffering from weakness in the emerging economies. In the UK, following the referendum, the Governor of the Bank of England considers the economic outlook to have worsened due to the rise in uncertainty and less favourable financial developments.

THE IMPLICATIONS OF THE REFERENDUM FOR RELATIONS BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION

In the June 23 referendum the British people voted in favour of the UK exiting the European Union. The decision marks the beginning of a complex transition, which will affect the dense web of interrelationships between the United Kingdom and the other EU member states.[1]

The EU treaties contain provisions designed to permit an orderly withdrawal. Article 50 of the Treaty on the European Union sets out the procedure to be followed in the event that a member state decides to withdraw. It is up to the British government to notify the European Council of the UK's intention to withdraw from the Union; negotiations can then get under way on the arrangements for the withdrawal.[2] The exit will take effect on the date of entry into force of the 'withdrawal agreement' or,

[1] As an immediate consequence of the referendum result, the agreement concluded at the European Council of 18-19 February 2016 ceases to exist. This agreement would have bolstered the UK's special status in the EU. Its entry into force had in any event been suspended pending notification by the United Kingdom of its decision to remain a member of the European Union.

[2] The guidelines for the negotiation of the withdrawal agreement will have to be agreed on unanimously by the European Council (the UK will not take part in this decision). Based on these guidelines, the Commission will submit recommendations to the Council of the European Union (again, without the United Kingdom) which will formulate a decision on the opening of talks and the nomination of the EU's chief negotiator. The agreement with the United Kingdom will then have to be approved by the Council of the European Union with a qualified majority of 72 per cent of the remaining 27 member states, representing 65 per cent of the population; it must also approved by the European Parliament by simple majority.

failing that, two years after the notification of withdrawal (unless the European Council unanimously decides to extend this period). In any event, there will be no legal vacuum: until the procedure is complete, the UK will remain a full member of the EU with all the rights and obligations this implies.

The new economic and commercial relations between the United Kingdom and the European Union will be the subject of separate talks. What form post-Brexit trade relations between the two areas will take – an especially important question owing to the country's high degree of integration with the rest of Europe – is currently shrouded in uncertainty. Some analysts have mooted the possibility of negotiating similar agreements to those currently in force with other countries, such as (a) membership of the European Economic Area (EEA), as in the case of Norway, Iceland and Liechtenstein; (b) a bilateral agreement within the European Free Trade Association (EFTA), such as the one with Switzerland; and (c) an independent free trade agreement, such as those between the EU and Turkey, Mexico, South Korea and Canada.

These kinds of agreement, in the order in which they are listed above, involve a decreasing degree of integration in terms of access to the single market and the obligation to transpose EU laws. Moreover, the first two options would envisage contributions to the EU budget by HM Treasury, while this would not necessarily be the case under an independent free trade agreement. Without a new agreement, trade relations would be governed by WTO rules, with the application of the most favoured nation clause:[3] British exports to the Union would accordingly be subject to the EU's common external tariff and possible non-tariff barriers.

For the financial services sector, membership of the EEA would entail access to the single market for British firms through the exercise of passporting rights and the obligation to comply with European legislation (including, for banks, the Single Rulebook[4]) without the United Kingdom being able to contribute to its definition. If, instead, the United Kingdom were to conclude a bilateral agreement with the Union – and even more so if it failed to do so – the current system of passporting would no longer apply and limits on the activities of British financial institutions within the Union would probably be introduced.

In a joint declaration released shortly after the official announcement of the referendum result,[5] the Presidents of the European institutions stated that the EU stands ready to launch negotiations swiftly with the United Kingdom regarding the terms and conditions of its exit from the European Union; they hoped to have the UK as a close partner of EU in the future; and they emphasized how any agreement concluded with the United Kingdom as a third country will have to reflect the interests of both sides and be balanced in terms of rights and obligations. The internal political debate in the UK raised the possibility that the decision to withdraw could be notified within a few months. In an informal meeting held on 29 June, the heads of state or government of the 27 EU member states (excluding the United Kingdom) nonetheless called on the UK to act as quickly as possible, specifying that, until notification is given, no negotiations of any kind can take place.[6]

[3] The most favoured nation clause prohibits any form of discrimination among trading partners in cases in which no bilateral agreement has been concluded: a State pledges to grant another country equally favourable treatment to that conceded to one or more States with which, equally, no trade agreement exists. In applying this clause (a) all the partners with which no trade agreements have been stipulated will be treated in the same way; and (b) more favourable conditions can only be granted through ad hoc agreements between States.

[4] The Single Rulebook comprises the set of banking and financial regulations harmonized at European level.

[5] Statement by the EU leaders and the Netherlands Presidency on the outcome of the UK referendum, European Parliament President Martin Schulz, European Council President Donald Tusk, Dutch Prime Minister Mark Rutte in his capacity as President of the Council of the European Union, and European Commission President Jean-Claude Juncker, issued on 24 June 2016.

[6] Joint statement at the end of the informal meeting of the 27 Heads of State or Government, Brussels, 29 June 2016.

There is profound uncertainty over the potential negative impact of Brexit on economic activity in the United Kingdom, as signalled by the very different estimates that were made in the months leading up to the referendum by international organizations, government authorities and private commentators. In the short term, GDP could suffer as a result of the heightened uncertainty over the country's economic and financial prospects, greater market volatility, and expectations of a lesser degree of openness to trade and foreign investment. In the longer term, growth will be influenced to a large extent by what new economic and trade agreements are forged between the EU and the UK, by the UK's policies on immigration and by its ability to remain a competitive, efficient and innovative market.

In the advanced economies moderate growth continues

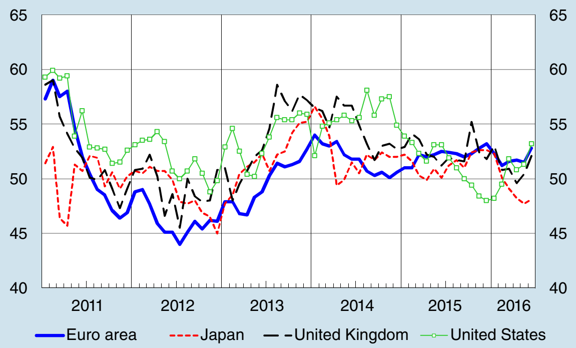
In the first quarter of 2016 economic activity in the United States slowed to an annualized growth rate of 1.1 per cent, owing to a deceleration in consumption and a contraction in business investment. In Japan, after the decline of the fourth quarter of 2015, GDP expanded faster than expected in the first quarter (1.9 per cent), reflecting positive contributions from consumption, net exports and public spending. In the United Kingdom, GDP growth slowed (1.8 per cent). The data available indicate that growth accelerated in the second quarter in the United States: the Purchasing Managers' Index signals an expansion in the manufacturing sector after a protracted period of stagnation (Figure 1); consumption rose strongly over the spring months and employment accelerated in June. In Japan the PMI points to progressive weakening in manufacturing, which has been affected by the earthquake in April and the decline in orders from abroad; household spending has also fallen.

The emerging economies continue to display cyclical weakness

The stimulus measures adopted by China's government and central bank have countered the slowdown in economic activity; in the first quarter GDP rose by 6.7 per cent on an annual basis, buoyed by public investment; the abundant credit supply stimulated a recovery in the property sector. In the second quarter, retail sales continued to rise, while manufacturing activity and private investment decelerated. In India, following a first quarter with high growth (8.0 per cent), economic activity slowed slightly. During the first quarter, the recession persisted in Brazil (-5.4 per cent), but eased up in Russia (-1.2 per cent) thanks in part to increased oil production.

Figure 1

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



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

Table 1

Macroeconomic projections
(changes and percentage points)

	February 2016 forecasts		June 2016 forecasts		Difference June 2016/ Feb. 2016	
	2016	2017	2016	2017	2016	2017
GDP						
World	**3.0**	**3.3**	**3.0**	**3.3**	**0.0**	**0.0**
Advanced countries						
of which: Euro area	1.4	1.7	1.6	1.7	0.2	0.0
Japan	0.8	0.6	0.7	0.4	-0.1	-0.2
UK	2.1	2.0	1.7	2.0	-0.4	0.0
US	2.0	2.2	1.8	2.2	-0.2	0.0
Emerging economies						
of which: Brazil	-4.0	0.0	-4.3	-1.7	-0.3	-1.7
China	6.5	6.2	6.5	6.2	0.0	0.0
India	7.4	7.3	7.4	7.5	0.0	0.2
Russia	-0.4	1.7	-1.7	0.5	-1.3	-1.2
World trade (1)	**3.6**	**4.8**	**2.1**	**3.2**	**-1.5**	**-1.6**

Source: OECD, *OECD Economic Outlook*, June 2016.
(1) For world trade the forecasts refer to November 2015 and June 2016.

The projections for growth for 2016-17 are moderate

According to the most recent OECD projections, published in early June, prior to the UK referendum, in 2016 global GDP is expected to expand at the same pace as last year (3 per cent), in line with the forecasts released in February (Table 1). The downward revision for some of the advanced economies reflected the slowdown observed in the first quarter; among the emerging economies, the forecasts for China and India remain unchanged, while the outlook for Brazil and Russia has deteriorated.

World trade growth slows further

World trade growth stagnated in the first three months of 2016, in part due to continued weakness in trade with the emerging economies; preliminary data suggest that this trend continued into the second quarter. According to OECD projections, world trade will expand this year by 2.1 per cent, down from what was projected in November (3.6 per cent) and slower than in 2015 (2.6 per cent); this is partly attributable to weakening Chinese imports and the recessions in Brazil and Russia, as well as the dampening of trade in the advanced economies outside the euro area. Over the last five years, the main international organizations' projections for world trade growth have almost always been revised downwards.

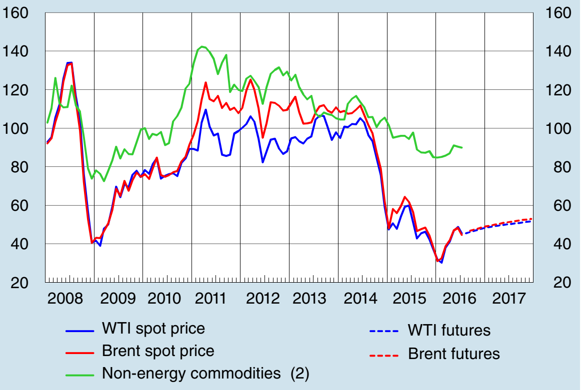
Oil prices recover from their lows

Oil prices have rebounded from the lows reached at the start of the year, hovering above $45 a barrel in the first week of July (Figure 2). The main factors in the price strengthening in the second quarter were the decline in US supply and temporary production curbs by major exporting countries. According to the most recent estimates of the International Energy Agency, in 2016 the supply excess should diminish by around 60 per cent, largely due to production cuts in non-OPEC countries in conjunction with a gradual recovery in demand. Futures contracts indicate a modest increase in crude oil prices for the rest of this year and the next. The prices of non-energy commodities also rose from the lows reported in February.

Figure 2

Commodities prices (1)

(monthly data; dollars per barrel and index numbers)



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

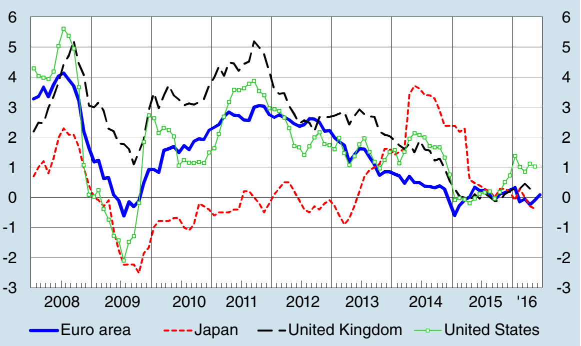
Inflation in the advanced economies is very low

Price inflation in the advanced economies is still well below the targets set by the central banks (Figure 3), owing among other factors to the decline in crude oil prices, which in the last few months have regained only a part of the lost ground. In the United States, since the start of this year inflation has remained around 1 per cent. In Japan, consumer prices fell by 0.4 per cent on a twelve-month basis in May, while in the United Kingdom they were up slightly (0.3 per cent). Of the main emerging economies, inflation was moderate in China (1.9 per cent in June), in line with the central bank's targets in India (5.8 per cent), and high in Brazil and Russia (8.8 and 7.5 per cent respectively).

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 Bank of England envisages a loosening, the Fed signals a more gradual normalization

In the weeks following the 23 June referendum, there has been increased cooperation between the main central banks in managing the liquidity risk posed to banks by the volatility of the financial markets. At the start of July, given the deterioration in the economic outlook for the UK, the Bank of England cut the countercyclical capital buffer requirement; at its 14 July meeting it decided to leave monetary policy conditions unchanged, but envisages a loosening in August.

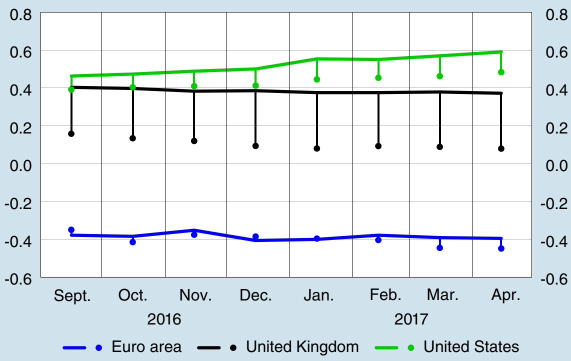
In view of the less favourable employment data for May in the United States and the growing uncertainty in international markets, at its 14-15 June meeting the Federal Reserve decided to keep its monetary policy stance unchanged. The median of the projections of the members of the Federal Open Market Committee envisaged an increase in the official rates by 50 basis points by the end of 2016 (as reported in its March forecasts) and by a further 150 points over the next two years (a downward revision of about half a percentage point).

Following the referendum in the UK the expected interest rates implied by derivative instruments fell sharply (Figure 4); in mid-July they indicated expectations that the official rates will remain unchanged in the United States until the end of the year and a total reduction of around 25 basis points in the United Kingdom by the end of the summer.

The monetary policy stances of the main emerging economies have remained largely accommodative: China's central bank continued to provide additional liquidity to support credit supply; in India and Russia the central banks left rates unchanged.

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 4 April 2016, the dots show those forecast on 14 July 2016.

1.2 THE EURO AREA

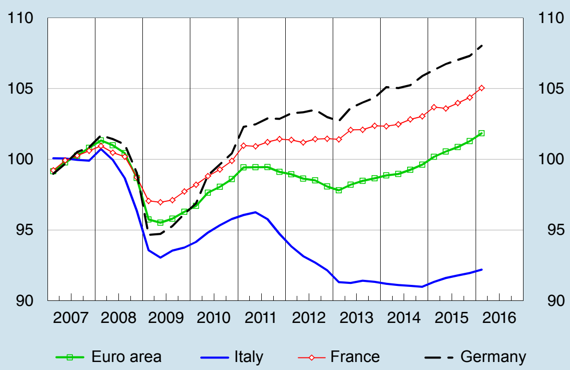
The cyclical expansion is likely to have continued in the euro area in the second quarter, albeit at a moderate pace. Consumer price inflation returned to barely positive values in June. The ECB's existing monetary policy measures should stimulate growth and prices: a further contribution may come from the impact on the supply of credit from the new refinancing operations conducted in June.

GDP is buoyed by domestic demand ...

In the first quarter of 2016 euro-area GDP accelerated (0.6 per cent on the previous quarter) and now stands above the level recorded prior to the financial crisis (Figure 5). Domestic

Figure 5

GDP of the euro area and of its main countries (1)
(quarterly data; indices, 2007=100)



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

demand is still the main driver of the recovery: a further increase in investment flanked stronger household spending. Foreign trade held back growth for the third quarter running: the modest rise in exports was due entirely to goods sales to other euro-area countries, while sales to the rest of the world fell; imports grew markedly, stimulated by the pick-up in domestic demand.

... in all the main countries of the area

At the start of 2016 GDP accelerated in all the main euro-area countries, to quarterly growth of 0.7 per cent in Germany, 0.6 per cent in France and 0.3 per cent in Italy. In Germany, economic activity grew at its highest rate in the last two years, buoyed particularly by investment, with spending in the construction sector also benefiting from the mild weather. The French economy was stimulated by the recovery of household consumption following the stagnation recorded in the autumn, presumably associated mainly with the terror attacks in Paris, and by the further acceleration of investment in non-construction industry.

GDP growth continues more moderately into the second quarter

In the spring months, economic activity in the euro area appears to have increased, although at a slower pace than in the previous quarter. Signs of continued growth are also found in the Bank of Italy's €-coin indicator, which estimates the underlying trend of GDP in the euro area: the indicator picked up in June, rising to 0.29 (Figure 6). The Purchasing Managers' Indexes confirm that the economy is continuing to expand.

Downside risks remain

In the short term the risk outlook is unfavourable because of the protracted weakness of demand from the emerging economies, persistent geopolitical tensions and the uncertainty in connection with the outcome of the Brexit referendum.

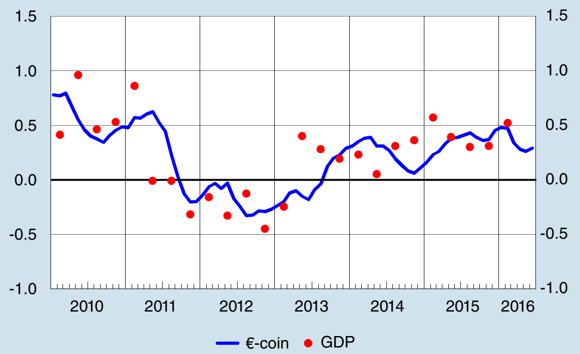
Inflation returns to barely positive values ...

The provisional data indicate that consumer price inflation recorded a twelve-month rate of 0.1 per cent in June after two months in negative territory (Figure 7). Core inflation remained slack at 0.9 per cent, reflecting the still ample margins of spare production capacity. In May, the last month for which detailed information is available, the share of elementary items in the general index with negative price changes increased slightly to 26 per cent from 24 per cent in April, although this was still 10 percentage points below the peak recorded in January 2015; among the core components, the share rose for the second consecutive month, from 18 to 23 per cent, 7 percentage points below its highest point, which was also recorded in January 2015.

Figure 6

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

(percentage changes)

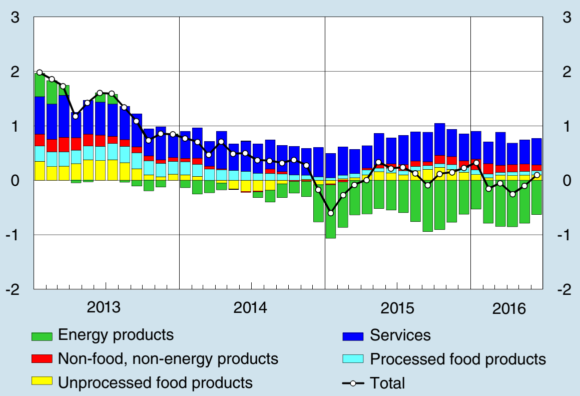


Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July 2009. Details on the indicator are available at http://www.bancaditalia.it/media/notizia/indicatore-coin-giugno-2016. 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.

Figure 7

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

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



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

... and looks likely to remain very low

The ECB staff projections released in June indicate that consumer price inflation is likely to average 0.2 per cent in 2016, in line with the latest estimates of the professional forecasters polled by Consensus Economics. Short- and medium-term expectations as implied by inflation swap yields stayed at around 0.7 per cent (Figure 8); the five-year inflation expectations five years ahead recorded an all-time low of 1.3 per cent.

The ECB confirms its expansionary stance

At its meeting on 2 June the Governing Council of the ECB confirmed its intention to maintain official rates at current levels or lower (Figure 9) for an extended period of time, and well past the horizon of its net asset purchases (intended to run at least until the end of March 2017). It also reiterated that, if warranted to achieve its objective, the ECB would act by using all the instruments available within its mandate.

Following the outcome of the UK referendum, the ECB announced it would monitor the financial markets carefully and maintain close contacts with other central banks, while standing ready to provide additional liquidity, if necessary, in euros and foreign currencies. The ECB would continue to fulfil its responsibilities to ensure price stability and financial stability in the euro area.

Corporate bond purchases begin

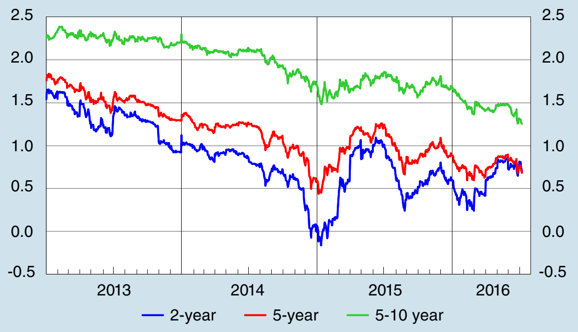
The Eurosystem has continued to purchase securities on a regular basis. Since 8 June these have also included euro-denominated corporate bonds under the Corporate Sector Purchase Programme, CSPP (see the box 'The monetary policy measures adopted in March', *Economic Bulletin*, No. 2, 2016). At 8 July purchases of public securities amounted to €895 billion, those of covered bank bonds to €184 billion, of asset-backed securities to €20 billion and of corporate bonds to €8.5 billion. At the end of June the Eurosystem had purchased Italian public securities for a total of about €144 billion, of which €132 billion bought by the Bank of Italy, with an average residual maturity of 9.3 years.

The first of the new targeted refinancing operations is carried out

On 29 June the first of the four new targeted longer-term refinancing operations (TLTRO-II) was carried out; 514 euro-area banks took part, obtaining funds for just under €400 billion (about €32 billion net of the voluntary repayments of outstanding loans obtained under TLTRO-I); the Bank of Italy's counterparties were assigned just under €139 billion (about €29 billion net). These measures will

Figure 8

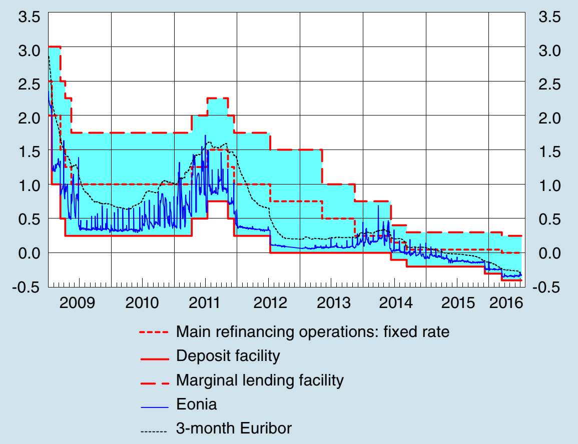
Inflation expectations implied by inflation swaps (1)
(daily data; per cent)



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

Figure 9

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



Sources: ECB and Thomson Reuters Datastream.

serve to stimulate the supply of credit and sustain economic activity and price developments through multiple channels (see the box 'The effects of the new targeted longer-term refinancing operations').

THE EFFECTS OF THE NEW TARGETED LONGER-TERM REFINANCING OPERATIONS

Last March, as part of its comprehensive package of expansionary measures to support economic recovery and the return of the inflation rate to below, but close to, 2 per cent (see the box 'The monetary policy measures adopted in March', *Economic Bulletin*, No. 2, 2016), the Governing Council of the ECB announced four new targeted longer-term refinancing operations (the TLTRO-II series). These operations, with a four-year maturity, will be conducted quarterly until March 2017.

The interest rate applied to the operations will initially be the same as that applied in the main refinancing operations prevailing at the time of allotment (currently zero). The rate can be reduced, depending on each counterparty's net lending, down to the rate applied on the Eurosystem's deposit facility (now negative). The first such operation was settled on 29 June.

TLTRO-II supports lending through several channels.

In the first place, by guaranteeing the availability of funds at an extremely advantageous cost and for an extended period of time, these operations enable banks to reduce the burden of funding directly, by replacing their most costly liabilities; funding costs may also benefit indirectly if the contraction in the supply of bank bonds – demand being equal – were to determine a fall in their yields. Overall, the lowering of costs favours a reduction of banks' lending rates, thus improving borrowing conditions for firms and households.

Second, the certainty that funds will be available should attenuate the potential negative impact of an increase in market volatility on the supply of credit to the real economy.

Third, since the rate actually applied to the TLTRO-II series decreases as the volume of loans to the private sector increases, these operations provide an incentive to expand lending.

Lastly, the extremely advantageous terms for bank funding could be transmitted to a broader class of financial assets, further improving the financing conditions in the economy.

In Italy, assuming that banks obtain slightly above €200 billion overall under the four new refinancing operations (just under €100 billion net of TLTRO-I repayments), and further assuming that this liquidity is used to replace some of the bonds maturing between mid-2016 and end-2017 (i.e. all retail and about a third of wholesale bonds), we estimate that the average cost of funding will fall by about 20 basis points to 0.30 per cent by the end of March 2017. In the next four years, i.e. until the scheduled repayment of the fourth operation, the cost is expected to remain about 20 basis points lower than it would have been in the absence of TLTRO-II.

Based on empirical regularities, the savings on funding costs could lead to a reduction of some 20 basis points in the rates banks charge for new loans to the private sector.

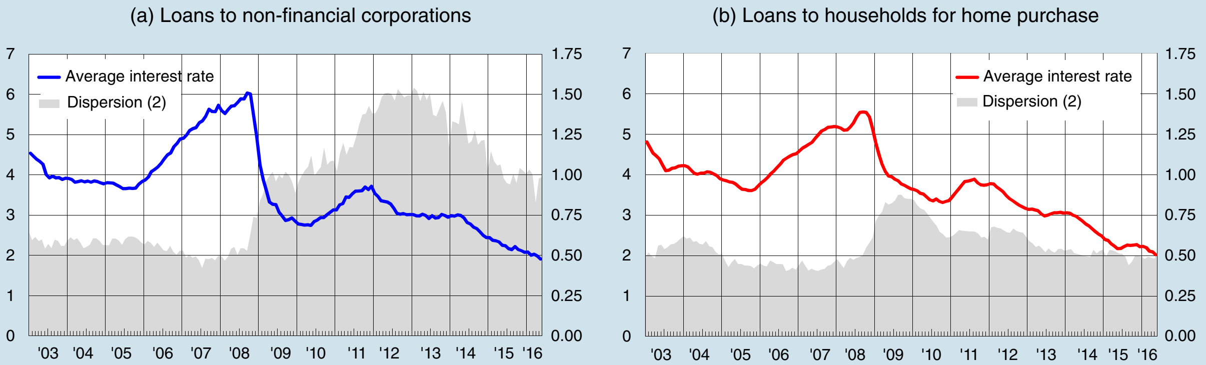
Simulations run using the Bank of Italy's quarterly econometric model indicate that the decreased cost of new bank loans would have positive effects on investment spending and consumer durable purchases, leading to an overall increase in GDP, in the three years 2016-18, of about 0.2 percentage points. Higher aggregate demand would also put upward pressure on consumer prices of about 0.1 percentage points.

The gradual expansion of credit continues

The gradual expansion of lending continued in the euro area. In the three months ending in May, the growth of business loans in the area slowed slightly to 1.6 per cent on an annual basis (adjusted for seasonal factors and the accounting effect of securitizations). The rate of growth in lending to households picked up, reaching 1.7 per cent. The average cost of new loans remained at historically very low levels, continuing to benefit from the unconventional measures in place since June 2014; the dispersion between countries has remained at the very low levels recorded 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

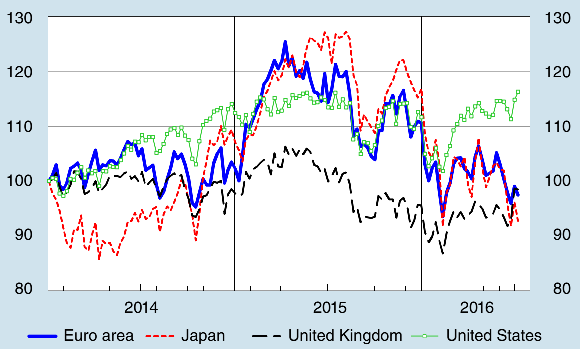
The result of the British referendum on leaving the European Union sent shockwaves through the financial markets, particularly stock exchanges. Sterling depreciated, hitting a 30-year low against the dollar. In the advanced economies, however, long-term yields stayed at very low levels, owing to the strongly expansionary stance of central banks.

The prospect of Brexit penalizes stock markets

Changes in stock market indices in the advanced economies were modest in April and in May (Figure 11). The result of the UK referendum of 23 June, increasing investors' risk aversion, triggered a surge in financial market volatility and a sharp decline in stock prices (Figure 12). The uncertainty surrounding the political and institutional implications penalized in particular stock exchanges in the euro-area economies deemed most vulnerable and especially banking stocks, given investors' preference for safe assets.

Figure 11

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

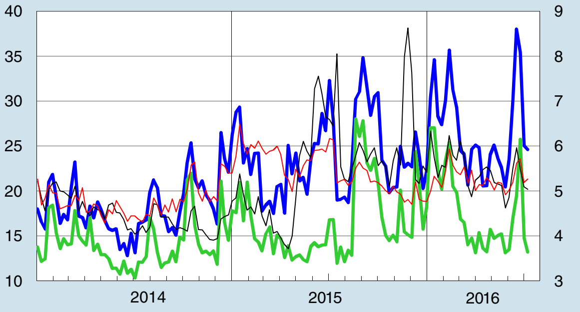


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

Implied volatility of share and government securities prices (1)

(end-of-week data; percentage points)

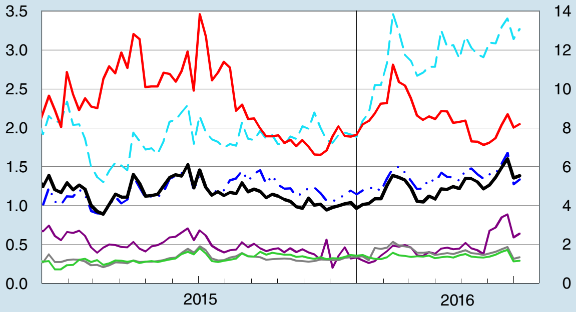


Source: Based on Thomson Reuters Datastream data.
(1) Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury Notes for the United States. – (2) Right-hand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

Figure 13

Yield spreads between 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.

The widening of sovereign spreads is attenuated by the Eurosystem's purchases

The impact of the turmoil on sovereign spreads was fairly modest, thanks to the Eurosystem's asset purchase programme. Since the end of March the differentials with respect to the German Bund have widened for both Italian and Portuguese government debt (by around 30 and 50 basis points respectively), while for Ireland, Spain, Belgium and France they have stayed close to the levels recorded at the start of the period (Figure 13). In Greece the sharp rise in spreads after the British referendum only partly offset the decline that followed the agreement reached at the end of May with the Eurogroup on a new financial assistance package and on debt reduction through the rescheduling of interest payments.

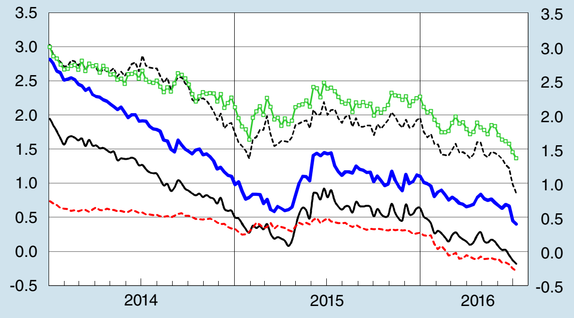
Interest rates fall ...

The yields on long-term sovereign bonds in the main advanced economies remained at very low levels, owing to the strongly expansionary stance adopted by the central banks in view of modest growth prospects and the uncertainty sparked by the June 23 referendum, increasing investor appetite for safe financial assets (Figure 14). In the United States the decline in the interest rates on government bonds also reflected market expectations of a more gradual raising of the official rates. In June the yield on the ten-year German Bund dipped below zero for the first time; that on the corresponding Japan government bonds, which had fallen below zero following the Bank of Japan's introduction of negative rates on its excess reserves, diminished further (to around -0.30 per cent).

Figure 14

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.

... as do spreads on high-yield corporate bonds

After recording a broad-based decline since the beginning of March, spreads on corporate bonds have widened again following the referendum on Brexit. In the second quarter spreads on investment-grade bonds denominated in euros and dollars fell slightly (Figure 15); the reduction was more marked in the high-yield segment, especially for dollar-denominated bonds. The credit risk premiums of the leading banks, gauged by the spreads on five-year credit default swaps, rose in the euro area and to a lesser extent in the United Kingdom, while they fell in the United States.

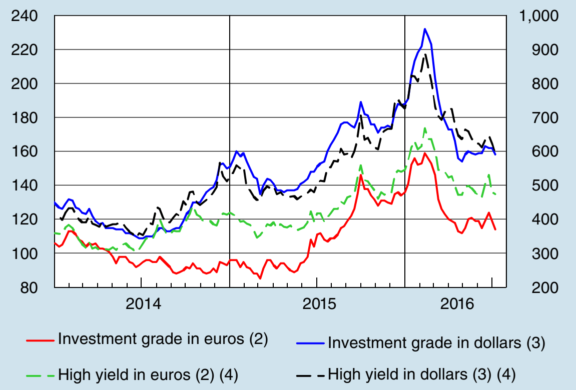
Sterling depreciates sharply

The referendum result had a major impact on the pound sterling, which fell to a 30-year low against the dollar. Since the end of the first quarter the euro has appreciated against the pound (by 7.4 per cent), but has depreciated against the dollar (3.2 per cent) and, more markedly, the yen (Figure 16). The nominal effective exchange rate of the euro has remained virtually unchanged.

Figure 15

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

(end-of-week data; basis points)

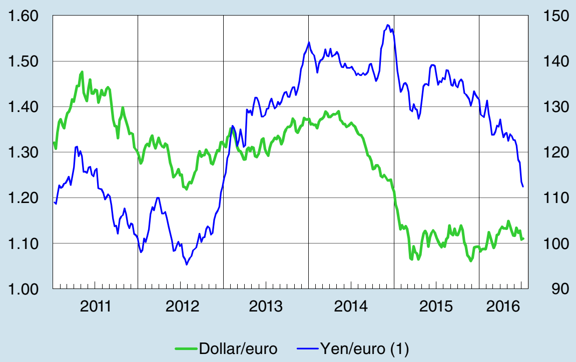


Source: Merrill Lynch.
(1) Investment grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High yield bonds are those issued by corporations rated below those grades. – (2) Fixed rate bonds with a residual maturity of not less than 1 year, issued in the Euromarket;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

Figure 16

Bilateral exchange rates

(average weekly data)



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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

Economic activity in Italy accelerated slightly at the beginning of 2016, driven by household spending and, to a lesser extent, by investment; as in the other main euro-area countries, growth was held back instead by foreign trade. GDP appears to have continued to expand in the second quarter, but at a more moderate pace.

Growth, sustained by domestic demand ...

In the first quarter of 2016 GDP grew by 0.3 per cent compared with the fourth quarter of 2015, when it had increased by 0.2 per cent (Table 2); after gaining for the fifth consecutive quarter, output is still 8.5 percentage points below the cyclical peak reached at the beginning of 2008 (it was lower by almost 10 points at the end of 2014; Figure 17).

Growth was sustained over the winter by national demand. The continuing recovery in household spending (0.3 per cent, as in the fourth quarter of 2015) was accompanied by a further increase in investment (0.2 per cent), involving all the main components except spending on construction, which turned downwards after two quarters of expansion (see Section 2.2). The change in stocks made a positive contribution to growth of 0.2 percentage points. The strengthening of GDP was held back by foreign trade: the fall of 1.5 per cent in exports, which wiped out the increase recorded in the previous quarter, was more pronounced than that in imports (0.9 per cent).

Following the temporary stagnation recorded at the end of 2015, the value added in industry excluding construction recorded its highest increase since the summer of 2010. There was also modest growth in the services sector, despite the persistent weakness of business services. The value

Table 2

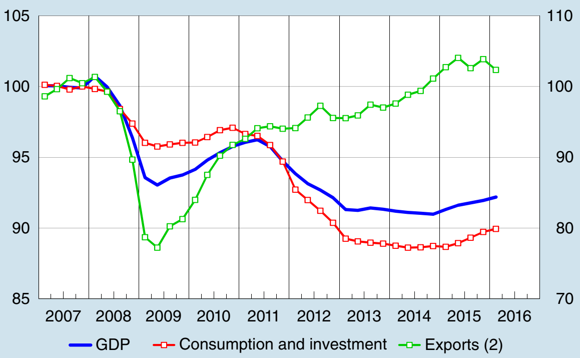
GDP and its main components (1)
(percentage changes on previous period)

	2015			2016	2015
	Q2	Q3	Q4	Q1	
GDP	0.3	0.2	0.2	0.3	0.8
Total imports	1.5	-0.2	0.9	-0.9	6.0
National demand (2)	0.3	0.6	0.1	0.5	1.1
National consumption	0.3	0.4	0.4	0.2	0.5
household spending (3)	0.5	0.5	0.3	0.3	0.9
other spending (4)	-0.2	0.2	0.6	0.2	-0.7
Gross fixed investment	0.2	0.6	0.8	0.2	0.8
construction	-0.2	0.5	1.0	-0.5	-0.5
other investment goods	0.6	0.6	0.6	1.0	2.2
Change in stocks (5) (6)	0.1	0.1	-0.4	0.2	0.5
Total exports	1.3	-1.4	1.2	-1.5	4.3
Net exports (6)	..	-0.4	0.1	-0.2	-0.3

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Includes the changes in stocks and valuables. – (3) Includes non-profit institutions serving households. – (4) General government expenditure. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

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.

added in construction, however, which had risen in the second half of 2015, decreased again.

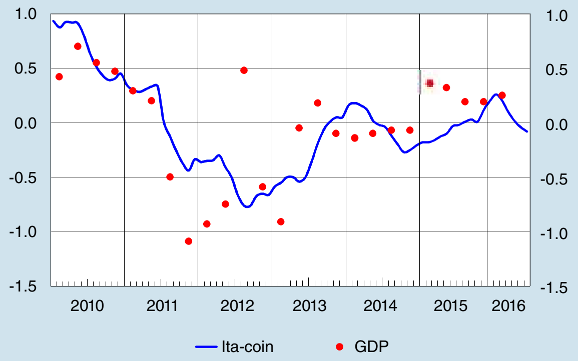
... is estimated to have continued in the second quarter, but at a slower pace

According to our estimates, based on the information available on the indices of business and household confidence, foreign trade and consumption indicators, goods traffic and electricity consumption, GDP growth slowed slightly in the spring. The boost from construction and services is likely to have been accompanied by a small decline in manufacturing. Signs of moderation of the recovery also come from the Bank of Italy's Ita-coin indicator, which provides real-time estimates of the underlying trend in GDP: the indicator fell in June (Figure 18), partly as a consequence of the large losses recorded by the stock market following the referendum in the United Kingdom (see Section 2.8).

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', *Economic Bulletin*, No. 2, 2015. Further details are available at: http://www.bancaditalia.it/statistiche/tematiche/indicatori/indicatore-ciclicocoincidente/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.

Consumer price inflation remains negative

In June, inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), was negative for the fifth consecutive month (-0.2 per cent). The prices of energy products continue to decline on an annual basis and core inflation remains extremely low at 0.5 per cent.

2.2 FIRMS

In the second quarter of 2016 manufacturing activity is likely to have diminished slightly while the recovery firmed up in services and there were signs of a turnaround in construction. Business confidence indicators, measured before the Brexit referendum, remained high on the whole; the outlook for investment expenditure improved. Weak and hesitant foreign demand and the existing geopolitical risks continue, however, to put a brake on productive activity.

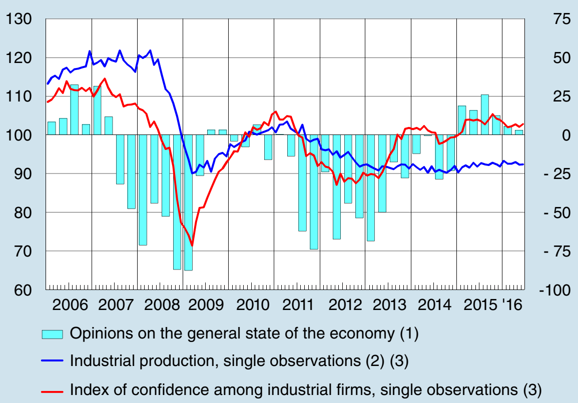
Industrial production is likely to have declined slightly in the second quarter

In the first quarter industrial production returned to growth, thanks in part to the disappearance of the statistically unfavourable calendar effects of holidays in the last two months of 2015 (Figure 19). According to our estimates, in the second quarter industrial production declined moderately; the increase recorded in April was more than compensated by the decrease

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, June 2016, in *Supplements to the Statistical Bulletin*, No. 35, 2016. – (2) Industrial production adjusted for seasonal and calendar effects; for June 2016, estimated data. – (3) Index, 2010=100.

registered in May (the last month for which data are available) and the flat result expected for June according to the indicators currently available.

Business confidence remains strong

In the second quarter the business confidence indicators, measured before the Brexit referendum, remained high, although the trends were uneven in the main economic sectors: stationary in manufacturing but rising in aggregate market services and, especially, in construction. PMI indices point to a continuation of the expansion in economic activity. According to the quarterly survey of firms conducted in June by the Bank of Italy and *Il Sole 24 Ore*, the share of firms expecting foreign demand for their products to increase diminished, owing in part to the ongoing geopolitical tensions; in the survey findings, the uncertainty stemming from economic and political factors remains the main drag on economic activity, while the stimulus from the decline of oil prices disappeared.

The recovery in investment continues

In the first quarter investment continued to grow (up by 0.2 per cent compared with the previous period), reaching the highest level in two years. The main stimulus came from the acceleration in spending on machinery and equipment (up by 1.3 per cent), supported in part by the measures to encourage purchases of capital goods contained in the 2016 Stability Law; expenditure on transport equipment – which made up 16 per cent of investment in machinery and equipment at the beginning of the year – rose by 2.5 per cent. Only construction investment diminished (-0.5 per cent), following the increase recorded at the end of 2015.

According to the recent quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore*, the share of firms in industry excluding construction and in services planning to expand their investment expenditure in 2016 exceeded by 21 percentage points the share of those envisaging a reduction, a slightly higher figure than in March (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations'). Similar indications came from the Bank of Italy's survey of industrial and non-financial service firms, whose responses suggest that investment will continue to grow in 2016, also benefiting from slightly easier access to credit (see the box 'Survey on non-construction industrial firms and non-financial private service firms').

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

In the first half of June 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, June 2016, in *Supplements to the Statistical Bulletin*, No. 35, 2016). Compared with the March survey, firms' optimism on the general economic situation and their own short-term economic conditions has faded. Expectations concerning economic activity continue to benefit from the strengthening of demand and the easing of credit access conditions; however, the favourable impact of low oil prices has run its course and the drag produced by economic and political uncertainty remains significant.

Opinions on investment conditions are still tinged with cautious optimism (Figure A). The share of firms planning to increase their investment expenditure during the current year has increased moderately compared with 2015 (see the table), in keeping with the expectations drawn from the Survey of Industrial and Service Firms conducted between February and April on firms with at least 20 workers (see the box 'Survey on non-construction industrial firms and non-financial private service firms').

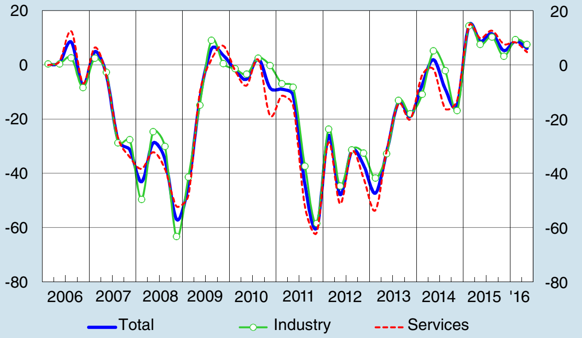
With regard to the assessment of the effects of the 'extra depreciation' measure to encourage investment in capital goods, introduced by the last Stability Law, the share of firms that consider this measure 'fairly' or 'very' important rose from 12 per cent in March to 15 per cent in the June survey.

Geopolitical tensions are having a negative influence on firms' assessments of investment conditions and planned investment expenditure; in the assessments of major exporters, these factors are even more important than they were twelve months previously. Some 68 per cent of the exporters that plan to reduce their investment expenditure in 2016 are of the opinion that geopolitical conditions are fairly or very important, whereas among those expecting to increase their spending the share is 44 per cent (Figure B).

Construction firms continue to hold favourable opinions on investment conditions; however, the number that plan to increase their own expenditure in 2016 diminished.

Figure A

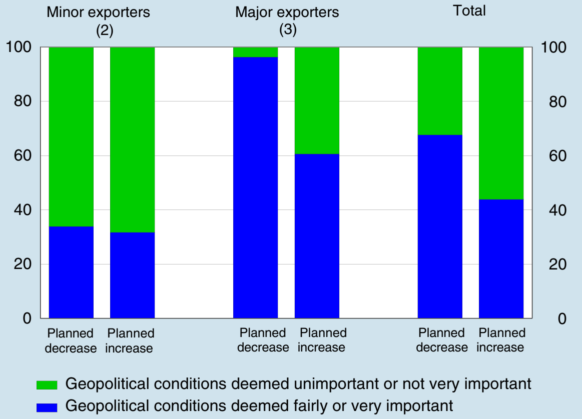
Firms' assessment of investment conditions compared with the previous quarter (1)
(quarterly data; percentage points)



(1) Balances between judgments of improvement and of deterioration by comparison with the previous quarter in the quarterly *Survey on Inflation and Growth Expectations*, conducted on a sample of firms in industry excluding construction and in services by the Bank of Italy together with *Il Sole 24 Ore* in June 2016 and published in *Supplements to the Statistical Bulletin*, No. 35, 2016.

Figure B

Importance of geopolitical factors and investment plans (1)
(percentage points)



(1) Planned investment expenditure in 2016 compared with 2015 as recorded in the quarterly *Survey on Inflation and Growth Expectations* conducted on a sample of firms in industry excluding construction and in services by the Bank of Italy together with *Il Sole 24 Ore* in June 2016 and published in *Supplements to the Statistical Bulletin*, No. 35, 2016. The data are weighted according to number of workers. – (2) Turnover from exports less than one third of total turnover. – (3) Turnover from exports more than two thirds of total turnover.

Firms' investment expectations (1)
(per cent)

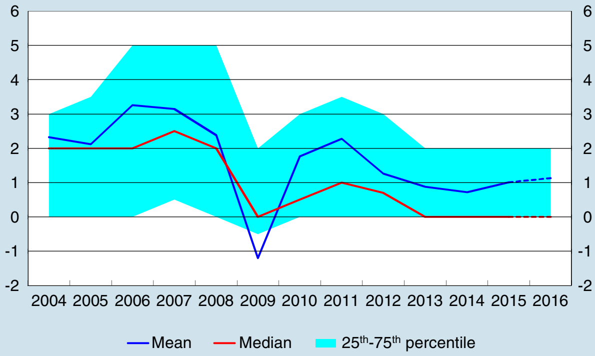
	Industry excluding construction	Services	Services and industry excluding construction
	Investment expenditure planned for 2016 compared with investment in 2015		
Higher	41.6	31.7	36.8
About the same	40.2	54.4	47.1
Lower	18.2	13.9	16.1
	Investment expenditure planned for the first half of 2016 compared with investment in the second half of 2015		
Higher	33.8	28.8	31.3
About the same	43.7	55.2	49.4
Lower	22.4	15.9	19.2

(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 June 2016 and published in *Supplements to the Statistical Bulletin*, No. 35, 2016. Rounding may cause discrepancies.

SURVEY ON NON-CONSTRUCTION INDUSTRIAL FIRMS AND NON-FINANCIAL PRIVATE SERVICE FIRMS

According to the yearly survey conducted by the Bank of Italy on manufacturing firms and non-financial private service firms with at least 20 workers,[1] in 2015 total sales rose by about 4 per cent at constant prices. The growth was more broad-based than in the recent past: almost two thirds of firms increased their turnover in real terms, compared with about half in 2014 and no more than 40 per cent in the period 2009-2013. The decline in the number of persons employed, under way since 2008, came to a halt.

Sales prices, 2004-2016 (1)
(percentage changes)



(1) Statistics weighted by population weights.

Capacity utilization, measured only for industrial firms, increased: in 2015 the firms that exploited over three quarters of their plants' potential accounted for two thirds of total output, compared with scarcely half for such firms the previous year. About 60 per cent of industrial firms are planning to increase their production capacity this year, mainly motivated by their expectations of improved demand. According to the expectations recorded in the survey, the growth in sales volume will continue in 2016, again involving around two thirds of firms, and will be accompanied by an upturn in employment.

The increase in turnover in real terms was combined with an improvement in operating results. The share of firms that reported making a profit increased again, from just over 60 per cent in 2014 to almost 70 per cent (roughly on a par with the share prevailing before the onset of the global financial crisis in 2008).

Business investment regained momentum, confirming the expectations recorded in 2014. Investment expenditure at constant prices, having shrunk almost uninterruptedly since 2008, rose by about 6 per cent, higher than the preliminary national accounts estimates, which include firms with fewer than 20 workers.

About half of the expansion recorded by the survey is due to investment by a few large non-financial private service firms headquartered in the Centre and North-West and oriented to the domestic market. Investment also grew appreciably in the North-East and South, however, mainly reflecting the increased expenditure of firms which, whilst having continued to make investments over the last few years, had progressively reduced the size of their investments. Firms expect capital spending to continue to increase in 2016, benefiting from strengthening sales and slightly improved credit access conditions; growth in investment is likely to be more pronounced for firms mainly oriented to the domestic market and for larger firms.

The increase in sales prices in 2015 remained at the same modest level as in the previous two-year period, averaging 1 per cent; over half the firms reported zero or negative changes and only

[1] For a more detailed description of the survey's results, see *Survey of Industrial and Service Firms in 2015*, in *Supplements to the Statistical Bulletin*, forthcoming.

a quarter recorded increases greater than 2 per cent (see the figure). The average growth in sales prices, weighted by turnover, has been negative since 2013, with a particularly sharp decline in 2015. According to the firms surveyed, the slackness of prices depends on trends in costs, which have been affected both by declining raw materials prices and by the weakness of demand.

Favourable signs persist in construction

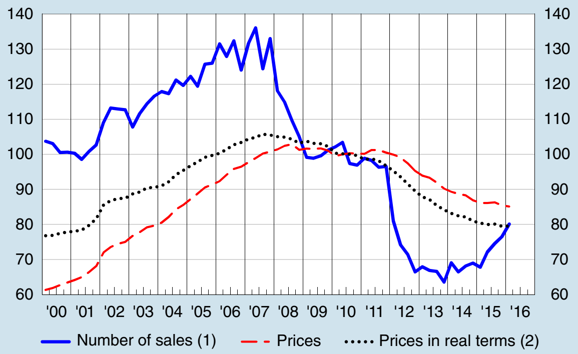
In the first quarter of 2016 house sales recorded their fourth consecutive increase, rising by 4.7 per cent on the previous period and approaching a four-year high (Figure 20). In the same period, house prices, which usually react with a lag to the cyclical inversion in house sales, edged down (-0.4 per cent). In the three months ending in April, building activity grew by 0.7 per cent.

On average for the second quarter, business confidence indicators for construction firms rose to their highest levels since the summer of 2008, lifted by favourable assessments on demand: the construction firms interviewed in June as part of the Banca d'Italia-*Il Sole 24 Ore* survey reported an improvement in investment conditions and more favourable expectations on employment compared with the March survey; expectations on demand, on the other hand, remained virtually stable.

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.

Price competitiveness has improved since the beginning of 2014

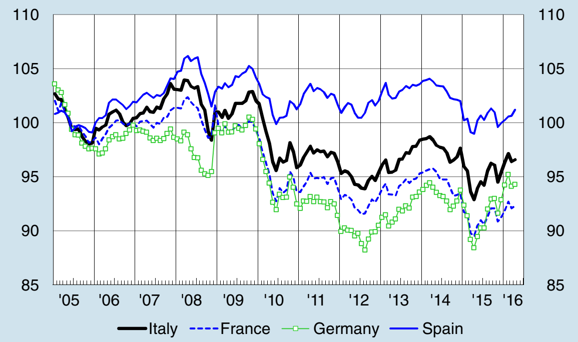
According to our estimates, in the second quarter price competitiveness, as measured by the producer prices of manufactures, worsened slightly compared with the previous quarter (Figure 21).

Since the beginning of 2014 Italian firms nevertheless have made a cumulative gain of about two percentage points, mainly owing to the nominal depreciation of the euro, which has assisted their competitiveness vis-à-vis countries outside of the euro area even as they have lost ground to their trading partners in the area. In the same period, French companies have enjoyed a recovery of competitiveness (up by three percentage points), Spanish firms have recorded similar gains to Italian businesses, while German firms have seen their competitiveness worsen by less than half a percentage point.

Figure 21

Indicators of competitiveness (1)

(monthly data; indices, 2005=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 April 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.

Firms' profitability and self-financing improve

Based on Istat data and on our estimates, the ratio of gross operating profit to value added rose slightly in the twelve months ending in March. Firms' improved self-financing capability led to a further drop in their financing requirement; the ratio of investment expenditure to value added remained basically unchanged. The growth in self-financing, calculated as the difference between gross operating profit and total interest costs, is due mainly to the further reduction in net interest expense. In the first quarter of 2016 firms' total debt as a percentage of GDP fell further to 77 per cent, from 78 per cent in December (Figure 22).

Lending to manufacturing firms continues to grow

In May the twelve-month rate of growth of bank lending to firms was practically nil (0.3 per cent); the increase in loans to manufacturing and service businesses (up by 2.2 per cent and 0.7 per cent, respectively) was largely offset by the decline in those to construction firms (see Section 2.7)

In the first quarter of 2016 Italian firms' net bond issues were negative by €9 billion (Table 7) according to preliminary data by Dealogic, they turned positive again in the second quarter. In the first quarter, the gross equity issues of resident non-financial corporations increased.

2.3 HOUSEHOLDS

The recovery in household consumption since the summer of 2013, driven by both the goods and services components, reflects the substantial increase in disposable income and the improvement in the labour market. The latest data are consistent with a further expansion in spending in the second quarter; the index of household confidence, despite a decline in recent months, remains high.

Consumption continues to rise moderately …

In the first quarter of 2016, as in the fourth quarter of 2015, household consumption was up by 0.3 per cent, owing to increased spending on both goods and services. Meanwhile, real disposable income rose by 1.1 per cent on the previous period (Figure 23), due to improved employment conditions (see Section 2.5).

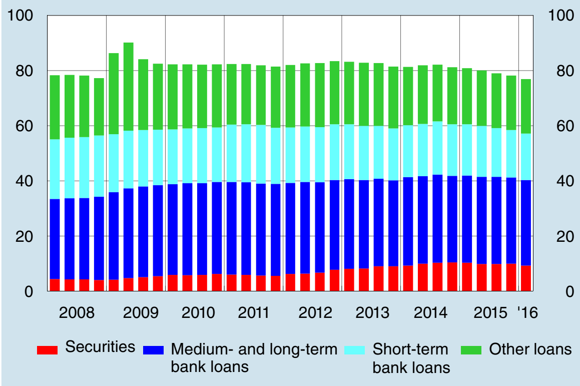
… also in the second quarter

Based on the most recent cyclical indicators, household spending is likely to

Figure 22

Debt of non-financial firms (1)

(quarterly data; as a percentage of GDP)

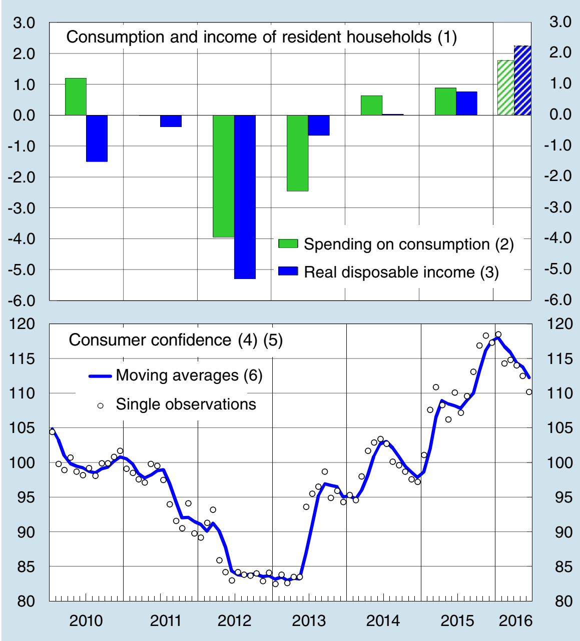


Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the 12 months ending in the quarter in question. Debt includes securitized loans.

Figure 23

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. Up to 2015, annual data; for 2016, percentage changes in the first 3 months compared with the same period of 2015. – (2) Volumes at chain-linked prices. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, reference year 2010. – (4) Seasonally adjusted monthly data. 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

have continued to grow at a moderate pace in the second quarter. New car registrations increased further (1.0 per cent on the previous period); consumer goods manufacturing firms' expectations have stabilized. The index of consumer confidence fell again, but it remains well above the level registered in June 2013 (when the survey methodology was revised): the deterioration in judgments on the performance of the economy in general and of overall employment contrasted with the stabilization of opinions regarding household finances.

Household debt falls slightly

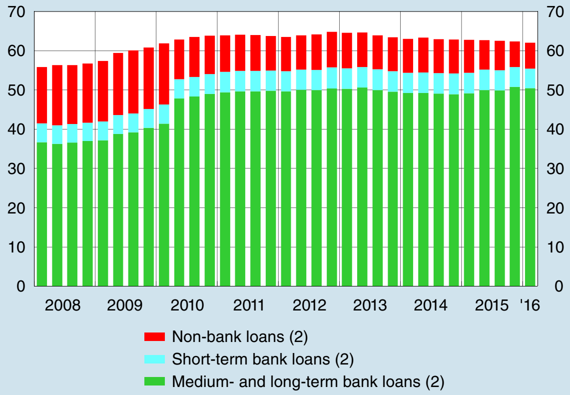
In the first quarter of 2016 Italian household debt fell to 62.0 per cent of disposable income, from 62.4 per cent in December (Figure 24), remaining far below the euro-area average (about 95 per cent at the end of December). During the same period there was a further reduction in interest rates on new mortgage loans, continuing the trend that began in early 2012; this trend is confirmed by the latest data (see Section 2.7).

In the first quarter households reduced the amount of bank bonds held in their portfolios, continuing the trend that began in 2012 in conjunction with the sharp contraction in banks' issues and the termination of the more favourable tax treatment of bonds by comparison with bank deposits (see the box 'Bank bonds in Italian households' portfolios').

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.

BANK BONDS IN ITALIAN HOUSEHOLDS' PORTFOLIOS

Direct ownership of bank bonds has traditionally been a significant phenomenon among Italian households;[1] the share of these assets in households' portfolios has fluctuated widely over time, reflecting, among other things, banks' issuance policies and changes in the tax treatment of securities, as well as evolving preferences. Between the 1950s and the 1970s, the share of household financial wealth invested in bonds issued by special credit institutions grew, peaking at 11 per cent in 1973 (Figure A). It subsequently fell to around 1 per cent in the mid-1980s owing to competition from government securities (which were tax exempt until 1986), the rising popularity of certificates of deposit and the difficulty of placing fixed-rate bonds during a period of high inflation.

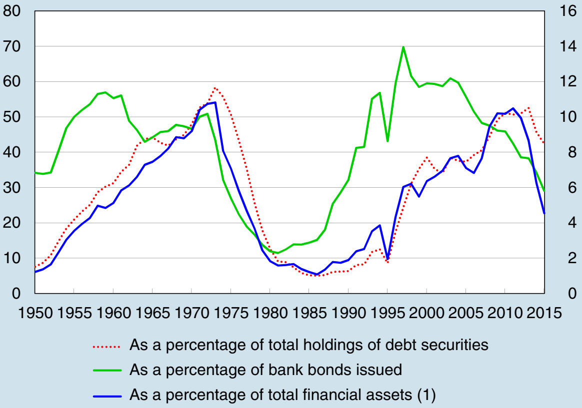
The increase in the taxation of certificates of deposit in 1996 and the decision to allow all banks to issue bonds spurred households to invest in bank bonds again. At the start of this century, the crises involving sovereign issuers (Argentina) and corporate issuers (Cirio and Parmalat) gave a further lift to demand for bank bonds, whose share of Italian household financial wealth rose to 11 per cent in 2011.

Subsequently, the strong contraction in bond issues and their loss of favourable tax treatment compared with bank deposits (the tax rate rose from 12.5 per cent to 20 per cent in 2012 and to 26

[1] M. Coletta and R. Santioni, 'Le obbligazioni bancarie nel portafoglio delle famiglie italiane', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

Figure A

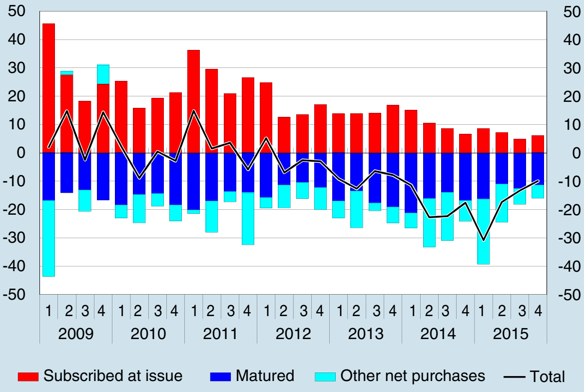
Bank bonds held by Italian households
(per cent)



Sources: From 1950 to 1962, F. Cotula and M. Caron, 'I conti finanziari dell'Italia. Dimensioni e struttura della ricchezza e del risparmio finanziario dell'economia', Banca d'Italia, *Bollettino*, No. 6, 1971, pp. 837-919 (in Italian only); since 1963, financial accounts.
(1) Right-hand scale.

Figure B

Net purchases of bank bonds by Italian households (1)
(billions of euros)



Sources: Supervisory reports and financial accounts.
(1) Other net purchases are calculated as a residual.

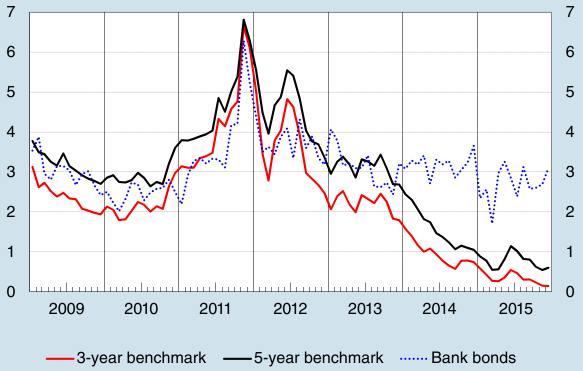
per cent in 2014) contributed to the gradual reduction in household investment in bank bonds. Over the four-year period 2012-15, households made net disposals of around €190 billion (Figure B), reducing the share of bank bonds in total financial assets to less than 5 per cent, still high by international standards. The decline in the bond component was accompanied by a shift in the composition of financial wealth towards asset management products (see *Financial Stability Report*, No. 1, 2016).

Nearly half of the bank bonds held by households at the end of 2015 will mature by the end of 2017 and 90 per cent by the end of 2020. If there are no new purchases, their share of financial household wealth would fall to below 1 per cent.

According to data from the ECB's Centralised Securities Database (CSDB), the gross yield at issue of bank bonds placed with Italian households, after the increase observed during the sovereign debt crisis, has fallen back to the levels reached in the years immediately preceding 2011 (Figure C). The yield spread with respect to five-year BTPs, mostly negative between 2009 and 2012, turned positive again at the end of 2013; in December 2015 it was equal to around 2.5 percentage points.

Figure C

Gross yield of bank bonds subscribed by Italian households and of benchmark BTPs (1) (2)
(per cent)



Sources: Supervisory reports; CSDB; 'Monetary and Financial Indicators. The Financial Market', *Supplements to the Statistical Bulletin*.
(1) The gross yield on bank bonds subscribed at issue by Italian households is calculated based on the conditions obtaining at the time of placement and on the assumption that the bond is held to maturity. Bonds held at the end of the month of issue are deemed subscribed at issue. – (2) The risk-return profile of benchmark BTPs is comparable to that of most bank bonds. In particular, the 3- and 5-year categories were chosen because the bank bonds subscribed at issue by households between 2009 and 2015 had original maturities falling within this interval.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italian exports, especially those to the emerging economies, are being affected by the weakness of world trade. Business surveys confirm the uncertain outlook for sales abroad. As Italy's commercial and financial relations with the British economy are less intense than those with other countries, the direct impact of Brexit on Italy should be more limited.

Exports decline…

Exports of goods and services decreased in the first quarter of 2016 compared with the previous quarter (1.5 per cent by volume). The fall, which was more pronounced for goods (1.8 per cent), mainly involved non-EU markets. Sales to the main Asian economies (China and Japan), OPEC countries, and Russia fared particularly badly, while those to the United States and Turkey increased. The contraction was widespread, involving all sectors except transport equipment, which saw a continuation of the favourable trend under way since last year.

… and so do imports

Imports of goods and services also shrank, albeit less markedly, falling by 0.9 per cent in volume terms. Goods purchases dropped for commodities, electronic equipment, textiles and clothing, but increased for refined petroleum products, transport equipment and mechanical machinery; imports in the latter sector were presumably sustained by the pick-up in gross fixed investment.

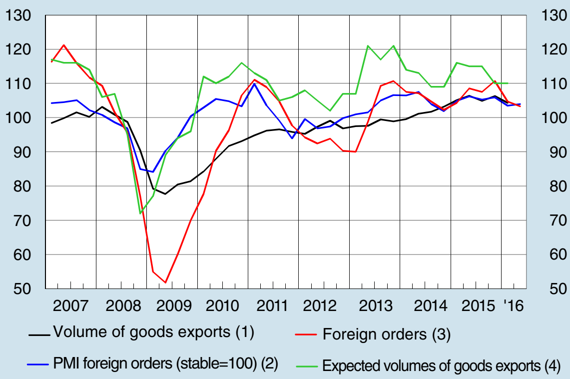
The outlook for foreign orders is still uncertain

The most recent data show that total exports staged a modest increase in April; in May, however, sales to non-EU markets declined, while nevertheless remaining above the average for the first quarter. The uncertain outlook for foreign demand is also confirmed by the findings of cyclical business surveys: the PMI index measuring the foreign orders of manufacturing firms improved slightly, while Istat's comparable qualitative indicator slipped but remained compatible with an expansion of sales (Figure 25). The prospects for foreign trade are hampered by the potential repercussions of the Brexit referendum, which are expected to be less severe for Italy than for other countries (see the box 'Trade and financial relations between Italy and the United Kingdom').

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.

TRADE AND FINANCIAL RELATIONS BETWEEN ITALY AND THE UNITED KINGDOM

Italy's commercial and financial relations with the United Kingdom are on the whole less intense than those with the other main euro-area countries (Table A). The outcome of the referendum on the United Kingdom's membership of the European Union should therefore have relatively smaller repercussions on the Italian economy than on Italy's partners.

Sales to the United Kingdom make up 5.4 per cent of total Italian exports of goods and 8.4 per cent of those of services. Italy mainly exports transport equipment, machinery, food products, clothing and tourism services (Table B). Bilateral trade in goods is comfortably in surplus for Italy, while in services it is close to balance.

In 2014 Italy's exports of goods and services to the United Kingdom were equal to 1.7 per cent of GDP while imports from the UK amounted to 1.1 per cent of GDP, significantly lower than the figures for France, Spain and, especially, Germany (Table A).

Table A

Trade and financial relations between the main euro-area countries and the United Kingdom
(as a percentage of GDP)

	Trade (1)		Portfolio investment (2)		Direct investment (3)	
	Exports	Imports	Assets	Liabilities	Assets	Liabilities
Italy	1.7	1.1	3.9	6.8	1.3	2.2
France	2.5	1.9	11.1	12.7	4.9	2.2
Germany	3.4	2.1	6.5	8.8	2.8	0.7
Spain	2.9	1.8	3.2	7.2	6.0	1.7

Sources: Based on data from the Bank of Italy, Eurostat and the IMF (Coordinated Direct Investment Survey, CDIS, and Coordinated Portfolio Investment Survey, CPIS).
(1) Goods and services in 2014. – (2) Stocks at the end of the first half of 2015; based on data reported by the country holding the assets. – (3) Stocks at the end of 2014; based on data reported by Italy and, for the other euro-area countries, the United Kingdom.

Financial ties also tend to be less tight compared with the other main European countries for both portfolio and direct investment. According to the IMF's Coordinated Portfolio Investment Survey, at the end of the first half of 2015 Italian investments in portfolio securities issued by the United Kingdom amounted to €62.4 billion (3.9 per cent of GDP, compared with 11.1 per cent for France and 6.5 per cent for Germany). About half of those securities are held by insurance companies and

Table B

Trade between Italy and the United Kingdom
(billions of euros)

	Exports			Imports		
	2013	2014	2015	2013	2014	2015
Goods	19.6	20.9	22.5	9.7	10.3	10.6
of which: food products, beverage and tobacco products	2.5	2.7	2.9	0.5	0.6	0.6
textiles, clothing, leather and accessories	2.4	2.7	2.9	0.5	0.6	0.6
chemicals	1.1	1.2	1.2	1.0	1.0	1.0
pharmaceuticals	1.2	1.2	1.1	1.2	1.1	1.1
machinery	2.7	2.9	3.1	1.0	1.0	1.0
transport equipment	2.6	2.9	3.3	1.6	2.0	2.2
Services	6.4	6.9	7.4	6.5	7.3	7.3
of which: transport	0.5	0.5	0.5	0.9	1.0	1.0
travel	2.3	2.6	2.9	1.2	1.3	1.4
financial services	0.9	0.9	0.9	0.5	0.5	0.4
ICT services	0.4	0.7	0.8	0.5	0.6	0.5
other business services	1.9	1.7	1.7	2.4	3.1	3.0
Goods and services	25.9	27.8	29.9	16.2	17.6	17.9
As a % of GDP	1.6	1.7	1.8	1.0	1.1	1.1

Sources: Based on Bank of Italy and Istat data.

other financial intermediaries, slightly less than one third by Italian households, and less than 10 per cent by banks. Only about one fifth of Italian assets in UK securities are sterling-denominated and consequently exposed to the risks arising from variations in the exchange rate between the euro and the pound sterling.

The Italian and British banking systems' exposure to borrowers resident in the United Kingdom and Italy, respectively, is limited. In March 2016 the exposure of Italian banks was €35 billion (about 1 per cent of total loans); that of British banks €18 billion.

At the end of 2014 Italian direct investment in the United Kingdom amounted to 1.3 per cent of GDP, much lower than for the other major euro-area countries. According to Istat data for 2013, Italian firms in the United Kingdom employed 67,000 people and generated a turnover of €21 billion.

According to our estimates, in the short term a large depreciation of the pound sterling or a slowdown of the British economy would have unfavourable but limited direct repercussions on Italy's exports of goods and services. The impact on financial assets held by residents would be even more moderate, given the low exposure to exchange rate risk. In the medium term the consequences of Brexit will mainly depend on the new configuration of the rules governing trade between the United Kingdom and the European Union, something that is hard to predict at present (see the box 'The implications of the referendum for relations between the United Kingdom and the European Union', Chapter 1).

The current account surplus expands further

The current account surplus widened to €9.6 billion in the first four months of 2016, up from €4.1 billion in the year-earlier period, continuing a trend under way since the end of 2010 (see the box 'The Cyclically Adjusted Current Account Balance'). The principal factor was an improvement in the merchandise balance thanks to decreased expenditure for energy products (Table 3).

Table 3

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

	2014	2015	Jan.-Apr. 2015	Jan.-Apr. 2016
Current account	**30.9**	**36.0**	**4.1**	**9.6**
Goods	47.9	52.7	13.9	17.7
non-energy products (2)	89.3	84.5	25.4	25.0
energy products (2)	-41.5	-31.9	-11.5	-7.3
Services	-0.8	-1.2	-2.7	-2.9
Primary income	-0.3	-0.9	0.9	1.9
Secondary income	-15.8	-14.6	-8.1	-7.0
Capital account	**3.4**	**2.6**	**-0.5**	**-0.4**
Financial account	**50.3**	**33.1**	**-3.6**	**13.8**
Direct investment	2.5	6.6	0.4	-0.7
Portfolio investment	1.0	89.6	-5.7	52.8
Derivatives	-3.6	3.4	0.4	4.0
Other investment	51.3	-67.0	1.6	-40.7
Change in official reserves	-1.0	0.5	-0.3	-1.6
Errors and omissions	**16**	**-5.5**	**-7.2**	**4.6**

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

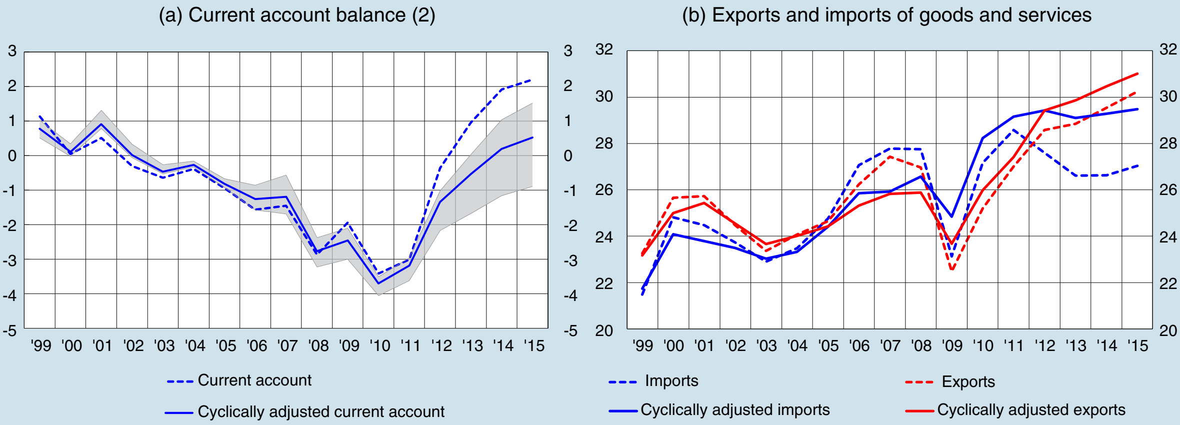
THE CYCLICALLY ADJUSTED CURRENT ACCOUNT BALANCE

The current account of Italy's balance of payments has improved considerably over the last five years, progressing from a deficit of 3.4 per cent of GDP in 2010 to a surplus of 2.2 per cent in 2015. The adjustment of the external account was achieved during a protracted period of weak economic growth, marked by a sharp contraction in domestic demand.

In order to correctly evaluate the nature of this rebalancing it is necessary to separate the component linked to the Italian economy's relative cyclical position, which inevitably improves as the recovery gains traction. A model has been developed for this purpose, allowing the current balance to be estimated net of cyclical effects.[1] Using measurements of the output gap and demand elasticity of trade flows, the model calculates the potential level of exports and imports assuming GDP to be equal to potential output in Italy and partner countries.

The approach is similar to the one adopted by the European Commission,[2] but takes account of the different extent to which the demand components activate imports, thus highlighting the composition effects. By adjusting only for the business cycle our estimate does not consider the impact of other correlated factors, such as changes in raw material prices or in yields on financial assets. Moreover, it cannot be interpreted as a measure of what the balance would be under medium-long term equilibrium because it ignores the fundamental determinants traditionally identified in the literature, such as demographic trends and the outlook for medium- and long-term growth.

Cyclically adjusted current account balance and its components (1)



Sources: Based on data from the Bank of Italy, European Commission, IMF, Istat and OECD.
(1) Per cent of GDP. – (2) The grey area is the interval of the values obtained using alternative estimation models.

In 2015 the cyclically adjusted current balance would be in surplus and amount to 0.5 per cent of GDP (see the figure, panel a). Factoring in the results of a set of robustness tests based on alternative assumptions, calibrations and models, it would fall within an interval of -0.9 to 1.5 per cent, the size

[1] S. Fabiani, S. Federico and A. Felettigh, 'Adjusting the external adjustment: cyclical factors and the Italian current account', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

[2] M. Salto and A. Turrini, 'Comparing alternative methodologies for real exchange rate assessment', European Commission, *European Economy. Economic Papers*, 427, 2010.

of which is mostly determined by the uncertainty of the output gap estimates. The role of cyclical effects first acquired significance in 2012, in connection with the growing rift between Italy's output gap and that of its trade partners.

After hitting a low point in 2010 the cyclically adjusted balance has improved by 4.2 percentage points of GDP: only a quarter of the adjustment in the external account recorded over the last five years is therefore due to the Italian economy's relative cyclical position. Again adjusting for cyclical factors, exports would show an increase of 5.0 percentage points of GDP over the same period, while the increase in imports would be much smaller (1.3 points; figure, panel b). The decline in raw material prices contributes significantly by reducing energy bills by just 1 percentage point between 2010 and 2015.

Applying the model to the other main euro-area countries it emerges overall that, unlike Italy, their external imbalances are amplified when adjusted for cyclical effects, even more so than the estimates produced by the European Commission and the IMF. Germany's current surplus for 2015 increases from 8.5 to 9.7 per cent, well above the European Commission's alert mechanism under the macroeconomic imbalance procedure. Spain's surplus of 1.4 per cent becomes a deficit of 0.6 per cent, indicating that the external account is not fully rebalanced.

Foreign investors purchase Italian government securities

The net sales registered in the second half of 2015 were followed by net purchases of Italian public-sector securities by non-residents in the first four months of 2016 (€8.8 billion). Non-residents' total investement in Italian portfolio securities fell by €15.9 billion, mostly owing to redemptions of bank bonds (€15.3 billion) not being offset by new issues, in the context of the broader downward trend in wholesale bond placements by Italian banks under way since the beginning of 2016 (see Section 2.7).

On the asset side, residents' investment in foreign portfolio securities has strengthened (€36.9 billion since the start of the year); of these, two thirds were in bonds and the remaining third in investment fund units. Foreign direct investment totalled €13.1 billion, €3.5 billion of it accounted for by a single transaction in the insurance sector.

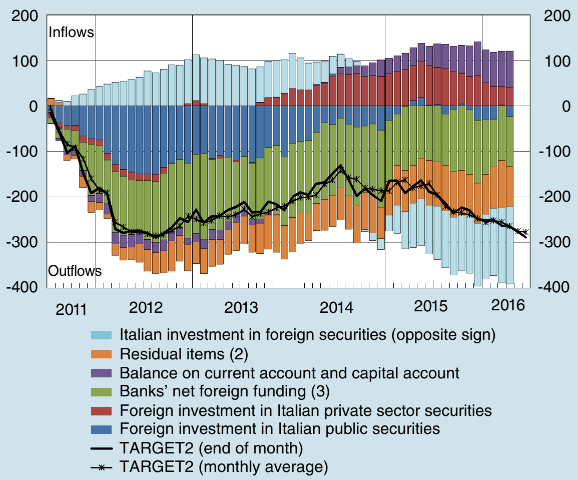
The Bank of Italy's debtor position in TARGET2 widens

The Bank of Italy's debtor position in the TARGET2 payment system continued to increase, reaching €289 billion at the end of June, up from €249 billion at end-2015. The increase recorded from January through April (the last month for which comparison with the balance-of-payments data is possible) reflected the foreign disposals of Italian private portfolio securities, mainly bonds, and residents' net purchases of foreign assets, which were only partially offset by an increase in resident banks' net funding on international markets (Figure 26).

At the end of the first quarter Italy's net international investment position was negative by €387.4 billion, equal to 23.5 per cent 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 improvement in the Bank of Italy's debit balance vis-à-vis the ECB in the TARGET2 payment system may reflect investment 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 investment, derivatives, other investment, errors and omissions. – (3) Includes funding intermediated by resident central counterparties.

This represented an improvement of about half a percentage point of GDP since the turn of the year, almost one third of it due to the current account surplus and the rest to valuation adjustments.

2.5 THE LABOUR MARKET

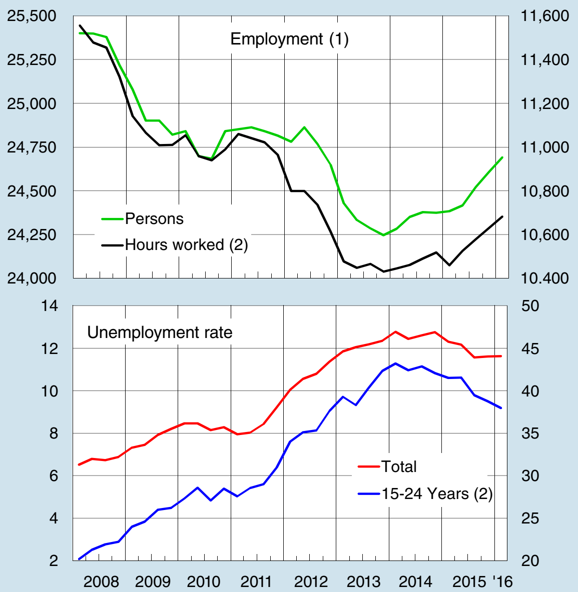
The number of persons employed continued to rise in the first quarter of 2016. The unemployment rate remained stable as a result of the increase in the participation rate due in part to the cyclical expansion. Labour costs fell compared with the same period of 2015 owing to the effect of social contribution relief and the marked deceleration in contractual earnings.

Employment rises ...

The number of persons employed as reported in the national accounts increased by 0.3 per cent on a seasonally adjusted basis during the first three months of this year (Figure 27; Table 4). This increase reflected growth in payroll jobs and a stabilization of self-employment, which had contracted considerably in 2015. Employment continued to expand in industry excluding construction and in private services, while diminishing again, albeit only marginally, in construction. The number of hours worked rose at a rate just above that of employment (0.5 per cent). According to Istat's preliminary labour force survey, in April-May employment increased by comparison with the previous two months.

Figure 27

Employment and unemployment
(seasonally adjusted quarterly data)



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

...and the balance between new hires and terminations remains positive

The rise in employment reported in the first quarter is in part the result of the large number of open-ended employment hires by businesses in December 2015, in order to take advantage of the greater social contribution relief available until the end of last year. According to data released by INPS, in the first four months of this year, the balance between new hires and terminations remained positive in the non-farm private sector, although less so than in the corresponding period of 2015 (when the contribution relief applied fully); the net hiring was in any case slightly greater than in the same period of 2014. New hires exceeded terminations in both fixed-term and open-ended positions (by around 260,000 and 73,000, respectively). The share of open-ended contracts in total net hiring was lower in the first few months compared with 2015 and, if only marginally, with 2014 as well.

The youth unemployment rate falls

The unemployment rate remained stable at 11.6 per cent in the first quarter as a result of the increase in labour force participation, which reflects the cyclical recovery, in addition to a long-term trend induced largely by pension reforms. The unemployment rate for those aged 15 to 24 years again fell, by 0.8 percentage points to 37.9 per cent (it was over 43 per cent in the first quarter of 2014; Figure 27). According to the preliminary data for April-May, unemployment remained essentially unchanged compared with the previous two months, while participation increased further.

Table 4

Employment and hours worked

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

	Number	Change			
	Q1 2016	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Total persons in work	**24,690**	**0.1**	**0.4**	**0.4**	**0.3**
of which: industry excl. construction	4,210	0.1	0.3	0.6	0.3
private services (1)	10,661	-0.1	0.9	0.2	0.5
Employees	18,511	0.4	0.6	0.6	0.4
Self-employed	6,179	-0.7	..	-0.5	..
Hours worked	**10,682**	**0.6**	**0.5**	**0.5**	**0.5**
of which: industry excl. construction	1,844	0.4	0.6	0.9	0.7
private services (1)	4,889	0.4	1.0	..	1.3
Employees	7,281	0.7	0.7	0.8	0.1
Self-employed	3,401	0.4	..	-0.2	1.4

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

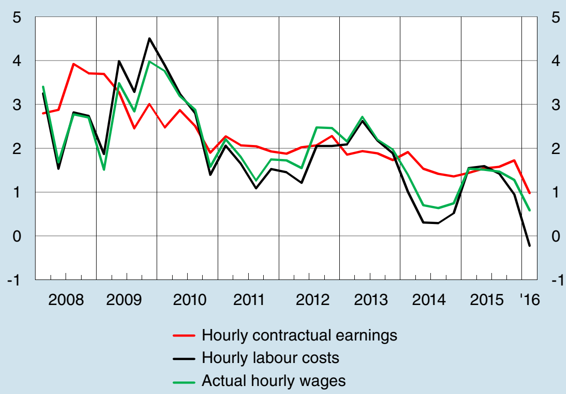
Hourly labour costs decrease

Hourly labour costs in the non-farm private sector fell 0.2 per cent in the first quarter compared with the same period of 2015 (Figure 28), due to the impact of the contribution relief for new hires since the start of last year and the marked slowdown in contractual wage growth to 1.0 per cent from 1.7 per cent in the previous quarter; this deceleration was especially sharp in industry excluding construction, going from 2.6 per cent the previous quarter to 0.6 per cent, owing to the non-renewal of the collective bargaining agreement for the metal and engineering industry.

Figure 28

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

(quarterly data; per cent change on the corresponding period)



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

In the private sector, the share of employees awaiting a new contract came to over 50 per cent in May. If no other contracts are renewed, wage growth will slow even further to an average of 0.7 per cent for the year. Compared with the first quarter of 2015, given that productivity fell by 1.3 per cent, unit labour costs in the non-farm private sector rose by 1.1 per cent, about the same as in the previous quarter. In industry excluding construction, although productivity fell, the steep deceleration in labour costs led to a significant slowdown in the growth of unit labour costs during the quarter, from 1.0 per cent to 0.2 per cent.

According to the surveys conducted by Istat and the Bank of Italy with *Il Sole 24 Ore*, firms' expectations for employment over the next three months are cautiously optimistic overall in industry excluding construction but worsened slightly in the services sector (see 'Survey on Inflation and Growth Expectations June 2016', in *Supplements to the Statistical Bulletin*, No. 35, 2016).

2.6 PRICE DEVELOPMENTS

Consumer price inflation has turned negative again since February, braked by the downturn in the prices of energy products and by the persistence of core inflation at historically very low levels against a background of still ample margins of spare productive capacity. Firms and households expect the change in prices to remain modest over the coming months as well. According to the forecasts of analysts, consumer price inflation will be barely positive on average this year.

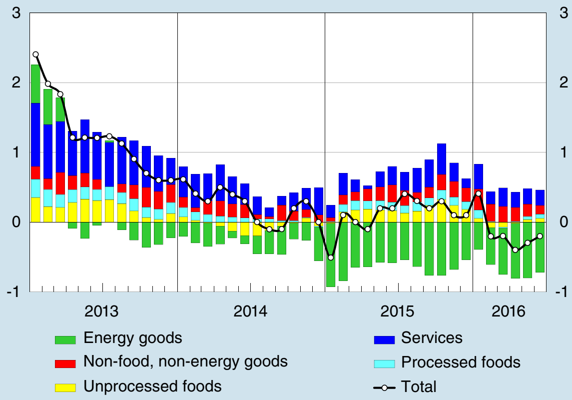
Inflation remains negative

In June the twelve-month change in the HICP was confirmed as being slightly negative for the fifth consecutive month, standing at -0.2 per cent, against -0.3 in May (Figure 29). The weakness of inflation has been caused by both the sharp fall in year-on-year prices of energy goods and the limited increase in core inflation: net of food and energy products, inflation stands at 0.5 per cent (a little higher than the minimum value of 0.3 recorded in April 2015), reflecting the persistence of wide margins of spare productive capacity (Table 5). Again in June the share of elementary items in the overall index with a negative price change remained stable at 32 per cent; the share for core components also remained the same as in May, at 26 per cent.

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.

Producer price pressures remain weak

Producer prices of industrial products sold on the domestic market continued to fall in May, with a twelve-month decline of 4.2 per cent compared with 4.5 per cent in April. A new, significant drop in energy prices, accompanied by a slight increase in the production prices of non-food final consumption goods, contributed to this outcome.

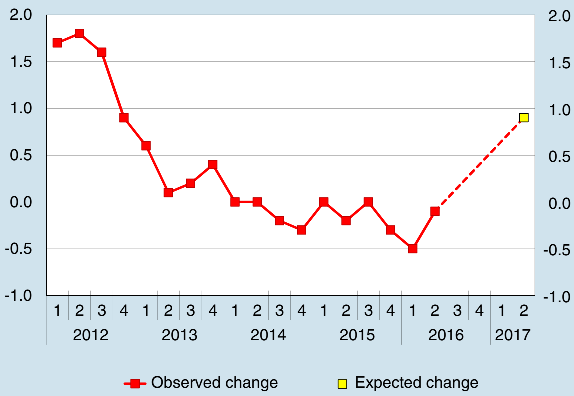
Households and firms expect limited inflation

According to firms and households' expectations, growth in prices will remain modest over the next few months. The list prices of the firms interviewed in the quarterly survey conducted in June by the Bank of Italy together with *Il Sole 24 Ore* look set to increase by almost one percentage point over the next twelve months (Figure 30); however, firms in the services sector expect a far more limited increase compared with that forecast by firms in industry excluding construction. Among the factors expected to affect sales prices is a slightly stronger impulse, compared

Figure 30

Changes in firms' own sales prices: actual 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*, June 2016 in *Supplements to the Statistical Bulletin*, No. 35, 2016.

Table 5

Indicators of inflation in Italy

(12-month percentage changes)

	HICP (1)			CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index
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	0.3	0.5	-3.2
Mar.	0.0	0.5	-0.1	-0.1	0.1	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	0.2	0.6	-2.6
June	0.2	0.7	0.1	0.2	0.0	0.6	-3.0
July	0.4	1.0	0.3	0.2	0.0	0.7	-3.0
Aug.	0.3	1.0	0.2	0.2	-0.1	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	-0.1	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	-0.3	0.5	-4.1
Mar.	-0.2	0.8	-0.3	-0.2	0.3	0.7	-3.9
Apr.	-0.4	0.6	-0.4	-0.5	-0.3	0.5	-4.5
May	-0.3	0.6	-0.4	-0.3	0.4	0.5	-4.2
June	-0.2	0.5	-0.3	-0.4	-0.1	0.4	....

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

with March, from raw material prices and the costs of intermediate inputs; the stimulus of demand is expected instead to remain unchanged and modest. According to Istat surveys, in spring the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months rose for the fourth consecutive quarter to 59.1 per cent, from 58.3 per cent at the beginning of the year.

The analysts polled in June by Consensus Economics expected consumer price inflation to be barely positive on average in 2016 (0.1 per cent), practically the same as that forecast for the whole euro area (see Section 1.2).

2.7 BANKS

Lending to the non-financial private sector is expanding at a moderate pace and more markedly in the sectors where the economic recovery has taken firmer root. Loans to firms as a whole are stagnating but those to the manufacturing sector are rising sharply. Credit quality continues to show a gradual improvement. Italian banks' share prices have been weighed down by fears that market weakness will make it more difficult for them to sell NPLs or raise capital than for banks in other countries; measures to safeguard financial stability are being drawn up.

Lending to households increases ...

In the three months ending in May, lending to the non-financial private sector increased by 1.0 per cent on a seasonally adjusted annualized basis (Figure 31.a), driven above all by the expansion in lending to households (2.2 per cent). The rise in disposable income and more favourable labour market conditions (see Section 2.3) helped to reinforce the growth in consumer credit, particularly for car purchases. Loans for house purchase increased by 1.5 per cent, reflecting the sharp rise in sales (see Section 2.2).

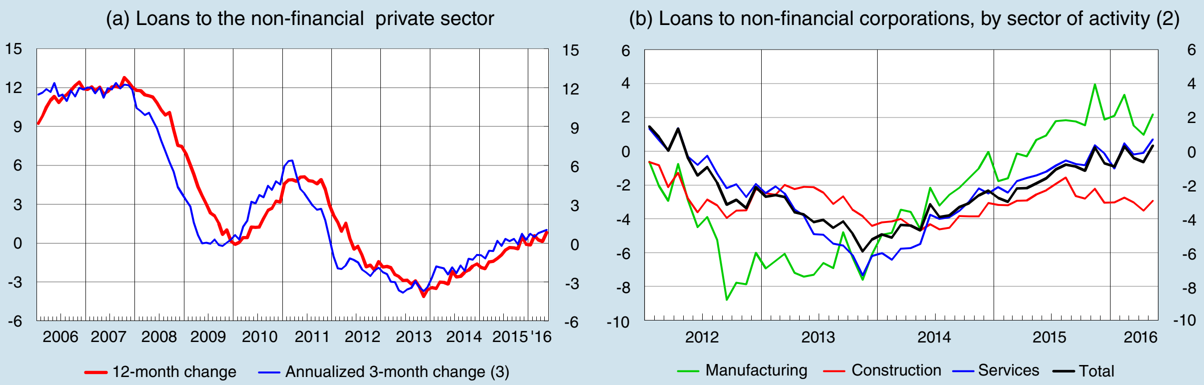
... but that to firms stagnates, though not across the board

The growth in lending to firms was almost nil, amounting to 0.1 per cent in the three months to May. However, there continue to be marked disparities between sectors of activity and firms of different sizes (Figure 31.b). Loans to manufacturing firms grew by 2.2 per cent in the twelve months to May, lending to companies in the service sector rose slightly, while loans to construction firms continued to diminish. There is still a large gap between the rates of growth in lending to firms with 20 or more workers and that to smaller businesses (0.5 and -2.4 per cent respectively).

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.

Bank funding remains stable

Bank funding was stable overall between February and May (Table 6); retail funding benefited from an increase in residents' deposits that more than offset the decline in retail bond holdings. Placements of bonds with banks and institutional investors continued to diminish, in line with the trend observed in the early months of the year.

Supply conditions are still accommodative ...

The bank lending survey shows a further, slight easing of lending policies in the first quarter of 2016 and an increase in households' and firms' demand for credit (see the box 'Credit supply and demand'). More recent information emerging from Istat's business surveys of last June confirms that credit conditions improved further in the second quarter even though differences between categories of firms persisted.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	February 2016	May 2016	February 2016	May 2016
Assets				
Loans to Italian residents (4)	1,818	1,816	0.3	0.0
of which: to firms (5)	792	790	0.3	0.3
to households (6)	618	621	1.0	1.5
Claims on central counterparties (7)	102	97	1.1	0.7
Debt securities excluding bonds of resident MFIs (8)	524	529	-5.6	-3.7
of which: securities of Italian general government entities	415	418	-3.3	-2.0
Claims on the Eurosystem (9)	19	19	89.1	29.1
External assets (10)	335	345	1.8	1.8
Other assets (11)	1,180	1,124	-3.8	-5.7
Total assets	**3,977**	**3,930**	**-1.4**	**-2.0**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,386	1,402	2.9	2.4
Deposits of non-residents (10)	322	328	-2.4	-2.6
Liabilities towards central counterparties (7)	176	170	4.6	6.2
Bonds (13)	385	369	-16.0	-16.1
Liabilities towards the Eurosystem (9)	152	150	7.2	0.4
Liabilities connected with transfers of claims	118	119	-13.3	-9.2
Capital and reserves	448	442	0.0	1.3
Other liabilities (14)	991	949	-1.4	-3.6
Total liabilities	**3,977**	**3,930**	**-1.4**	**-2.0**

Source: Supervisory reports.
(1) The data for May 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', *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.

CREDIT SUPPLY AND DEMAND

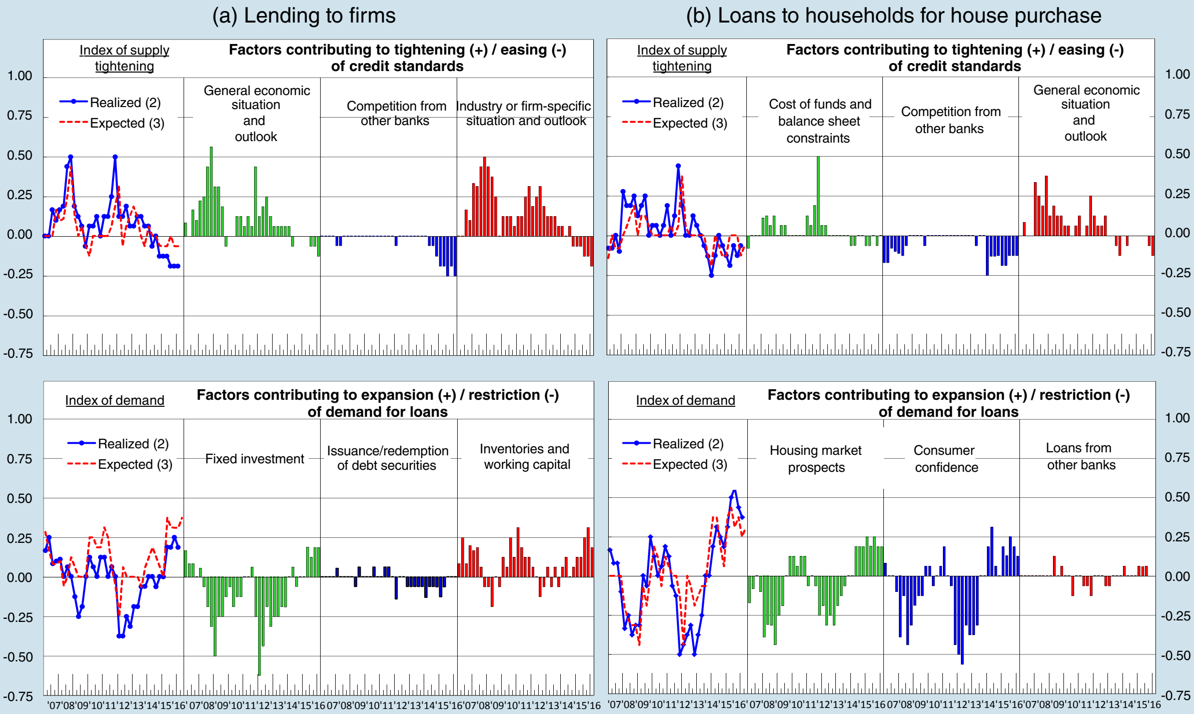
According to the Italian banks interviewed in March's quarterly euro-area bank lending survey, there was a further slight easing in credit supply standards for both firms and households in the first quarter of 2016, mainly attributable to greater competitive pressures among banks (Figure A).[1] A factor in this improvement was reportedly a reduction in perceived risk, induced by a more favourable economic outlook for households and firms, albeit limited to certain sectors. In the banks' view, lending standards will continue to improve in the current quarter, although remaining moderately tight by historical standards.[2] The easing of credit supply conditions mainly led to a further reduction in the margins applied to average loans.

The bank lending survey found that the demand for business loans continued to expand, buoyed by low interest rates and higher funding requirements for inventories, working capital and fixed investments.

1 Eight of Italy's major banking groups took part in the survey, which was completed on 30 March. 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 second quarter of 2016 will be published on 19 July 2016.
2 According to the responses to a specific question on this topic, the credit standards applied in the first quarter of this year by most of the banks to business and household loans are still slightly tighter than those applied on average between the second quarter of 2010 and the end of 2015.

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 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.

Demand by households for home mortgages and consumer loans also strengthened further, continuing to benefit from particularly low interest rates in a climate of greater consumer confidence and an improved outlook for the real estate market.

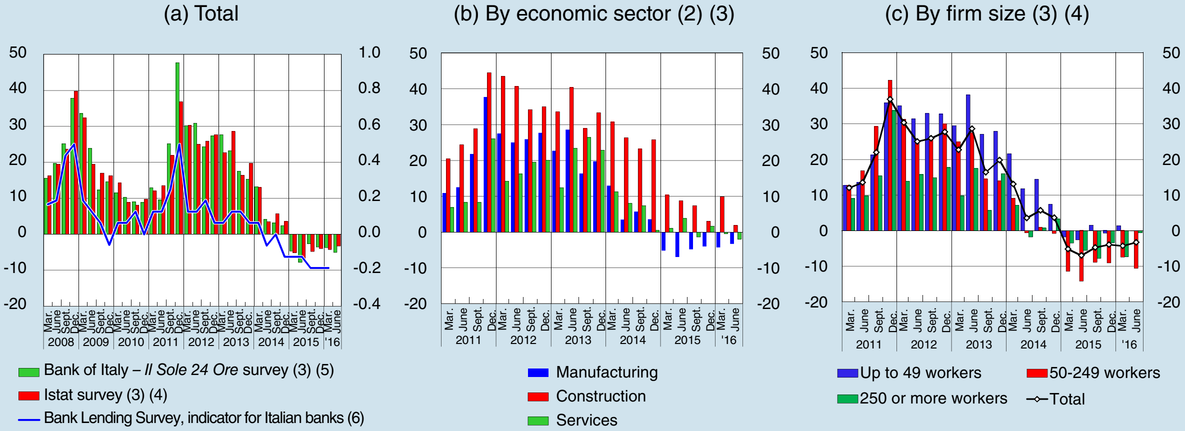
The banks interviewed also indicated that the ECB's securities purchase programme helped them improve their liquidity position and financing conditions, as well as realize capital gains from the sale of assets; the liquidity obtained was also used to maintain the flow of credit to the economy. The negative interest rates on the ECB's deposit facility contributed to reducing the interest rates on new loans and, less commonly, increasing the volume of new loans; the impact on net interest income was negative for most of the banks interviewed.

The results of the business surveys conducted in June regarding the second quarter of the year indicate a further slight easing of credit access conditions, while still showing differences across sectors of economic activity and categories of firm.

According to Istat's business confidence survey, the improvement was felt by manufacturing firms, especially medium-sized firms (from 50 to 249 employees), and service businesses, while conditions worsened further for construction firms, though less sharply than in the past (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).

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 worsening of credit access conditions and the percentage of those indicating an improvement. – (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.

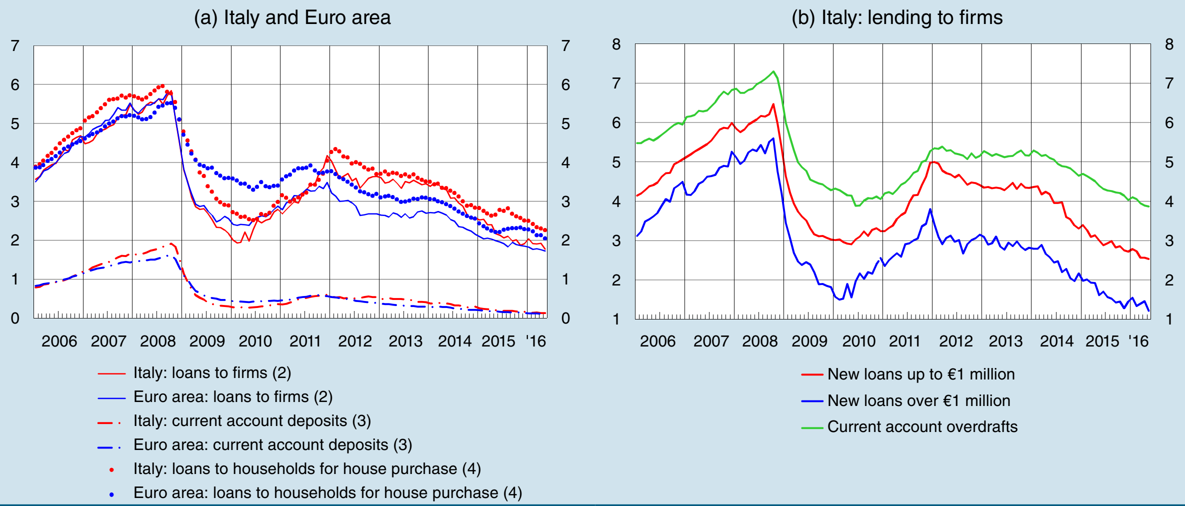
... and the average cost of new loans decreases further

In May the average interest rate on new loans to firms fell by about 10 basis points compared with February, to 1.8 per cent (Figure 32). The cost of new loans decreased by about 20 basis points to 2.5 per cent for fixed rate loans and by 10 points to 1.8 per cent for adjustable rate mortgages. The spread with the euro-area average was virtually wiped out for loans to firms and remains small for those to households (20 basis points).

Figure 32

Bank interest rates (1)

(monthly data; per cent)



Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are 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.

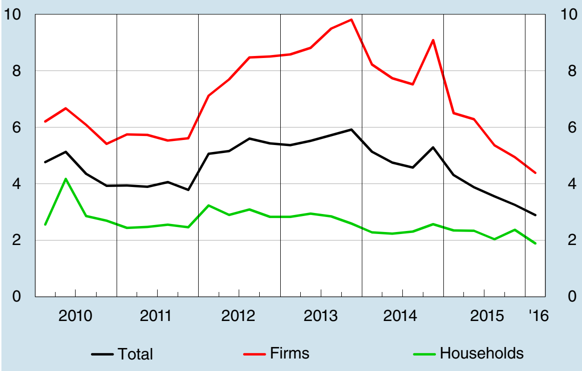
Credit quality continues to improve gradually

The legacy of NPLs from the recession is still substantial, but credit quality continues to benefit from the gradual recovery of the economy. In the first quarter of this year, the ratio of new non-performing loans to outstanding loans, which had peaked at 5.9 per cent in the last quarter of 2013, fell to 2.9 per cent on a seasonally adjusted annualized basis, the lowest level since the start of the global financial crisis (Figure 33). The decline concerned both firms (from 4.9 to 4.4 per cent) and households (from 2.4 to 1.9 per cent). For banking groups the ratio of the stock of NPLs to total outstanding loans also fell slightly compared with the previous quarter (from 18.0 to 17.8 per cent in terms of gross values and from 10.7 to 10.5 per cent net of write-downs).

Figure 33

New non-performing loan rate (1)

(per cent)



Source: Central Credit Register.
(1) Annualized quarterly flows of adjusted NPLs in relation to the stock of loans at the end of the previous quarter net of adjusted NPLs; data seasonally adjusted where necessary.

In Italy a loan is classified as non-performing on the basis of harmonized European criteria issued by the European Banking Authority (EBA) in 2013. For the banking system as a whole (banking groups and stand-alone banks) gross NPLs amounted to €360 billion at the end of last year, €210 billion of which pertaining to insolvent borrowers (bad loans) and €150 billion to loans unlikely to be repaid, past-due or in breach of an overdraft ceiling. Loans in the latter two categories may return to the performing loan category. Net of write-downs, bad loans totalled €87 billion; of these some €50 billion were backed by real guarantees valued at an estimated €85 billion; the remainder were covered by personal guarantees for an estimated €37 billion or had no guarantee. The bad loan recovery rates, actually observed, including those in recent years, are in line with the valuations entered in the banks' balance sheets.

Net interest income of the major banking groups holds stable

The profitability of the five largest Italian banking groups was down in the first quarter of 2016 compared with the year-earlier period: annualized ROE fell to 3.5 per cent from 6.8 per cent in the first three months of 2015. With net interest income generally stable, other revenues declined by 14.0 per cent as a result of the drop in fee income. Gross income decreased by 7.6 per cent. Operating profit diminished by about one third, partly owing to the rise in costs. Loan loss provisions were basically unchanged.

The capital ratios of the five largest groups decreased slightly in the first three months of the year as a result of the progressive entry into effect of the Basel III capital requirements; the definition of regulatory capital becomes tighter each year until 2018 as the prudential filters available during the transitional phase are gradually eliminated. At the end of March common equity tier 1 capital – excluding quarterly profits – stood at 11.5 per cent of risk-weighted assets, some 30 basis points less than last December.

Measures are being drafted to safeguard financial stability

The drop in bank share prices has been aggravated by the high level of NPLs and by fears that current market conditions may make it harder for banks to dispose of them or to raise capital. The Government has notified the European Commission, which has given its approval, of its intention, before the end of the year and only if necessary, to guarantee new issues of bank liabilities; the guarantee will be priced at market terms and comply with the rules on State aid. The Government is also examining the possibility of intervening in the banking sector with recapitalizations, on a temporary basis and for precautionary reasons; this is explicitly envisaged in EU regulations in connection with the results of the stress tests, when undertaken to prevent serious disruptions to the economy and to safeguard financial stability.

2.8 THE FINANCIAL MARKETS

The outcome of the referendum in the UK caused a significant fall in Italian stock prices, which was partly regained in the weeks thereafter. The sharp increase in risk aversion among investors and the shift in portfolio allocations towards less risky assets penalized bank shares above all. By contrast, the impact was more modest on the market for government securities, which throughout the euro area benefited from the Eurosystem's asset purchase programme.

The Brexit referendum result is reflected in share prices ...

The result of the referendum prompted a steep drop in share prices and an increase in their expected volatility. Investors' flight to safety hit hardest those countries and sectors that investors deemed to be more vulnerable. Since the end of March the Italian stock market index has come down by around 11 per cent, compared with a 5 per cent decline in the euro area as a whole (Figure 34).

Figure 34

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.

... especially bank shares

Since the referendum, bank shares have plummeted by 29 per cent in Italy (and by 17 per cent in Spain, 20 per cent in France, 26 per cent in Germany and 23 per cent in the euro area as a whole). Increased fears about the outlook for growth reinforced those about the profitability and, consequently, the capital ratios of the Italian and European banking systems. Italy's banks were also burdened by growing concern that the persistence of market weakness might reduce banks' ability to sell non-performing loans or raise capital (see Section 2.7). Over the entire quarter the Italian bank stock index fell around 31 per cent, bringing the loss since the start of the year to 53 per cent.

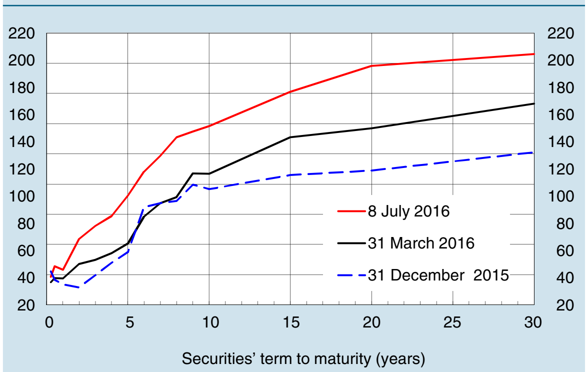
Sovereign spreads rise only moderately ...

Italian government securities were not significantly affected by tensions, benefiting from the Eurosystem's purchase programme; since the end of March the yields on government bonds maturing within three to ten years have remained essentially unchanged, while those on longer maturities have fallen. In the same period the yield spread between ten-year Italian and German government bonds has widened by about 30 basis points (Figure 35), owing in part to investors' preference for safer assets.

Figure 35

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

(basis points)



Source: Based on Bloomberg data.

... as do bank CDS premiums

The premiums on the credit default swaps of the major Italian banks, after registering a considerable decline until early May, in part an effect of the creation of the Atlante fund (see the box 'The launch of the

Atlante fund', in *Financial Stability Report*, No. 1, 2016), began to rise again in June, soaring after the Brexit referendum; they rose by 25 basis points (to 290 points) overall for the period. The credit risk premiums for Italian non-financial corporations remained roughly unchanged.

Net redemptions of bank bonds continue

In the first quarter of 2016 there were further net bond redemptions by banks both in Italy and in the euro area amounting to €34 billion and €40 billion respectively (Table 7). In the spring, according to preliminary Dealogic data on gross issues, the volume of placements by Italian banks was modest, amounting to €8 billion, compared with €9 billion in the previous quarter.

Net inflows into investment funds increase

According to Assogestioni data, net inflows of savings into Italian and foreign open-ended investment funds rose in the first quarter of 2016 to €13 billion, from €9 billion in the previous quarter. The increase was mainly attributable to money market funds; by contrast, inflows into equity and flexible funds fell.

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy (2)		
2014	-153.0	-17.2	3.9	-166.3
2015	-105.7	-16.3	-1.8	-123.8
2015 – Q1	-42.0	-5.8	0.4	-47.4
Q2	-26.4	-5.2	-3.6	-35.1
Q3	-26.7	-0.3	1.2	-25.8
Q4	-10.6	-5.0	0.1	-15.5
2016 – Q1	-34.2	-4.6	-8.9	-47.7
		Euro area		
2014	-395.6	21.5	57.6	-316.5
2015	-282.5	170.4	54.4	-57.6
2015 – Q1	-69.0	63.7	18.0	12.8
Q2	-69.1	9.3	0.4	-59.4
Q3	-61.1	33.8	15.9	-11.3
Q4	-83.3	63.5	20.1	0.2
2016 – Q1	-39.6	-122.0	-0.5	-162.1

Sources: Bank of Italy and ECB.
(1) Bonds with 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.

2.9 PROJECTIONS

The projections for the Italian economy, prepared as part of the Eurosystem staff macroeconomic projections, were published at the beginning of June. Since the British referendum considerably greater uncertainty has surrounded the forecasting scenario. So far, however, financial market developments have not altered it significantly: the direct and indirect effects of a slowdown of the UK economy may not be negligible but in any event will be limited, with growth estimated at a little under 1 per cent this year and at around 1 per cent in 2017; still, there has been a marked increase in the risks from the spread of financial and banking tensions or from sagging confidence, whose effects on the macroeconomic projections can nonetheless be mitigated (more than in the recent past) by the full utilization of available monetary policy measures.

The June projections

The scenario for the Italian economy published at the beginning of June (see the box 'The macroeconomic scenario published in June'), in line with the plans reported to date by the firms interviewed in our surveys, indicates that investment is increasing. This is being driven by the recovery in demand, favourable lending conditions and tax relief (see the box 'Italian firms' investment according to the survey on inflation and growth expectations'). At the end of the forecasting horizon, though, it will still be 2 percentage points below the average recorded in the decade preceding the crisis (1998-2007). Household consumption is expanding, thanks to support from real disposable income and the improvement in labour market conditions; the performance of foreign sales is being boosted above all by the rise in exports to other euro-area countries; and employment is increasing gradually but significantly. Inflation is rising only gradually, affected by the still ample margins of unutilized production capacity.

The maintenance of expansionary conditions is a prerequisite for growth

In the early June scenario further growth depends on the Governing Council of the ECB continuing to use all instruments available to it to ensure price stability; orderly conditions being maintained on the financial markets with no further tensions; the credit market continuing to improve in line with the indications from the latest available surveys (see Section 2.7); and the fiscal policy stance remaining moderately expansionary. The new targeted longer-term refinancing operations (TLTROs) introduced by the ECB Governing Council last March are helping to keep firms' funding costs down (see the box 'The effects of the new targeted longer-term refinancing operations' in Chapter 1).

The effects of Brexit ...

The impact of Brexit on this scenario remains difficult to assess and depends on mostly hypothetical outcomes. The potential channels of transmission, the scale of which is discussed in the box 'Possible repercussions of the UK referendum on the forecasting scenario', are conditional on movements in the financial markets, what happens to trade flows, and the degree of uncertainty affecting firms and banking markets.

POSSIBLE REPERCUSSIONS OF THE UK REFERENDUM ON THE FORECASTING SCENARIO

The outcome of the recent UK referendum on leaving the European Union has created a situation whose macroeconomic effects, especially over the long term, are difficult to judge as they will be greatly influenced by the future policy decisions of the EU and its Member States. Much will depend on how the European integration process is affected, as it could suffer a setback if scepticism about the common project dominates, or it could instead gain momentum in order to contain the risk of economic and political fragmentation.

The UK will have to negotiate new trade agreements, a process that is likely to be lengthy and of uncertain outcome (see the box 'The implications of the referendum for relations between the United Kingdom and the European Union' in Chapter 1), and which could have significant repercussions for the British economy as well as for the euro area, albeit to a more limited extent. Over the short and medium term, the Italian economy is expected to feel the backlash of this transition through various channels: trade links with the UK; increased financial market volatility; the widespread rise in economic uncertainty; and the ripple effect on the banking system.

The day after the referendum the financial markets reacted strongly. Significant drops were posted in stock indices in particular (notably for the banking sector since its profitability is judged to be exceptionally vulnerable to the effects of Brexit) and sterling depreciated sharply; there was a very modest increase in the yields on the government securities of the most vulnerable countries; commodity prices fell and those of the reputedly safest assets increased.

The effect on the financial markets was, however, largely reabsorbed in subsequent weeks. Compared with the average values observed in the week prior to the referendum, the latest data (updated to 8 July) indicate that share prices have fallen by around 6 per cent in Italy; the yields on ten-year government bonds have decreased by 25 basis points; the euro has appreciated by just over 8 per cent against sterling and depreciated by 2 per cent against the dollar (remaining almost unchanged in effective terms); the price of oil has fallen by about 7 per cent.

The impact of these changes on Italy's GDP is essentially nil.

Nevertheless, there is still the risk of further repercussions from the British referendum over the next few months, which could lead to a contraction in economic activity in the UK that would undermine international trade and firms' decision-making.

Professional forecasters and the international institutions generally estimate that the costs in terms of lower economic growth for the United Kingdom – which will also depend on the timeframe and expected results of negotiations on new trade agreements – could be considerable, though difficult to quantify. Most analysts forecast a possible decline in the UK's GDP of 2 to 5 percentage points, spread over the next few years. Should the level of UK imports fall by 10 percentage points (a figure compatible with the uppermost part of the range of estimates made by the leading analysts), the reduction in foreign demand for Italian products would be around 1 per cent given the direct trade links between Italy and the UK (see the box 'Trade and financial relations between Italy and the United Kingdom') and the indirect links with areas that trade with the UK. The impact on Italy's GDP would be negative, at around a quarter of a percentage point, spread over the three years 2016-18. Furthermore, there could be a drop in investment by firms that export to these markets.

Greater risks could arise in extreme scenarios that envisage a tightening of financial market conditions; more widespread unfavourable expectations about the future of the EU; heightened pressure on bank securities or greater risks to financial stability, which, unless countered by economic policy action, could spread to credit supply as banks become less able to raise funds on the financial markets.

In the event of a lasting increase in the spread between Italian and German government bond yields like the one observed in the summer of 2015 when negotiations between the Greek government and the EU reached a climax (equal to around 35 basis points on ten-year bonds), Italy's GDP could be about 0.2 percentage points lower at the end of the 2016-18 period.

The extent of the effects of a loss of confidence and greater tensions in the banking sector, which has been considerable in the recent past, is difficult to judge. An increase in uncertainty and a drop in business confidence of the dimension observed during the sovereign debt crisis (when the business confidence index fell by around 19 per cent and the uncertainty inferred from firms' assessments rose by a similar amount) when reflected in investments would cause Italy's GDP to fall by about 1 percentage point. A credit crunch of similar severity to that recorded during the sovereign debt crisis (when the indicator of credit tightening drawn from the bank lending survey, which is currently negative, rose to a record high of 0.5; see Figure A in the box 'Credit supply and demand') could have an analogous effect.

If resolute use is made of the wide range of monetary policy tools now available, including the securities purchase programme and the targeted longer-term refinancing operations, they could help to substantially avert these risks, the size of which also depends on macroprudential and budgetary policy responses and on the European authorities' success in quelling fears about EU cohesion.

... transmitted through interest and exchange rates are minimal to date ...

The implications for the projections of the financial market movements observed so far are negligible. Changes in interest rates, even against a backdrop of high volatility, have been limited, thanks to the expansionary stance of monetary policies; changes in the euro's effective exchange rate due to its appreciation against the pound sterling and depreciation with respect to the other currencies have also been modest overall.

... those transmitted through trade flows appear unfavourable but limited ...

The consequences for economic activity along the forecasting horizon could be transmitted through trade flows. In the scenarios that explore the potential effects – insofar as they can be estimated today – of a sharp fall in output in the UK, including in the worst case scenario, the negative impact on Italy's GDP would be relatively small, in the order of one quarter of a percentage point. The effect could be marginally greater if firms' heightened uncertainty about the prospects for outlet markets is taken into account. In that case, and also considering the data on the second quarter of 2016 released in recent weeks (see Section 2.1), output could expand by a little under 1 per cent this year and by around 1 per cent in 2017.

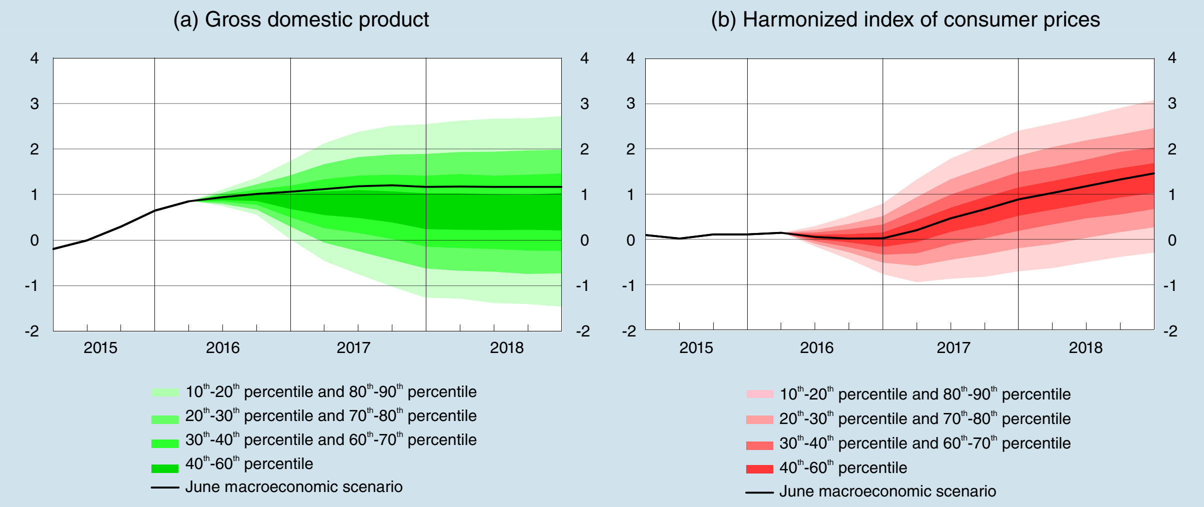
... but the risks of disorderly developments have risen sharply

The estimates assume that no contagion occurs on the European markets and uncertainty does not increase; however, the risks to both the European and Italian economies have risen. These could materialize with new shockwaves on the financial markets, which in any event can be countered with monetary policy instruments; an aggravation of banking tensions leading to tighter lending conditions, in the event that risks to financial stability are not tackled; or a decline in the confidence of firms, were the European authorities to prove unable to dispel fears about the cohesion and governance of the EU, which could dilute investment plans. The scale of such effects has proven very considerable in the recent past and has entailed a marked increase in downside risks to growth, whose distribution is now highly asymmetric (Figure 36); these can be contained by an adequate economic policy response.

The outlook for inflation remains balanced: the downside risks stem from the possibility that wage adjustments in the next two years will be affected more than forecast by low inflation and continuing high unemployment; fresh stimulus to price growth and inflation expectations could come from the monetary policy measures adopted.

Figure 36

Distribution of probabilities of GDP and prices (1)
(percentage changes on year-earlier period; 4-term moving average)



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

THE MACROECONOMIC SCENARIO PUBLISHED IN JUNE

As of this year, the preparation of the complete forecasting framework for the Italian economy has been brought forward to the beginning of June and the beginning of December to coincide with the Eurosystem's Broad Macroeconomic Projection Exercises and the publication of the results for the euro area. The projections for the Italian economy, published on 6 June before the result of the British referendum, are shown in the table.[1]

The main technical assumptions underlying the macroeconomic scenario published in June were:

a) three-month interest rates on the interbank market (Euribor) are negative at -0.3 per cent in the three-year forecasting period;

b) the yield on ten-year BTPs is 1.3 per cent in 2016 and gradually picks up over the next two years (2.0 per cent in 2017 and 2.4 per cent in 2018), in line with market expectations;

c) world trade expands by 2.7 per cent in 2016 and accelerates to 4.0 per cent in 2017 and 4.3 per cent in 2018, less than the average annual growth of 5.7 per cent recorded over the last twenty years. Foreign demand, weighted by the markets for Italian exports, grows at similar rates;[2]

d) the price of Brent crude oil is $43.40 a barrel on average this year, $49 in 2017 and about $51 in 2018;

e) the euro-dollar exchange rate stands at 1.13 for the current year and 1.14 for the following two years;[3]

f) the measures contained in the 2016 Stability Law are taken into account in the scenario. In particular we assume deactivation of the safeguard clauses providing for an increase in VAT rates and excise duties in 2017-18, as indicated in the 2016 Economic and Financial Document (EFD) approved in April. In contrast to the policy framework set out in the EFD, this scenario does not take account of the measures that will serve to offset the absence of further rises in indirect taxes, since they are not specified in sufficient detail; this assumption is in line with the methodology for macroeconomic projections agreed upon by the Eurosystem.

Macroeconomic scenario published on 6 June
(percentage changes on previous year, unless otherwise indicated)

	2015	2016	2017	2018
GDP (1)	0.6	1.1	1.2	1.2
Household consumption	0.9	1.5	1.4	1.1
Government consumption	-0.7	0.2	-0.5	-0.4
Gross fixed investment	0.6	2.9	2.7	2.3
of which: in machinery, equipment and transport equipment	2.2	4.4	3.9	2.5
Total exports	4.1	2.3	4.2	4.1
Total imports	5.8	4.1	4.8	3.8
Change in stocks (2)	0.5	0.1	0.0	0.0
Prices (HICP)	0.1	0.0	0.9	1.5
HICP net of food and energy	0.7	0.7	1.0	1.5
Employment (3)	0.8	0.7	0.7	0.7
Unemployment rate (4)	11.9	11.4	11.1	10.8
Export competitiveness (5)	3.5	0.7	0.3	-0.6
Current account balance (6)	2.2	2.0	1.5	1.7

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

[1] See the Bank of Italy's website: *Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)*, 6 June 2016.

[2] Our assumptions for global economic activity and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented by the ECB in *Eurosystem staff macroeconomic projections for the euro area,* June 2016.

[3] The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of spot and forward prices observed in the markets in the ten working days up to 11 May.

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 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	1.6	4.3	2.3	-0.2	3.6	1.6	..	-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	1.7	6.1	2.9	1.0	4.9	2.9	1.7	1.3	5.3
2014 – Q1	0.2	1.1	0.5	0.6	0.1	0.4	..	0.2	0.8
Q2	0.1	1.1	0.4	-1.3	0.5	-0.4	0.2	0.2	1.0
Q3	0.3	1.5	0.7	-0.1	1.1	0.5	0.4	0.3	1.6
Q4	0.4	1.1	0.6	0.2	0.7	0.5	0.6	0.1	1.2
2015 – Q1	0.6	2.3	1.1	1.3	1.8	1.5	0.4	0.5	1.5
Q2	0.4	0.9	0.5	-0.9	1.1	0.1	0.3	0.3	1.6
Q3	0.3	1.3	0.6	0.2	0.8	0.5	0.5	0.3	0.4
Q4	0.4	1.4	0.7	1.3	1.6	1.4	0.3	0.5	0.7
2016 – Q1	0.6	0.7	0.6	0.7	0.9	0.8	0.6	0.4	0.4
				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
2014 – Q1	0.3	-0.5	….	….	….	..	0.2	0.6	-0.5
Q2	0.1	-0.5	….	….	….	-0.1	..	0.1	-0.2
Q3	0.2	..	….	….	….	0.3	..	0.3	0.3
Q4	0.4	-1.0	….	….	….	0.3	0.1	..	-0.1
2015 – Q1	0.3	-1.1	….	….	….	0.1	-0.3	0.2	-0.2
Q2	0.3	1.0	….	….	….	0.1	0.5	0.2	0.8
Q3	0.3	-1.2	….	….	….	0.2	..	0.2	-0.3
Q4	0.4	-1.0	….	….	….	0.3	0.1	0.1	-0.3
2016 – Q1	0.2	-1.9	….	….	….	0.3	-0.2	0.5	-1.2

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
2014 – Q1	-0.1	0.4	..	-0.4	-2.9	-1.6	0.3	-0.3	0.6
Q2	-0.1	1.3	0.2	-1.5	0.4	-0.6	0.1	-0.8	1.3
Q3	-0.1	1.2	0.2	-1.2	0.2	-0.6	0.1	0.4	0.5
Q4	-0.1	0.5	0.1	-1.3	0.9	-0.2	0.2	..	1.8
2015 – Q1	0.4	3.2	1.0	0.8	0.4	0.6	..	-0.8	1.6
Q2	0.3	1.5	0.6	-0.2	0.6	0.2	0.5	-0.2	1.3
Q3	0.2	-0.2	0.1	0.5	0.6	0.6	0.5	0.2	-1.4
Q4	0.2	0.9	0.4	1.0	0.6	0.8	0.3	0.6	1.2
2016 – Q1	0.3	-0.9	..	-0.5	1.0	0.2	0.3	0.2	-1.5
				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
2014 – Q1	0.4	-0.7	0.2	-0.3	0.6	0.1	0.1	0.1	0.1
Q2	-0.2	-0.6	-0.3	-0.1	-0.2	-0.2	..	-0.3	-0.3
Q3	..	-0.3	..	0.3	0.9	0.6	-0.1	0.1	0.3
Q4	0.7	-1.2	0.3	0.1	0.5	0.3	..	0.2	-0.2
2015 – Q1	-0.1	-1.2	-0.3	-0.4	-0.5	-0.5	-0.1	-0.1	-0.3
Q2	..	1.1	0.2	-0.3	0.4	..	0.3	-0.3	0.4
Q3	0.5	-1.9	..	0.3	0.2	0.3	-0.1	0.2	-0.4
Q4	0.4	-1.3	..	..	0.3	0.2	0.1	0.1	-0.3
2016 – Q1	0.4	-2.4	-0.1	-0.2	0.7	0.3	-0.3	0.3	-0.8

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

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	2.8	0.8	-0.6	-1.5	1.9
2014	1.7	0.3	0.6	0.2	1.3
2015	1.2	1.1	1.9	0.8	0.1
2014 – Q1	1.2	0.5	1.0	0.5	0.7
Q2	2.1	1.1	0.7	-0.4	1.0
Q3	1.6	0.4	0.6	0.1	1.2
Q4	1.5	-0.3	0.3	0.6	1.9
2015 – Q1	1.6	0.8	1.2	0.4	0.8
Q2	1.4	0.8	1.7	0.9	0.6
Q3	0.9	0.8	1.8	1.0	0.1
Q4	0.4	0.3	1.4	1.1	0.2
2016 – Q1	1.1	0.6	1.5	0.9	0.5
		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	0.2	1.0	0.9	0.9
2015	1.1	0.1	1.5	1.4	1.0
2014 – Q1	1.0	0.4	1.1	0.7	0.6
Q2	1.0	0.2	0.9	0.7	0.8
Q3	0.8	0.0	1.0	1.0	0.8
Q4	1.0	-0.1	1.2	1.2	1.0
2015 – Q1	1.2	0.4	1.4	1.0	0.7
Q2	1.2	0.3	1.6	1.2	0.8
Q3	1.1	-0.1	1.5	1.6	1.2
Q4	1.2	-0.1	1.6	1.7	1.3
2016 – Q1	1.1	-0.2	1.6	1.8	1.3
		Total economy			
2012	2.6	1.0	-0.7	-1.6	1.7
2013	2.3	1.2	-0.2	-1.4	1.1
2014	1.2	0.4	0.9	0.5	0.8
2015	1.0	0.3	1.5	1.3	0.8
2014 – Q1	1.0	0.6	1.2	0.6	0.4
Q2	1.2	0.6	0.8	0.2	0.7
Q3	1.0	0.3	0.8	0.5	0.7
Q4	1.1	-0.1	0.8	0.9	1.1
2015 – Q1	1.2	0.5	1.2	0.8	0.8
Q2	1.1	0.3	1.5	1.1	0.8
Q3	1.0	0.1	1.5	1.4	0.9
Q4	1.0	0.0	1.5	1.5	1.0
2016 – Q1	1.1	0.0	1.5	1.6	1.1

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	Value added (2)	Hours worked	Unit labour costs
		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
2014 – Q1	2.0	0.4	0.6	0.2	1.6
Q2	1.4	0.0	-0.2	-0.2	1.5
Q3	1.4	-1.1	-0.9	0.1	2.5
Q4	1.1	-0.9	-0.9	0.0	2.0
2015 – Q1	2.6	1.2	-0.1	-1.3	1.4
Q2	2.1	0.8	0.6	-0.2	1.3
Q3	1.8	1.7	1.4	-0.3	0.1
Q4	1.6	0.5	1.2	0.6	1.0
2016 – Q1	-0.6	-0.8	1.9	2.6	0.2
		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
2014 – Q1	0.3	0.2	0.2	0.0	0.0
Q2	-0.4	-0.3	0.4	0.7	-0.1
Q3	-0.6	-0.6	0.3	0.9	0.0
Q4	-1.1	-1.1	0.4	1.4	0.0
2015 – Q1	0.0	-0.4	0.2	0.6	0.4
Q2	0.3	-0.3	0.4	0.6	0.6
Q3	0.1	-0.8	0.4	1.3	1.0
Q4	-0.4	-0.6	0.6	1.2	0.2
2016 – Q1	-0.4	-1.3	0.7	2.0	0.9
		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
2014 – Q1	0.8	0.4	0.1	-0.3	0.4
Q2	0.1	-0.1	0.0	0.1	0.2
Q3	0.0	-0.5	-0.3	0.2	0.4
Q4	-0.4	-1.1	-0.3	0.8	0.7
2015 – Q1	0.7	-0.1	0.0	0.1	0.8
Q2	0.7	-0.3	0.3	0.6	1.0
Q3	0.6	-0.2	0.6	0.8	0.8
Q4	0.1	-0.2	0.9	1.1	0.2
2016 – Q1	-0.5	-1.2	0.9	2.1	0.7

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 A5

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
Apr.	-0.1	0.6	-0.3	0.7	-0.4	0.6	-1.2	0.5	-0.2	0.7
May	0.1	0.6	0.0	1.1	-0.3	0.6	-1.1	0.5	-0.1	0.8
June	0.3	0.6	0.2	….	-0.2	0.5	-0.9	….	(0.1)	(0.9)

Source: Based on Eurostat data.
(1) Weighted average of the indices of the countries belonging to the euro area at the date 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		
2008	115.0	105.4	119.5	122.2	107.4	-27.5	-24.4	-24.6	3.8	5.5
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	12.2	-1.5
2011	100.4	97.7	104.1	100.5	97.9	-25.2	-15.2	-19.8	9.2	2.1
2012	94.4	93.5	98.0	91.7	95.4	-43.3	-27.4	-36.9	-3.2	3.3
2013	91.5	91.3	93.4	90.5	90.2	-44.4	-18.4	-32.2	4.1	1.5
2014	90.5	90.6	93.4	90.0	85.4	-33.0	-15.3	-19.3	9.0	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	130.3	110.0	-13.7	-11.7	-10.0	14.0	4.0
Q2	119.8	106.5	124.8	126.8	109.7	-21.3	-19.0	-17.7	10.3	5.0
Q3	112.7	103.5	116.2	121.1	106.9	-30.0	-24.7	-26.0	4.0	6.3
Q4	104.5	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	88.2	96.8	-60.7	-66.3	-62.0	-7.3	3.3
Q3	92.6	97.8	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	101.4	-39.0	-41.7	-38.7	8.3	-3.0
Q2	99.2	99.3	98.7	99.4	99.0	-32.7	-29.7	-30.0	11.7	-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	102.8	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	100.6	97.2	105.4	100.9	98.7	-26.7	-16.0	-22.3	7.3	4.0
Q4	98.7	96.0	102.2	98.2	95.8	-33.3	-22.7	-28.3	0.3	3.3
2012 – Q1	96.2	93.7	99.8	94.2	98.1	-38.3	-26.0	-32.3	-1.3	3.3
Q2	94.9	93.9	97.6	92.9	95.1	-44.3	-27.7	-37.0	-3.0	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	91.8	96.7	88.5	91.3	-45.3	-29.7	-40.3	-4.3	1.7
2013 – Q1	91.8	92.0	92.3	89.5	92.8	-46.0	-30.0	-39.3	-1.0	3.0
Q2	91.5	90.2	94.5	89.8	90.0	-49.0	-21.7	-38.7	-0.3	2.7
Q3	91.5	91.5	93.2	91.5	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	-21.7	10.3	-0.3
2014 – Q1	91.7	91.4	94.4	91.9	85.1	-36.3	-13.3	-19.7	10.0	-0.7
Q2	91.2	91.3	93.1	90.9	87.3	-31.3	-13.7	-17.3	10.3	1.3
Q3	90.7	90.8	93.3	90.1	85.4	-33.7	-16.0	-20.0	7.7	4.0
Q4	91.0	90.8	95.2	89.5	84.5	-30.7	-18.3	-20.0	8.0	3.7
2015 – Q1	91.4	91.4	95.3	89.6	86.8	-26.3	-16.3	-15.3	11.0	3.3
Q2	92.0	91.1	97.7	89.4	87.4	-22.0	-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	92.3	90.8	97.7	90.2	85.9	-17.7	-10.3	-10.7	13.0	3.3
2016 – Q1	92.8	91.0	101.1	91.0	85.3	-18.7	-16.0	-13.3	10.3	3.7
Q2	….	….	….	….	….	-18.3	-17.3	-14.0	10.3	3.3

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.

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	Unem-ployment rate	Participa-tion rate ages 15-64
	Agricul-ture	Industry excluding construc-tion	Construc-tion	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
2016 – Q1	817	4,462	1,402	15,720	16,497	5,904	22,401	3,087	25,488	12.1	64.2

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	-5,822	16,829	-123	-3,012	-19,516	3,959	1,835	2,124
2013	15,202	36,063	261	-3,065	-18,056	181	-3,142	3,322
2014	30,893	47,867	-827	-334	-15,812	3,386	-942	4,328
2015	35,964	52,677	-1,161	-925	-14,627	2,638	-1,098	3,736
2014 – Q2	6,174	11,863	872	-3,720	-2,842	281	-158	439
Q3	9,808	12,170	1,652	-1,036	-2,978	423	43	381
Q4	15,088	15,727	-892	3,475	-3,222	3,269	-311	3,580
2015 – Q1	876	9,574	-2,702	1,058	-7,054	-294	-276	-18
Q2	6,649	12,531	1,434	-4,545	-2,771	-349	-587	238
Q3	13,232	13,739	2,078	186	-2,772	-13	-211	198
Q4	15,208	16,832	-1,971	2,375	-2,029	3,294	-24	3,318
2016 – Q1	4,914	12,019	-2,471	1,267	-5,900	-289	-73	-216
2014 – Apr.	2,603	3,941	-144	-211	-982	-13	-76	63
May	656	4,084	252	-2,997	-683	-4	-68	64
June	2,915	3,839	763	-511	-1,176	298	-14	312
July	7,316	7,172	1,103	143	-1,103	195	37	157
Aug.	1,494	2,557	-33	-37	-993	157	12	146
Sept.	999	2,441	581	-1,142	-882	71	-6	77
Oct.	5,914	5,753	19	960	-818	1,317	-65	1,382
Nov.	3,014	3,841	-603	646	-869	1,168	-58	1,226
Dec.	6,160	6,134	-308	1,869	-1,535	784	-188	973
2015 – Jan.	-1,689	756	-761	66	-1,749	-17	-29	12
Feb.	1,129	4,198	-974	194	-2,290	-23	-27	4
Mar.	1,436	4,620	-967	798	-3,015	-254	-220	-35
Apr.	3,197	4,341	8	-141	-1,011	-176	-199	24
May	1,593	4,706	541	-3,010	-645	-174	-197	23
June	1,859	3,484	884	-1,394	-1,115	1	-191	192
July	8,881	8,455	1,218	210	-1,002	18	-69	87
Aug.	2,192	2,533	423	152	-915	22	-58	80
Sept.	2,159	2,751	437	-175	-854	-52	-84	31
Oct.	5,123	5,324	-277	589	-513	1,303	-4	1,306
Nov.	3,929	4,952	-959	459	-522	1,160	6	1,154
Dec.	6,156	6,557	-734	1,328	-995	831	-26	858
2016 – Jan.	-1,009	892	-634	204	-1,470	-77	45	-122
Feb.	2,358	4,851	-908	344	-1,930	7	40	-34
Mar.	3,565	6,277	-929	718	-2,501	-219	-159	-60
Apr.	(4,655)	(5,655)	(-453)	(593)	(-1,140)	(-87)	(-99)	(12)

(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	-4.2	-3.1	-0.8	-3.6	-3.8
2014 –	Sept.	2.2	-2.8	-3.2	-3.3	-2.8	-2.0	-0.3	-1.3	-1.7
	Dec.	4.2	-0.4	-2.0	-1.9	-2.5	-1.5	-0.1	-1.6	-0.6
2015 –	Mar.	1.3	-0.8	-1.9	-1.8	-2.5	-1.4	0.1	-2.2	-0.9
	June	3.5	-1.6	-1.4	-1.2	-2.5	-1.4	0.5	-0.7	-0.3
	Sept.	2.7	-1.2	-0.8	-0.4	-2.5	-1.4	0.9	-1.8	0.1
	Dec.	0.5	-2.3	-0.9	-0.4	-2.9	-1.9	1.2	-2.0	-0.3
2016 –	Mar.	0.7	0.5	-0.7	-0.2	-3.0	-1.7	1.4	-1.0	0.2
	Apr.	-0.3	3.3	-1.0	-0.4	-3.7	-2.3	1.7	-3.8	0.1
	May	-0.9	0.5	0.0	0.4	-2.1	-1.5	1.8	-2.8	0.4
						South and Islands				
2013 –	Dec.	-5.4	-3.0	-3.1	-3.0	-3.5	-3.0	-1.6	-3.0	-2.7
2014 –	Sept.	-4.3	-4.5	-2.0	-1.8	-2.5	-2.1	-0.7	-3.5	-1.7
	Dec.	-4.0	-3.1	-1.6	-1.5	-1.8	-1.0	-0.6	-1.7	-1.4
2015 –	Mar.	-4.1	-5.2	-1.0	-0.7	-1.8	-1.0	-0.5	0.6	-1.1
	June	-4.1	-4.6	-0.4	0.0	-1.6	-0.7	0.0	-0.7	-0.6
	Sept.	-8.4	-2.2	-0.2	0.1	-1.3	-0.6	0.5	-2.7	-0.7
	Dec.	-4.3	-2.2	0.2	0.6	-1.0	-0.5	1.2	-3.3	0.2
2016 –	Mar.	-5.3	-0.1	0.1	0.4	-0.7	0.0	1.7	-3.8	0.3
	Apr.	-4.4	-4.3	0.4	0.8	-0.8	-0.1	2.0	-2.9	0.6
	May	-5.5	-0.7	0.8	1.0	0.0	0.4	2.4	-3.3	0.9
						Italy				
2013 –	Dec.	-2.8	-4.9	-5.1	-5.3	-4.0	-3.1	-0.9	-3.5	-3.7
2014 –	Sept.	1.6	-2.9	-3.0	-3.1	-2.8	-2.0	-0.4	-1.6	-1.7
	Dec.	3.4	-0.5	-2.0	-1.9	-2.3	-1.4	-0.2	-1.6	-0.7
2015 –	Mar.	0.8	-1.0	-1.8	-1.6	-2.4	-1.3	-0.1	-1.9	-0.9
	June	2.8	-1.7	-1.3	-1.0	-2.4	-1.2	0.4	-0.7	-0.3
	Sept.	1.7	-1.2	-0.7	-0.4	-2.3	-1.2	0.8	-1.9	0.0
	Dec.	0.1	-2.3	-0.7	-0.3	-2.5	-1.5	1.2	-2.1	-0.2
2016 –	Mar.	0.1	0.5	-0.6	-0.1	-2.5	-1.3	1.5	-1.3	0.2
	Apr.	-0.7	3.0	-0.8	-0.2	-3.1	-1.8	1.8	-3.7	0.2
	May	-1.3	0.5	0.1	0.5	-1.6	-1.0	2.0	-2.8	0.4

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.

Table A10

Financing of the general government borrowing requirement: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which*: investments of liquidity	Borrowing requirement	*of which*: in connection with financial support to EMU countries (3)
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
2016 – Mar.	-1.7	-0.1	3.7	58.4	1.2	-0.5	61.0	-34.2	-24.6	26.8	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	0.8	-0.3	21.9	-11.2	-0.5	10.7	0.0
Mar.	-0.7	0.2	0.2	16.3	0.7	0.4	16.8	4.7	-2.1	21.5	0.0
Apr.	-2.0	-0.3	0.2	4.9	0.1	-0.4	2.6	5.2	3.3	7.8	0.0
May	0.0	0.1	-0.1	9.5	0.8	-0.1	10.1	-8.0	4.8	2.1	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
2016 – Mar.	176,6	15,9	118,7	1.761,6	128,8	43,0	33,9	2.228,7	70,0	54,6	27,4	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	128.1	42.7	33.9	2,214.8	74.7	52.6	27.6	58.2
Mar.	176.6	15.9	118.7	1,761.6	128.8	43.0	33.9	2,228.7	70.0	54.6	27.4	58.2
Apr.	174.5	15.6	118.9	1,766.0	128.9	42.6	33.9	2,230.9	64.7	51.4	27.9	58.2
May	174.5	15.6	118.7	1,776.3	129.7	42.5	33.9	2,241.8	72.7	46.6	29.9	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.