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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

OVERVIEW

Global growth remains moderate

Although the result of the UK referendum held in June has had no significant repercussions to date on conditions in the international financial markets, the world economy nonetheless continues to expand at a moderate pace. The outlook has improved slightly in the emerging countries, though it is still uncertain in the main advanced economies; growth expectations for international trade have been revised downwards again. There are risks stemming from the geopolitical tensions stoked by the conflicts in the Middle East, the threat of terrorism, and fears that political developments in many of the advanced economies could lead to forms of isolationism.

In the euro area growth stabilizes and inflation remains low

So far the upturn in the euro area has not been significantly affected by the global uncertainty. In the spring months, however, economic activity slowed and in the near term could be affected by the weakening of global demand. Consumer price inflation is expected to rise in the coming months, following the waning effects of the decline in energy prices recorded at the end of last year; however, partly reflecting the still ample margins of spare production capacity, core inflation is showing no sign of a lasting increase and remains a source of concern.

Monetary policy will remain expansionary

The Governing Council of the ECB will preserve the very substantial amount of monetary support that is embedded in its recent staff projections. If warranted, it will act by using all the instruments available within its mandate. Meanwhile, the Governing Council tasked the relevant committees to evaluate the options that ensure a smooth implementation of the asset purchase programme.

In Italy the recovery continues, albeit at a modest pace

After stagnating in the second quarter, reflecting a drop in national demand, in the third quarter output in Italy appeared to return to moderate growth. During the summer the short-term economic indicators (in particular, industrial production and business surveys) were at levels consistent with a small expansion in economic activity. Despite declining over the last few months, household confidence nonetheless remains high; the number of new car registrations was essentially unchanged.

Investment is struggling to pick up

Since the first quarter of 2015 investment has picked up again, but the pace of the recovery has been subdued compared with other euro-area countries and what was the norm following previous recessions. According to the statistical evidence, and our business surveys, investment is no longer being held back by the conditions of access to credit – which are accommodative again – but most of all by the continued weak outlook for demand. Our analyses indicate that a return to the rate of investment observed before the global financial crisis, in addition to strengthening the cyclical upturn, would raise Italy's growth potential by over half a percentage point.

Exports grow, but could be affected in the near term by the global economic situation

In the second quarter, exports in Italy increased across all sectors but especially in traditional manufacturing, metals and metal products, mechanical machinery and equipment, and food products. Signs of weaker growth, linked to the global economic outlook and common to all euro-area countries have, however, emerged since the summer.

Growth in employment outpaces that in GDP

Employment rose at a faster pace than GDP, in part reflecting Government measures on social security contribution relief and the labour market reform. In the second quarter employment was up by 1.8 per cent on the year-earlier period; the unemployment rate fell to 11.5 per cent (from a peak of 12.8 per cent at the end of 2014) and youth unemployment diminished further. The share of open-ended contracts continued to rise, though at a slower pace than last year, owing to the reduction in social security contribution relief.

Consumer price inflation remains very low

According to provisional data, consumer price inflation, which has been negative since February, rose again to barely positive levels in September; a modest recovery is expected between the end of this year and the beginning of the next, above all in the prices of energy goods. Core inflation, however, is still very low, mainly due to the ample margins of spare production capacity; growth in contractual wages has declined, affected by the non-renewal of expired contracts.

Lending conditions have stabilized ...

Bank lending conditions are relaxed: the cost of loans to firms is at historically very low levels; the surveys indicate that credit conditions are improving, though they continue to differ by firm size. Lending to households is increasing while that to firms is mainly being affected by continued weak demand. The pace of lending was strongest for companies in the services sector and for large firms.

... and credit quality improves

The improvement in the economic outlook is gradually raising the quality of Italian banks' loan portfolios, which continue to contain a very large share of non-performing loans inherited from the long recession. The ratio of new non-performing loans to outstanding loans has fallen to the levels recorded at the beginning of the global financial crisis; the stock of non-performing exposures began to diminish at the end of 2015. In the July stress test, four of the five Italian banks that took part demonstrated they could withstand the impact of an extremely adverse macrofinancial scenario; one bank immediately launched a bad loan sale and a recapitalization plan. Over the course of the year, bank share prices fell, probably owing to lower market expectations on profitability, but there was also a marked reduction in credit default swap premiums, following the peak recorded in February.

The Government revises down its estimates for growth

In the Update of the 2016 Economic and Financial Document presented on 27 September, the Government revised down its estimate for GDP growth in Italy this year and the next, in line with the recent economic data and the deterioration of the international environment. In the current legislation scenario GDP is expected to increase by 0.8 per cent this year and to slow to 0.6 per cent in 2017, an estimate that is on the lower end of the distribution of those recently released by the main private and institutional forecasters. The policy scenario predicts that GDP growth will be 0.4 points higher in 2017, reaching 1.0 per cent. The effects of the Government's intended measures will depend on what interventions are taken and how they are implemented; this will be specified in more detail in the budget law. In order to support growth, attention should be focused on measures to foster private and public investment, ensuring for the latter the prompt utilization of resources. Funding should be sourced above all from interventions to limit general government running costs.

The fiscal policy stance is expected to remain expansionary in 2017

In the Update, the Government confirmed its fiscal policy stance for the three years 2017-19 as outlined in April. For 2017 it reiterated its intention to cancel the VAT increases envisaged under the safeguard clauses and to offset the effects of this only in part with measures to counter tax evasion and elusion together with others to reduce spending. The Update lists a number of other expansionary measures such as public investment in infrastructure and tax incentives for investment by firms. The ratio of debt to GDP is expected to begin to fall (by 0.3 percentage points, to 132.5 per cent).

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Although the result of the UK referendum has had no significant repercussions to date on the global economic trend, the world economy nonetheless continues to expand at a moderate pace: the outlook has improved slightly in the emerging countries, while it is still uncertain in the main advanced economies. International trade remains weak, with forecasts for it again revised downwards.

Growth in the advanced economies remains moderate overall

In the United States, GDP rose by an annualized 1.4 per cent in the second quarter, accelerating from 0.8 per cent in the previous quarter. The robust expansion in household spending was in part offset by the negative contribution of changes in inventories and the decline in residential investment. Employment continued to grow in the third quarter. The available data are consistent with a pick-up in the rate of expansion of GDP in the third quarter.

In Japan, GDP growth slowed considerably in the second quarter, from 2.1 per cent to 0.7 per cent, reflecting the slackening of private consumption and the contraction in exports. The outlook for the nation's economy is still uncertain, but in the final part of this year and in 2017 it is likely to benefit from the fiscal stimulus package recently approved by the government, amounting to around 1.5 per cent of GDP.

GDP growth in the United Kingdom accelerated (from 1.7 per cent to 2.7 per cent), thanks to the good performance of national demand. Concern about the economic repercussions of exiting the European Union nonetheless remains high, although the PMI indices in August and September recorded unexpected increases in all the main sectors (Figure 1).

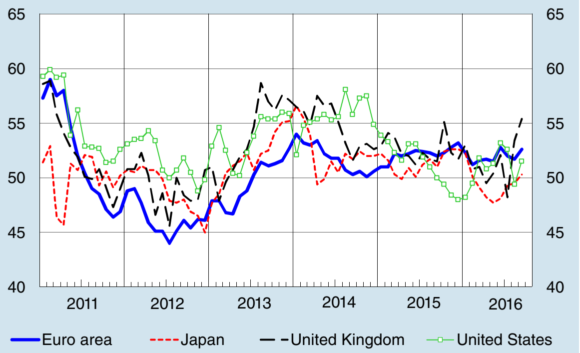
The outlook in the emerging economies improves slightly

Growth in China remained stable in the second quarter (6.7 per cent compared with the year-earlier period) as it continued to benefit from the expansion in credit and the increase in spending on infrastructure; however, in the third quarter, there were signs of a slowdown in investment, while industrial activity and retail sales continued to rise at rapid rates. In India, GDP growth remained strong (7.1 per cent), though less so than in the first quarter. The recession eased both in Brazil (-3.8 per cent from -5.4 per cent) and in Russia (-0.6 per cent from -1.2 per cent).

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.

The outlook for global GDP growth is subdued

The outlook for global economic growth remains modest. According to the most recent IMF projections, world GDP will expand by 3.1 per cent in 2016 and 3.4 per cent in 2017, in line with the forecasts released in July (Table 1). The downward revision for US growth this year reflects the rather modest expansion in GDP in the second quarter, while the more favourable outlook for Japan has been buoyed by the new budgetary measures; by contrast, the projections for the euro area remain essentially unchanged. For the emerging economies, which are expected to expand more strongly after five years of progressive weakening, expectations are similar to those reported in July, with upward revisions for India and Russia.

Table 1

Macroeconomic projections
(changes and percentage points)

	July 2016 forecasts		October 2016 forecasts		Difference Oct. 2016/ July 2016	
	2016	2017	2016	2017	2016	2017
GDP						
World	**3.1**	**3.4**	**3.1**	**3.4**	**0.0**	**0.0**
Advanced countries	**1.8**	**1.8**	**1.6**	**1.8**	**-0.2**	**0.0**
of which: Euro area	1.6	1.4	1.7	1.5	0.1	0.1
Japan	0.3	0.1	0.5	0.6	0.2	0.5
UK	1.7	1.3	1.8	1.1	0.1	-0.2
US	2.2	2.5	1.6	2.2	-0.6	-0.3
Emerging countries	**4.1**	**4.6**	**4.2**	**4.6**	**0.1**	**0.0**
of which: Brazil	-3.3	0.5	-3.3	0.5	0.0	0.0
China	6.6	6.2	6.6	6.2	0.0	0.0
India	7.4	7.4	7.6	7.6	0.2	0.2
Russia	-1.2	1.0	-0.8	1.1	0.4	0.1
World trade	**2.7**	**3.9**	**2.3**	**3.8**	**-0.4**	**-0.1**

Source: IMF, World Economic Outlook, October 2016.

The projections for trade are revised downwards

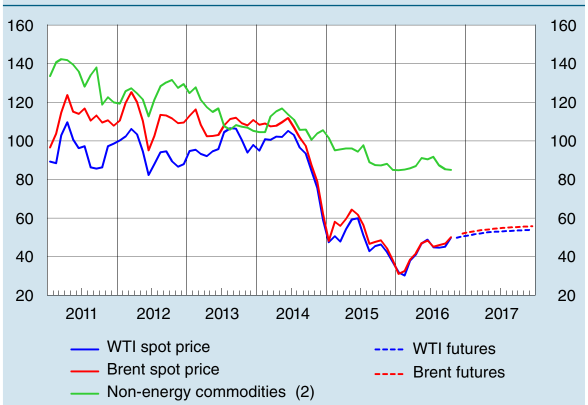
After stagnating in the first quarter, world trade returned to growth in the second, thanks to the recovery in trade in the emerging economies, while in the advanced economies it remains slack. Compared to last July, the IMF has revised its world trade growth projections downwards by almost half a percentage point for 2016 (to 2.3 per cent) and by 0.1 points for 2017 (to 3.8 per cent). World trade has slowed considerably since 2012, reacting less strongly to economic growth than in the past; likely contributory factors include the weakness of investment, the declining benefits associated with the fragmentation of production, the problems encountered in liberalization processes and the greater weight that emerging economies, characterized by a lesser degree of trade openness, have in the global economy.

Oil prices are rising slightly

In the third quarter, oil prices fluctuated between \$40 and \$50 a barrel in an environment of excessive global supply (Figure 2), reflecting concerns about a possible agreement among the leading oil-producing countries to cut production; in September OPEC announced that it had reached an agreement, the details of which are expected to be finalized in November. Although the amount by which output will actually be cut remains in doubt, the announcement boosted oil prices, which were back at around \$50 a barrel in early October. Futures contracts indicate a slight increase in prices for the rest of this year and in 2017.

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 August 2016; the last data refer to 7 October. – (2) Goldman Sachs Commodity Index excluding energy products (January 2010=100).

The prices of non-energy commodities fell during the summer, returning to the lows of the start of the year. The decrease in the composite index mainly reflects the decline in agricultural product prices, while the prices of industrial metals rose.

Inflation is weak in the advanced economies and in China

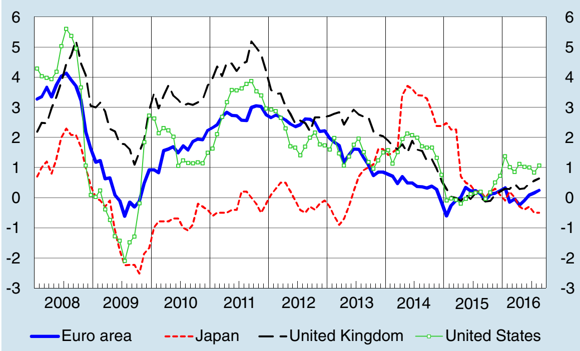
Consumer price inflation in the advanced economies has remained weak, particularly in Japan and the euro area (Figure 3). In the United States, inflation rose slightly in August to 1.1 per cent (from 0.8 per cent in July); excluding food and energy products, it was above 2 per cent. In Japan, deflation has worsened: consumer prices decreased by 0.5 per cent (compared with a decline of 0.4 per cent in July); excluding the most volatile components, the inflation rate fell further, to 0.2 per cent, from 0.3 per cent in July.

In the UK, inflation remained stable in August at 0.6 per cent; according to the Bank of England the increase in import prices owing to the weakening of the pound sterling could spark a rise in inflation, even in the short term.

Among the main emerging economies, inflation was moderate in China (1.3 per cent in August), while it was higher in India (5.0 per cent, in line with the central bank's target) and especially in Brazil (9.0 per cent) and Russia (6.9 per cent).

Figure 3

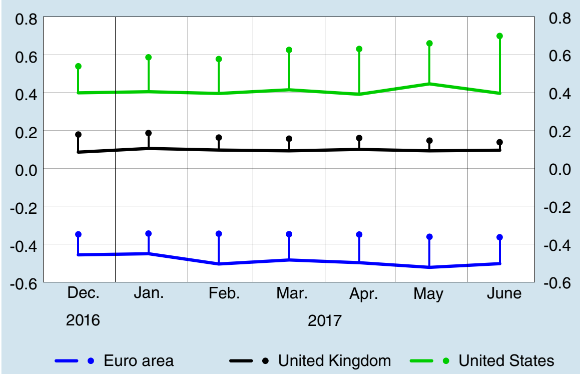
Consumer price inflation in the main advanced economies (1)
(monthly data; 12-month percentage changes)



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

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 7 July 2016, the dots those forecast on 7 October 2016.

Monetary policies in the advanced economies are expected to follow different trends

In its meeting of 20-21 September, the US Federal Reserve left the target range for the federal funds rate unchanged; the strengthening of the labour market in recent months has fuelled expectations of a rate increase by the end of the year (Figure 4). In August, the Bank of England cut its bank rate from 0.5 to 0.25 per cent to counter the probable slowdown in the economy following the referendum on Brexit; it also restarted its purchases of UK government bonds and established a new corporate bond purchase programme (for £10 billion over the next six months); finally, to reinforce the transmission of the new monetary stimulus, it created a new medium-term funding scheme for banks, tied to the amount and performance of their lending to the economy. The Bank of Japan, faced with persistent deflationary pressures, conducted a comprehensive assessment of its strategy, adopting new measures for controlling interest rates for the various maturities; in order to support inflation expectations, it also announced that monetary expansion will continue until inflation exceeds the target of 2 per cent.

Monetary policies remain accommodative in China and India, restrictive in Brazil and Russia

The central banks of China and India have continued to adopt expansionary measures, with the former injecting liquidity into the system through open-market operations and the latter cutting its reference rate even further. In Brazil and Russia, given high inflation rates, the monetary authorities decided instead to maintain a restrictive stance.

1.2 THE EURO AREA

In the euro area the economic recovery proceeds at a moderate pace, but it is expected to be dampened by still subdued foreign demand. HICP inflation has risen moderately, yet underlying price pressures continue to lack a convincing upward trend, and remain an ongoing source of concern. The implementation of the monetary policy measures has continued in order to secure sustained adjustment in the path of inflation consistent with the ECB Governing Council's inflation aim.

GDP slows in the second quarter ...

Euro-area GDP growth slowed to 0.3 per cent in the spring months (from 0.5 per cent in the previous quarter; Figure 5), reflecting the slight reduction in national demand, the first in more than two years. In addition to stagnating investment and the negative contribution of changes in stocks, household spending slowed. The contribution of foreign trade to GDP growth turned positive again, thanks to a sharper increase in exports than imports.

... in all the main economies

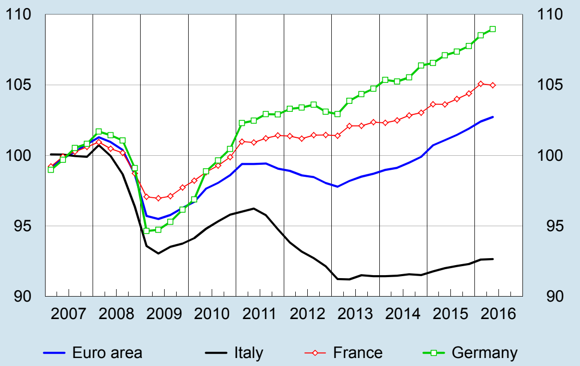
The softening of the expansionary phase was common to all the main euro-area countries. In Germany GDP slowed to 0.4 per cent (from 0.7 per cent in the first quarter), it stagnated in Italy (from 0.3 per cent) and fell slightly in France (from 0.7 per cent). In these three countries economic activity in the second quarter was buoyed by trade while national demand slowed. In Germany, output was penalized by a fall in investment (-1.5 per cent), the first since the summer of 2014, while it benefited from the return to growth of consumption, in particular in public spending. In France economic activity was held back by the negative contribution of changes in stocks (-0.7 percentage points) and the halt in household spending growth.

The recovery continues, clouded by global uncertainty

On the basis of the indicators available, in the summer months euro-area GDP increased at a similar rate to that of the previous quarter. Signs of continued, albeit moderate, growth are also apparent in the Bank of Italy's €-coin indicator, which estimates the underlying trend of euro-area GDP growth: the indicator rose slightly in September to 0.34 from 0.32 in August (Figure 6); the Purchasing Managers' Indexes provide similar indications. The ECB staff projections released in

Figure 5

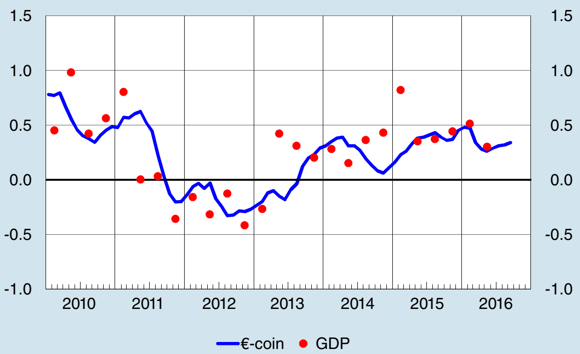
GDP of the euro area and of its main countries (1)
(quarterly data; indices, 2007=100)



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

Figure 6

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



Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July 2009. Details on the indicator are available at https://www.bancaditalia.it/media/comunicati/documenti/2016-02/Eurocoin-settembre-2016-ENG.pdf?language_id=1. 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.

September suggest that GDP will grow by 1.7 per cent overall in 2016, slowing in relation to 2015. Weak global demand and geopolitical tensions still constitute the main brake on economic growth in the area; the effects of the UK referendum until now appear to be limited.

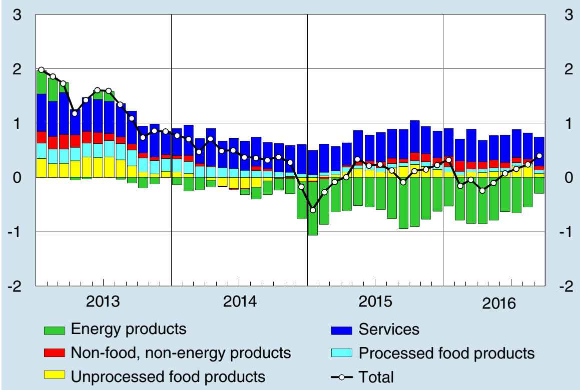
Inflation increases slightly

Inflation rose slightly but the core trend shows no sign of an increase. Provisional data suggest that in September consumer price growth rose to 0.4 per cent on a twelve-month basis (from 0.2 per cent in August), in positive territory for the fourth consecutive month (Figure 7). Core inflation remained weak however at 0.8 per cent (0.2 percentage points higher than the lowest point recorded in March 2015), continuing to reflect ample margins of unutilized production capacity. In August, the last month for which detailed information is available, the share of the basic items with negative price changes increased further, to 29 per cent from 25 per cent in July, 7 percentage points below the peak recorded in January 2015. As regards the core components, their share increased for the second consecutive month, to 28 per cent from 21 per cent in July, most markedly for non-energy industrial goods; this is close to the peak recorded in January 2015 (30 per cent).

Figure 7

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

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

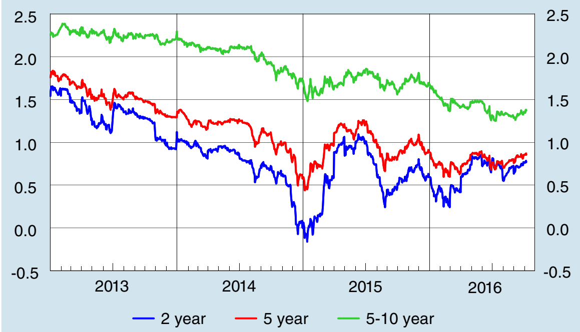


Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices; for September 2016, provisional estimates.

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.

The ECB staff projections released in September indicate that consumer price inflation is likely to average 0.2 per cent in 2016 and to rise to 1.2 per cent in 2017, just below the most recent estimates of the professional forecasters polled by Consensus Economics. Short- and medium-term inflation expectations as implied by inflation swap yields slightly increased both over the two-year and the five- to ten-year forward horizons (at 0.8 and 1.4 per cent, respectively; Figure 8).

Implementation of the ECB's expansionary measures continues

In its meeting of 8 September, the Governing Council of the ECB confirmed that the key ECB interest rates are expected to remain at present (Figure 9) or lower levels for an extended period of time, and well past the horizon of the asset purchases (currently intended to run until the end of March 2017, or beyond, if necessary). The Governing Council confirmed that it will preserve the very substantial amount of monetary support that is embedded in recent staff projections and that, if warrented, it will act by using all instruments available within its mandate to secure a return of inflation to levels below, but close to, 2 per cent. Meanwhile, the Governing Council tasked the relevant committees to evaluate the options to ensure a smooth implementation of the asset purchase programme.

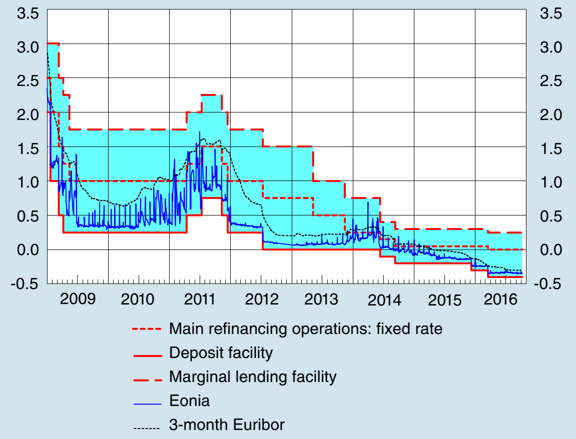
The Eurosystem's asset purchases continued regularly. At 7 October purchases of government securities amounted to €1,079 billion, covered bank bonds to €195 billion, asset-backed securities to €21 billion and corporate bonds to €32 billion. At the end of September the Eurosystem had purchased about €176 billion worth of Italian government securities, of which €160 billion by the Bank of Italy.

The second of the new targeted refinancing operations is carried out

On 28 September the second of the four new targeted longer-term refinancing operations (TLTRO-II) was carried out; 249 euro-area banks took part, obtaining funds amounting to around €45 billion (€34 billion net of the repayments of outstanding loans obtained under TLTRO-I). The total value of the funds raised in the two operations is equal to €444 billion (€66 billion net). The Bank of Italy's counterparties were assigned just over €17 billion (about €16 billion net), for a total of €156 billion in the two operations (€46 billion net).

Figure 9

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



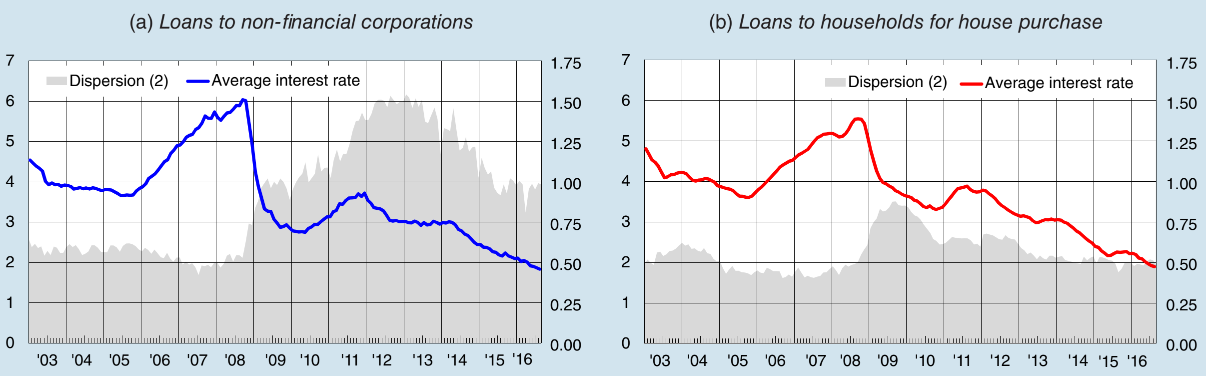
Sources: ECB and Thomson Reuters Datastream.

Credit continues to expand, supported by the fall in bank interest rates

Lending continued to recover: adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in August, annualized lending to both business and households increased by 1.6 and 2.3 per cent, respectively. The ECB's monetary policy measures helped to further reduce the average cost of new loans to firms and to households for house purchase (to 1.6 and 1.9 per cent, respectively); dispersion between countries remained at the lowest 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-long 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

During the summer months conditions on the global financial markets gradually improved and the tensions stemming from the result of the UK referendum subsided. In the advanced economies the accommodative stance of monetary policies helped the recovery in investor confidence, which was reflected in a decline in volatility and a broad-based increase in share prices. The fading of fears about growth in China and the rise in energy commodity prices contributed to the improvement in financial conditions on the emerging markets.

Share prices rise

In the advanced economies share prices turned upward again (Figure 11); compared with the fall recorded in the days following the referendum on Brexit, in early October stock market indices were up 8 per cent in the United States, 10 per cent in Japan, 12 per cent in the euro area and 18 per cent in the United Kingdom. After a brief surge around the date of the referendum, volatility in the financial markets came back down to low levels (Figure 12).

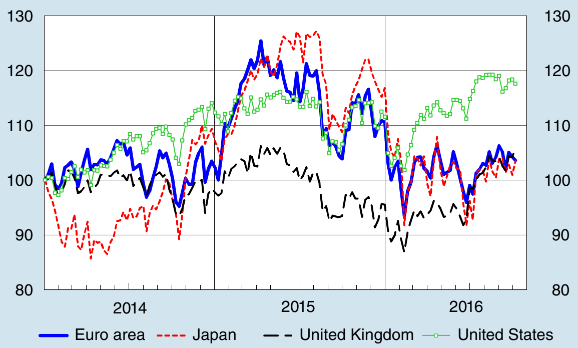
The spreads on corporate bonds fall ...

Corporate bond purchases by the Eurosystem helped keep the credit risk premiums of firms in the euro area down. Since the end of June bond spreads have fallen in both the investment

Figure 11

Stock market indices (1)

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

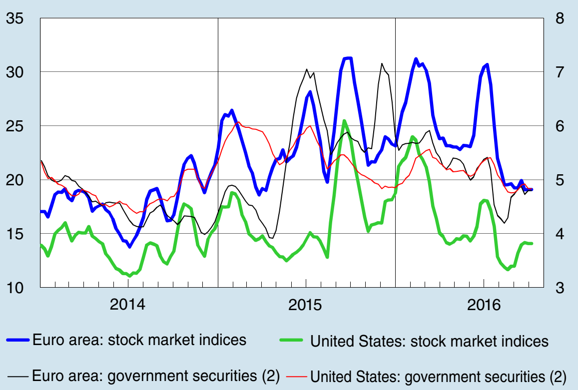


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

Implied volatility of share and government securities prices (1)

(end-of-week data; percentage points)

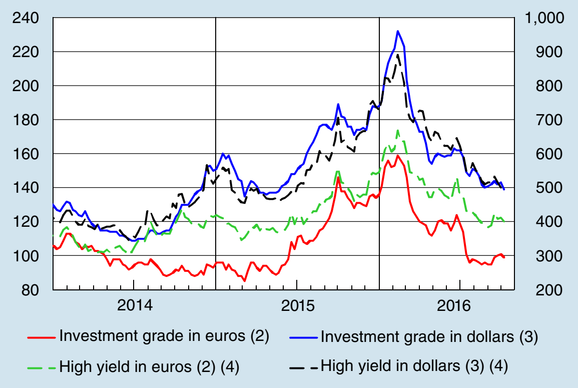


Source: Based on data from Thomson Reuters Datastream.
(1) Five-day moving averages. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for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

Figure 13

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

(end-of-week data; basis points)



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

grade segment (by 23 and 25 basis points, respectively, on euro- and dollar-denominated securities) and, more markedly, in the high-yield segment (by 90 and 153 basis points on euro- and dollar-denominated securities; Figure 13). The five-year CDS premiums of the leading banks also declined considerably (by 24, 21 and 8 basis points in the euro area, the United Kingdom and United States respectively).

... as do the sovereign risk premiums in the euro area

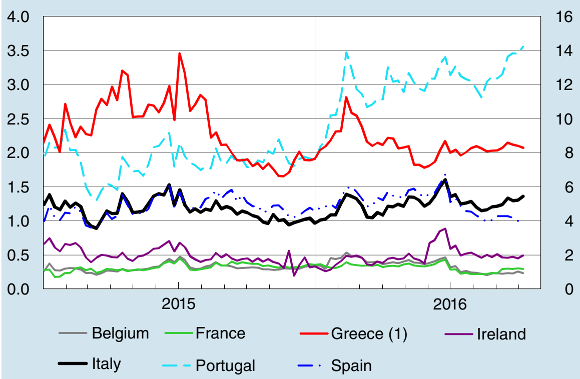
Thanks to the progressive easing of tensions in relation to the UK referendum result, in the third quarter sovereign risk premiums fell across the board. The yield differentials between 10-year government bonds with respect to the German Bund fell most sharply in Spain (30 basis points) and Ireland (18 basis points; Figure 14). In Portugal the 10-year spread instead widened by 42 basis points, in part following the announcement of a possible revision of the country's rating by DBRS.

Sovereign yields hit historic lows in the summer

Yields on long-term sovereign bonds in the advanced economies rose slightly from the troughs recorded following the UK referendum, though they remained at historically low levels (Figure 15). After hitting new lows in July, the yield on 10-year US Treasury notes climbed to 1.7 per cent; that on the corresponding Japanese government bonds, which had also hit a low in July, turned upward again, rising to just below zero, in line with the new monetary policy strategy adopted by the Bank of Japan (see Section 1.1). The yield on the 10-year German Bund, which had turned negative at the end of June, rose again in early October, hovering around zero. The corresponding UK rate has fallen by around 40 basis points since 23 June, the date of the referendum, owing to the expansionary measures taken by the Bank of England in August.

Figure 14

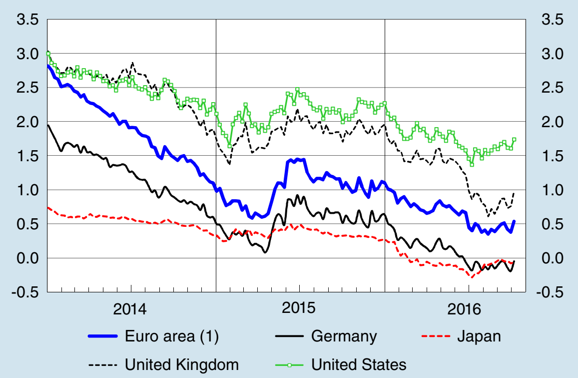
Yield spreads between 10-year government bonds and the corresponding German Bund
(end-of-week data; percentage points)



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

Figure 15

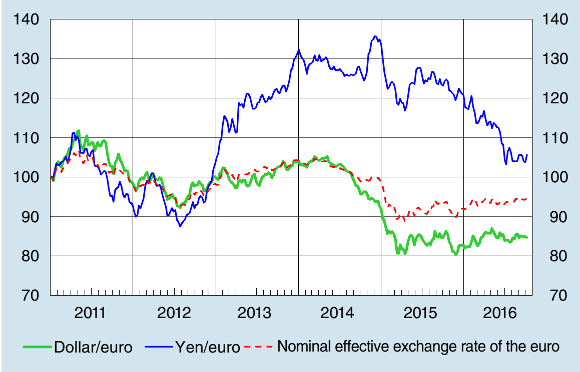
Yields on 10-year government bonds
(end-of-week data; per cent)



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

Figure 16

Bilateral exchange rates
(average weekly data; 1st week of January 2011=100)



Source: ECB.

Financial conditions on the emerging markets improve

Financial conditions on the emerging markets have also improved. Since the end of June, the composite indicator of equity markets, measured in local currency, has risen by about 8 per cent and sovereign spreads have fallen by almost 50 basis points. Starting in July, net subscriptions of investment funds specializing in the emerging markets turned positive again, both for equity and bond funds.

The euro appreciates slightly; sterling continues to depreciate

During the summer months the euro appreciated slightly against the dollar and the yen (Figure 16); sterling continued to weaken in relation to the other main currencies, depreciating, from June 23, by approximately 17 per cent overall with respect to the euro. In nominal effective terms the euro appreciated by about 2 per cent from end June.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

Having stagnated in the second quarter, output returned to slight growth in the third quarter, both on the basis of the quantitative data, more frequently available than that for GDP, and according to household and business surveys. The weakness of national demand contributed to the trend observed during the spring; looking ahead, downside risks are posed by the performance of world trade.

GDP remains unchanged in the second quarter ...

After increasing for five consecutive quarters, with a cumulative growth of just over one percentage point (see the box 'Istat's new annual and quarterly accounts'), GDP remained unchanged in the second quarter of this year (Figure 17); in the first quarter it had risen by 0.3 per cent (Table 2). Value added declined in industry excluding construction by 0.8 per cent, after a sharp gain in the first quarter, while it increased in services by 0.2 per cent, as in the previous quarter, and in construction.

In the second quarter national demand curbed economic activity for the first time since the end of 2014. The negative contribution due to lower growth in stocks was accompanied by a slowdown in household spending (to growth of 0.1 per cent, from 0.4 per cent in the previous quarter) and in investment (to growth of 0.2 per cent, from 0.7 per cent); the latter is attributable to the performance of the capital goods sector. Foreign trade boosted GDP by 0.3 percentage points, reflecting a marked increase in exports, greater than that in imports (2.4 and 1.4 per cent, respectively).

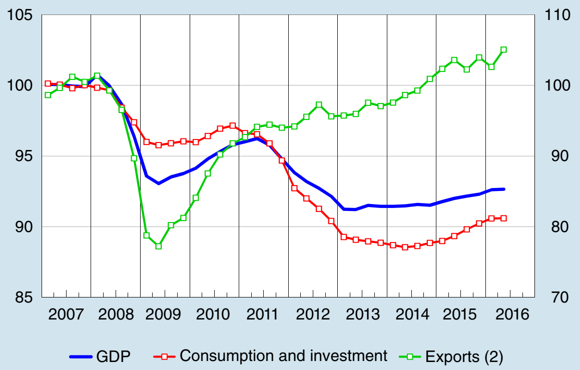
... but grows in the third quarter

According to our estimates – based on the information

Figure 17

GDP and the main components of demand (1)

(quarterly data; indices, 2007=100)



Source: Based on ISTAT data.
(1) Chain-linked volumes adjusted for seasonal and calendar effects. – (2) Right-hand scale.

Table 2

GDP and its main components (1)

(percentage changes on previous period)

	2015		2015	2016	
	Q3	Q4		Q1	Q2
GDP	0.2	0.2	0.7	0.3	0.0
Total imports	-0.1	1.4	6.0	-0.7	1.4
National demand (2)	0.5	0.0	1.1	0.6	-0.3
National consumption	0.5	0.4	1.0	0.3	0.0
household spending (3)	0.6	0.3	1.5	0.4	0.1
other spending (4)	0.3	0.6	-0.6	0.2	-0.3
Gross fixed investment	0.6	0.9	1.3	0.7	0.2
construction	0.7	1.2	-0.4	-0.3	0.3
other investment goods	0.5	0.7	3.0	1.6	0.1
Change in stocks (5) (6)	0.0	-0.4	0.1	0.2	-0.3
Total exports	-1.3	1.7	4.3	-1.3	2.4
Net exports (6)	-0.4	0.1	-0.4	-0.2	0.3

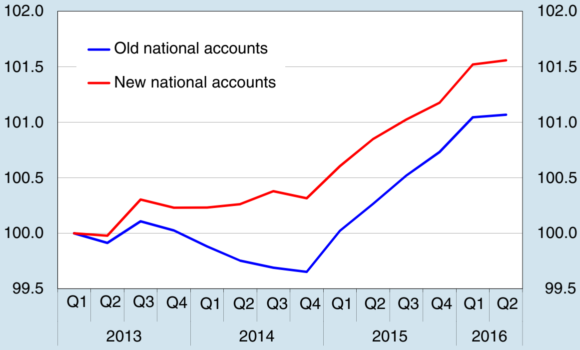
Source: Istat.
(1) Chain-linked volumes; quarterly data adjusted for seasonal and calendar effects. – (2) Includes the changes in stocks and valuables. – (3) Includes non-profit institutions serving households. – (4) General government expenditure. – (5) Includes valuables. – (6) Contributions to GDP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

ISTAT'S NEW ANNUAL AND QUARTERLY ACCOUNTS

On 23 September Istat released its new annual economic accounts for Italy, which contain some revisions of the growth rates of GDP and its main components in 2014 and 2015 compared with the estimates published in March.

The new accounts put Italian GDP growth last year at 0.7 per cent in real terms (against 0.8 per cent in the previous estimate), following growth of 0.1 per cent in 2014 (compared with a contraction of 0.3 per cent according to the previous data). The revised quarterly accounts consistent with the new estimates, released on 3 October, show that the long recession that followed the financial crisis actually ended by mid-2013, not in the first half of 2015 as indicated by the previous estimates (see the figure). Overall it follows that in the second quarter of 2016, GDP was almost half a point higher than in the old estimates.

Revision of GDP in the new national accounts series (1)
(quarterly data; indices, 2013 Q1=100)



Source: Based on Istat data.
(1) Chain-linked volumes, adjusted for seasonal and calendar effects.

The modest downward correction of the GDP growth rate for last year was accompanied by a more favourable picture for national demand (net of changes in stocks): the growth in household spending quickens from 0.9 to 1.5 per cent, as does investment expenditure, from 0.8 to 1.3 per cent, thanks to considerably faster growth in spending on machinery and equipment, while the contribution attributed to changes in stocks falls from 0.5 to 0.1 percentage points. The negative contribution of foreign trade is unchanged at -0.3 points. The upward revision for 2014 is ascribed to an increase in the estimate of the growth of non-construction investment and above all the sharp increase in the contribution of changes in stocks, from practically nil to 0.6 percentage points.

available on the indices of business and household confidence, foreign trade, new car registrations, goods traffic and electricity consumption – GDP recorded a slightly positive change in the third quarter. The main factors in this appear to have been the recovery of the industrial cycle, in line with the increase in electricity consumption and to a lesser extent in transport flows, in addition to the ongoing growth in services, which can be inferred from the resilience of the business confidence indicators for that sector and from the increase in household purchasing power. The Bank of Italy's Ita-coin indicator suggests that underlying GDP growth remains modest (Figure 18).

Consumer price inflation turns positive

In September, inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), returned barely positive, having remained negative since last February. The change in oil prices mitigated the fall in the prices of energy products (see Section 1.1); core inflation remains low.

The Government revises growth estimates downwards

The Update to the Economic and Financial Document 2016, presented by the Government on 27 September, revised growth estimates for Italy downwards in line with the recent economic data and with the weakening of the international environment. Under current legislation GDP is expected to increase by 0.8 per cent this year and to slow to 0.6 per cent in 2017 (in

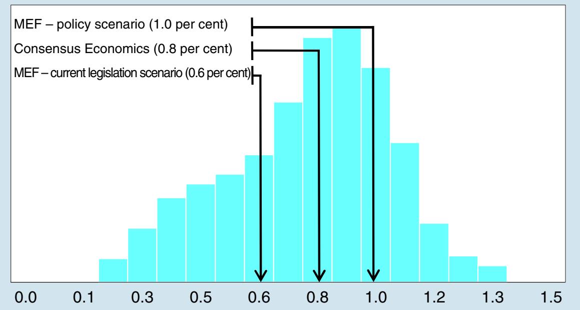
Figure 18

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. The shaded circle shows the forecast for GDP growth in the third quarter based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

Figure 19

Distribution of growth forecasts for Italy's GDP in 2017 (1)
(percentage changes)



Sources: Based on Consensus Economics, OECD, IMF, Ministry of Economy and Finance (MEF) and Centro Studi Confindustria (CSC) data.
(1) The histogram shows the frequency distribution of the forecasts made by the main private analysts surveyed by Consensus Economics and by international institutions. The single observations of the frequencies have been interpolated using a non-parametric estimation method.

contrast with growth of 1.2 per cent projected in the spring for both years). Growth on a current legislation basis estimated by the Government for 2017 is in the lower part of the distribution compared with the recent assessments made by the leading private and institutional forecasters (Figure 19); however, these evaluations do not generally include the negative effects of applying safeguard clauses, which envisage a rise in indirect taxation. Compared with the estimate based on current legislation, the Government's policy scenario indicates a stronger expansion next year (by 0.4 percentage points, to 1.0 per cent), which reflects the non-activation of the safeguard clauses and the other measures that the Government intends to introduce with the next budget law (see Section 2.9).[1]

2.2 FIRMS

Following a decline in the spring, industrial activity returned to growth in the summer months. Although affected by global uncertainty, business confidence indicators remain on the whole positive. Business investment is struggling to consolidate: credit conditions are particularly favourable, but the uncertainty surrounding the outlook for demand remains a brake.

Industrial production grows over the summer

Following the strong increase of the winter months, in the second quarter industrial production decreased by 0.2 per cent on the previous period (Figure 20). In July and August, however, it recovered firmly, despite the influence of statistical factors connected to the traditional instability of the seasonal component in the summer months. According to our estimates for September, industrial activity increased by just over half a percentage point on average in the third quarter.

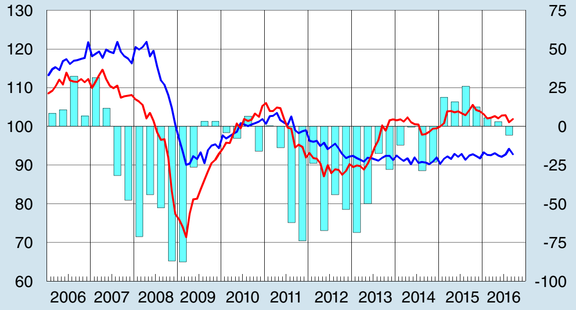
1 'Preliminary hearing on the 2016 Update of the Economic and Financial Document', testimony of L.F. Signorini, Deputy Governor of the Bank of Italy, Chamber of Deputies, Rome, 3 October 2016.

Business confidence remains high but is affected by global uncertainty

In September the business confidence indicators staged a partial but widespread recovery, after declining in the previous two months. Purchasing managers' indices (PMI), too, continued to register levels consistent with an expansion of economic activity. According to the quarterly survey of firms conducted in September by the Bank of Italy and *Il Sole 24 Ore*, the share of firms expecting the foreign demand for their products to grow diminished, owing among other things to the persistence of geopolitical tensions. The uncertainty stemming from economic and political factors continues to be a drag on economic activity.

Figure 20

Industrial production and business confidence
(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Right-hand scale. Balance of responses 'better' and 'worse' to the question on the general state of the economy in the Bank of Italy-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, September 2016, *Supplements to the Statistical Bulletin*, No. 50, 2016. – (2) Industrial production adjusted for seasonal and calendar effects; for September 2016, estimated data. – (3) Index, 2010=100.

Investment slows in the second quarter...

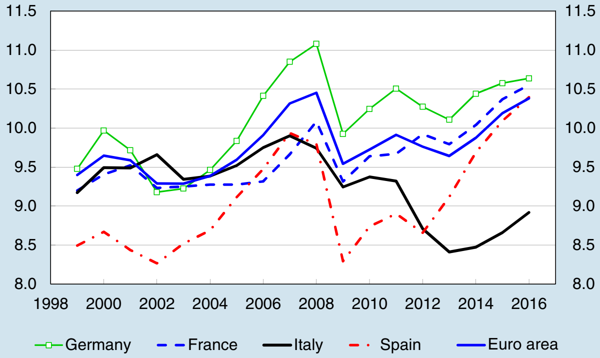
In the second quarter investment grew by 0.2 per cent on the previous period, compared with 0.7 per cent in the first quarter, fuelled by spending in construction, which recovered from the drop of the winter months. Purchases of capital goods, on the contrary, stagnated in the spring months, their quarterly performance presumably affected by the timing of the tax incentives enacted in December 2015; at the beginning of 2016 firms are likely to have carried out investments they had postponed in previous months while waiting for the incentives to become law. As a percentage of GDP, however, investment still remains below the levels recorded before the financial crisis (see the box 'Growth and investment in Italy').

GROWTH AND INVESTMENT IN ITALY

Capital formation began to recover in the first quarter of 2015 but has strengthened only haltingly. Investment has grown less than in the other main euro-area countries, and the expansion has been less pronounced than in the typical upswings following previous recessions. In real terms, investment spending is still nearly 30 per cent below its 2007 peak. As a ratio to GDP, non-construction investment, which usually responds more rapidly in cyclical upturns, is still more than half a percentage point lower than the average recorded before the financial crisis, whereas in the other major area economies the decline has been largely made good (Figure A).

Figure A

Ratio of gross fixed non-construction investment to GDP
(per cent)



Sources: Banca d'Italia, Economic Bulletin No. 3, 2016, and based on European Commission data (European Economic Forecast, Spring 2016, May 2016).

Our analysis indicates that especially in the early stages of the last two recessions, investment activity was held back significantly by the cost and supply conditions of credit. Starting in the second half of 2013 these two factors ceased to represent a constraint and began instead to sustain investment. This emerges both from econometric estimates[1] and from firms' judgments as observed in business surveys (see the box 'Credit supply and demand').

The main factor still restraining capital formation is the poor demand outlook, which made a markedly negative contribution on investment choices during the recession. The impact of demand has turned barely positive once again; margins of unutilized production capacity remain ample (although this has diminished, according to the latest surveys; see the box 'Survey on non-construction industrial firms and non-financial private service firms,' *Economic Bulletin* No. 3, 2016).

Uncertainty over future economic performance (gauged by the dispersion of the expectations of firms and the main private forecasters), which had been a brake on investment until the middle of last year, is now easing. More recently, however, investment appears to have also been affected by uncertainty linked to geopolitical developments, which heightened this year owing to the conflicts in the Middle East, the threat of terrorism and the fears provoked by the outcome of the Brexit referendum. The Bank of Italy's business surveys confirm that firms that are more fearful of adverse geopolitical developments tend to report smaller than average investment plans.

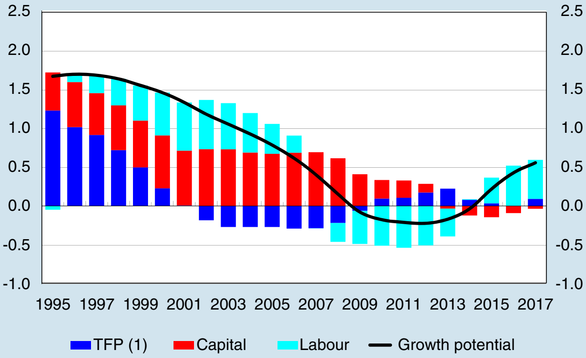
Our surveys nevertheless suggest that the weakness of capital formation does not affect all firms and coexists with burgeoning signs of vitality within the Italian productive economy. In particular, the firms that have made organizational or product innovations in recent years plan to expand their investment spending significantly more in 2016 than those that have not. In this context, according to the respondents to our surveys, the incentives introduced by the Stability Law for 2016 (the provision for extra depreciation) will have a positive impact, although not sufficient to bring the rate of capital formation back to its pre-recession levels.

However, there are also obstacles to investment that are specific to Italy. There is evidence that the propensity to invest and the inflow of foreign investment depend on the speed of the judicial system, the time required for licensing and starting up an economic activity, and the bureaucratic burden on firms.[2] It is important that the programme of reforms continues to tackle these obstacles. The World Bank's 'Doing Business' indicators show improvement over the past few years; the recent reforms, which bear on a good part of the country's economic and social structure, have permitted a 6 percentage point reduction in Italy's distance from the efficient frontier represented by international best practices.

Figure B

Potential output growth and the contributions of the productive factors

(percentage points)



Source: Estimates based on the methodology set out in A. Bassanetti, M. Caivano and A. Locarno, *Modelling Italian potential output and the output gap*, Banca d'Italia, Temi di Discussione (Working Papers), 771, 2010. The contributions of the productive factors to the growth in potential output are drawn from estimates based on the production function.
(1) Total factor productivity.

[1] F. Busetti, C. Giordano and G. Zevi, 'The drivers of Italy's investment slump during the double recession', *Italian Economic Journal,* No. 2, 2016, pp. 143-165; see also the box 'The determinants of the decline in investment' in the Bank of Italy's *Annual Report* for 2014, Chapter 6.
[2] A. Borin, R. Cristadoro and E. Mattevi, 'Investimenti diretti esteri e qualiltà delle istituzioni', in B. Quintieri (ed.), *L'Internazionalizzazione dell'economia italiana. Nuove prospettive, nuove politiche?,* Rubbettino, 2016, pp. 173-232; also published as 'Foreign direct investment and institutional quality', Banca d'Italia, Occasional papers, No. 230, 2014.

A more robust investment upswing appears necessary not only to strengthen the cyclical recovery but also to increase Italy's potential GDP growth, currently estimated at less than 1 per cent. Our own analyses indicate that the contribution of labour to the growth of potential output has regained levels not far from its pre-2008 average, and the contribution of total factor productivity too is now marginally positive again. But the contribution of capital remains practically nil (Figure B). Other things being equal, its return to levels close to those recorded before the financial crisis would raise the potential growth rate of the Italian economy by over half a percentage point.

...and in firms' view will continue to grow moderately

According to the sample of firms interviewed in the autumn business outlook survey, the moderate growth in investment will continue in the second half of the year (see Business Outlook Survey of Industrial and Service Firms, forthcoming in *Supplements to the Statistical Bulletin*). Similar indications are provided by the recent Banca d'Italia-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations: the share of firms in industry excluding construction and in services planning to expand their investment expenditure in the second half of 2016 was 8.5 percentage points greater than the share of those envisaging a reduction. Investment conditions are deemed stable by a sizeable majority of those interviewed; however, the balance between responses indicating improvement and deterioration turned slightly negative for the first time since the beginning of 2015, currently standing at -1.2 percentage points, compared with 6.1 points in June (see the box 'The investment outlook according to business surveys').

THE INVESTMENT OUTLOOK ACCORDING TO BUSINESS SURVEYS

The quarterly Survey on Inflation and Growth Expectations of firms with 50 or more employees, conducted in September by the Bank of Italy together with *Il Sole 24 Ore,* confirmed a broadly favourable scenario, albeit with signs of greater caution on the part of businesses, in line with the indications of Istat's survey on the climate of confidence (see Survey on Inflation and Growth Expectations. September 2016, in *Supplements to the Statistical Bulletin,* No. 50, 2016).

The general economic situation continued to be widely viewed as stable; however, the balance between judgments of improvement and deterioration turned marginally negative. Over the next few months, the economic conditions in which the firms operate will continue to be affected by uncertainty attributable to economic and political factors, countering the impetus from the strengthening of demand and, to a lesser extent, the easing of credit access conditions.

One quarter of the firms interviewed plan to invest more in the second half of the year than in the first (8.5 percentage points above those that expect to trim investment), resulting in higher capital formation for the year as a whole (see the table). The percentage of firms that consider the 'extra depreciation' incentive for investment in capital goods, introduced by the last Stability Law, to be 'fairly' or 'very' important rose again, to 17.6 per cent.

Opinions on investment conditions have worsened slightly from the preceding quarter: although more than 80 per cent of firms view them as unchanged, there were slightly more negative than positive assessments (see the figure) for the first time since early 2015, reflecting the judgments of service firms and small businesses.

Construction firms continue to hold favourable opinions on investment conditions, although they are more restrained than in June. Almost 70 per cent of firms plan to keep investment expenditure in the second half of 2016 in line with the first half; expectations of increases and decreases more or less balanced

Firms' investment expectations (1)
(per cent)

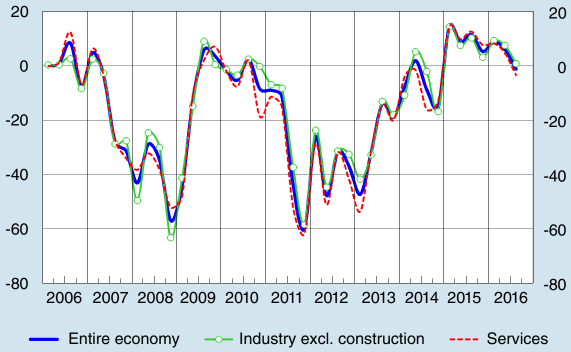
	Industry excluding construction	Services	Services and industry excluding construction
	Investment expenditure planned for 2016 compared with investment in 2015		
Higher	34.6	33.6	34.1
About the same	50.7	48.9	49.8
Lower	14.7	17.5	16.1
	Investment expenditure planned for the second half of 2016 compared with the first half		
Higher	26.2	23.7	25.0
About the same	57.0	60.1	58.5
Lower	16.8	16.2	16.5

(1) Estimates weighted using a coefficient which takes into account the ratio between the number of respondent companies and the number of companies in the reference universe in the quarterly Survey on Inflation and Growth Expectations conducted by the Bank of Italy with *Il Sole 24 Ore* in September 2016 and published in *Supplements to the Statistical Bulletin*, No. 50, 2016. Rounding may cause discrepancies.

out. For 2016 as a whole, however, expectations of increased investment continue to outweigh expectations of decline, although by a significantly smaller margin than in the June survey.

In September and October of this year the Bank of Italy's branches conducted their customary autumn business outlook survey on a sample of firms with 20 or more workers in industry excluding construction and non-financial private services, and construction firms with 10 or more workers (see Business Outlook Survey of Industrial and Service Firms, forthcoming in *Supplements to the Statistical Bulletin*).

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



(1) Balance between judgments of improvement and deterioration by comparison with the previous quarter reported in the quarterly Survey on Inflation and Growth Expectations, conducted on a sample of firms in industry excluding construction and in services by the Bank of Italy together with *Il Sole 24 Ore* in September 2016 and published in *Supplements to the Statistical Bulletin*, No. 50, 2016.

Firms' opinions on their activity in the first nine months were positive. Around 40 per cent of firms in industry excluding construction and in services reported an increase in turnover between January and September, while 26 per cent reported a decrease. Most firms expect demand for their products over the next six months to be stable, but the balance between those anticipating improvement and those anticipating deterioration was very substantially positive (24 percentage points).

A large majority of the firms report that investment expenditure for 2016 is in line with that planned. A quarter of businesses plan to expand investment next year, compared with 14 per cent that expect to reduce it; the positive balance between firms that plan to increase and decrease investment is largest among firms with 200 workers or more. Along with strengthening demand, respondents cited tax incentives and improved borrowing terms among the factors fostering investment expansion.

While world trade slowed down, more than 40 per cent of manufacturing exporters reported an increase in foreign sales. The output repercussions of the Brexit referendum were moderate as a whole, seemingly limited to firms active in the UK market. Short-term expectations for foreign orders remain favourable overall (more than half of the businesses indicate that they will be stable, 39 per cent that they will increase).

Construction firms report a drop in activity for this year, in contrast to the more favourable expectations that emerged from the previous survey. Expectations for 2017 are more optimistic, albeit to a lesser extent for firms specializing in public works. Just over one third of the firms report that the new Public Procurement Code has had a negative effect in the short term; the impact should be more positive once the regulatory adjustment process is completed.

The encouraging signs in the property market continue, albeit with some uncertainty

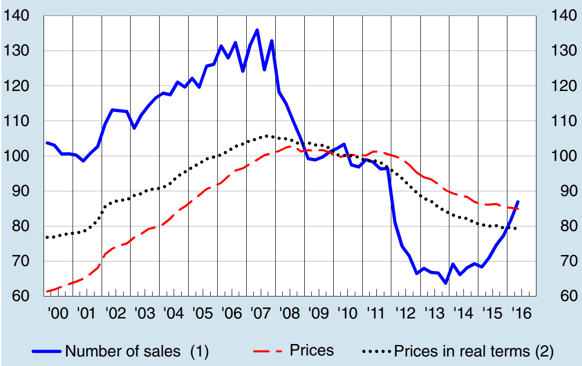
The reactivation of the real estate market cycle is proceeding, albeit unsteadily. In the spring months, the number of house sales grew from 5.7 to 6.4 per cent, reaching the highest level since the end of 2011 (Figure 21). In the same period residential property prices, which usually react to the cyclical inversion in sales with a considerable lag, continued to fall at a pace very similar to that of the first quarter (-0.4 per cent). In the three months ending in July, building activity decreased by 1.1 per cent on the previous quarter, likely owing to difficulties in the activation of public works, among other factors. In the third quarter, business confidence indicators for construction firms continued to rise, reaching historically high levels. According to the construction firms interviewed in September as part of the Banca d'Italia-*Il Sole 24 Ore* survey, both investment conditions and the outlook for demand remain favourable, though less so than in the previous survey.

The recovery in competitiveness proceeds

According to our estimates, in the third quarter price competitiveness, as measured by the producer prices of manufactures, gained just under half a percentage point on the previous period (Figure 22). Since the end of 2014, Italian firms have gained almost two percentage points, benefiting mainly from the nominal depreciation of the euro. The improvement has been much greater than that achieved by Spanish and German firms (0.9 per cent for both) and only slightly lower than that posted by French firms (2.4 per cent), reflecting differences in the composition of trade in the various destination markets.

Figure 21

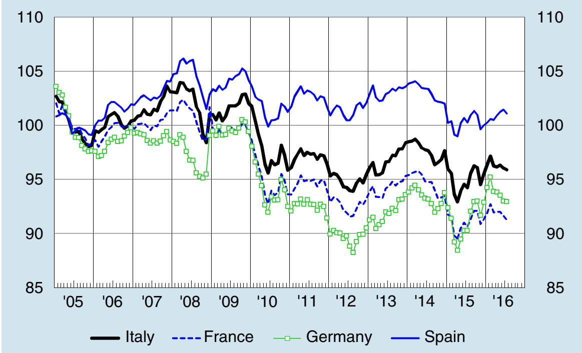
House prices and sales
(quarterly data; indices 2010=100)



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

Figure 22

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 June 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.

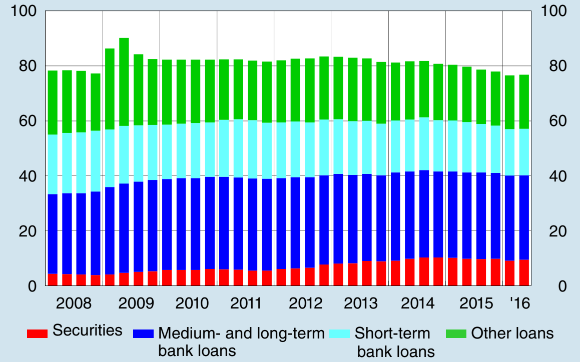
Firms' profitability and self-financing improve

Based on Istat data and our own estimates, the ratio of gross operating profit to value added again rose slightly in the twelve months ending in June. A further reduction in net interest expenses brought another improvement in firms' self-financing capability, calculated as the difference between gross operating profit and total costs. The ratio of investment expenditure to value added remained unchanged, while firms' financing requirement decreased further. In the spring their total debt edged up to 77 per cent of GDP, compared with 76 per cent in March (Figure 23).

Figure 23

Debt of non-financial firms (1)

(quarterly data; as a percentage of GDP)



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

Lending to manufacturing firms declines

In August the twelve-month rate of growth of bank lending to firms remained in negative territory, reflecting a reduction in loans to manufacturing firms and, especially, a contraction for those active in construction (see Section 2.7).

Firms' net bond issues turn positive, while net equity issues decrease

In the second quarter of 2016 Italian firms' net bond issues were positive by €4 billion (Table 7); the gross equity issues of resident non-financial corporations were equal to €604 million, compared with €3.8 billion in the previous quarter. According to preliminary data by Dealogic, in the third quarter Italian firms' net issues were again positive by €2 billion.

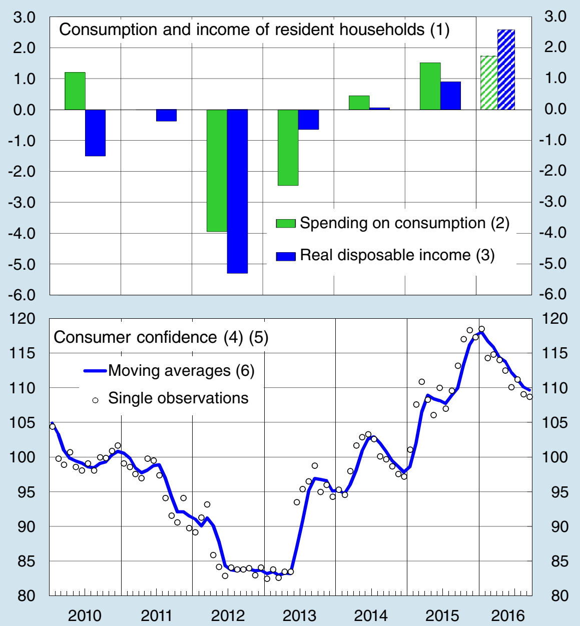
2.3 HOUSEHOLDS

Private consumption continues to recover, though at a slower pace in recent months. Disposable income has increased further in connection with more favourable employment conditions, but household optimism about the economic outlook has faded. The cyclical indicators are consistent with further slight expansion in consumer spending in the third quarter as well.

Figure 24

Consumption, disposable income and consumer confidence

(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. Up to 2015, annual data; for 2016, percentage changes in the first 6 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.

Consumption increases moderately ...

In the spring, household spending continued to grow, but at a slower pace than in the previous quarter (0.1 per cent, from 0.4 per cent). The slowdown involved both services and goods, with the exception of semi-durable goods. In the same quarter, disposable income grew by 1.1 per cent in real terms with respect to the previous quarter (Figure 24), benefiting from the favourable employment conditions (see Section 2.5).

... and its growth appears to have continued in the third quarter

Based on the most recent cyclical indicators, household consumption is likely to have continued to grow moderately in the summer. New car registrations were broadly unchanged from the previous quarter (-0.2 per cent), after having grown by 0.9 per cent in the spring. In July, the latest month for which data is available, retail sales virtually stagnated. In September, the production expectations of firms manufacturing consumer goods fell slightly; in contrast, the confidence index of retail firms improved markedly as a result of more favourable expectations on future sales. In the same month the consumer confidence index decreased slightly, but nonetheless remained at a high level, near the average recorded in 2015. The decrease reflects the worsening of expectations regarding both the general state of the economy and personal situations, while assessments of the current state of the economy improved.

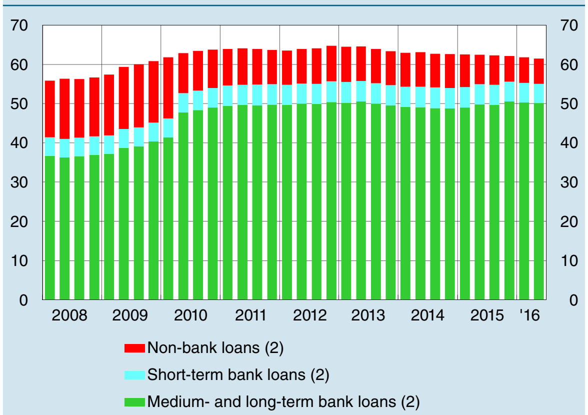
Household debt falls slightly

In the second quarter Italian household debt fell further, to 61.5 per cent of disposable income, from 61.8 per cent in March (Figure 25), remaining far below the euro-area average of about 94 per cent at the end of March. During the same period, interest rates on new mortgage loans continued to fall, confirming the trend that began in 2012 (see Section 2.7).

Figure 25

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. The data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology see the note in 'Monetary and Financial Statistics. Financial Accounts', *Supplements to the Statistical Bulletin*, No. 58, 2010.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italian exports grew in the second quarter, but signs of weakening linked to the global economic outlook emerged over the summer. Non-residents continued to invest in Italian government securities, while banks' net foreign funding decreased.

Exports increase in the spring ...

Exports of goods and services grew by 2.4 per cent in volume terms in the second quarter of 2016, more than offsetting their 1.3 per cent decline in the first quarter. The recovery involved almost all the main destination markets and was driven by the increase in sales of goods (3.2 per cent), to which practically all sectors contributed, with a key role played by traditional 'made in Italy' products, metals and metal products, mechanical machinery and equipment, and food products; by contrast, exports of services decreased by 1.0 per cent.

... as do imports ...

Imports also resumed growing and were up by 1.4 per cent overall, with a larger increase for goods than for services (1.7 per cent and 0.3 per cent, respectively). Purchases from euro-area countries rose most markedly, while those from non-EU markets stagnated.

... but signs of weakening emerge over the summer

The export recovery petered out in July, when sales of goods abroad decreased by 0.6 per cent on a monthly basis. In August, exports returned to growth in non-EU markets (up by 0.9 per cent on the previous month). In firms' assessments, the outlook for foreign demand is uncertain: the PMI index measuring the foreign orders of manufacturing firms worsened in the third quarter, although it remained above the threshold considered compatible with an expansion of sales; Istat's comparable indicator, instead, showed an improvement (Figure 26).

The current account surplus expands further

The current account surplus widened further, continuing a trend under way since the end of 2010; in the first seven months of 2016 it reached €23.7 billion, up from €10.8 billion in the same period of 2015. The main factor behind this was the improvement in the merchandise balance, which benefited from decreased expenditure on energy commodities, and in the primary income balance, thanks in part to a decline in yields which was more pronounced for external liabilities (Table 3).

Non-residents' net purchases of Italian government securities remain positive

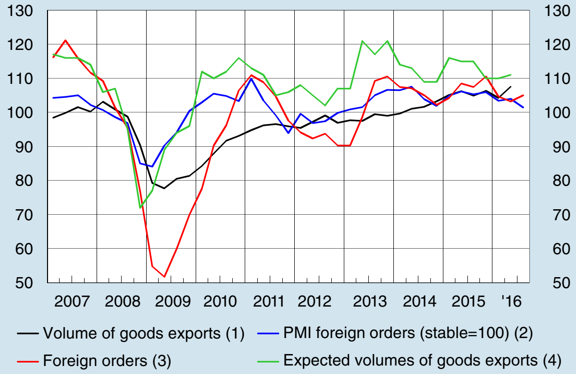
In the period from January through July 2016, investment by non-residents in Italian government securities remained positive (€15.1 billion). Non-residents' total investment in Italian bank bonds instead fell by €21.1 billion, as redemptions were not offset by new issues, in line with the reduction in wholesale bond placements by Italian banks. On the asset side, residents continued to make net purchases of foreign portfolio securities, confirming their tendency to replace bond holdings with asset management products, a sector in which foreign investment funds play a key role. In the first seven months of 2016 net purchases amounted to €56.9 billion, of which about half were in investment fund units.

The debtor position in TARGET2 widens

The Bank of Italy's debtor position in the TARGET2 payment system continued to increase, reaching €354 billion at the end of September, compared with €249 billion at the beginning of the year. This increase largely corresponds to the liquidity creation stemming from the operations carried out by the Bank of Italy as part of the Eurosystem's expanded asset purchase programme (APP). The widening of the debtor position is the outcome of different trends: in the first seven months of the year (the period for which comparison with the balance-of-payments data is possible) non-residents continued to invest in Italian government securities, while Italian banks' bond funding on foreign markets decreased and Italian households diversified their portfolios towards

Figure 26

Export volumes, foreign orders and expectations of manufacturing firms
(seasonally adjusted quarterly data; indices)



Sources: Istat, Markit and Thomson Reuters Datastream.
(1) Index, 2007=100 (national accounts data) – (2) Quarterly average of the PMI indicator plus 50. – (3) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' and 'decreasing', minus the average, plus 100. – (4) Based on Istat's quarterly survey of firms' expectations for the next 3 months; percentage balance between replies of 'favourable' and 'unfavourable', plus 100.

Table 3

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

	2014	2015	Jan.-July 2015	Jan.-July 2016
Current account	**30.5**	**26.6**	**10.8**	**23.7**
Goods	47.4	52.3	30.3	35.9
non-energy products (2)	88.8	84.1	50.1	49.2
energy products (2)	-41.4	-31.8	-19.8	-13.3
Services	-1.0	-1.6	-0.5	-0.6
Primary income	0.0	-9.2	-8.1	-2.7
Secondary income	-15.8	-14.8	-10.9	-8.8
Capital account	**3.4**	**2.6**	**-0.6**	**-0.6**
Financial account	**43.8**	**25.6**	**-2.9**	**19.1**
Direct investment	2.3	0.9	2.4	-12.3
Portfolio investment	-3.6	89.5	19.0	72.3
Derivatives	-3.6	3.4	1.3	7.3
Other investment	49.6	-68.6	-25.6	-46.3
Change in official reserves	-1.0	0.5	0.1	-1.8
Errors and omissions	**9.9**	**-3.7**	**-13.1**	**-4.0**

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

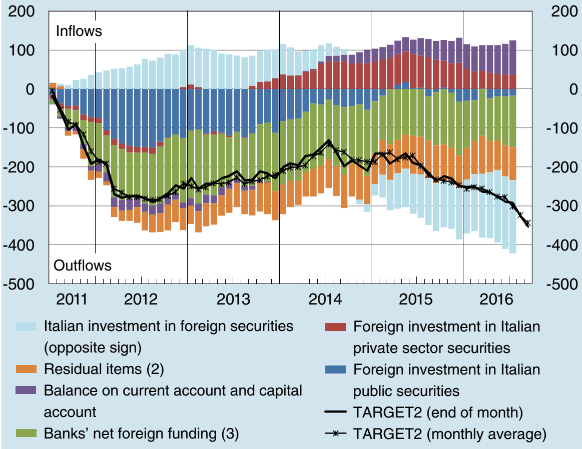
managed assets, a large share of which are foreign investment funds (Figure 27).

The net international position improves

At the end of June Italy's net international investment position was negative by €321.6 billion, equal to 19.4 per cent of GDP. This represented an improvement of almost four percentage points of GDP compared with the previous quarter, about one fifth of it due to the current account surplus and the rest to valuation adjustments, specifically to the reduction in the market value of total Italian liabilities in equities (a large portion of which are bank shares).

Figure 27

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.

2.5 THE LABOUR MARKET

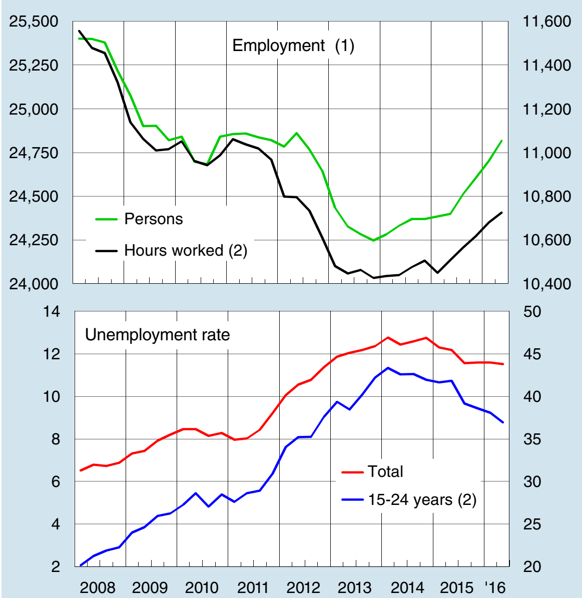
The number of persons employed continued to rise in the second quarter of 2016, with payroll jobs regaining their pre-crisis levels. The unemployment rate came down only slightly, its decline impeded by a further increase in the participation rate spurred by the improved employment outlook. Hourly labour costs remained unchanged, while unit labour costs rose owing to the decrease in productivity compared with the corresponding period of 2015.

Employment continues to rise

In the second quarter the number of persons employed according to the national accounts continued to increase at a strong pace (0.5 per cent with respect to the first quarter, seasonally adjusted; Figure 28 and Table 4). The increase in agriculture, and especially in private services, stands in contrast to the moderate decline in construction and in industry excluding construction, in which the expansion spanning the previous four quarters was interrupted. The number of hours worked rose by about the same amount as employment (0.4 per cent). However, Istat's preliminary labour force survey found that in July-August employment fell slightly as compared with the previous two months (-0.2 per cent, compared with a twelve-month increase of 0.9 per cent) owing to the decline in self-employment.

Figure 28

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.

Payroll jobs regain pre-crisis levels

The increase in employment between April and June involved both self-employment and payroll jobs (1.2 and 0.7 per cent, respectively). According

Table 4

Employment and hours worked

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

	Number	Change			
	Q2 2016	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Total persons in work	**24,817**	**0.5**	**0.4**	**0.4**	**0.5**
of which: industry excluding construction	4,180	0.3	0.6	0.3	-0.2
private services (1)	10,791	0.9	0.3	0.6	1.0
Employees	18,596	0.6	0.7	0.5	0.4
Self-employed	6,221	0.1	-0.5	0.2	0.5
Hours worked	**10,726**	**0.5**	**0.5**	**0.6**	**0.4**
of which: industry excluding construction	1,840	0.8	1.0	0.7	0.5
private services (1)	4,898	1.0	0.2	1.4	0.5
Employees	7,346	0.8	0.8	0.1	0.9
Self-employed	3,380	..	-0.2	1.6	-0.6

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

to Istat's labour force survey, payroll jobs returned to the peak reached before the 2008 crisis. The scaling back of the social security contribution relief for new open-ended payroll hires as compared with 2015 led to a partial shift of new hiring from open-ended to fixed-term contracts during the quarter, with fixed-term employment rising by 3.2 per cent on the first quarter. In any case, there was also continued growth in open-ended employment (0.3 per cent), although at a slower pace than in the four preceding quarters.

The unemployment rate declines

Despite the strong expansion of employment, in the second quarter the unemployment rate fell by just a tenth of a point as compared with the previous period to 11.5 per cent. The decline in the rate was curbed by increased labour force participation, owing mainly to the improved employment outlook (the number of discouraged workers fell by 8.5 per cent in one year). The unemployment rate for people aged 15 to 24 dropped once again (by 1.1 points to 36.9 per cent; Figure 28), although it was still much higher than the EU average. The number of those not in education, employment or training also continued to decline, and at a faster pace. According to the preliminary data for July-August, average total unemployment remained essentially stable, while youth unemployment rose to 39.0 per cent.

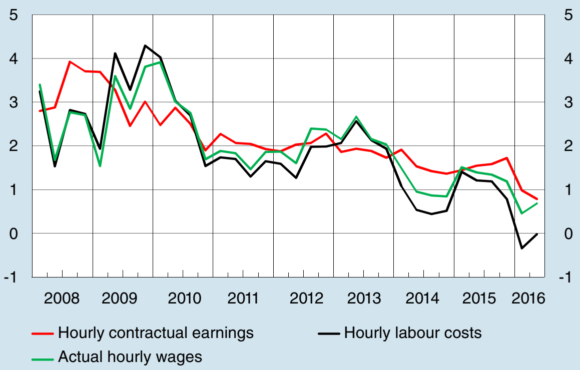
Labour costs remain unchanged

The hourly labour cost in the non-farm private sector remained stable in the second quarter, on an annual basis. The contribution relief for new hires was accompanied by a further decline in contractual wage growth, which slowed to 0.8 per cent by comparison with the corresponding period of 2015, from 1.0 per cent in the first quarter (Figure 29); this deceleration is attributable to the non-renewal of collective bargaining agreements; lapsed

Figure 29

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

(quarterly data; percentage 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.

contracts covered workers whose portion of private sector wages rose further, to 58.1 per cent based on the most recent information available. The simultaneous decline in productivity (-1.8 per cent on the corresponding period of 2015) led to a 1.9 per cent rise in unit labour costs.

According to the surveys conducted by Istat in September, the balance between firms that expect employment to expand over the next three months and those that expect a contraction has worsened in the services sector and improved in industry excluding construction.

2.6 PRICE DEVELOPMENTS

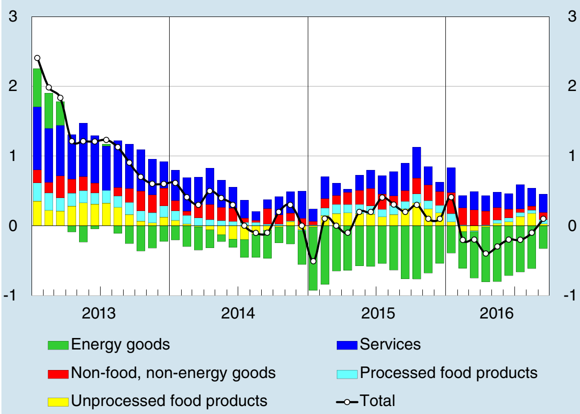
Consumer price inflation, negative since February, was recorded as barely positive in September, lifted by the recovery of the more volatile components; core inflation, however, remained low. Households and firms expect the change in prices to remain modest over the coming months as well. According to analysts' forecasts, consumer price inflation will be slightly negative on average this year.

Inflation turns positive

In September, according to the preliminary estimate, the twelve-month change in the Harmonized Index of Consumer Prices (HICP) turned slightly positive again, (0.1 per cent; Figure 30), having been negative for seven consecutive months. The increase was mainly due to the acceleration in the prices of energy goods. Core inflation is still very low by historical standards, as a result of the persistence of ample margins of spare productive capacity (Table 5). Based on the latest available data, the share of elementary items in the overall index with a negative price change rose to 33 per cent in August from 31 per cent in July, while the share for core components was about the same as in July, at 25 per cent.

Figure 30

Consumer price inflation in Italy and the contributions of its components (1)
(monthly data; 12-month percentage changes and percentage points)



Source: Based on Eurostat data.
(1) HICP; the data for September 2016 are provisional.

Producer price pressures decrease again

Producer prices of industrial products sold on the domestic market continued to fall in August, with a twelve-month decline of 1.1 per cent, compared with one of 1.4 per cent in July. Energy prices diminished again though less than in the previous month, while the prices of non-food final consumption goods recorded a slight increase.

Households and firms expect inflation to remain low

According to firms and households' expectations, inflation will remain modest over the next few months. The list prices of firms interviewed in the quarterly survey conducted in September by the Bank of Italy together with *Il Sole 24 Ore* look set to increase by 0.6 per cent over the next twelve months (Figure 31). Among the factors affecting sales prices are the upward pressures stemming more or less equally from changes in the cost of raw materials, labour and intermediate inputs; demand is expected to provide a barely positive boost. According to Istat surveys, the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months fell in the summer, though still remaining high at 57.9 per cent, from 58.3 at the beginning of the year.

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	-0.2	-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	-0.3	-0.3	0.4	0.5	-4.1
June	-0.2	0.5	-0.2	-0.4	-0.1	0.4	-3.4
July	-0.2	0.5	-0.2	-0.1	0.3	0.6	-1.4
Aug.	-0.1	0.4	-0.1	-0.1	-0.1	0.5	-1.1
Sept.	(0.1)	(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.

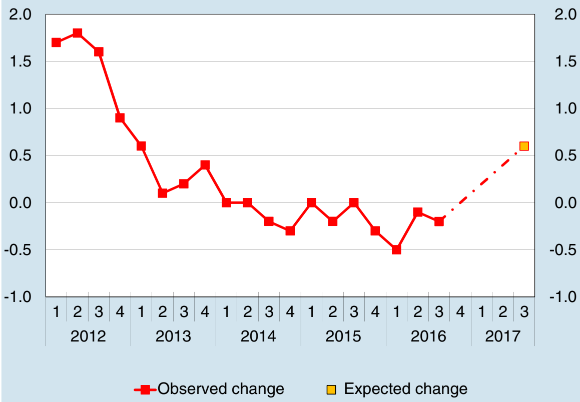
The analysts polled in September by Consensus Economics expected consumer price inflation to be slightly negative on average in 2016, but to rise to 0.8 per cent in 2017; in both cases these figures are below that expected for the euro area as a whole (see Section 1.2).

2.7 BANKS

Lending to the non-financial private sector stagnated during the summer. The improvement in the economic outlook continues to impact favourably on the quality of Italian banks' loans: the ratio of new non-performing loans to outstanding loans remained stable at its lowest level since end-2008; the proportion of non-performing exposures has continued to diminish. The results for the leading banks of the stress test coordinated by the European Banking Authority (EBA) were published on 29 July; four out of the five main Italian banking groups in the EBA's sample demonstrated their ability to withstand an extremely severe macroeconomic scenario.

Figure 31

Changes in firms' own sales prices: actual and forecast (1)
(firms in industry excluding construction and in services; 12-month percentage changes)

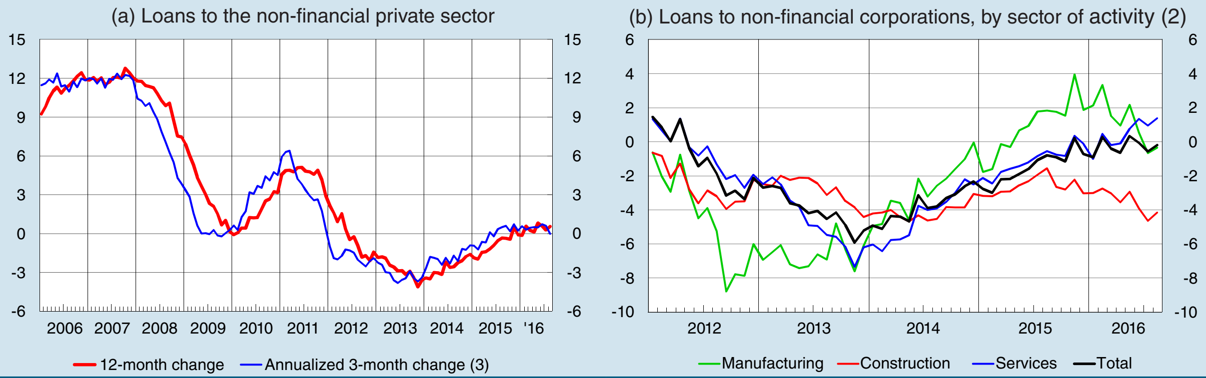


(1) Robust average of responses to questions concerning the observed percentage change in firms' own sales prices over the past 12 months and the change expected over the next 12 months. Bank of Italy-*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, September 2016, in *Supplements to the Statistical Bulletin*, No. 50, 2016.

Figure 32

Bank lending (1)

(monthly data; percentage changes)



Source: Supervisory reports.
(1) Includes bad loans, 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) Twelve-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.

Lending to households continues to increase ...

In the three months ending in August, lending to the non-financial private sector stagnated on a seasonally adjusted basis (Figure 32.a). Lending to households continued to increase (1.4 per cent): the growth in consumer credit was again underpinned by the rise in disposable income and the more favourable labour market conditions (see Section 2.3); house purchase mortgages rose by 1.8 per cent in response to the further increase in sales in the second quarter of this year (see Section 2.2).

... but that to firms remains weak

Lending to firms decreased by 1.2 per cent in the three months to August on a seasonally adjusted, annualized basis, virtually stagnating with respect to a year earlier (-0.2 per cent). Disparities between sectors remain (Figure 32.b): loans to companies in the service sector continued to increase (1.4 per cent in the twelve months), while the growth in lending to manufacturing firms came to a halt (-0,4 per cent) as the industrial cycle lost momentum in the spring; loans to construction companies decreased further (-4.2 per cent). There is still a large gap between the rate of growth in lending to firms with 20 or more workers and that to smaller businesses (0.2 and -3.6 per cent respectively).

Bank funding declines

Bank total funding declined between May and August (Table 6); retail funding, which has strengthened since May, only partly offset the decrease in households' bond holdings and in non-resident deposits. Placements of bonds with banks and institutional investors continued to decline.

Supply conditions are still accommodating ...

The banks interviewed for the bank lending survey reported virtually unchanged lending policies in the second quarter of 2016 (see the box 'Credit supply and demand'). According to Istat's business surveys of last September, credit conditions continued to ease slightly in the summer even though there were differences between categories of firms. Similar indications emerge from the survey carried out by the Bank of Italy in collaboration with *Il Sole 24 Ore*.

... and the average cost of new loans decreases

Interest rates on new loans remain historically low. The average interest rate applied to firms fell by 10 basis points between May and August, to 1.7 per cent (Figure 33). The cost of new mortgage loans decreased by 20 basis points for fixed

Table 6

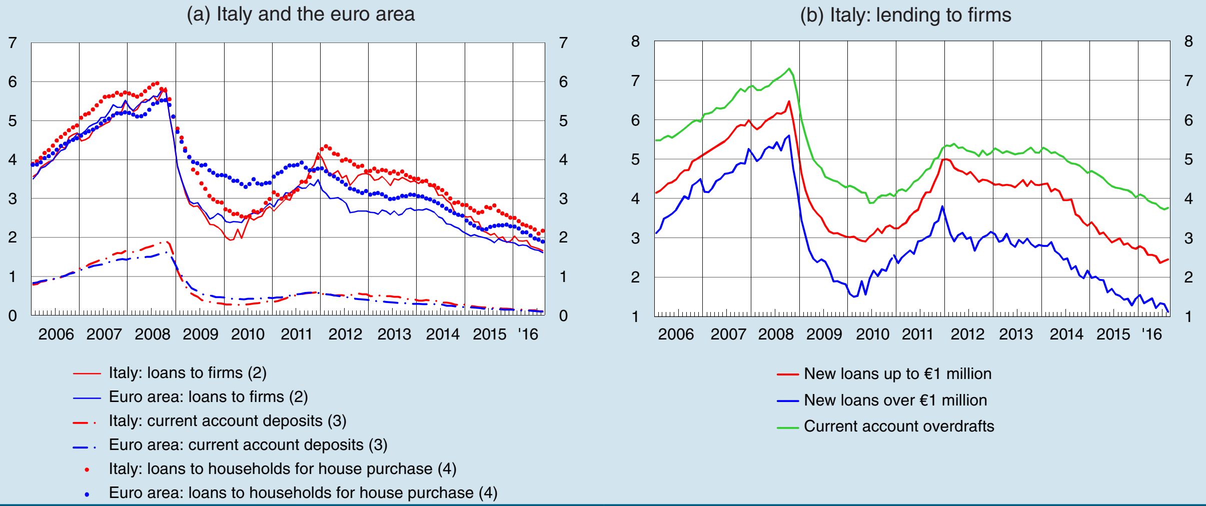
Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	May 2016	August 2016	May 2016	August 2016
Assets				
Loans to Italian residents (4)	1,817	1,800	0.0	-0.8
of which: to firms (5)	790	784	0.3	-0.2
to households (6)	621	621	1.5	1.5
Claims on central counterparties (7)	97	92	0.7	2.2
Debt securities excluding bonds of resident MFIs (8)	529	521	-3.7	-3.3
of which: securities of Italian general government entities	418	409	-2.0	-2.1
Claims on the Eurosystem (9)	19	32	29.1	28.7
External assets (10)	345	328	1.9	-4.5
Other assets (11)	1,125	1,148	-5.7	0.5
Total assets	**3,932**	**3,920**	**-1.9**	**-0.8**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,402	1,409	2.4	3.2
Deposits of non-residents (10)	328	306	-2.6	-7.2
Liabilities towards central counterparties (7)	170	155	6.2	-2.4
Bonds (13)	369	354	-16.1	-16.3
Liabilities towards the Eurosystem (9)	150	174	0.4	10.2
Liabilities connected with transfers of claims	120	117	-8.7	-11.1
Capital and reserves	442	442	1.3	-0.7
Other liabilities (14)	950	963	-3.5	2.1
Total liabilities	**3,932**	**3,920**	**-1.9**	**-0.8**

Source: Supervisory reports.
(1) The data for August 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) Includes the 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.

Figure 33

Bank interest rates (1)
(monthly data; per cent)



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

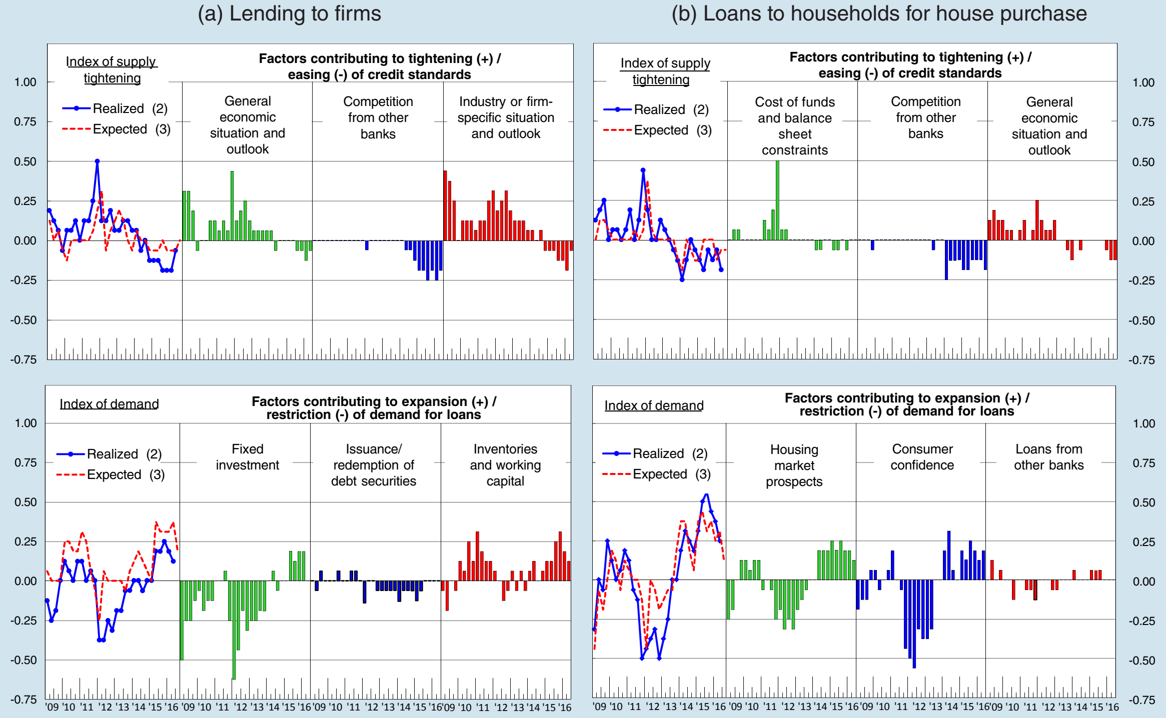
rate loans (to 2.3 per cent) but was virtually unchanged for variable rate loans (1.8 per cent). The spread with the euro-area average remained close to zero for loans to firms and increased slightly for those to households (30 basis points).

CREDIT SUPPLY AND DEMAND

According to the Italian banks interviewed in June's quarterly euro-area bank lending survey, credit supply standards were virtually unchanged for firms in the second quarter of 2016 (Figure A).[1] Lending conditions for households for home purchase became more expansionary as a result of greater competitive pressure between banks and the more favourable outlook for the economy and the real estate market.[2] Conditions are expected to remain broadly unchanged in the current quarter as well. The average spread applied on loans to both households and firms continued to narrow.

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.

Banks reported that the demand for business loans has been supported by low interest rates and higher funding requirements for stock and working capital. Demand by households for home

[1] Eight of Italy's major banking groups took part in the survey, which was completed on 29 June. 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 third quarter of 2016 will be published on 18 October 2016.
[2] This includes expectations regarding house price dynamics, which determine the value of collateral.

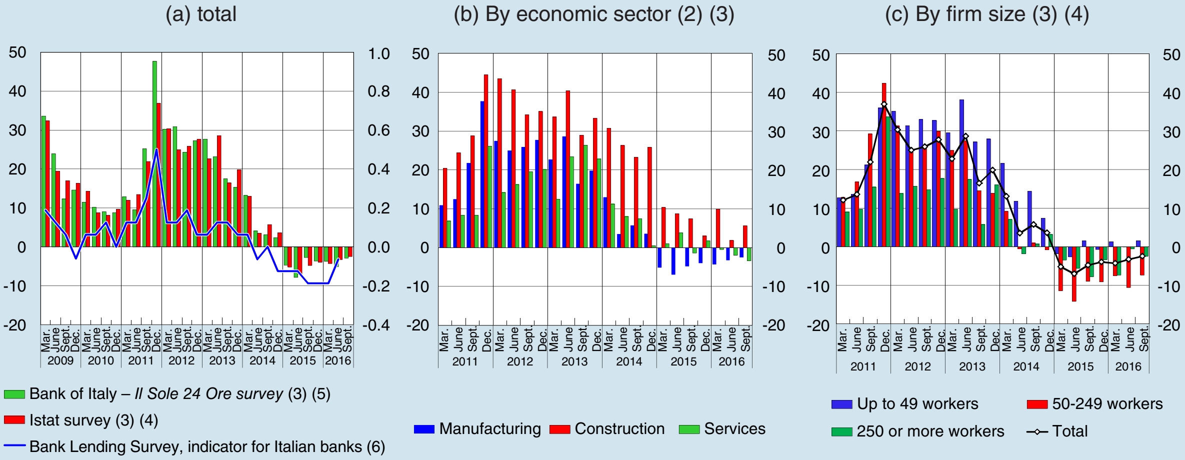
mortgage loans and consumer loans also strengthened further, continuing to benefit from low interest rates against an improved outlook for the real estate market.

This survey contained specific questions, which are included every six months, on the effect of the targeted longer-term refinancing operations (TLTRO2) on credit conditions. The banks reported that most of the liquidity obtained was used to support credit to firms and to replace other refinancing operations with the Eurosystem and, to a lesser extent, other maturing loans. Going forward, funds obtained through the forthcoming TLTRO2 will be used mainly for new loans to non-financial companies

The results of the business surveys conducted in September regarding the third quarter of the year again indicate a further slight easing of credit access conditions, while still showing differences across categories of firm (Figure B). According to Istat's business confidence survey, the improvement was felt by service firms and medium-to-large manufacturing firms. Conditions are expected to remain tight for small manufacturing firms and, to a greater extent, for construction companies. 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 are 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.

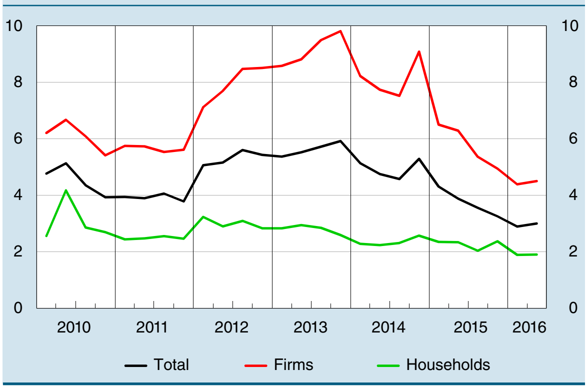
Credit quality continues to improve for the main Italian banking groups

The improvement in the economic outlook continues to impact favourably on the quality of Italian banks' loan portfolios. The ratio of new non-performing loans to outstanding loans was broadly stable between the first and the second quarter at 3.0 per cent on a seasonally adjusted annualized basis (Figure 34); it stood at 1.9 per cent for households and 4.5 per cent for firms. The NPL ratio is still high but continues to diminish: for the five largest banking groups it fell further in the second quarter, from 17.9 to 17.4 per cent in terms of gross values and from 10.4 to 10.1 per cent net of write-downs.

The NPL coverage ratio (i.e. the ratio of write-downs to the stock of non-performing loans) is in line with the average observed for the main European banks. The write-downs of bad loans in the balance sheet are consistent with the estimates of recovery rates historically observed for Italian banks.[2] Moreover, most of the NPLs are concentrated at sound credit institutions that do not need to put them immediately on the market.

Figure 34

New non-performing loan rate (1)
(per cent)



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

The results of the EU-wide stress test are published at the end of July

In the recent European stress test, four of the five Italian banks that took part demonstrated they were able to cope with extremely adverse macrofinancial shocks.[3] One bank immediately began to carry out a recapitalization plan and sell its whole stock of bad loans. The markets' reaction to the stress tests reveals that there is still concern about banks' profitability (see the box 'Share prices of Italian banks and credit supply' and Section 2.8).

SHARE PRICES OF ITALIAN BANKS AND CREDIT SUPPLY

The prices of bank shares have fallen sharply since the end of 2015; slumps have coincided with the introduction of new regulations or with adverse events involving specific institutions (see *Financial Stability Report*, No. 1, 2016).

In the past, the yearly movements of Italian banks' share prices were positively, if weakly, correlated with the trend in business lending in the following twelve months (the correlation coefficient for 2006-15 was 0.33). This does not necessarily point to a causal link: it may be due to underlying factors of a macroeconomic or institutional nature that together influence both share prices and bank lending.

More specifically, expectations of poor economic growth affect the quality of banks' assets, leading to a deterioration in their prospective profitability; at the same time there is less demand for credit.[1] Instead, interest rate movements do not have an unequivocal effect. On the one hand, when rates go down, this diminishes the expected profit on new loans and the banks' net interest income, with adverse short-term repercussions on share prices and on the supply of loans; but on the other, lower

[1] Some studies suggest that the reduced profitability of Italian banks compared with those of the other euro-area countries reflects above all the weakness of the economy, which has also been the cause of the rise in banks' bad debts over the past decade (see A. Notarpietro and L. Rodano, 'The evolution of bad debt in Italy during the global financial crisis and the sovereign debt crisis: a counterfactual analysis', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 350, 2016, and U. Albertazzi, A. Notarpietro and S. Siviero, 'An inquiry into the determinants of the profitability of Italian banks', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming).

[2] L. Carpinelli, G. Cascarino, S. Giacomelli and V. Vacca, 'The management of non-performing loans: a survey among the main Italian banks', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 311, 2016.

[3] See on the Bank of Italy's website: Publication of the EU-wide bank stress test results coordinated by the European Banking Authority (EBA), 29 July 2016.

interest rates may increase the demand for credit and reduce bad loans, with positive effects on banks' overall profitability and on lending growth.

Changes in regulations or in banks' balance sheets can also cause share prices and credit supply to move together in the same direction. Higher capital ratios, for example, may encourage banks to reduce their balance sheet assets, including loans, as raising new capital on the market becomes more expensive.

The effects of a reduction in banks' share prices on the supply of business loans in the following twelve months has been estimated by means of an econometric exercise using Central Credit Register information on individual loans granted by the 20 leading Italian banking groups in the period 2006-15. Using individual data makes it possible to separate the impact of changes in one bank's share price on loan dynamics from the effects due to the performance of macroeconomic variables or to factors bearing on an individual firm's demand for credit.

The estimates show that the consequences of a drop in share prices may not be negligible, on average, but they are uncertain: a 10 per cent reduction in share prices is accompanied by a decrease in the following 12 months of about 0.5 percentage points in the rate of growth of business loans. However, in the period considered, credit dynamics reflect above all the macroeconomic outlook and firms' demand. The results also reveal that the link between market values and bank lending is not stable over time: this suggests that the implications of current movements for the future performance of business lending should be evaluated with care.

Profitability diminishes

The profitability of the five largest Italian banking groups was down in the first half of 2016 compared with the year-earlier period: annualized ROE fell to 3.7 per cent from 6.3 per cent in the first six months of 2015. Gross income diminished by about one fifth, partly owing to temporary factors: operating costs rose sharply (7.1 per cent) owing to the extraordinary expenses associated with the early retirement incentive schemes for part of the personnel and to contributions to the deposit guarantee and resolution funds (net of these, outgoings are virtually stationary); net interest income and other revenue decreased by 2.1 and 4.5 per cent respectively. Write-downs of loans rose by 18.7 per cent as some banks substantially increased their NPL coverage ratios.

Capital ratios increase

The capital ratio of the five largest groups increased in the second quarter: at the end of June common equity tier 1 capital and total equity capital stood respectively at 11.6 and 15.4 per cent of risk-weighted assets (15 basis points higher than in March). Compared with the end of 2008, at the start of the global crisis, the highest quality capital ratios of the leading Italian banking groups doubled, reaching 11.6 per cent at the end of June; these ratios are still about two percentage points lower than the average for the main European banking groups.

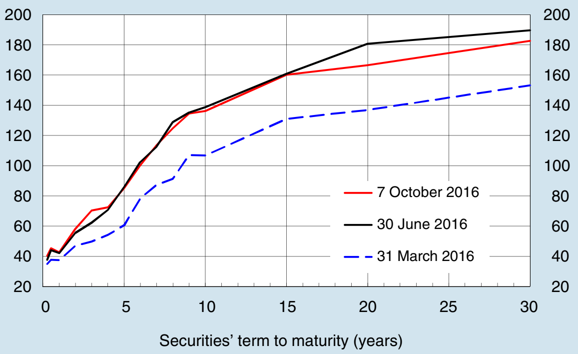
2.8 THE FINANCIAL MARKETS

Conditions in the Italian financial markets improved, in part as a result of the easing of tensions relating to the outcome of the referendum on whether the United Kingdom would remain in the European Union. However, uncertainty regarding the strength of economic growth in the euro area and future interest rate developments in the United States continue to weigh on the markets, as do concerns on the profitability of the Italian and European banking sectors.

Figure 35

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

(basis points)



Source: Based on Bloomberg data.

Figure 36

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.

Sovereign spreads remain stable

In the third quarter, Italian sovereign spreads remained largely unchanged: the yield spread between ten-year Italian and German government bonds decreased by 2 basis points to 136 basis points (Figure 35). Yields on Italian government securities increased across nearly all maturities. At the start of August, the DBRS credit rating agency announced that it had placed Italy's sovereign rating under review for an eventual downgrade; the announcement did not generate any notable change in the prices of government securities. Spreads on Italian non-financial corporate bonds decreased significantly, by 13 basis points from the end of June, benefiting from the positive effects of the Eurosystem's asset purchase programme.

Share prices increase moderately ...

The general index of the Italian stock market and that of the main euro-area companies have increased slightly since the end of June, by 1 and 6 per cent, respectively (Figure 36). After the drop that ensued in the wake of the UK referendum, the Italian stock market index has recovered 9 per cent and the euro-area index 12 per cent. Italy's performance is attributable to a reduction in the risk premium demanded by investors and a moderate improvement in corporate earnings expectations. The expected volatility of Italian share prices implied by the prices of stock index options has declined.

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	-16.4	-1.7	-123.8
2015 – Q1	-42.0	-5.8	0.4	-47.4
Q2	-26.4	-5.2	-3.6	-35.1
Q3	-26.7	-0.4	1.3	-25.8
Q4	-10.6	-5.0	0.1	-15.5
2016 – Q1	-34.2	-4.7	-8.6	-47.5
Q2	-4.1	1.0	4.1	0.9
		Euro area		
2014	-395.6	22.6	57.9	-315.2
2015	-282.7	171.2	53.2	-58.3
2015 – Q1	-69.0	63.9	18.0	12.9
Q2	-69.1	10.4	0.4	-58.3
Q3	-61.4	33.4	15.9	-12.0
Q4	-83.3	63.5	18.9	-0.9
2016 – Q1	-40.0	-123.0	-0.8	-163.8
Q2	-6.3	-36.4	29.2	-13.5

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.

… and bank shares also partially recover

The markets' response in the days following the publication of the recent European stress test results at the end of July (see Section 2.7) indicates lingering concerns about the profitability of the banking sector: the drop in share prices of the banks subject to the test was accompanied by a decrease in credit default swap (CDS) premiums. In the third quarter as a whole, bank shares recovered partially, by about 9 per cent; compared to the fall recorded after the Brexit referendum, they rose by 20 per cent. CDS premiums for the main Italian banks, which had increased considerably following the outcome of the UK referendum on 23 June, subsequently fell; for the third quarter as a whole, they came down on average by 43 basis points to 239 basis points.

The Eurosystem programme has spurred new corporate issuance

The broadening of the Eurosystem's asset purchase programme to include corporate securities, launched on 8 June, has contributed to increased recourse to the bond market by firms. In the second quarter of 2016 there was an appreciable rise in bond issues by non-financial corporations, to €4 billion in Italy and €29 billion in the euro area (Table 7), the highest level reported for that quarter since 2009. By contrast, net bond redemptions by banks continued both in Italy and in the euro area, amounting to €4 billion and €6 billion respectively.

Net inflows into Italian investment funds are negative

According to Assogestioni data, in the spring Italian and foreign open-ended investment funds recorded net outflows of savings amounting to €1 billion, against net inflows of €13 billion the previous quarter. Money market and equity funds largely accounted for the outflows, while bond funds and flexible funds reported net inflows.

2.9 THE PUBLIC FINANCES

In September the Government revised its forecasts for the public finances in 2016 and its plans for the following three years. This year general government net borrowing is estimated to reach 2.4 per cent of GDP, only marginally more than indicated in the 2016 Economic and Financial Document (EFD) published in April. Rather than decline slightly, the ratio of debt to GDP is expected to rise by half a percentage point in 2016.

The EFD Update confirms the reduction in net borrowing in 2016

In its Update of the 2016 Economic and Financial Document approved on 27 September, in light of lower than expected growth the Government increased its estimate of general government net borrowing in 2016 from 2.3 per cent to 2.4 per cent of GDP (Table 8 and Section 2.1). The deficit is projected to contract by 0.2 percentage points with respect to 2015 (Table 9); the improvement is likely ascribable to the fall in interest payments (from 4.2 to 4.0 per cent of GDP) while the primary balance is expected to hold stable at 1.5 per cent of output.

Table 8

Public finance objectives and estimates for 2016

(per cent of GDP)

	General government				*Memorandum item:* real GDP growth rate
	Net borrowing	Structural net borrowing	Primary surplus	Debt	
Objectives					
April 2015 (1)	1.8	0.4	2.4	130.9	1.4
Autumn 2015 (2)	2.4	….	1.8	131.4	1.6
April 2016 (3)	2.3	1.2	1.7	132.4	1.2
September 2016 (4)	2.4	1.2	1.5	132.8	0.8
Current legislation scenario					
April 2016 (3)	2.3	1.3	1.7	132.4	1.2
September 2016 (4)	2.4	1.4	1.5	132.8	0.8

(1) 2015 Economic and Financial Document. – (2) For net borrowing and the primary surplus, based on data from the Technical Note to the 2016 Stability Law; for debt and real GDP growth, 2016 Draft Budgetary Plan. – (3) 2016 Economic and Financial Document. – (4) Update of the 2016 Economic and Financial Document.

Table 9

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

	2015	2016	2017	2018	2019
Net borrowing	2.6	2.4	2.0	1.2	0.2
Primary surplus	1.5	1.5	1.7	2.4	3.2
Interest payments	4.2	4.0	3.7	3.6	3.4
Structural net borrowing	0.7	1.2	1.2	0.7	0.2
Debt	132.3	132.8	132.5	130.1	126.6

Source: *Update to the 2016 Economic and Financial Document*.
(1) Rounding of decimal points may cause discrepancies in totals.

The structural deficit and the ratio of debt to GDP increase

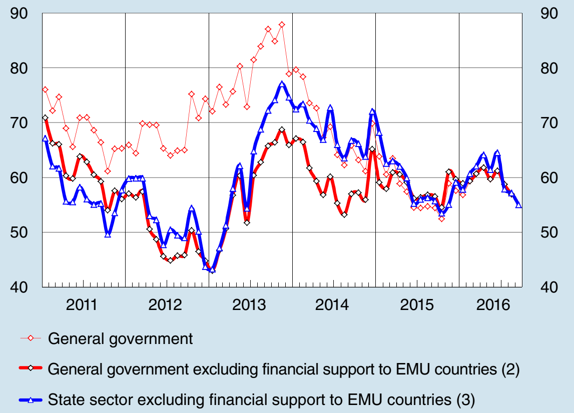
In 2016 structural net borrowing (i.e. net of the effects of the business cycle and temporary measures) is forecast to increase by 0.5 percentage points of GDP, to 1.2 per cent under the policy scenario. While the deterioration is greater than that indicated by the EU Council last July, in the Government's assessment the deviation is not significant and should not jeopardize compliance with the preventive arm of the Stability and Growth Pact for this year. The ratio of public debt to GDP, which in the April estimates was projected to decline by 0.3 percentage points with respect to 2015, is now expected to increase by 0.5 points, to 132.8 per cent. The revised estimate reflects the lowering of the GDP growth forecast and lower than expected privatization receipts (0.1 per cent of GDP as against 0.5 per cent indicated in April).

Data on the cash balance are consistent with the Government's estimates for net borrowing in 2016

According to available data on the cash balance, the estimate for net borrowing in 2016 presented in the Update appears attainable. In the first eight months of the year the general government borrowing requirement net of privatization receipts came to €28.0 billion, €0.7 billion less than in the same period of 2015 (Figure 37). If the effects of the main financial operations are excluded and a number of temporal and accounting asymmetries are taken into account, the cash balance in the first eight months of 2016 is estimated to record a larger improvement than that envisaged in the Government's estimates for net borrowing this year.

Figure 37

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



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

In the first nine months of 2016 tax revenues in the State budget, net of lotteries and gaming receipts, grew by 4.1 per cent (€11.6 billion). Taking account of some temporal and accounting asymmetries (relating to VAT receipts, personal income tax proceeds, public television licence fees, e-stamping), growth in revenues appears to have been slower.

The quarterly accounts also point to a fall in net borrowing in 2016

According to the estimates released by Istat, in the first half of the year net borrowing came to 2.3 per cent of GDP, representing a reduction of 0.7 percentage points compared to the same period in 2015 (Table 10). Outlays contracted slightly (-0.1 per cent): lower interest payments (-3.7 per cent) and capital expenditure (-8.5 per cent) offset the 1.0 per cent increase in current primary expenditure, driven by the expansion of 2.0 per cent in social benefits in cash and 4.1 per cent in intermediate consumption expenditure. Revenues increased by 1.1 per cent, boosted by both the current and capital components.

In the first eight months of the year general government debt expanded by €52.0 billion (compared with €49.3 billion in the same period in 2015). In addition to the general government borrowing requirement, the increase reflects that in the Treasury's liquid balance (€28.9 billion; €27.3 billion in the first eight months of 2015). Overall, the effect of the issue of securities priced above par, the variation in exchange rates and the rise in the value of inflation-linked bonds instead helped keep down the public debt by €4.1 billion.

The Government confirms the fiscal policy stance for the next three years ...

In the Update the Government confirmed its fiscal policy stance for the three years 2017-19 as outlined in April.[4] The revised estimates and objectives for the public accounts mainly reflect the deterioration in the macroeconomic outlook.

... and, given the macroeconomic outlook, revises up its estimates for the deficit in 2017

In the Government's plans, net borrowing in 2017 will reach 2.0 per cent of GDP (April's objective was 1.8 per cent), compared with 1.6 per cent on a current legislation basis. Interest payments are expected to fall by 0.3 points of GDP. The fiscal policy stance, measured by the primary surplus adjusted for the business cycle, is expected to remain expansionary (as indicated in April, the surplus is projected to fall by 0.3 percentage points of GDP). In light of the current economic situation, the Government believes that a structural adjustment would be counterproductive: in the policy scenario the structural deficit for 2017 remains unchanged (April's Economic and Financial Document forecast an improvement of 0.1 percentage points from 2016).

As to the planned measures, the Government has confirmed its intention to cancel the VAT increases envisaged under the safeguard clauses and to offset the effects of this decision only in part with measures to counter tax evasion and elusion together with others to reduce spending. The Update lists

Table 10

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

	H1			
	2015	2016	Change on corresponding half-year 2015	Change on corresponding half-year 2016
TOTAL EXPENDITURE	**389,549**	**388,973**	**-0.2**	**-0.1**
Current expenditure net of interest payments	325,795	328,975	0.6	1.0
of which: compensation of employees	74,955	75,379	-1.5	0.6
intermediate consumption	42,239	43,950	0.4	4.1
social benefits in cash	154,533	157,654	2.1	2.0
Interest payments	34,822	33,532	-8.4	-3.7
Capital expenditure	28,932	26,466	2.4	-8.5
of which:				
gross fixed investment	17,610	17,301	-0.7	-1.8
TOTAL REVENUE	**365,713**	**369,711**	**0.7**	**1.1**
Current revenue	364,170	367,527	0.8	0.9
of which:				
direct taxes	104,438	105,918	0.2	1.4
indirect taxes	124,820	126,666	0.8	1.5
social security contributions	98,141	99,069	1.9	0.9
Capital revenue	1,543	2,184	-18.9	41.5
of which:				
capital taxes	477	1,520	-26.2	218.7
NET BORROWING	**23,836**	**19,262**		
% of GDP	3.0	2.3		
Primary balance	**10,986**	**14,270**		
% of GDP	1.4	1.7		

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

[4] 'Preliminary hearing on the 2016 Update of the Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, Luigi Federico Signorini, at the Chamber of Deputies, Rome, 3 October 2016.

a number of other expansionary measures such as public investment in infrastructure, tax incentives for investment by firms, measures to support pensioners at risk of poverty and to promote more flexible access to the social security system.

At the same time as it presented the Update, the Government requested authorization from Parliament to increase further, if necessary, net borrowing by up to a maximum of 0.4 percentage points of output in 2017. The request specifies that any increase in the deficit would reflect extra spending necessitated by exceptional events, in particular to secure Italy's territory and buildings and to manage migration flows. The scenarios in the Update do not take account of these supplementary outlays.

A comprehensive picture of the provisions and funding will be set out in the budget law for 2017; the draft law is due to be presented to Parliament by 20 October next.

The ratio of debt to GDP should begin to fall in 2017 ...

In the policy scenario the ratio of debt to GDP is expected to fall in 2017 (by 0.3 percentage points, reaching 132.5 per cent). One contribution is expected to come from privatization receipts, confirmed at 0.5 per cent of output, as already indicated last April.

Consolidation efforts are expected to resume in the two years 2018-19

In the two years 2018-19 the deficit is expected to fall on average by a little under 1 percentage point of output per year, reaching 0.2 per cent of GDP in 2019. In structural terms net borrowing is projected to decline by around 0.5 percentage points of GDP per year in the same two years, confirming the attainment of broad structural balance at the end of the planning horizon. The reduction in the ratio of debt to GDP should accelerate after 2017; this ratio is projected to reach 126.6 per cent in 2019.

In the Government's assessments the objectives in the Update are consistent with EU rules, also considering the revised growth estimates. In November the European Commission will issue an opinion on the subject, when it assesses the Draft Budgetary Plan.

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	1.5	4.4	2.3	-0.2	3.6	1.6	..	-0.1	6.6
2012	-0.9	-0.8	-0.9	-4.1	-2.4	-3.3	-1.1	-0.3	2.6
2013	-0.3	1.5	0.2	-3.5	-1.3	-2.4	-0.6	0.2	2.2
2014	1.1	4.8	2.1	-0.7	3.8	1.5	0.8	0.6	4.4
2015	2.0	6.3	3.3	1.2	5.1	3.1	1.8	1.4	6.3
2014 – Q2	0.2	1.4	0.5	-1.1	0.5	-0.3	0.3	0.2	1.1
Q3	0.4	1.5	0.7	0.1	1.2	0.6	0.4	0.3	1.6
Q4	0.4	1.4	0.7	0.2	0.8	0.5	0.5	0.1	1.5
2015 – Q1	0.8	2.4	1.3	1.0	2.2	1.6	0.4	0.5	2.5
Q2	0.4	0.7	0.5	-0.4	0.6	0.1	0.4	0.4	1.2
Q3	0.4	1.2	0.6	0.2	0.9	0.5	0.5	0.4	0.4
Q4	0.4	1.4	0.7	1.3	1.6	1.4	0.3	0.6	0.7
2016 – Q1	0.5	-0.1	0.3	0.7	0.1	0.4	0.6	0.6	..
Q2	0.3	0.4	0.3	-0.4	0.4	..	0.2	0.1	1.1
				Implicit prices					
2011	1.1	5.9	….	….	….	1.6	2.3	0.8	3.6
2012	1.3	2.6	….	….	….	1.2	1.9	0.8	1.9
2013	1.3	-1.3	….	….	….	0.4	1.1	1.2	-0.4
2014	0.8	-1.7	….	….	….	0.5	0.5	0.8	-0.7
2015	1.2	-2.1	….	….	….	0.7	0.2	0.6	0.1
2014 – Q2	0.1	-0.5	….	….	….	-0.1	..	..	-0.2
Q3	0.3	0.1	….	….	….	0.3	..	0.3	0.4
Q4	0.3	-1.0	….	….	….	0.3	..	-0.1	-0.1
2015 – Q1	0.3	-1.1	….	….	….	-0.1	-0.3	0.1	-0.2
Q2	0.3	1.2	….	….	….	0.2	0.5	0.2	0.8
Q3	0.3	-1.4	….	….	….	0.3	..	0.2	-0.4
Q4	0.5	-1.0	….	….	….	0.5	0.1	..	-0.4
2016 – Q1	0.1	-2.1	….	….	….	-0.1	-0.3	0.3	-1.5
Q2	0.3	0.3	….	….	….	0.1	0.3	0.3	..

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	-2.4	-1.9	-8.0	-5.1	-6.6	-2.5	-0.3	0.7
2014	0.1	3.3	0.8	-6.6	0.9	-3.0	0.4	-0.9	2.9
2015	0.7	6.0	1.8	-0.4	3.0	1.3	1.5	-0.6	4.3
2014 – Q2	..	1.3	0.3	-2.1	1.0	-0.6	0.1	-0.7	1.1
Q3	0.1	1.2	0.4	-1.5	0.4	-0.5	0.2	0.5	0.6
Q4	-0.1	0.3	..	-1.4	1.2	-0.1	0.4	..	1.7
2015 – Q1	0.3	3.4	0.9	1.0	0.9	1.0	0.2	-0.8	1.4
Q2	0.2	1.3	0.5	-0.3	0.3	..	0.7	-0.2	1.2
Q3	0.2	-0.1	0.1	0.7	0.5	0.6	0.6	0.3	-1.3
Q4	0.2	1.4	0.4	1.2	0.7	0.9	0.3	0.6	1.7
2016 – Q1	0.3	-0.7	0.1	-0.3	1.6	0.7	0.4	0.2	-1.3
Q2	..	1.4	0.3	0.3	0.1	0.2	0.1	-0.3	2.4
					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	..	0.1	1.2	0.3	-0.3
2014	0.9	-2.7	0.1	0.2	0.5	0.4	0.2	0.1	-0.2
2015	0.6	-2.6	-0.1	-0.2	0.7	0.2	..	..	-0.4
2014 – Q2	-0.3	-0.6	-0.4	-0.1	-0.1	-0.1	..	-0.3	-0.3
Q3	..	-0.3	-0.1	0.3	0.8	0.6	-0.1	0.1	0.3
Q4	0.7	-1.1	0.3	0.1	0.5	0.3	..	0.3	-0.2
2015 – Q1	-0.1	-1.1	-0.3	-0.4	-0.6	-0.5	-0.1	-0.2	-0.3
Q2	0.1	1.1	0.3	-0.3	0.5	0.1	0.3	-0.1	0.3
Q3	0.4	-1.9	-0.1	0.3	0.3	0.3	-0.1	0.1	-0.4
Q4	0.3	-1.2	..	..	0.3	0.2	0.1	0.1	-0.3
2016 – Q1	0.6	-2.3	..	-0.2	0.5	0.2	-0.3	0.3	-0.8
Q2	..	0.4	..	0.2	-0.4	-0.1	0.1	-0.3	0.2

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		
2013	2.8	0.6	-0.9	-1.5	2.1
2014	1.7	1.7	2.0	0.3	..
2015	1.3	3.0	3.8	0.7	-1.7
2014 – Q1	1.6	1.9	2.3	0.3	-0.4
Q2	2.0	2.2	2.1	-0.1	-0.2
Q3	1.5	1.7	2.1	0.3	-0.2
Q4	1.7	1.1	1.9	0.7	0.5
2015 – Q1	1.5	2.5	3.0	0.5	-1.0
Q2	1.3	2.3	3.3	1.0	-1.0
Q3	0.9	2.7	3.8	1.1	-1.8
Q4	1.0	2.9	3.5	0.6	-1.8
2016 – Q1	0.7	0.2	1.4	1.2	0.6
Q2	0.5	0.4	1.5	1.1	0.1
			Services		
2013	2.2	1.2	0.2	-1.0	0.9
2014	1.0	0.1	1.0	0.9	0.9
2015	1.2	0.3	1.6	1.3	0.9
2014 – Q1	1.0	0.3	1.1	0.8	0.7
Q2	1.0	0.1	0.9	0.7	0.9
Q3	0.9	..	1.0	1.0	0.9
Q4	1.1	..	1.2	1.2	1.1
2015 – Q1	1.2	0.7	1.5	0.8	0.5
Q2	1.1	0.5	1.7	1.2	0.6
Q3	1.1	..	1.5	1.5	1.1
Q4	1.4	..	1.5	1.5	1.4
2016 – Q1	1.2	-0.2	1.6	1.9	1.4
Q2	1.1	-0.2	1.7	1.9	1.3
			Total economy		
2013	2.3	1.3	-0.2	-1.4	1.0
2014	1.1	0.6	1.1	0.5	0.6
2015	1.1	0.8	1.9	1.2	0.4
2014 – Q1	1.1	0.8	1.3	0.5	0.3
Q2	1.3	0.7	1.0	0.3	0.5
Q3	1.0	0.5	1.1	0.6	0.5
Q4	1.2	0.2	1.1	0.9	0.9
2015 – Q1	1.3	1.0	1.7	0.7	0.2
Q2	1.1	0.8	1.9	1.1	0.3
Q3	1.0	0.5	1.9	1.3	0.4
Q4	1.2	0.6	1.9	1.3	0.7
2016 – Q1	1.0	-0.1	1.6	1.7	1.1
Q2	1.0	..	1.6	1.6	1.0

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

Table A4

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2013	2.6	0.6	-2.2	-2.8	2.0
2014	0.9	0.6	-0.6	-1.2	0.3
2015	1.6	1.2	1.3	0.2	0.5
2014 – Q1	1.2	1.2	0.6	-0.6	..
Q2	0.5	1.1	-0.1	-1.2	-0.6
Q3	0.5	0.1	-0.8	-0.9	0.3
Q4	0.4	0.2	-0.7	-0.8	0.2
2015 – Q1	2.1	1.7	..	-1.7	0.4
Q2	1.9	0.8	0.6	-0.3	1.1
Q3	2.0	1.5	1.4	..	0.5
Q4	1.9	0.2	1.2	1.0	1.7
2016 – Q1	-0.1	-1.1	1.9	3.0	0.9
Q2	0.3	-2.3	0.7	3.0	2.7
		Services			
2013	1.2	0.8	-1.1	-1.9	0.4
2014	-0.1	0.4	0.8	0.4	-0.5
2015	-0.2	-0.7	0.4	1.0	0.5
2014 – Q1	0.6	0.9	0.7	-0.3	-0.4
Q2	..	0.6	0.9	0.3	-0.6
Q3	-0.3	0.2	0.8	0.6	-0.5
Q4	-0.8	-0.4	0.8	1.2	-0.5
2015 – Q1	-0.1	-0.1	0.5	0.5	..
Q2	0.1	-0.2	0.4	0.7	0.4
Q3	-0.1	-1.1	0.2	1.3	1.0
Q4	-0.6	-1.0	0.2	1.2	0.4
2016 – Q1	-0.5	-1.5	0.5	2.1	1.0
Q2	-1.0	-1.7	0.6	2.3	0.8
		Total economy			
2013	1.6	1.2	-1.5	-2.6	0.5
2014	0.2	0.2	0.1	-0.1	..
2015	0.3	-0.4	0.5	0.9	0.7
2014 – Q1	0.7	0.8	0.4	-0.4	-0.1
Q2	0.2	0.4	0.4	-0.1	-0.3
Q3	..	..	0.1	0.1	..
Q4	-0.5	-0.7	0.1	0.7	0.2
2015 – Q1	0.5	0.1	0.2	0.1	0.5
Q2	0.5	-0.3	0.3	0.7	0.9
Q3	0.4	-0.4	0.4	0.9	0.9
Q4	..	-0.4	0.7	1.1	0.4
2016 – Q1	-0.4	-1.4	0.8	2.2	1.0
Q2	-0.6	-1.4	0.6	2.1	0.9

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.

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
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	..	0.8
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	..	0.7	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	..	-0.1	0.5	0.8
July	0.6	0.9	0.7	1.1	..	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	..	0.4	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	..	1.1	..	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	..	-0.6	0.6
Feb.	-0.3	0.3	..	1.1	0.1	0.9	-1.2	..	-0.3	0.7
Mar.	..	0.4	0.2	1.0	..	0.5	-0.8	..	-0.1	0.6
Apr.	0.1	0.5	0.3	1.1	-0.1	0.3	-0.7	..	..	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	..	0.4	0.2	0.8
July	0.2	0.8	0.1	0.9	0.4	1.0	..	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	..	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	..	1.1	-0.3	0.6	-1.1	0.5	-0.1	0.8
June	0.3	0.6	0.2	1.2	-0.2	0.5	-0.9	0.5	0.1	0.9
July	0.4	0.6	0.4	1.3	-0.2	0.5	-0.7	0.6	0.2	0.9
Aug.	0.4	0.5	0.3	1.0	-0.1	0.4	-0.3	0.7	0.2	0.8
Sept.	0.5	….	(0.5)	….	(0.1)	(0.4)	(0.1)	….	(0.4)	(0.8)

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	-27.6	-24.4	-24.6	3.8	5.5
2009	93.5	97.9	89.9	91.7	97.6	-56.4	-59.3	-56.9	-6.1	2.5
2010	100.0	100.0	100.0	100.0	100.0	-29.8	-27.4	-27.0	12.3	-1.5
2011	100.4	97.7	104.1	100.5	97.9	-25.2	-15.2	-19.8	9.2	2.1
2012	94.4	93.5	98.0	91.7	95.4	-43.4	-27.4	-36.8	-3.2	3.3
2013	91.5	91.3	93.4	90.5	90.2	-44.3	-18.3	-32.0	4.1	1.5
2014	90.5	90.6	93.4	90.0	85.4	-33.3	-15.3	-19.4	9.0	2.1
2015	92.1	91.5	97.5	89.8	87.5	-21.7	-13.1	-12.7	12.4	3.1
2008 – Q1	120.3	108.1	126.8	130.3	110.0	-14.0	-11.7	-10.0	14.0	4.0
Q2	119.8	106.5	124.8	126.8	109.8	-21.3	-19.0	-17.7	10.3	5.0
Q3	112.7	103.5	116.3	121.1	106.9	-30.0	-24.7	-26.0	4.0	6.3
Q4	104.5	102.9	106.8	107.0	102.4	-45.0	-42.3	-44.7	-13.0	6.7
2009 – Q1	93.5	97.1	92.0	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	-61.3	-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	94.4	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	98.6	99.4	99.0	-32.7	-29.7	-30.0	12.0	-2.7
Q3	100.4	100.0	101.7	99.5	97.1	-25.7	-24.0	-22.3	13.0	-1.3
Q4	101.3	98.6	102.2	102.4	102.0	-21.7	-14.3	-17.0	15.7	1.0
2011 – Q1	102.0	98.4	105.1	102.8	100.0	-20.3	-10.0	-14.0	15.0	0.3
Q2	102.0	99.7	105.3	102.4	97.7	-20.3	-12.0	-14.7	14.0	0.7
Q3	100.7	97.2	105.3	100.8	98.7	-26.7	-16.0	-22.3	7.3	4.0
Q4	98.7	96.0	102.3	98.2	95.8	-33.3	-22.7	-28.3	0.3	3.3
2012 – Q1	96.2	93.7	99.8	94.2	98.2	-38.7	-26.0	-32.3	-1.3	3.3
Q2	94.9	93.9	97.7	92.9	95.1	-44.7	-27.7	-37.0	-3.0	4.7
Q3	94.9	94.3	99.1	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	92.4	89.5	92.8	-46.0	-29.7	-39.3		3.0
Q2	91.5	90.3	94.7	89.9	90.1	-49.0	-21.7	-39.0	-0.3	2.7
Q3	91.5	91.5	93.0	91.5	88.8	-43.3	-11.7	-28.7	7.3	0.7
Q4	92.0	91.3	93.4	92.3	89.2	-39.3	-10.3	-21.3	10.3	-0.3
2014 – Q1	91.7	91.4	94.4	91.9	85.2	-36.3	-13.3	-19.7	10.0	-0.7
Q2	91.3	91.4	93.4	91.0	87.4	-31.7	-13.7	-17.7	10.3	1.3
Q3	90.6	90.8	93.1	90.0	85.3	-33.3	-15.7	-20.0	7.7	4.0
Q4	91.0	90.8	95.1	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	-26.7	-16.3	-15.3	11.0	3.3
Q2	92.2	91.3	98.3	89.7	87.7	-22.0	-12.3	-12.0	13.0	2.7
Q3	92.2	91.1	97.5	89.2	89.5	-20.3	-13.3	-12.7	12.7	3.0
Q4	92.2	90.8	97.5	90.0	85.8	-17.3	-10.3	-10.7	13.0	3.3
2016 – Q1	92.9	91.0	101.2	91.0	85.4	-18.7	-16.0	-13.3	10.3	3.7
Q2	92.7	90.5	99.5	91.8	83.5	-19.0	-17.3	-14.0	10.3	3.3
Q3	....	....	....	....	....	-20.7	-15.7	-15.3	10.0	3.0

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

Table A7

Labour force, employment and unemployment: Italy

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

	In employment							Job-seekers	Labour force	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 – 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
Q2	868	4,546	1,455	16,067	16,801	6,135	22,936	2,993	25,928	11.5	65.3

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	15,449	36,063	478	-3,035	-18,056	181	-3,142	3,322
2014	30,497	47,403	-1,019	-46	-15,841	3,386	-942	4,328
2015	26,650	52,263	-1,605	-9,193	-14,815	2,638	-1,098	3,736
2014 – Q3	9,695	12,035	1,608	-961	-2,987	423	43	381
Q4	14,989	15,631	-952	3,540	-3,229	3,269	-311	3,580
2015 – Q1	-1,620	9,439	-2,936	-1,052	-7,070	-294	-276	-18
Q2	4,390	12,441	1,336	-6,602	-2,786	-349	-587	238
Q3	10,843	13,669	1,848	-1,881	-2,794	-13	-211	198
Q4	13,037	16,714	-1,853	342	-2,165	3,294	-24	3,318
2016 – Q1	2,657	11,110	-2,498	-55	-5,900	-289	-73	-216
Q2	11,600	16,372	627	-3,511	-1,889	-295	-118	-177
2014 – July	7,267	7,114	1,088	174	-1,108	195	37	157
Aug.	1,475	2,531	-46	-15	-995	157	12	146
Sept.	952	2,391	566	-1,120	-884	71	-6	77
Oct.	5,876	5,715	-1	982	-820	1,317	-65	1,382
Nov.	2,982	3,810	-623	667	-872	1,168	-58	1,226
Dec.	6,131	6,105	-328	1,891	-1,537	784	-188	973
2015 – Jan.	-2,512	718	-841	-635	-1,754	-17	-29	12
Feb.	297	4,153	-1,051	-511	-2,295	-23	-27	4
Mar.	595	4,567	-1,045	94	-3,021	-254	-220	-35
Apr.	2,436	4,306	-23	-832	-1,016	-176	-199	24
May	857	4,686	510	-3,689	-650	-174	-197	23
June	1,097	3,449	850	-2,081	-1,120	1	-191	192
July	8,063	8,427	1,129	-479	-1,014	18	-69	87
Aug.	1,416	2,517	356	-537	-920	22	-58	80
Sept.	1,364	2,725	363	-865	-859	-52	-84	31
Oct.	4,407	5,287	-243	-87	-551	1,303	-4	1,306
Nov.	3,217	4,919	-927	-214	-561	1,160	6	1,154
Dec.	5,414	6,508	-684	643	-1,054	831	-26	858
2016 – Jan.	-1,729	624	-645	-238	-1,470	-77	45	-122
Feb.	1,596	4,541	-916	-99	-1,930	7	40	-34
Mar.	2,790	5,946	-937	282	-2,501	-219	-159	-60
Apr.	4,291	5,318	-579	291	-739	-130	-73	-57
May	3,227	5,694	481	-2,670	-278	-129	-68	-61
June	4,081	5,360	724	-1,131	-871	-37	23	-59
July	(9,418)	(8,389)	(1,266)	(818)	(-1,055)	(-5)	(-125)	(120)

(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 (2) – *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 –	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	-0.8	-0.4	-2.8	-1.8	1.3	-1.9	-0.3
2016 –	Mar.	0.7	0.5	-0.6	-0.1	-3.0	-1.6	1.5	-0.9	0.2
	June	-3.8	0.8	-0.3	0.3	-2.7	-1.7	2.0	-3.0	-0.2
	July	-2.3	1.7	-0.8	-0.2	-3.6	-2.3	2.0	-1.4	-0.1
	Aug.	-3.1	1.7	-0.4	0.1	-2.9	-1.9	2.1	-1.7	..
						South and Islands				
2013 –	Dec.	-5.4	-3.0	-3.1	-3.0	-3.5	-3.0	-1.6	-3.0	-2.7
2014 –	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	..	-1.6	-0.7	..	-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	1.3	-3.2	0.2
2016 –	Mar.	-5.3	-0.1	..	0.3	-0.7	0.1	1.7	-3.7	0.2
	June	-5.5	2.8	0.4	0.7	-0.5	0.1	2.2	-3.6	0.7
	July	-4.8	1.1	0.2	0.5	-0.8	-0.2	2.3	-3.8	0.7
	Aug.	-3.1	0.7	0.3	0.6	-0.4	0.2	2.5	-3.7	0.9
						Italy				
2013 –	Dec.	-2.8	-4.9	-5.1	-5.3	-4.0	-3.1	-0.9	-3.5	-3.7
2014 –	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	..
	Dec.	0.1	-2.3	-0.7	-0.2	-2.4	-1.5	1.3	-2.1	-0.2
2016 –	Mar.	0.1	0.5	-0.5	-0.1	-2.5	-1.2	1.5	-1.2	0.2
	June	-3.9	0.9	-0.2	0.3	-2.3	-1.3	2.1	-3.0	..
	July	-2.5	1.6	-0.7	-0.1	-3.0	-1.7	2.1	-1.7	..
	Aug.	-3.1	1.7	-0.3	0.2	-2.4	-1.4	2.2	-2.0	0.1

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	4.9	80.3	-3.2	-10.0	77.0	13.0
2014	14.7	-1.1	-16.0	82.0	-4.3	-1.2	75.3	-8.8	-28.0	66.5	4.7
2015	5.1	-1.5	-9.5	44.2	1.7	-1.1	40.3	10.7	8.0	51.0	-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	3.7	4.1
2014 – Mar.	6.3	-0.5	3.5	46.2	0.1	-1.3	54.8	-24.3	-6.5	30.5	..
June	2.4	-0.3	-1.6	50.5	-3.4	1.8	49.7	-43.3	-27.0	6.4	4.3
Sept.	-3.7	0.3	-4.9	-20.7	..	-2.4	-31.8	53.7	-1.6	22.0	0.4
Dec.	9.8	-0.6	-13.0	6.1	-1.1	0.7	2.5	5.2	7.1	7.7	..
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	-0.5	0.2	18.5	-22.0	6.8	-3.5	..
Sept.	-3.5	0.5	-4.4	-1.9	-2.3	-0.1	-12.2	36.9	3.2	24.8	..
Dec.	5.1	-0.8	-8.6	-18.9	0.3	1.5	-20.6	28.3	23.8	7.7	..
2016 – Mar.	-1.7	-0.1	3.7	58.4	1.7	-0.5	61.5	-34.2	-24.6	27.3	..
June	-4.4	0.2	-0.8	28.7	-1.9	-1.0	20.6	-22.5	-1.5	-1.9	..
2015 – Jan.	1.3	-0.4	7.3	24.7	-1.1	-0.5	31.7	-36.4	-18.1	-4.7	..
Feb.	-3.3	-0.8	-0.1	5.9	4.4	-2.4	4.5	3.6	-10.9	8.2	-2.1
Mar.	0.4	0.3	-1.7	18.5	0.9	0.2	18.3	0.2	3.2	18.6	..
Apr.	-0.9	-0.1	-1.0	12.1	1.2	-0.3	11.0	-4.2	6.2	6.9	..
May	1.7	-0.4	-0.1	20.1	0.6	-0.2	22.1	-17.8	1.2	4.2	..
June	4.3	0.1	-0.9	-16.4	-2.2	0.6	-14.6	..	-0.6	-14.6	..
July	-3.1	-0.2	..	0.3	-1.9	-0.4	-5.1	4.7	-0.2	-0.4	..
Aug.	0.9	0.5	-2.3	-13.4	-0.2	-0.2	-15.2	22.5	-1.5	7.3	..
Sept.	-1.3	0.3	-2.1	11.2	-0.1	0.6	8.2	9.7	4.9	17.9	..
Oct.	-0.6	-0.1	-1.4	22.8	-0.2	-0.6	20.0	-17.7	1.1	2.3	..
Nov.	-0.7	-0.8	-0.4	0.9	4.3	0.3	4.4	7.3	1.7	11.7	..
Dec.	6.3	0.1	-6.8	-42.6	-3.8	1.8	-45.0	38.7	21.0	-6.3	..
2016 – Jan.	1.6	0.6	4.5	17.1	-0.3	-0.6	22.3	-27.8	-22.1	-5.5	..
Feb.	-2.6	-1.0	-1.1	25.0	0.8	-0.3	21.9	-11.2	-0.5	10.7	..
Mar.	-0.7	0.2	0.2	16.3	1.2	0.4	17.3	4.7	-2.1	22.0	..
Apr.	-2.0	-0.3	0.2	4.9	0.2	-0.4	2.8	5.2	3.3	8.0	..
May	..	0.1	-0.1	9.5	0.8	-0.1	10.1	-8.0	4.8	2.1	..
June	-2.4	0.4	-0.8	14.3	-2.9	-0.5	7.8	-19.8	-9.5	-12.0	..
July	0.7	-0.6	-0.6	3.3	1.0	0.6	5.0	-8.5	9.5	-3.6	..
Aug.	-0.5	0.2	-0.3	-29.2	-0.5	-0.5	-31.0	36.4	0.6	5.4	..

(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		Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities		General government debt	*Memorandum item:*			
		of which: PO funds					*of which:* in connection with EFSF loans		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	46.0	34.1	2,070.0	37.6	10.0	24.7	55.6
2014	173.2	17.5	124.5	1,667.8	126.8	44.9	36.0	2,137.1	46.4	38.0	25.7	60.3
2015	178.3	16.0	115.0	1,707.2	128.4	43.7	33.9	2,172.7	35.7	30.0	26.9	58.2
2013 – Mar.	160.6	19.4	156.5	1,544.0	133.6	41.5	28.0	2,036.2	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,578.8	134.2	45.7	32.2	2,077.2	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,573.3	132.1	44.5	32.9	2,069.2	40.8	12.1	26.3	51.5
Dec.	158.5	18.6	140.6	1,593.9	131.0	46.0	34.1	2,070.0	37.6	10.0	24.7	55.6
2014 – Mar.	164.7	18.1	144.1	1,636.7	131.2	44.7	34.2	2,121.4	61.9	16.5	25.1	55.6
June	167.1	17.8	142.5	1,685.7	127.8	46.6	35.6	2,169.6	105.3	43.5	25.8	59.9
Sept.	163.4	18.2	137.5	1,662.7	127.8	44.2	36.0	2,135.6	51.6	45.1	24.9	60.3
Dec.	173.2	17.5	124.5	1,667.8	126.8	44.9	36.0	2,137.1	46.4	38.0	25.7	60.3
2015 – Mar.	171.6	16.7	130.0	1,712.0	130.9	42.2	33.9	2,186.7	78.9	63.8	23.2	58.2
June	176.7	16.3	128.0	1,728.5	130.5	42.3	33.9	2,206.0	100.9	57.0	25.5	58.2
Sept.	173.2	16.8	123.6	1,726.2	128.1	42.2	33.9	2,193.4	64.0	53.8	27.3	58.2
Dec.	178.3	16.0	115.0	1,707.2	128.4	43.7	33.9	2,172.7	35.7	30.0	26.9	58.2
2016 – Mar.	176.6	15.9	118.7	1,761.6	130.1	43.2	33.9	2,230.3	70.0	54.6	27.4	58.2
June	172.2	16.1	117.9	1,789.8	128.2	42.3	33.9	2,250.4	92.5	56.1	29.0	58.2
2015 – Jan.	174.5	17.2	131.9	1,691.8	125.6	44.3	36.0	2,168.1	82.8	56.1	21.0	60.3
Feb.	171.2	16.4	131.7	1,696.5	130.0	41.9	33.9	2,171.4	79.1	67.0	20.2	58.2
Mar.	171.6	16.7	130.0	1,712.0	130.9	42.2	33.9	2,186.7	78.9	63.8	23.2	58.2
Apr.	170.7	16.6	129.0	1,723.5	132.1	41.9	33.9	2,197.2	83.1	57.6	23.6	58.2
May	172.4	16.2	128.9	1,744.9	132.7	41.7	33.9	2,220.6	100.9	56.4	25.2	58.2
June	176.7	16.3	128.0	1,728.5	130.5	42.3	33.9	2,206.0	100.9	57.0	25.5	58.2
July	173.6	16.0	128.0	1,729.6	128.5	41.9	33.9	2,201.6	96.2	57.2	26.6	58.2
Aug.	174.5	16.5	125.7	1,716.2	128.3	41.7	33.9	2,186.4	73.7	58.7	27.0	58.2
Sept.	173.2	16.8	123.6	1,726.2	128.1	42.2	33.9	2,193.4	64.0	53.8	27.3	58.2
Oct.	172.6	16.7	122.2	1,749.0	127.9	41.6	33.9	2,213.4	81.7	52.7	29.3	58.2
Nov.	171.9	15.9	121.8	1,749.5	132.2	41.9	33.9	2,217.3	74.4	51.0	30.2	58.2
Dec.	178.3	16.0	115.0	1,707.2	128.4	43.7	33.9	2,172.7	35.7	30.0	26.9	58.2
2016 – Jan.	179.8	16.7	119.6	1,723.7	128.1	43.2	33.9	2,194.4	63.5	52.1	26.5	58.2
Feb.	177.3	15.7	118.5	1,748.2	128.9	42.9	33.9	2,215.8	74.7	52.6	27.6	58.2
Mar.	176.6	15.9	118.7	1,761.6	130.1	43.2	33.9	2,230.3	70.0	54.6	27.4	58.2
Apr.	174.5	15.6	118.9	1,766.0	130.3	42.8	33.9	2,232.5	64.7	51.4	27.9	58.2
May	174.5	15.6	118.7	1,776.3	131.1	42.7	33.9	2,243.4	72.7	46.6	29.9	58.2
June	172.2	16.1	117.9	1,789.8	128.2	42.3	33.9	2,250.4	92.5	56.1	29.0	58.2
July	172.9	15.5	117.3	1,793.3	129.2	42.8	33.9	2,255.6	101.0	46.6	31.0	58.2
Aug.	172.4	15.6	117.0	1,764.3	128.7	42.3	33.9	2,224.7	64.6	46.0	32.1	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.