BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

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

Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
https:\\www.bancaditalia.it

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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 prospects are clouded by uncertainty over economic policies

Worldwide economic conditions have improved slightly, though a number of uncertainties continue to weigh on the outlook. Prospects for the United States will depend on the economic policies enacted by the new administration, which have yet to be worked out in detail. The fiscal policy measures announced could have an expansionary effect, which is difficult to quantify at present, while the imposition and spread of restrictions on trade could have a negative impact. Global growth could be held back by any turbulence in the emerging economies associated with the normalization of US monetary policy.

Long-term yields are rising in the global markets

Following the presidential elections, expectations in the financial markets of an expansionary fiscal policy and higher inflation in the United States have triggered a shift in portfolios from bonds to equity. Long-term yields have also risen in the other advanced economies, but only to a limited extent owing to the divergence of monetary policies. Capital outflows from emerging economies have resumed.

The ECB Governing Council has extended its asset purchase programme to ensure conditions remain expansionary

Growth in the euro area continues at a moderate though gradually strengthening pace. The risks of deflation have largely subsided; inflation turned upwards again in December but core inflation is still at low levels. With a view to maintaining the expansionary monetary conditions necessary to ensure inflation continues on an upward path, the ECB Governing Council has extended its asset purchase programme until the end of December 2017, or beyond, if necessary. From April 2017 purchases will continue at a monthly rate of €60 billion, as in the initial phase of the programme.

Italy's economy continues to record moderate growth ...

The latest available indicators suggest that the Italian economy continued to recover in the autumn, though at a slow pace. Considering the performance of industrial production, electricity consumption and freight transport, which all recorded growth, and business confidence indicators, which are at high levels, GDP is estimated to have risen by around 0.2 per cent in the fourth quarter of 2016 compared with the third.

... driven by domestic demand

Economic activity was stimulated by the revival of investment and the expansion of household expenditure. Signs of consolidation in the construction sector, and in the residential property segment in particular, have been confirmed. The downward trend in the consumer confidence index, under way since the beginning of the year, was interrupted in December.

Households diversify their portfolios

The Bank of Italy's debtor position on TARGET2 was practically unchanged in the last quarter of 2016, reaching €357 billion at the end of December. Considering data on the balance of payments (available to November), the progressive widening of the balance between January and November can be attributed above all to the diversification of Italian households' portfolios towards asset management services and insurance products – which reflect investment policies that are less biased towards national assets – and to the decline in bank funding on international markets, coinciding with liquidity *creation through the Eurosystem programmes. The current account surplus recorded a further improvement.*

Payroll employment rises

In the third quarter of 2016 total employment stabilized and both fixed-term and open-ended payroll jobs increased. The latest cyclical indicators are consistent with a small expansion in employment in the closing months of 2016. Over the course of the year the pace of wage growth in the private sector slowed sharply, affected both by delays in many contract renewals and the absence of pay increments for 2016; the virtual freezing of contractual wages affected around half of all payroll workers.

Lending grows at a slow pace

Lending to the non-financial private sector has continued to expand in recent months, as has business lending, though the pace of growth is still slow. The credit quality of Italy's banks has continued to benefit from the brighter cyclical outlook, with the ratio of new non-performing to outstanding loans declining further.

Share prices rise; sovereign spreads remain high

The risk premiums on Italian government securities, which had risen in the autumn, remained high. In the final part of the year share prices rallied; the recovery in Italian banks' share prices came before the introduction of government measures to support banks' liquidity and capitalization, already partly priced in by market operators.

The Government approves measures to support the banking system

The Government has authorized the funding of possible measures to support Italy's banks and banking groups, which would take the form of capital injections or guarantees on newly issued liabilities, for up to a maximum of €20 billion; it will proceed with the precautionary recapitalization requested by Banca Monte dei Paschi di Siena, in compliance with European regulations on bank recovery and resolution and on State aid.

The projections are for continued growth …

The projections for the Italian economy, updated to take account of the most recent developments and adjusted for working days, indicate that GDP rose by 0.9 per cent on average in 2016 and will expand at around the same pace this year too, before rising to 1.1 per cent in 2018 and in 2019. Output should continue to be driven by national demand and, from as early as this year, also by the gradual strengthening of foreign demand. In 2019 output is expected to still be about 4 percentage points below what it was in 2007.

… assuming that credit conditions remain relaxed and Italy presses on with its reform agenda

The forecasting scenario assumes that long-term yields will remain low and credit standards generally relaxed, both in terms of cost and availability. This in turn assumes that conditions in the financial and banking markets in the euro area and in Italy will continue to be broadly relaxed and that risk premiums and volatility will experience no significant surge; it also reflects the assumption, incorporated in market prices, that Italy will press on with its reform agenda of recent years.

Risks to growth stem from the global situation

Overall, it can be estimated that the risks to growth with respect to these projections remain primarily on the downside. The main factors of uncertainty, aside from financial conditions, stem from the global situation. In contrast to the main assumptions underpinning the projections, there is a particularly high risk that the recovery of the world economy could be affected by the emergence and spread of protectionism, as well as possible turmoil in the emerging economies.

Risks to inflation are balanced

The recent agreements on production cuts among the largest oil producing countries could translate into higher than expected increases in consumer prices, especially this year. Downside risks to the inflation projections instead come from trends in private sector wage growth.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Global growth has gradually gained pace since last summer but, contrary to expectations, this has not translated into a solid recovery in world trade. A boost to economic activity could come from the implementation of a fiscal stimulus programme by the new US administration, the details of which are yet to be defined. There is a risk that the recovery of the global economy could be held back by a rise of protectionist pressures and by possible turbulence in the emerging economies.

Growth exceeds expectations in the advanced economies ...

In the third quarter of 2016 GDP growth in the United States accelerated beyond expectations to 3.5 per cent on an annualized basis (from 1.4 per cent in the previous period), thanks mainly to the contribution of net exports and of the change in inventories. The expansion in private consumption remained strong, while investment continued to stagnate. The information available for the fourth quarter, especially labour market data and the leading indicators, points to continued robust growth in economic activity.

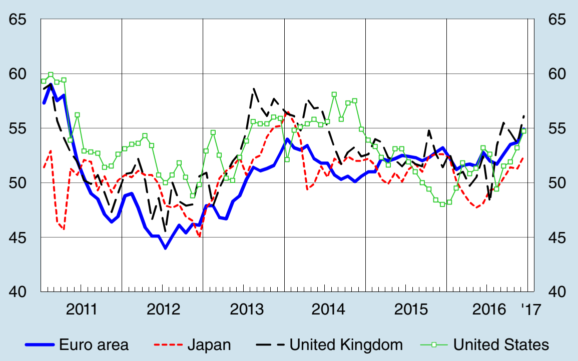
In Japan GDP growth slowed to an annualized 1.3 per cent (from 1.8 per cent), suffering from persistently weak consumption and investment. The latest data for the fourth quarter show that the outlook is still uncertain. Looking ahead, the expansionary fiscal policy measures passed in the summer months could rekindle national demand.

In the United Kingdom the rate of growth was unchanged at 2.4 per cent on an annualized basis, surpassing expectations and helping to dispel fears of an abrupt slowdown following the Brexit referendum. The Purchasing Managers' Indexes (PMIs) signal further expansion in the fourth quarter (Figure 1), but uncertainty about the medium-term economic repercussions of the United Kingdom's leaving the European Union remains acute. The British government has relaxed its fiscal consolidation programme for the next two years with a view to supporting national demand.

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.

... and proceeds in the emerging countries, albeit with differing performances

Growth in China remained stable in the third quarter (6.7 per cent year-on-year). The latest data prefigure a moderate strengthening of the domestic components of demand in the fourth quarter, partly as a result of fiscal and monetary stimulus. Some risks remain, however, concerning the high level of private sector and local government debt and a possible slippage of house prices, which have gone up in the last two years. In India GDP continued to grow briskly (7.3 per cent year-on-year), while industrial production expanded at a very moderate pace. The sudden suspension of legal tender status for large denomination banknotes (which account for over 80 per cent of the total), enacted by surprise at the beginning of November in order to combat tax evasion and corruption, has reduced currency in circulation sharply, putting a brake on consumption and on economic activity. In Brazil the recession remains severe, with the economy contracting by 2.9 per cent in the third quarter and by 3.2 per cent in the year-earlier period, and the short-term economic outlook uncertain, owing partly to the still unsettled political situation. In Russia, following the recovery in oil prices, the decline in GDP eased (to -0.4 per cent, from -0.6 per cent), strengthening the prospects for a return to growth.

Inflation rises slightly in the advanced economies

Consumer price inflation increased slightly in the advanced economies, thanks to the attenuation in the fall of energy product prices (Figure 2), but the core component remains weak. In December inflation in the United States rose to 2.1 per cent; net of food and energy products, it stood at 2.2 per cent. Following the presidential election there was an increase in medium- and long-term inflation expectations as implied by the prices of financial assets. In Japan inflation rose slightly in November but remained low (0.5 per cent). In the United Kingdom consumer price inflation climbed to 1.6 per cent in December, reflecting the depreciation of the pound sterling.

After three consecutive increases, in December inflation decreased marginally in China (reaching 2.1 per cent), while it declined further in India (to 3.4 per cent), Brazil (6.3 per cent) and Russia (5.4 per cent).

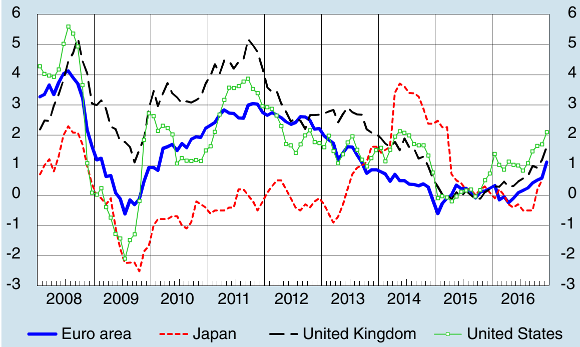
The outlook for world growth improves ...

According to IMF estimates released in January, global GDP grew by 3.1 per cent in 2016 and will accelerate to 3.4 per cent in 2017 and to 3.6 per cent in 2018 (Table 1). Compared with October 2016, the estimates have been revised slightly upwards for almost all the main advanced economies (except for Italy, see Section 2.10) and marginally downwards on average for the emerging economies, although an

Figure 2

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.

Table 1

Macroeconomic projections

(changes and percentage points)

	2016	January 2017 forecasts 2017	January 2017 forecasts 2018	Difference Jan. 2017/ Oct. 2016 2017	Difference Jan. 2017/ Oct. 2016 2018
GDP					
World	**3.1**	**3.4**	**3.6**	**0.0**	**0.0**
Advanced countries	**1.6**	**1.9**	**2.0**	**0.1**	**0.2**
of which: Euro area	1.7	1.6	1.6	0.1	0.0
Japan	0.9	0.8	0.5	0.2	0.0
United Kingdom	2.0	1.5	1.4	0.4	-0.3
United States	1.6	2.3	2.5	0.1	0.4
Emerging economies	**4.1**	**4.5**	**4.8**	**-0.1**	**0.0**
of which: Brazil	-3.5	0.2	1.5	-0.3	0.0
China	6.7	6.5	6.0	0.3	0.0
India (1)	6.6	7.2	7.7	-0.4	0.0
Russia	-0.6	1.1	1.2	0.0	0.0
World trade (2)	**1.9**	**3.8**	**4.1**	**0.0**	**-0.1**

Source: IMF, World Economic Outlook Update, January 2017.
(1) The data refer to the fiscal year starting in April. – (2) Goods and services.

acceleration is forecast for these countries in the next two years. The adjustments for the advanced economies reflect the positive surprises of the third quarter and the expected benefits of the expansionary policies announced in the United States and Japan. Growth in the emerging economies will be affected by less favourable financial conditions: in Brazil the improvement is projected to be more modest than anticipated in October, in India growth will suffer a temporary slowdown, while in the short term China is expected to continue to benefit from its expansionary fiscal and monetary policies. An improvement is forecast for Russia and other commodity-producing countries.

... but is affected by the uncertainty surrounding economic policies

The recovery of the global economy is subject to a number of factors of uncertainty. The prospects for the United States will depend on the economic policies enacted by the new administration, which have not yet been formulated in detail. In the assessment of the main observers, some of the announced fiscal policy measures could have an expansionary effect, which is difficult to quantify at the moment, while restrictions on trade could have a negative impact. In Europe, a high degree of uncertainty continues to surround the negotiations that will define the new trade relationship between the European Union and the United Kingdom. The normalization of US monetary policy and the evolution of exchange rates could be accompanied by turbulence in emerging countries.

The prospects for growth in world trade are revised downwards

After an uptick in the second quarter, world trade continued to grow in the third, but at a modest rate and falling short of expectations. In the first nine months of 2016 trade returned to growth in the emerging countries compared with the corresponding period of 2015, albeit at a rate well below the post-crisis average, while it slowed sharply in the advanced economies in connection with a further weakening in investment, especially in Japan and the United States. Compared with the projections of last October, the IMF revised its estimates for growth in world trade downwards by 0.4 percentage points for 2016, to 1.9 per cent; its forecasts for 2017 remain unchanged.

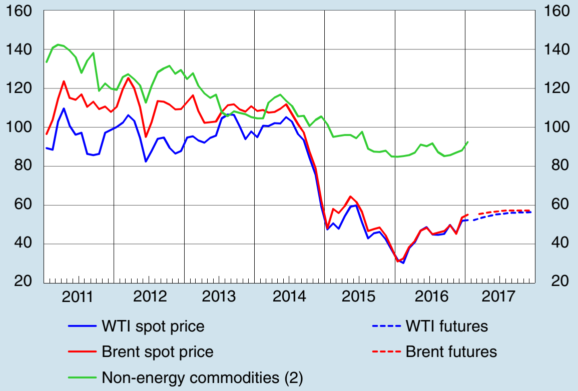
Oil prices pick up again

Since the end of November oil prices have risen following the oil production cutback agreement reached by the OPEC countries and some non-OPEC members such as Russia; in the first ten days of January oil prices stood at about $54 a barrel, the highest level since July 2015 (Figure 3). It remains in doubt, however, whether the deal will hold, given the geopolitical tensions between members of the cartel; the effects on prices could be temporary, owing to the persistent weakness of world demand and the possibility of a pick-up in production in the United States, where the oil rig count has been increasing again since the summer. Since the beginning of November the prices of non-energy commodities have risen, making up for the decrease recorded in the third quarter. The prices of industrial metals posted larger gains as an effect of recovering demand in China and expectations of increased infrastructure investment by the new US administration.

Figure 3

Commodity prices (1)

(monthly data; dollars per barrel and index numbers)



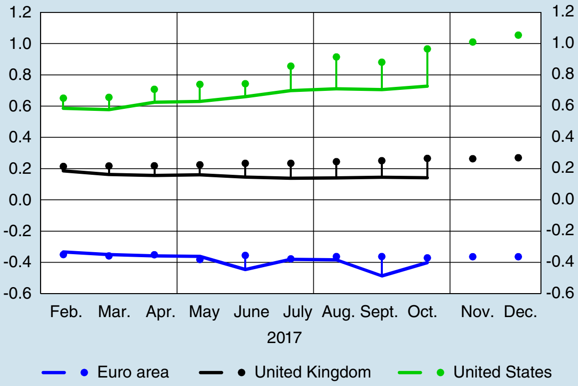
Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average data through December 2016; the last data available refer to 13 January 2017. – (2) Goldman Sachs Commodity Index, non-energy component (January 2010=100).

Expectations of an increase in US interest rates mount

In its meeting of 14 December, the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 0.50-0.75 per cent, mainly in response to the further improvement in the labour market. The Federal Open Market Committee revised its projections for interest rates in the next three years slightly upwards. The expectations implied by market prices have also been adjusted upwards, reflecting the prospect of fiscal expansion by the new administration, but they continue to price in a gradual normalization of monetary conditions (two interest rate hikes in 2017; Figure 4).

Figure 4

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



Sources: Based on Bank of Italy and Thomson Reuters Datastream data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid lines indicate the interest rates forecast on 7 October 2016, the dots show those forecast on 11 January 2017.

The Bank of England confirmed the expansionary stance it adopted at the end of August but, having revised up its projections for inflation in the next two years, it withdrew its indication of a probable further reduction of its bank rate (which currently stands at 0.25 per cent). The Bank of Japan, too, confirmed its monetary policy stance: in keeping with its new policy framework, by which it seeks to keep ten-year rates near zero, in November it intervened with an unlimited purchase programme of fixed-rate government securities to counter the upward pressure on the yield curve that emerged after the US presidential election.

Monetary policy in emerging countries is more expansionary on the whole

In China and India the monetary policy stance remained expansionary: the Chinese central bank continued to inject liquidity into the system through open market operations, while the Reserve Bank of India kept its reference rates unchanged at historic lows following their reduction in October. In response to the attenuation in inflationary pressures, the Central Bank of Brazil made three cuts to its official rate, which nevertheless remains at historically high levels (13.0 per cent). In Russia the monetary authorities left rates unchanged after reducing them in September.

1.2 THE EURO AREA

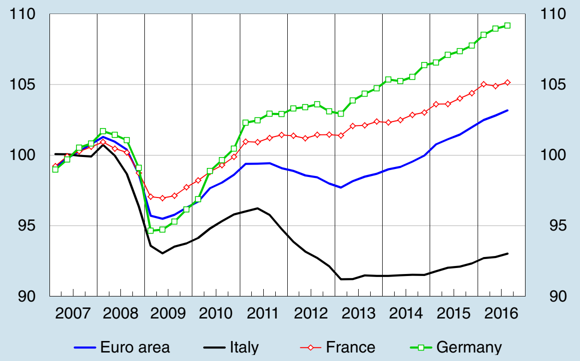
In the euro area output continued to expand at a moderate, but gradually strengthening, pace, boosted by the domestic components of demand. The uncertainty weighing on world economic developments, in part reflecting geopolitical tensions, represents the largest risk factor for economic activity. Inflation picked up in December, beginning to reflect expansionary monetary conditions, but it remains low. At its meeting of 8 December, the ECB Governing Council extended the asset purchase programme until the end of 2017 at the least.

The expansion continues over the summer ...

In the third quarter of 2016 euro-area GDP rose by 0.3 per cent on the previous period, driven by the domestic components of demand. The contribution of household spending, general government expenditure and the change in stocks increased, while that of investment declined. Foreign trade subtracted 0.1 percentage points from the growth in output, as imports narrowly outpaced exports. Among the major euro-area countries, GDP grew in Germany and France by 0.2 per cent and in Italy by 0.3 per cent (Figure 5).

Figure 5

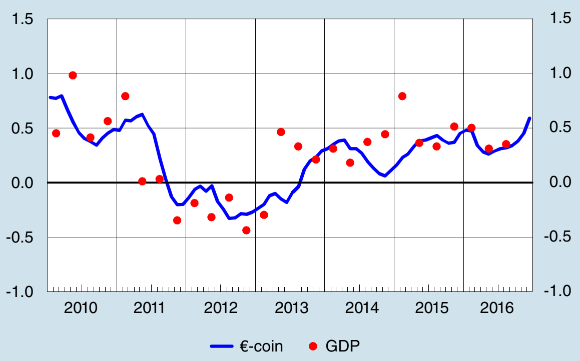
GDP of the euro area and of its main countries (1)
(quarterly data; indices: 2007=100)



Sources: 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 http://www.bancaditalia.it/media/notizia/indicatore-coin-dicembre-2016. For GDP, quarterly data; changes on previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter, net of the most volatile components.

... and appears to gain pace in the fourth quarter

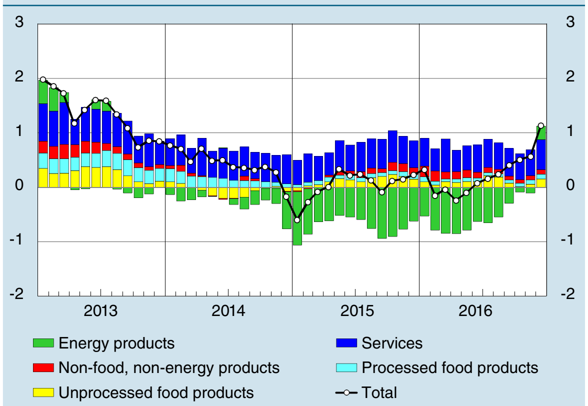
Based on the latest data, the euro-area economy continued to expand in the fourth quarter at a slightly faster pace than in the third. The Bank of Italy's €-coin indicator, which estimates the underlying trend of euro-area GDP growth, recorded a sharp increase in the autumn months, going from 0.45 in November to 0.59 in December (Figure 6). The Purchasing Managers' Indexes also indicate that GDP continued to grow. The Eurosystem staff projections released in December 2016 indicate that GDP will rise by 1.7 per cent in 2017, as in 2016.

Inflation is rising ...

Inflation is gradually rising and the risk of deflation has largely subsided, but core inflation still does not exhibit a stable upward trend. In December consumer price inflation rose to 1.1 per cent (from 0.6 per cent in November), almost entirely as a result of the increase in prices of unprocessed food products (from 0.7 to 2.1 per cent) and energy products (from -1.1 to 2.6 per cent); excluding the most volatile components, consumer price inflation barely rose (0.9 per cent; Figure 7). The share of elementary items with negative price changes fell (from 24 per cent in November to 20 per cent); among core components, 34 per cent of goods and just 3 per cent of services saw their prices fall, well below the peaks observed in 2015. Among the main countries, harmonized inflation in December was higher in Germany and Spain (1.7 and 1.4 per cent respectively) and lower in France and Italy (0.8 and 0.5 per cent respectively).

Figure 7

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



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices.

... but is still low and is expected to remain so

The Eurosystem staff projections released in December indicate that consumer price inflation in the euro area as a whole will rise to 1.3 per cent in 2017, compared with 0.2 per cent in 2016, slightly below the projections of the professional forecasters polled by Consensus Economics. Short- and medium-term inflation expectations as implied by inflation swap yields, although rising since October across all maturities, remain historically low over the two-year and the five-year to ten-year forward horizons (at 1.2 and 1.8 per cent respectively; Figure 8), with a very slow return to levels consistent with the definition of price stability.

The ECB extends the time horizon for expansionary measures

At its meeting of 8 December, the Governing Council of the ECB extended the horizon for the expanded asset purchase programme until December 2017 or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim. From April 2017 purchases will continue at a monthly pace of €60 billion. If, in the meantime, the outlook becomes less favourable, or if the financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme size or duration. It confirmed that the key ECB interest rates will remain at present levels (Figure 9) or lower for an extended period of time, and well past the horizon of the asset purchase programme.

Figure 8

Inflation expectations implied by inflation swaps (1)

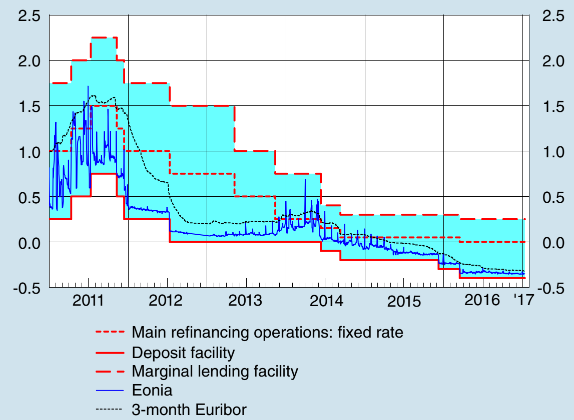
(daily data; per cent)

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

Figure 9

Official interest rates and money market rates in the euro area

(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

To ensure the continued smooth implementation of the programme, the Governing Council decided to broaden the range of eligible public sector securities starting from January 2017: the minimum remaining maturity required will be reduced to one year and assets with yields below the interest rate on the deposit facility will be accepted.

The Eurosystem's asset purchases continued regularly. At 6 January 2017 purchases of government securities amounted to €1,266 billion, covered bank bonds to €204 billion, asset-backed securities to €23 billion and corporate bonds to €52 billion. At the end of December the Eurosystem had purchased about €210 billion worth of Italian government securities, of which €189 billion by the Bank of Italy.

The third of the new targeted refinancing operations is carried out

On 21 December the third of the four new targeted longer-term refinancing operations (TLTRO-II) was carried out; 200 euro-area banks took part, obtaining funds amounting to around €62 billion (€48 billion net of the repayments of outstanding loans obtained under TLTRO-I). The total value of the funds raised in the three operations comes to €507 billion (€114 billion net). The Bank of Italy's counterparties were assigned around €18 billion (both gross and net of repayments), for a total of €174 billion in the three operations (€63 billion net).

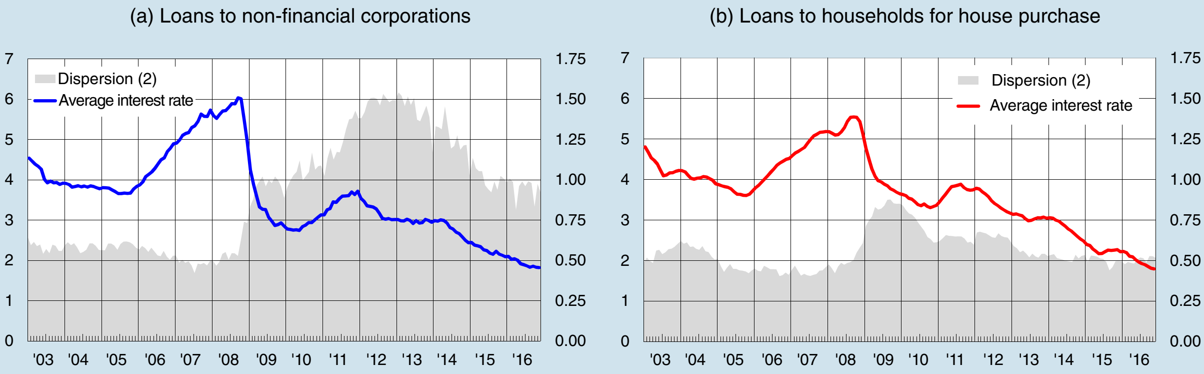
Low borrowing costs support the recovery of credit

Lending continued to expand: adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in November, lending to both business and households increased by 2.3 and 2.2 per cent on an annual basis, respectively. The average cost of new loans to firms and of those to households for house purchase, after dropping sharply in recent months in response to ECB monetary policy measures, stabilized around the lowest levels observed since the inception of the Monetary Union (both 1.8 per cent); the dispersion between countries remained at post-2009 lows (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

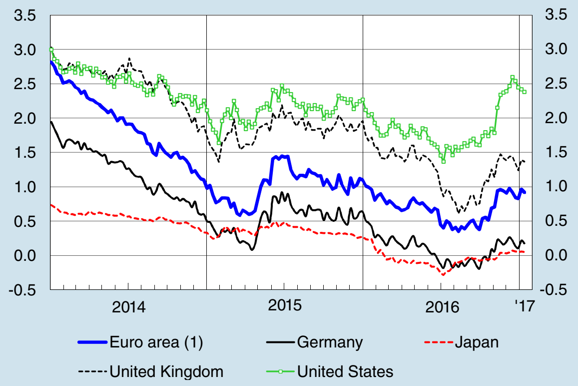
Following the presidential election in the United States, anticipation of an expansionary fiscal policy and the increase in expectations for inflation and growth has led to a shift in portfolios from bonds to equity and a marked increase in long-term yields. This tendency has spread to the other advanced economies, though less so than in the past, reflecting the divergence of monetary policies. Capital outflows in emerging countries have resumed, causing widespread depreciation of currencies.

Yields on ten-year government bonds rise in the advanced economies

The outcome of the American election has bolstered the rise in long-term US interest rates: on the one hand, expectations of higher inflation have fuelled those of a less expansionary monetary stance; on the other hand, expectations regarding the new administration's economic policy have been accompanied by an increase in term premiums. The increase in yields in the United States has only partially extended to the other advanced economies (Figure 11). The extraordinary monetary policy measures in force in the euro area have mitigated the reaction of European rates, which had been greater on average in the past.

Figure 11

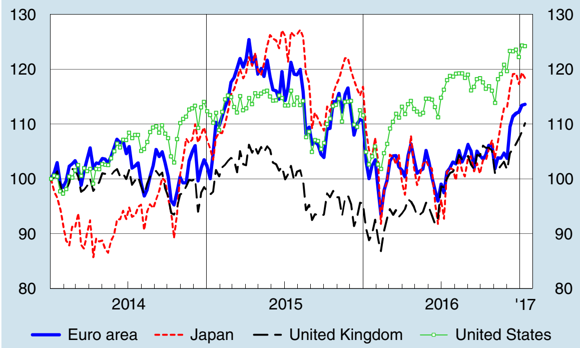
Yields on 10-year government bonds
(end-of-week data; per cent)



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, Luxemburg, Malta, Slovakia and Slovenia.

Figure 12

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.

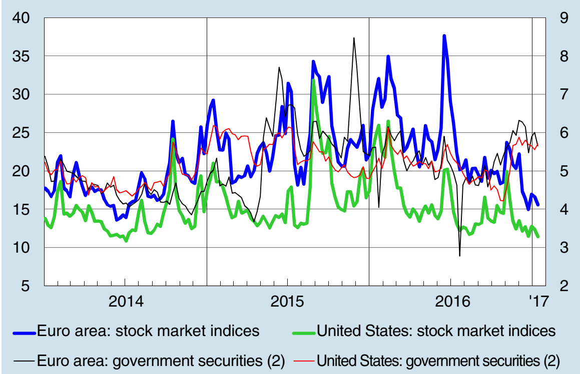
Compared with the end of September, the yield on ten-year US Treasury notes increased by 77 basis points to 2.4 per cent; that on German government securities, which was negative until October, rose by 37 basis points to 0.2 per cent. The increase in Japanese rates was even more subdued, partly due to the effect of the new monetary policy framework, an operational objective of which is control of the yield curve (see Section 1.1). The rise of 61 basis points, to 1.4 per cent, in the ten-year rate in the United Kingdom is also linked to the improvement in the projected performance of the UK economy and an increase in inflation expectations.

Share prices rise

In the advanced countries, stock market indices have risen since early November (Figure 12), benefiting from the expectations of fiscal expansion in the United States and Japan. Compared with the end of September, stock market indices are up 5 per cent in the United States, 17 per cent in Japan, 9 per cent in the euro area and 6 per cent in the United Kingdom. The volatility of equity markets, after a brief surge in the days following the American elections, has fallen back to low levels (Figure 13), while that of bond markets has remained slightly higher.

Figure 13

Implied volatility of share and government securities prices (1)
(average weekly data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(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.

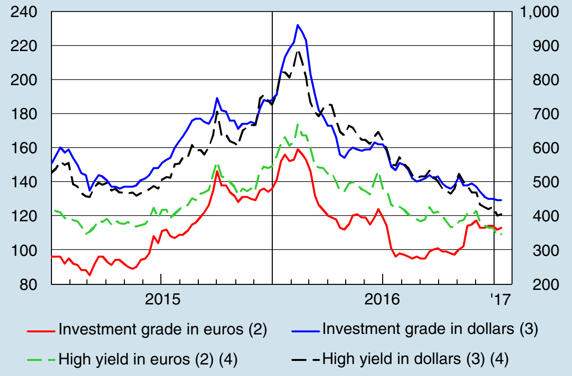
The spreads on dollar denominated corporate bonds decrease ...

Since the end of September the spreads on corporate bonds denominated in dollars have declined in both the investment grade and high yield segments, by 14 and 96 basis points respectively (Figure 14); those on euro-denominated securities have increased slightly, by 12 basis points, for investment grade paper, while they have decreased in the high yield segment by 65 basis points.

The five-year CDS premiums of the leading banks have also fallen slightly, by 13 basis points in the euro area and by 11 basis points in the United States and the United Kingdom.

Figure 14

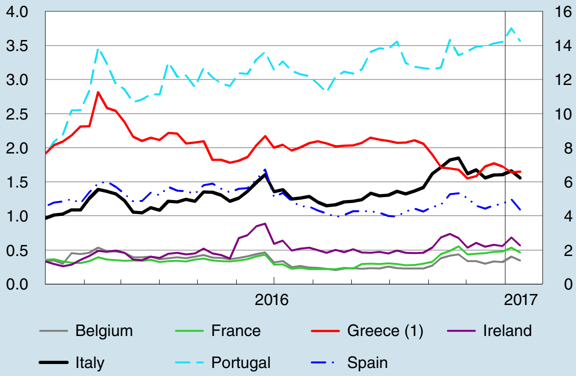
Yield spreads between bonds of non-financial corporations and government securities in euros and dollars (1)
(end-of-week data; basis points)



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 firms rated below those grades. – (2) Fixed-rate bonds with a residual maturity of not less than one year, issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (3) Fixed-rate bonds denominated in dollars with a residual maturity of not less than 1 year issued on the US domestic market; yield spreads are calculated with respect to US Treasury securities. – (4) Right-hand scale.

Figure 15

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.

... while sovereign risk premiums increase in the euro area

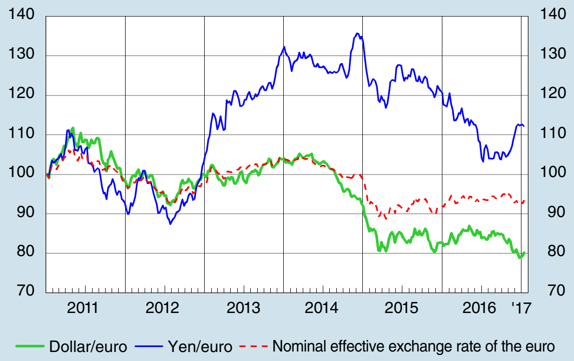
In the fourth quarter of 2016, in conjunction with the increase in US interest rates, there was a general increase in sovereign risk premiums in the euro area. The most pronounced increases in the yield spreads between ten-year government bonds and the corresponding German Bund occurred in Italy, Portugal, France, Spain, Ireland and Belgium (Figure 15). By contrast, the ten-year spread declined in Greece.

Financial conditions in the emerging markets worsen

Conditions in emerging financial markets deteriorated in the aftermath of the US election, though a partial recovery was recorded in December. Given the considerable capital outflows, many currencies, including the Chinese renminbi, have depreciated and the expected volatility of exchange rates has risen. The composite index of emerging market equities, measured in local currency, recorded a fall in November which was subsequently made good. The increase in US ten-year government bond yields was also transmitted to the main emerging economies, with only a

Figure 16

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



Source: ECB.

temporary increase in sovereign spreads. Starting from the second week of November, the flow of savings into investment funds specializing in emerging markets contracted significantly.

Differences in monetary policy are reflected in exchange rate movements

The expectations raised by the new US administration and by the decisions of the Federal Reserve led to a sharp appreciation of the dollar and an overall weakening of currencies in the emerging countries. As a result of these developments, compared with the end of September the euro depreciated against the dollar by about 4 per cent, and rallied by about 8 per cent against the yen and less so, by about 2 per cent, against the pound sterling. In nominal effective terms the common currency depreciated slightly, by 0.5 per cent, returning to the levels recorded at the beginning of 2016 (Figure 16).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

After the acceleration of GDP in the third quarter, the indicators available suggest that the Italian economy continued to recover in the autumn, albeit at a slightly slower pace compared with the previous quarter, driven by the increase in investment and the growth in household spending. Leading indicators point to a moderate expansion of economic activity in the first quarter of 2017 as well.

Investment sustains the expansion of economic activity in the summer months

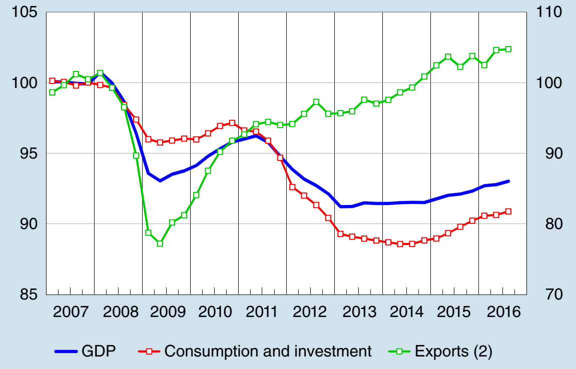
In the third quarter of 2016 GDP expanded by 0.3 per cent compared with the previous quarter (Figure 17, Table 2), as in the euro area as a whole. National demand contributed 0.4 percentage points to growth (of which 0.1 percentage points attributable to the change in stocks and valuables). After stagnating in the second quarter, investment returned to growth (0.8 per cent), led upwards by purchases of machinery, equipment and, above all, transport equipment. Household spending slowed (to 0.1 per cent from 0.2 per cent), especially for durable and semi-durable goods. As a result of a larger increase in imports than in exports (0.7 and 0.1 per cent respectively), foreign trade shaved 0.1 percentage points from GDP growth. Value added grew significantly in industry excluding construction (1.1 per cent, compared with -0.7 per cent in the second quarter) and to a lesser extent in services (0.1 per cent, against 0.2 per cent), which was particularly affected by the contraction in the financial and insurance sectors; value added fell slightly in construction.

Growth appears to have continued in the autumn months

The latest available data suggest that GDP continued to grow at a moderate pace of around 0.2 per cent in

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 Q4	2015 (2)	2016 Q1	2016 Q2	2016 Q3
GDP	0.2	0.7	0.4	0.1	0.3
Total imports	1.4	6.0	-1.1	1.3	0.7
National demand (2)	0.2	1.1	0.5	-0.2	0.4
National consumption	0.4	1.0	0.4	0.1	0.2
household spending (3)	0.4	1.5	0.4	0.2	0.1
other spending (4)	0.5	-0.6	0.1	-0.3	0.2
Gross fixed investment	0.9	1.3	0.6	..	0.8
construction	1.2	-0.4	..	-0.1	-0.2
other investment goods	0.6	3.0	1.1	0.1	1.7
Change in stocks (5) (6)	-0.3	0.1	0.1	-0.2	0.1
Total exports	1.5	4.3	-1.2	2.1	0.1
Net exports (6)	0.1	-0.4	-0.1	0.3	-0.1

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.

the fourth quarter (see the box 'Economic activity in the fourth quarter of 2016 according to coincident indicators'). The Bank of Italy's Ita-coin indicator improved in December for the third consecutive month, rising to 0.06, signalling a recovery in the underlying trend of output (Figure 18).

Leading indicators, such as the PMI, Istat's business and consumer confidence surveys and the quarterly survey by the Bank of Italy and *Il Sole 24 Ore*, point to a continuation of the moderate expansion of economic activity in first quarter of this year (see Section 2.10).

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 fourth quarter based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

Inflation shows signs of recovery, but remains weak

Inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), rose to 0.5 per cent in December from 0.1 per cent in November; core inflation increased to 0.7 per cent from 0.4 per cent. Upward pressure came mainly from an acceleration in the prices of unprocessed food products and air transport services and from an attenuation of the decline in those of energy products (see Section 2.6). For 2016 as a whole, inflation was equal to -0.1 per cent; the index excluding the most volatile components rose by 0.5 per cent.

ECONOMIC ACTIVITY IN THE FOURTH QUARTER OF 2016 ACCORDING TO COINCIDENT INDICATORS

National accounts data are typically calculated some time after the end of the period to which they refer; in Italy the first estimate of quarterly GDP is published an average of 45 days after the quarter's end. In the meantime, however, a wide range of information is available from which an outline of the economic situation can be derived. The picture thus obtained is normally quite reliable and useful for guiding economic policy. The data used in these exercises are partial and taken from a variety of sources (e.g. electricity consumption, trade flows and industrial production) as well as surveys of firms and qualitative assessments. The information collected may then be combined according to the different statistical models that the Bank of Italy uses for its medium-term projections.[1]

In the fourth quarter of 2016 industrial production, for which the most recent data available refer to November, increased further, albeit less sharply than in the previous quarter. This finding is corroborated by the performance of road and rail transport flows and by the total volume of gas for industrial uses entering the network. Business confidence, as measured by the Purchasing Managers' Indexes (PMI), firmed up at the end of the year (see Section 2.2). The Ita-coin coincident indicator was slightly positive (see Section 2.1).

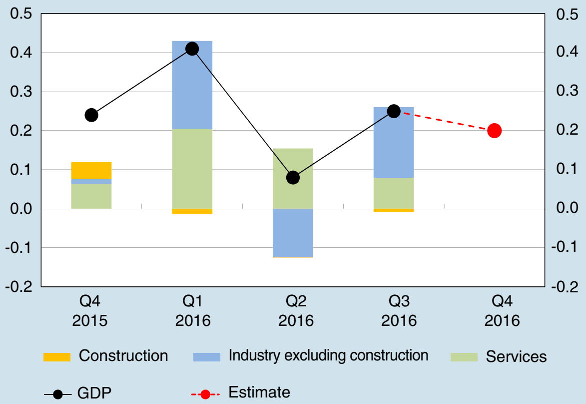
[1] See for example: A. Baffigi, R. Golinelli and G. Parigi, *Real-time GDP forecasting in the euro area*, Banca d'Italia, Temi di Discussione (Working Papers), No. 456, 2002; L. Bencivelli, M. Marcellino and G. Moretti, *Selecting predictors by using Bayesian model averaging in bridge models*, Banca d'Italia, Temi di Discussione (Working Papers), No. 872, 2012; M. Marcellino, M. Porqueddu and F. Venditti, *Short-term GDP forecasting with a mixed frequency dynamic factor model with stochastic volatility*, Banca d'Italia, Temi di Discussione (Working Papers), No. 896, 2013; V. Aprigliano and L. Bencivelli, *Ita-coin: a new coincident indicator for the Italian economy*, Banca d'Italia, Temi di Discussione (Working Papers), No. 935, 2013.

Taking these developments into account, our statistical models indicate that GDP continued to grow in the fourth quarter, increasing by around 0.2 per cent on the previous period (Figure A).

All the main economic sectors contributed to this increase except construction, where the slight pick-up in residential building was accompanied by the persistent sluggishness of public works. The value added of industry excluding construction grew by just over half a percentage point. According to the purchasing managers' indexes (Figure B), activity in the service sector expanded moderately, especially in services to firms, an improvement to which the less unfavourable trend in business demographics made a progressively increasing contribution. Over the course of 2016 firm mortality diminished and the number of active firms rose slightly.

Figure A

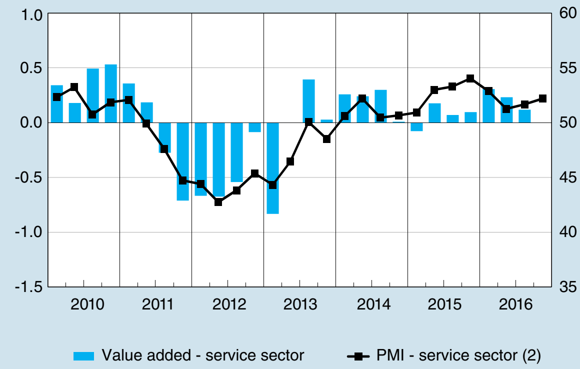
GDP and value added in the main sectors (1)
(percentage changes and contributions to growth)



Source: based on Istat data.
(1) For GDP and estimates, percentage changes on previous period; for value added, contributions to GDP growth in percentage points.

Figure B

PMI in private services and value added (1)
(levels and percentage changes)



Sources: based on Istat and Markit data.
(1) For the PMI indexes, average level in the reference quarter; for value added in the service sector, percentage change on previous period. – (2) Right-hand scale.

Overall, the risks attached to this estimate of GDP are balanced: the uncertainty of the estimates, which does not deviate from the average levels observed in the consolidation phases of previous cyclical recoveries, can be put within a range of plus or minus 0.1 percentage points around the central value.

Based on these estimates for the fourth quarter, the rate of growth in 2016 comes to 0.9 per cent. This indication is based on quarterly data adjusted for calendar effects: given that last year had two fewer working days than 2015, in the annual accounts, which according to current statistical methodology are not adjusted for these effects, the change could be marginally smaller.

2.2 FIRMS

Industrial activity continued to expand; signs of the real estate sector stabilizing were confirmed even if the outlook for the non-residential segment was more uncertain. Business confidence was high. Investment increased in the last part of the year.

Industrial activity continues to expand in Q4

In November industrial production rose by 0.7 per cent compared with October. Our estimates show that in the last quarter of 2016 manufacturing grew by 0.7 per cent, which is slower than the 1.3 per cent recorded in the summer months

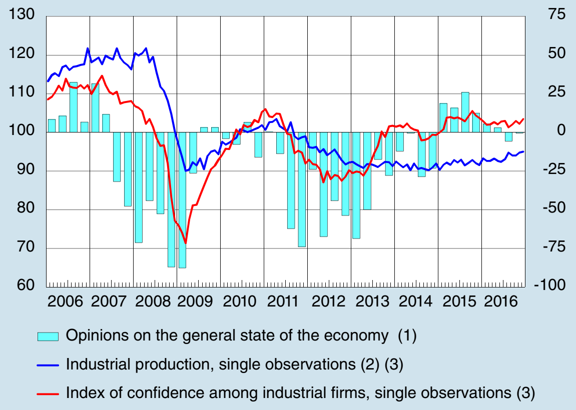
(Figure 19); for 2016 as a whole, activity grew by nearly 1 per cent (from 1.8 per cent in 2015), driven by the investment and intermediate goods sectors.

Business confidence is high

In the autumn, business confidence remained stationary compared with the third quarter, stabilizing at cyclically high levels. The positive performance of the manufacturing industry and of retail trade was offset by the deterioration in the construction sector. In manufacturing, confidence was higher as regards not only current orders and finished product inventories but also production expectations. The purchasing managers' indices (PMI) remained at a historically high level, consistent with the expansion of activity in manufacturing and in services. Similar signs emerged from the Bank of Italy-*Il Sole 24 ore* quarterly survey conducted in December (the Inflation and Growth Survey), which confirmed both greater optimism on the part of manufacturing and service firms and the worsening of confidence in the construction sector, in particular in the non-residential segment (see the box 'Italian firms' investment according to the survey on inflation and growth expectations'). Despite some uncertainty caused by economic and political factors, there appears to be an increase in the percentage of firms that expect greater demand for their own products in the short term, especially from abroad.

Figure 19

Industrial production and business confidence
(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Right-hand scale. Balance of responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', 16 January 2017, available on the Bank of Italy's website in the Statistics section). – (2) Industrial production adjusted for seasonal and calendar effects; for December 2016, estimated data. – (3) Index: 2010=100.

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

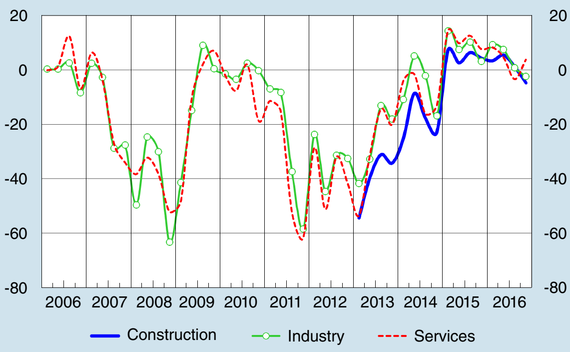
In December the Bank of Italy and *Il Sole 24 Ore* conducted their quarterly survey on a sample of industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', 16 January 2017, available on the Bank of Italy's website in the Statistics section). Compared with the September survey, industrial and service firms are slightly more optimistic about the general economic situation and their own short-term economic conditions, while construction firms report a deterioration in the non-residential building sector. According to industrial and service firms, support for output will come from stronger demand and, to a smaller extent, from favourable credit conditions and from firms raising their own prices. Economic and political uncertainty are still regarded as the main obstacles to higher output. For the time being firms have not reported serious concerns about the emergence of protectionist tendencies or developments in the euro exchange rate.

Opinions on investment conditions are more optimistic than in the previous quarter in the service sector, but industrial companies and construction firms in the non-residential sector in particular are more pessimistic (see the figure). Opinions regarding credit conditions and liquidity expectations are generally unchanged.

The share of industrial and service firms planning to increase their investment expenditure in the first half of 2017 compared with the previous two quarters has increased and is now about 15 percentage points above the share intending to cut back (see the table). Investment is expected to continue expanding in 2017 as a whole, with the balance between expectations of an increase and expectations of a decrease widening to 20 percentage points. The improvement will be most marked for firms located in the South and Islands and will also extend to construction companies, particularly those specialized in residential building.

Capital formation should also benefit in 2017 from the measure to encourage investment in advanced digital technology (hyper depreciation) introduced by the 2017 budget law as part of the National Plan for Industry 4.0; this measure is in addition to the extension of the incentive to support investment in capital goods (super depreciation) embodied in the 2016 Stability Law. About one fifth of the firms interviewed in December think the hyper depreciation measure will effectively act as a stimulus, a proportion that is in line with the opinions expressed in the previous surveys about the efficacy of the 'super depreciation' incentive (see the box 'The investment outlook according to business surveys', *Economic Bulletin*, 4, 2016).

Firms' assessment of conditions for investing compared with the 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 conducted on a sample of firms with 50 or more workers by the Bank of Italy and *Il Sole 24 Ore* (see 'Survey on Inflation and Growth Expectations', 16 January 2017, available on the Bank of Italy's website in the Statistics section).

Firms' investment expectations (1)
(per cent)

	Industry	Services	Construction	Total economy
	Investment expenditure planned for H1 2017 compared with H2 2016			
Higher	30.5	26.0	22.4	27.1
About the same	54.4	63.0	59.8	58.9
Lower	15.1	10.9	17.8	14.0
	Investment expenditure planned for 2017 compared with investment in 2016			
Higher	35.7	32.5	23.7	32.0
About the same	47.1	56.9	57.2	53.0
Lower	17.2	10.6	19.1	15.0

(1) Estimates weighted to take into account the ratio between the number of respondent companies and the number of companies in the reference universe in the quarterly survey of Italian firms with 50 or more employees conducted by the Bank of Italy with *Il Sole 24 Ore* (see 'Survey on Inflation and Growth Expectations', 16 January 2017, available on the Bank of Italy's website in the Statistics section). Rounding may cause discrepancies.

Investment accelerated in the summer months

Investment accelerated in the third quarter reaching 0.8 per cent, after stagnating in the previous quarter, driven by the increase in the sector of machinery and equipment and, in particular, transport equipment (up 8.8 per cent from the previous quarter); however, investment in non-residential construction declined slightly. December's Inflation and Growth Survey results pointed to an increase in investment spending by industrial and service firms, especially by the larger firms, in the first half of 2017 compared with the second half of 2016. This reflects the new incentives for investment in technological goods ('hyper-amortization' allowance) and the extension of the existing incentive that reduces capital provision costs ('super-amortization' allowance) (see the box 'Italian firms' investment according to the survey on inflation and growth expectations'). Firms' inflation expectations marginally increased, providing further support to the propensity to invest (see the box 'The very low inflation expectations and the investment plans of Italian firms').

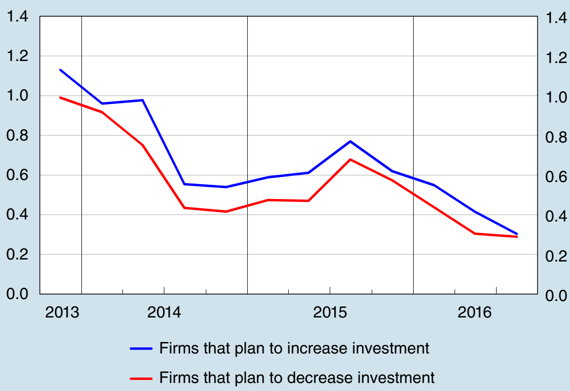
THE VERY LOW INFLATION EXPECTATIONS AND INVESTMENT PLANS OF ITALIAN FIRMS

Since the second half of 2012, inflation, measured by the 12-month change in the harmonized index of consumer prices (HICP), has fallen rapidly in Italy, and since May 2014 has remained exceptionally low, well below the Eurosystem's definition of price stability. A prolonged phase of scant price growth increases the risk of a long-lasting reduction in economic agents' inflation expectations.[1] The costs of an extended period of very low inflation expectations, when there are limits to further reductions in nominal interest rates, include an increase in firms' interest expense in real terms, which could discourage investment and have significant repercussions, not just on current economic activity, but also on the potential growth of the economy (see the box 'Growth and Investment in Italy', *Economic Bulletin*, No. 4, 2016).

This hypothesis is confirmed by an analysis of the relationship between Italian firms' inflation expectations and their propensity to invest that aims to determine the extent of the correlation between these two variables.[2] The analysis uses data drawn from the Survey on Inflation and Growth Expectations conducted quarterly by the Bank of Italy and *Il Sole 24 Ore* on a sample of firms (industry, services and construction) with at least 50 employees. The responses to the questionnaire provide quantitative measures of firms' expectations for consumer price inflation over various time horizons ('next 6 months', 'next 12 months', 'next 24 months' and 'between 3 and 5 years') and their qualitative assessments of the expected annual change in investment ('lower', 'about the same' and 'higher').[3]

The data indicate that, since the end of 2013, firms that plan to increase their investment – about one third of the sample – have

Italian firms' inflation expectations (1)
(percentage points)



Source: Survey on Inflation and Growth Expectations, various years.
(1) Average of the responses to questions on the expected change in consumer inflation rates in Italy over the next 12 months. The figure shows the trends in the inflation expectations of firms that state that they plan to increase investment (blue line) and those that plan to decrease investment (red line).

[1] F. Busetti, G. Ferrero, A. Gerali and A. Locarno, *Deflationary shocks and de-anchoring of inflation expectation*, Banca d'Italia, Questioni di economia e finanza (Occasional Papers), No. 252, 2014.
[2] A. Grasso and T. Ropele, 'Business investment plans and inflation expectations', Banca d'Italia, Temi di discussione (Working Papers), forthcoming.
[3] The question on firms' expected investment was introduced in the October 2012 questionnaire. The interquartile range for expected inflation at one year was 2.4 to 3.0 per cent when the question was first asked and from 0.0 to 0.5 per cent in October 2016.

systematically had higher inflation expectations (by around 0.1 percentage points) than those that expect to cut investment (see the figure).

In order to ascertain the statistical significance of this relationship, it is necessary to take account of other possible causal factors in investment that are presumably correlated with both the variables of interest, whose omission could bias the estimates. In keeping with recent empirical literature, the analysis controls for firm-level variables: nominal interest rates on bank loans and the terms of access to bank credit, liquidity and employment expectations, and the firm's assessment of Italy's economic situation in general. A series of structural characteristics of the firms were also considered, including size, location, economic sector and share of turnover derived from exports.

The results document the existence of a positive and statistically significant correlation between firms' inflation expectations and their propensity to invest: a 100-basis-point increase in expected price growth, which corresponds, other things being equal, to a reduction in interest expense in real terms, leads to an increase of 2.5 percentage points in the probability of a firm reporting that it plans to increase its investment.

These results confirm the need for monetary policy to focus on bringing inflation back up to levels consistent with the definition of price stability, which would make it possible to counter the risk that a cumulative worsening of low inflation expectations may have adverse repercussions on economic activity and potential growth.

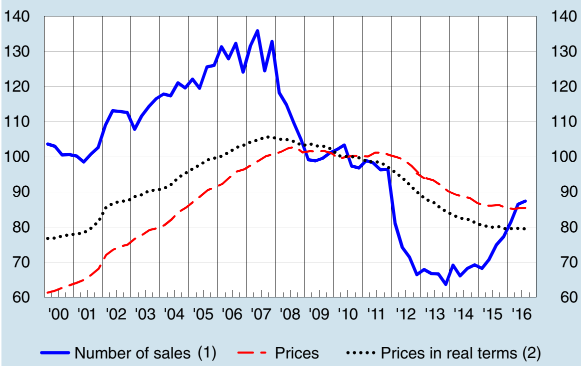
The number of house sales continues to rise

Construction firms' confidence stands at a historically high level, despite the decline recorded in December. The Italian Housing Market Survey (conducted in October together with Tecnoborsa and the Italian Revenue Agency's property market observatory – OMI) indicated a slight improvement of conditions in the sector. Estate agents' opinions regarding the short-term outlook became more favourable for their own reference market and nationally. In the third quarter the number of house sales rose for the sixth consecutive quarter (up 1.1 per cent on the third quarter from 6.1 per cent in the second; Figure 20). House prices also grew, although only modestly (by 0.1 per cent, from 0.2 per cent). According to the Inflation and Growth Survey, residential construction firms thought their sector's conditions were better and would continue to improve, while the non-residential construction firms thought conditions were worse.

Figure 20

House prices and sales

(quarterly data; indices: 2010=100)



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

Competitiveness continues to improve

Our estimates indicate that price competitiveness, as measured by the producer prices of manufactured goods, continued to improve in the autumn, by about half a percentage point on the previous quarter (Figure 21).

Since the end of 2014 Italian firms have made a total competitiveness gain of 2.5 per cent, owing to both the depreciation of the euro and to the better performance of our relative export prices. The improvement was just below that of French firms (2.9 per cent), while it was greater than that of firms in Germany and in Spain (1.3 and 1.2 per cent respectively), which were influenced by higher pipeline pressures on inflation.

Firms' profitability and cash flow continue to improve

Based on Istat data and our own estimates, the ratio of gross operating profit (EBITDA) to value added continued to rise in the twelve months ending in September. A further reduction in net interest expense brought an 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 fell slightly, while firms' financing requirement continued to decrease; in the summer their total debt fell slightly to 76 per cent of GDP (Figure 22).

Lending to firms is unchanged

In November the twelve-month change in bank lending to firms was zero: increased lending to service firms was offset by a further reduction in that to construction companies and by another decline in credit to manufacturing firms (see Section 2.7).

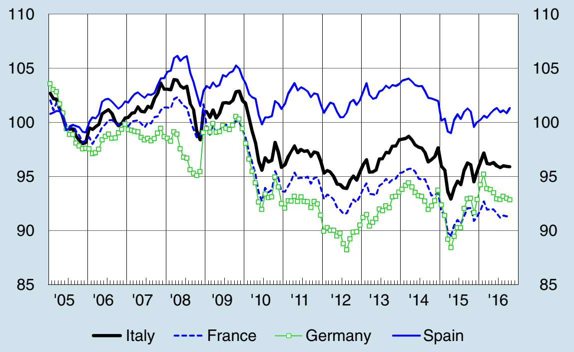
Firms net bond issues remain positive

In the third quarter Italian firms' net bond issues were still positive by €2 billion (Table 7); the gross equity issues of resident non-financial corporations were equal to €77 million, compared with €604 million in the previous quarter. According to preliminary data from Dealogic, Italian firms' net issues remained positive by €1 billion in the fourth quarter as well.

Figure 21

Indicators of competitiveness (1)

(monthly data; indices: 2005=100)

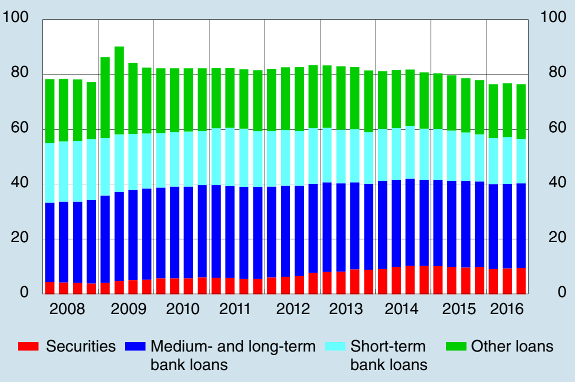


Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN and national statistics.
(1) Vis-à-vis 61 competitor countries; based on producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to October 2016. For the method of calculation 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.

Figure 22

Debt of non-financial firms (1)

(quarterly data; per cent 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.

2.3 HOUSEHOLDS

Household consumption increased at a modest pace in the summer and the latest data suggest that it continued to expand moderately in the last part of 2016. A marked rise in disposable income was accompanied by a gradual increase in the propensity to save, which had fallen to very low levels in 2015. In December the consumer confidence index interrupted the downward trend under way since the beginning of last year.

Household spending slows down slightly ...

After increasing significantly up to the beginning of 2016, household spending grew in the third quarter at a slightly more modest pace than in the second (0.1 against 0.2 per cent). There was a slowdown in spending on durable goods, to growth of 0.6 per cent from 1.0 per cent in the second quarter, and on semi-durable goods, which stagnated after expanding by 1.2 per cent in the previous period; on the other hand, there was a slight upturn in purchases of non-durable goods, which remained stable after falling by 0.1 per cent, and services, whose growth rate rose to 0.2 from 0.1 per cent.

... despite the steady growth of disposable income

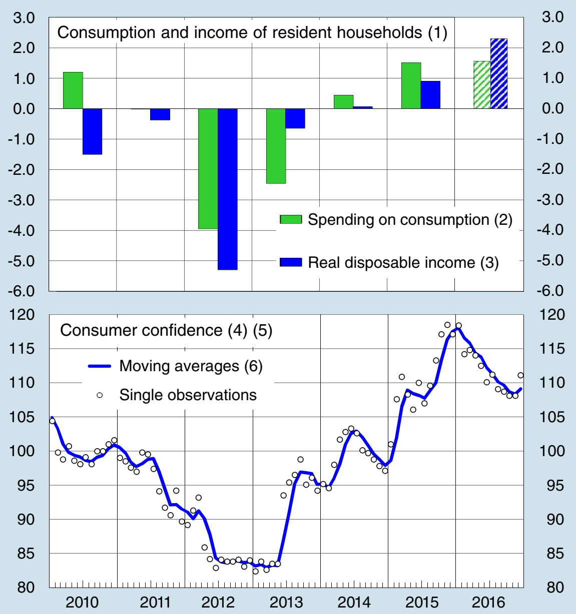
In the first nine months of 2016 disposable income, measured in real terms, rose by 2.3 per cent compared with a year earlier (Figure 23), benefiting from the improvements recorded in the labour market (see Section 2.5). The propensity to save, after decreasing in 2015, increased steadily in 2016, though still remaining low (Figure 24). As a result of the stabilization of house prices under way since the beginning of last year (see Section 2.2), the gradual waning of uncertainty regarding the value of residential property may well be reducing the previous braking effect on household spending.

Consumption appears to have continued to grow in the final part of 2016

In December the consumer confidence index rose, ending the downward trend that started at the beginning of 2016. In the autumn, the slight worsening of expectations regarding the general state of the economy was offset by the improvements in assessments of household budgets, the current economic situation and the development of the labour market; employment remained stable in October and November compared with the previous two months (see Section 2.5). In the last quarter of the year, new car registrations increased by 2.0 per cent, after a decline of 0.3 per cent in the third quarter; they increased by 15.8 per cent in 2016 as a whole. The modest performance of retail sales is consistent with a slight growth in the consumption of non-durable goods in the last part of 2016.

Figure 23

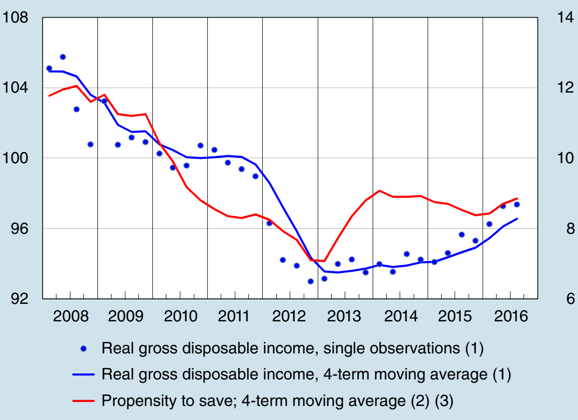
Consumption, disposable income and consumer confidence in Italy
(percentage changes and indices)



Source: Based on Istat data.
(1) Percentage changes on the previous year. Up to 2015, annual data; for 2016, percentage changes in the first nine 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 three months ending in the reference month.

Figure 24

Consumer households' disposable income and propensity to save



Source: Based on Istat data (seasonally adjusted).
(1) Net of the variation in the consumption deflator for resident households' final consumption expenditure. – (2) Percentage ratio between consumer households' savings and real gross disposable income. – 3) Right-hand scale.

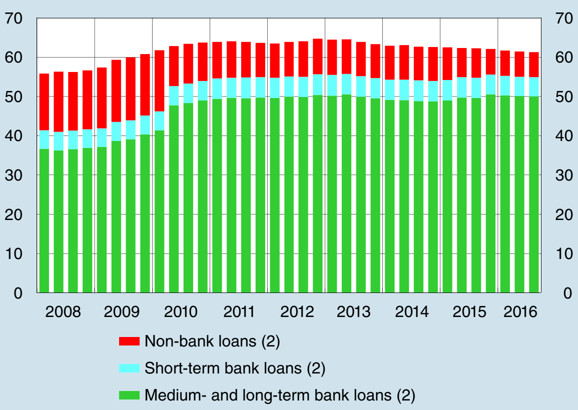
Household debt falls slightly

Italian household debt in relation to disposable income fell further in the third quarter, albeit slightly, to 61.4 per cent, from 61.5 per cent in June (Figure 25), remaining far below the euro-area average of about 95 per cent at the end of June. 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)



Source: 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, in Supplements to the Statistical Bulletin, No. 58, 2010.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italian exports were almost stationary in the third quarter owing to the weak growth of world trade; the outlook for foreign orders improved in the autumn. The surplus on current account widened further. Italian investors continued to diversify their portfolios into foreign securities, particularly investment funds.

Exports virtually stagnate in the summer ...

Exports of goods and services, which had grown by 2.1 per cent in the second quarter of 2016, held generally steady in the third. Sales of goods fell slightly, mainly owing to a contraction in those to EU countries, notably Spain and France. The largest declines were recorded for refined petroleum products and electronic equipment, while exports of transport equipment and chemical and food products rose. Exports of services increased by 1.3 per cent.

... and imports slow

Imports also slowed overall, though less than exports, growing by 0.7 per cent in volume terms against 1.3 per cent in the second quarter. Imports of services diminished, while goods purchases rose at a similar pace to the previous quarter (1.4 per cent); the increase involved both EU and, to a lesser extent, non-EU markets.

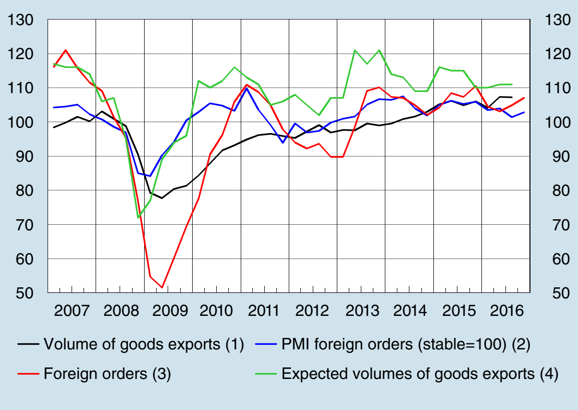
The outlook improves in the fourth quarter

Exports of goods stagnated again in October, while November saw a rise, in particular in those to non-EU markets. In firms' assessments, the outlook for foreign demand, which is still above the threshold considered compatible with an expansion of sales, improved in the last quarter of the year though remaining less favourable than in 2015 (Figure 26).

Figure 26

Export volumes, manufacturing firms' foreign orders and expectations

(seasonally adjusted quarterly data; indices)



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

The current account surplus expands further

The current account surplus improved further, reaching €40.4 billion in the first eleven months of 2016, almost double the surplus for the same period of 2015. This outcome was mainly due to the improvement in the balance on investment income thanks to the increased revenue from portfolio assets (especially foreign investment funds) and to the growing merchandise surplus, which benefited from a further decrease in expenditure for energy commodities (Table 3).

Table 3

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

	2014	2015	Jan.-Nov. 2015	Jan.-Nov. 2016
Current account	**30.5**	**26.6**	**21.2**	**40.4**
Goods	47.4	52.3	45.8	54.1
non-energy products (2)	88.8	84.3	75.3	76.3
energy products (2)	-41.4	-32.0	-29.6	-22.2
Services	-1.0	-1.6	-0.9	-0.5
Primary income	..	-9.2	-9.8	0.2
Secondary income	-15.8	-14.8	-13.8	-13.4
Capital account	**3.4**	**2.6**	**1.8**	**0.9**
Financial account	**43.8**	**25.6**	**23.3**	**40.9**
Direct investment	2.3	0.9	4.7	-4.0
Portfolio investment	-3.6	89.5	59.1	106.4
Derivatives	-3.6	3.4	1.3	9.1
Other investment	49.6	-68.6	-42.2	-69.3
Change in official reserves	-1.0	0.5	0.5	-1.3
Errors and omissions	**9.9**	**-3.7**	**0.3**	**-0.4**

(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 October and November 2016, provisional data. – (2) Based on Istat's foreign trade data.

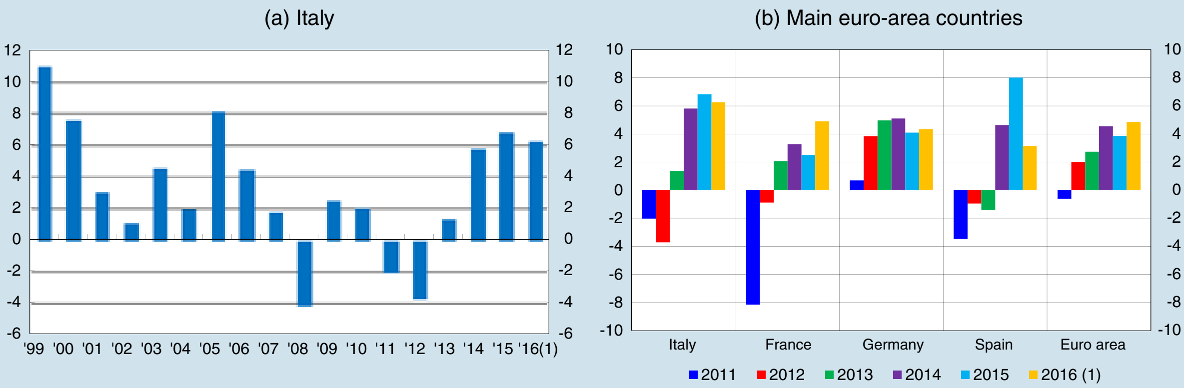
Residents continue to adjust their portfolios

In the first eleven months of the year, residents' net investment in foreign portfolio securities reached €66.7 billion, almost two thirds of which consisting of investment fund units. These outflows do not seem to be related to recent changes in the climate of confidence or to uncertainty, and are more likely part of a gradual and orderly diversification by resident households into insurance and asset management products, thereby increasing the proportion of foreign assets, which often consist of investment funds of Italian financial groups (see the box 'Italy's portfolio investment abroad').

ITALY'S PORTFOLIO INVESTMENT ABROAD

Outward portfolio investment by Italians has increased significantly in the last three years. Between January 2014 and October 2016 residents' net purchases of foreign securities totalled €280 billion, equal to almost one third of the total stock outstanding at the end of 2013, after seven years of modest or negative investment (see the figure, panel a).

Outward portfolio investment
(flows as a percentage of GDP)



Source: ECB for the data on euro-area countries other than Italy and for the euro area as a whole.
(1) First nine months of the year.

This reflected principally the rebalancing of Italian households' portfolios, with a reduction in the proportion accounted for by government and bank bonds – high by international standards – and a shift to insurance and asset management products. The latter, too, are issued largely by resident entities, but the savings collected by Italian insurance and financial intermediaries are invested mainly in foreign assets, in line with the greater degree of diversification that typically marks the choices of these institutional investors by comparison with households. Between the beginning of 2014 and the third quarter of 2016 households reduced their holdings of Italian bank and government securities (by €182 billion and €73 billion, respectively) while making net purchases of insurance products and pension fund units (€137 billion) as well as investment fund units (€120 billion).

The reduction in the proportion of government securities was mainly due to the Eurosystem's Expanded Asset Purchase Programme (APP), which limited their availability and brought down yields, inducing greater diversification and a shift to foreign securities. This appears to have occurred above all in countries such as Italy and Spain (see the figure, panel b), where the share of government securities held by residents is higher.

A number of factors were responsible for the decline in investment in bank bonds over the last three years: the end of the favourable tax regime for these instruments, which made their renewal at maturity less advantageous, changes in banks' issuance policies and, in all likelihood, the uncertainty created by the entry into force of the Bank Recovery and Resolution Directive 2014/59/EU.[1] Credit institutions elected not to roll over a large portion of their maturing securities, owing to their diminished funding needs (in relation among other things to the Eurosystem's targeted longer-term refinancing operations); instead, they placed other financial instruments with retail customers, such as investment fund units and insurance products, pursuing increased profitability through brokerage fees.

A decisive role in the purchases of foreign securities beginning in 2014 has been played by the expansion of investment in insurance and managed asset products: insurance companies and pension funds have increased their foreign assets by €116 billion, and 'other financial intermediaries', including non-money-market investment funds, by €80 billion (see the table). The contribution of households, banks and other resident entities has been less significant (€45 billion, €29 billion and €9 billion, respectively).

Investment in foreign securities was mainly in investment fund units (€184 billion) and debt securities (€84 billion), while purchases of listed shares were modest. As regards investment funds, Assogestioni data indicate a propensity to invest in assets offering higher yields than the government securities market: only one third of the increase in investment fund units concerned bond funds, another third was in flexible funds, and the remaining third was divided between equity funds, balanced funds and, to a lesser extent, money market funds.

More than half of the debt security purchasing was by insurance companies and pension funds, which have shown special interest in foreign corporate bonds. With a view to diversifying sovereign risk, Italian banks have invested, especially during 2015, in government securities issued by other euro-area countries, mainly Spain and, for smaller amounts, France and Germany. Purchases by 'other financial intermediaries' targeted both government securities and those of other issuers.

These data would not appear to suggest that residents' investment abroad can be attributed to a preference for reputedly more secure financial assets ('flight to safety') or to an increase in perceived

[1] M. Coletta and R. Santioni, *Le obbligazioni bancarie nel portafoglio delle famiglie italiane*, Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), No. 359, 2016.

country risk since the summer. This is confirmed by the modest share of total purchases consisting of securities issued by core euro-area countries such as France and Germany and by the absence of any acceleration in purchases of foreign securities in recent months. Residents' investment abroad appears to reflect the rebalancing of portfolios in a quest for greater diversification and higher returns. However, this type of investment might also reflect the relatively limited development of the Italian equity and corporate bond markets.

Italy's portfolio investment abroad by resident sector
(billions of euros)

	Banks (1)	Insurance companies and pension funds	Other financial intermediaries (2)	Households (3)	Other residents (4)	Total
			By year			
2014	7	30	43	16	-2	94
2015	23	43	25	15	6	112
2016 (Jan.-Oct.)	-1	43	13	14	5	73
Total	**29**	**116**	**80**	**45**	**9**	**280**
			By instrument (Jan. 2014-Oct. 2016)			
Debt securities	27	49	27	-14	-5	84
Listed shares	1	5	..	2	3	11
Investment fund units	1	63	54	56	10	184
Total	**29**	**116**	**80**	**45**	**9**	**280**

(1) Includes money market funds and Cassa Depositi e Prestiti SpA. – (2) Non-money-market funds, financial auxiliaries, captive financial institutions and money lenders. – (3) Includes non-profit institutions serving households. – (4) Non-financial corporations, general government and the Bank of Italy.

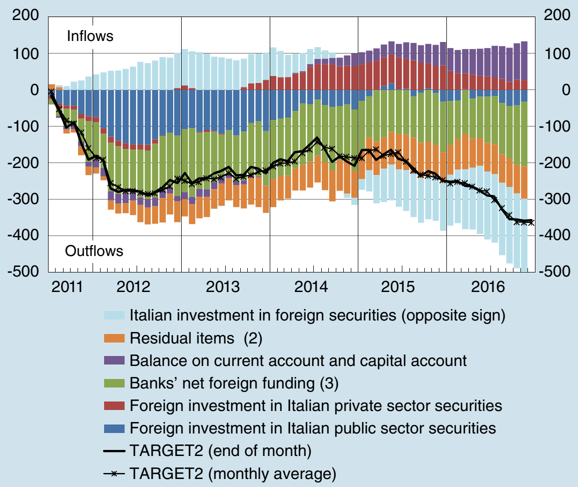
On the liability side, non-resident investors' holdings of Italian public sector securities remained stable, following a monthly schedule linked partly to the Italian Treasury's issuance policy. Holdings of bank bonds were reduced (by €24.6 billion), in line with the decrease in wholesale placements by the banks.

There is no change in the debtor position in TARGET2 in recent months

The Bank of Italy's debtor position in the TARGET2 payment system was virtually stationary in the last quarter of 2016, reaching €357 billion at the end of December. The progressive widening of the balance from January to November (the last month for which balance of payments data are available) was mainly due to residents' continued diversification of their portfolios into foreign assets and the decrease in bank funding on international markets, coinciding with liquidity creation through the Eurosystem programmes (Figure 27).

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

The net international position improves

At the end of September Italy's net international investment position was negative by €292.1 billion, equal to 17.5 per cent of GDP. This represented an improvement of almost 2 percentage points of GDP compared with the previous quarter, more than half of which was due to the current account surplus. Valuation adjustments, and above all the increase in the market value of portfolio assets (in particular foreign investment funds), also contributed.

2.5 THE LABOUR MARKET

In the third quarter of 2016 the numbers of hours worked and persons in employment stabilized; both fixed-term and open-ended payroll jobs increased. The latest cyclical indicators are consistent with an expansion in employment in the closing months of 2016. Labour costs were unchanged.

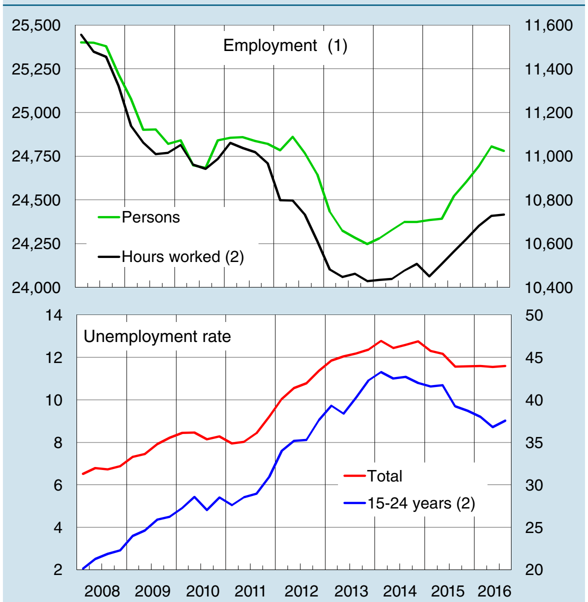
During the summer labour input remains stable ...

Compared with the second quarter of 2016, in the third quarter the number of hours worked and of persons in employment as reported in the national accounts were practically unchanged (Figure 28 and Table 4).[1] Employment increased in industry excluding construction and in private services, while it declined in construction and, to a lesser extent, agriculture. According to provisional data from Istat's labour force survey, in October and November the number of persons employed was unchanged from the previous two months.

Figure 28

Employment and unemployment

(seasonally adjusted quarterly data)



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

... while the number of employees rises further

In the third quarter self-employment contracted by 0.6 per cent, while payroll employment continued to expand (rising by 0.1 per cent and by 1.6 per cent overall in the first nine months of 2016 compared with the year-earlier period). According to the labour force survey, the number of new fixed-term and open-ended hires increased, even though the latter were affected by the scaling back of social security contribution relief compared with 2015. In October and November the number of employees fell by 0.3 per cent compared with the previous two months, while self-employment expanded by 0.8 per cent.

In the final months of 2016 employment appears to have increased

In the last few months of 2016 growth in the number of persons in employment may have been fuelled by firms' decisions to step up open-ended hiring in order to take advantage of contribution relief before its definitive discontinuation on 1 January 2017. Data on new hires and terminations recorded by INPS in the private sector excluding domestic and rural workers (around 500,000 more new contracts between January and October last year), which are reflected in Istat's

[1] See also the *Nota trimestrale sulle tendenze dell'occupazione*, released jointly at the end of December by Istat, the Ministry of Labour and Social Policy, INPS and INAIL.

Table 4

Employment and hours worked

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

	Number	Change			
	Q3 2016	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Total persons in work	**24,780**	**0.3**	**0.4**	**0.5**	**-0.1**
of which: industry excluding construction	4,188	0.6	0.3	-0.1	0.2
private services (1)	10,805	0.3	0.6	1.0	0.2
Employees	18,606	0.7	0.4	0.5	0.1
Self-employed	6,173	-0.6	0.1	0.5	-0.6
Hours worked	**10,734**	**0.5**	**0.6**	**0.4**	**0.1**
of which: industry excluding construction	1,846	1.1	0.7	0.5	0.3
private services (1)	4,910	0.2	1.4	0.5	0.2
Employees	7,362	0.8	0.1	0.9	0.2
Self-employed	3,372	-0.1	1.5	-0.7	-0.2

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

employment estimate with a lag, indicate a further increase in payroll employment in that sector in the closing months of 2016. According to Istat's December survey, firms' staffing expectations over the next three months point to growth in manufacturing employment and to a decline in that in services.

The unemployment rate is stable

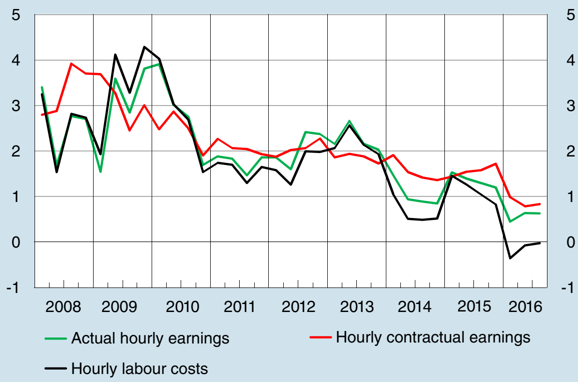
In the third quarter the unemployment rate was unchanged at 11.6 per cent (Figure 28); at 64.9 per cent, the participation rate also remained at the same level as in the previous quarter, breaking the expansionary cycle under way for a year and a half. According to provisional data, the unemployment rate rose slightly in October and November compared with the previous two months, reaching 11.9 per cent and paralleling the increase in the participation rate.

Labour costs remain unchanged

During the summer months the cost of labour in the non-farm private sector was unchanged on an annual basis (Figure 29). Lower social security contributions owing to tax relief on new hires were offset by growth in contractual and actual earnings, albeit at historically low rates (0.8 and 0.6 per cent respectively compared to the corresponding year-earlier period). Recent contract renewals in the private sector point to slower wage growth in the months ahead as well (see the box 'Private sector contract renewals in 2016'). Unit labour costs instead continued to rise in the third quarter, as a result of the decline in hourly productivity (-1.1 per cent on the same period of 2015).

Figure 29

Labour costs
in the non-farm private sector (1)
(quarterly data; percentage changes on the corresponding period)



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

PRIVATE SECTOR CONTRACT RENEWALS IN 2016

In 2016 the pace of wage growth in the private sector slowed sharply, accentuating a trend already under way in the previous two years (see the box 'Wage growth, unemployment and inflation expectations' in *Economic Bulletin*, No. 2, 2016). This reflected above all the slowdown in the contractual component, following delays in contract renewals and, in most of these cases, the absence of pay increments for 2016; in wholesale and retail trade, which accounts for around one fifth of total private sector wages and salaries,[1] payment of the first tranche of an increase under the national contract signed in 2015 was suspended. Overall, the virtual freezing of contractual wages affected around half of all payroll workers.

Factors contributing to this situation included firms' determination to recoup at least a portion of the wage increases above inflation paid in the three years 2013-15 (see Chapter 8, 'The labour market', *Annual Report*, 2015), coupled with uncertainty about future price developments and the mooted industrial relations reform.

The recently signed contracts introduce several important changes. Not only does the agreement signed at the end of November for the basic metals and engineering industry – covering around one fifth of private sector total wages and salaries – not contemplate pay increases until next summer (thereby prolonging until mid-2017 the phase of marked wage moderation), but it also establishes that subsequent increases be determined ex post, annually, and based on the actual change in the harmonised index of consumer prices (excluding imported energy products). This modifies the rule established by the agreement of 2009 between the national trade unions and employers' confederations, which provided for increases over a three-year horizon pegged to expected developments in the same index. The new contract also introduced a clause whereby wage increases agreed at national level will only be applied to the portion exceeding any increases already granted by firms.

Another clause linking pay increases to past inflation was introduced in December 2016, including in the contract for the wood industry[2] and was reprised in employers' requests during ongoing negotiations in the textile industry. The 2015 contract renewals for the chemicals, and plastics and rubber industries, allow the parties to measure annually the difference between actual inflation in the previous year and the forecast inflation rate applied on renewal and, if necessary, adjust the amount of the tranche initially agreed.

As a share of the total, the contracts incorporating ex post indexation mechanisms (including the one for the textile industry still under negotiation) now account for roughly one third of total private sector wages and earnings.

The linking of wages to past rather than to forecast or planned inflation can lead to greater inertia in inflation itself (as used to be the case under the so-called *scala mobile* or escalator mechanism abolished by the 1993 protocol); in the current cyclical phase, this could make a return to values consistent with price stability more difficult.

[1] The shares of private sector wages and salaries cited in this text are based on those used by Istat to calculate the contractual earnings index.
[2] The clause, which applies to the increases in 2018 and 2019, refers to the general index of consumer prices (including energy products).

2.6 PRICE DEVELOPMENTS

Consumer price inflation moved into positive territory at the end of 2016, but it is still very low, as core inflation in particular continues to be weak. Households, firms and the leading analysts expect a moderate increase in prices in 2017.

Inflation turns positive in the final two months of 2016 ...

The 12-month change in the Harmonized Index of Consumer Prices (HICP), which turned slightly positive in November, rose to 0.5 per cent in December (Figure 30). The increase in prices for unprocessed food products was accompanied by an attenuation of the decline in energy prices.

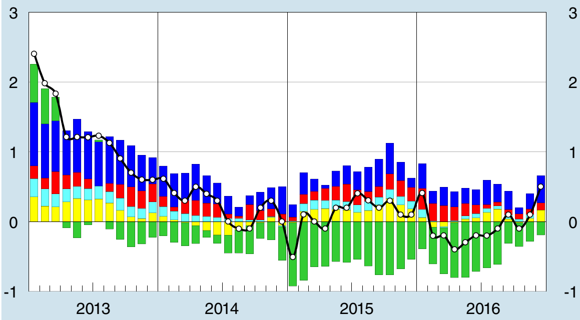
... but core inflation remains weak

Despite a slight recovery (from 0.4 per cent in November to 0.7 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.

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	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	0.1	–	0.5	-3.4
2016	-0.1	0.5	-0.1	-0.1	–	0.5	….
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	-1.0
Sept.	0.1	0.4	0.0	0.1	0.2	0.4	-0.8
Oct.	-0.1	0.2	-0.2	-0.2	-0.1	0.1	-0.6
Nov.	0.1	0.4	0.1	0.1	0.2	0.4	-0.3
Dec.	0.5	0.7	0.5	0.5	0.3	0.6	….

Sources: Based on Istat and Eurostat data.
(1) HICP. – (2) Consumer price index for the entire resident population; this differs from the HICP 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.

in December, driven by air transport services), core inflation is still very low by historical standards (Table 5) in connection with the persistence of ample margins of spare capacity and slow wage growth (see Section 2.5). In December the share of elementary items with negative price changes fell to 28 per cent from 35 per cent in November; the share for core components also declined to 25 per cent, from 28 per cent.

The decline in producer prices abates

The producer prices of industrial products sold on the domestic market continued to fall in November (-0.3 per cent over twelve months). This trend, however, has eased considerably since July, largely as a result of developments in the energy component; the change in the prices of non-food final consumption products was barely negative.

Firms and households expect modest inflation

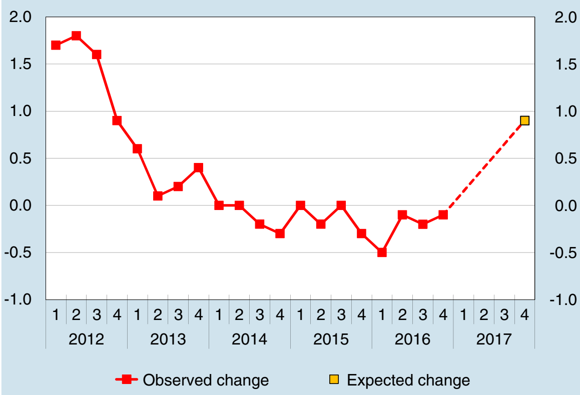
Households and firms expect inflation to remain low over the next few months. The quarterly survey conducted in December by the Bank of Italy, together with *Il Sole 24 Ore*, found that firms expected to increase their list prices by 0.8 per cent over the next twelve months (Figure 31). According to Istat surveys, the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months rose compared with the third quarter (from 57.9 per cent to 59.2 per cent). The share of manufacturing firms expecting to raise their prices compared with those planning to reduce them was slightly higher on average in the fourth quarter than in the third.

The analysts polled in January by Consensus Economics expected the average rate of inflation to rise in 2017 to 0.9 per cent from -0.1 per cent in 2016, below that forecast for the euro area as a whole (see Section 1.2).

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 in the Bank of Italy - *Il Sole 24 Ore* quarterly survey (see Survey on Inflation and Growth Expectations, 16 January 2017, available on the Bank's website in the Statistics section).

2.7 BANKS

The expansion in lending to the private non-financial sector has progressed in recent months. The quality of Italian banks' loan books continues to gradually benefit from the improvement in economic conditions. The government has authorized the financing of possible guarantees or capital injections to support Italian banks or banking groups; it will proceed with the precautionary recapitalization requested by Banca Monte dei Paschi di Siena, in compliance with European regulations on bank recovery and resolution and State aid.

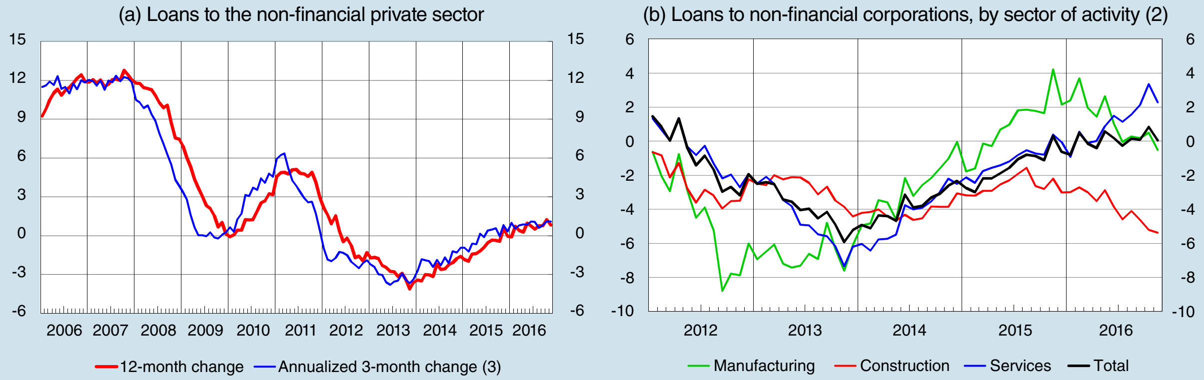
The growth in loans to households strengthens ...

In the three months ending in November, the growth in lending to the non-financial private sector strengthened slightly (1.1 per cent on a seasonally adjusted, annualized basis; Figure 32.a). Lending to households accelerated to 2.1 per cent: there was continued robust growth in both consumer credit (2.7 per cent), supported by the expansion of disposable income (see Section 2.3), and loans for house purchases (2.0 per cent), in line with the further increase in house sales (see Section 2.2).

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. Starting in June 2015, the rates of growth of loans are recalculated to take into account of newly available statistical data on write-offs and of some data revisions. – (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.

... while lending to firms continues to vary from sector to sector

In November, lending to firms showed a marginally positive three-month variation on a seasonally adjusted, annualized basis (0.3 per cent) and no growth with respect to a year earlier. Differences persist according to economic sector (Figure 32.b):

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	August 2016	November 2016	August 2016	November 2016
Assets				
Loans to Italian residents (4)	1,800	1,801	-0.8	-1.1
of which: to firms (5)	784	786	0.1	0.0
to households (6)	621	624	1.6	1.8
Claims on central counterparties (7)	92	89	2.2	-7.9
Debt securities excluding bonds of resident MFIs (8)	521	508	-3.1	-2.8
of which: securities of Italian general government entities	409	391	-2.0	-4.3
Claims on the Eurosystem (9)	32	48	28.7	135.5
External assets (10)	328	343	-4.4	2.5
Other assets (11)	1,148	1,130	0.5	-0.2
Total assets	**3,921**	**3,918**	**-0.8**	**-0.2**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,409	1,412	3.2	3.0
Deposits of non-residents (10)	306	306	-7.1	-4.5
Liabilities towards central counterparties (7)	155	148	-2.4	2.6
Bonds (13)	354	339	-16.3	-17.4
Liabilities towards the Eurosystem (9)	174	185	10.2	19.9
Liabilities connected with transfers of claims	118	116	-10.3	-4.9
Capital and reserves	442	442	-0.7	-1.5
Other liabilities (14)	964	970	2.2	1.4
Total liabilities	**3,921**	**3,918**	**-0.8**	**-0.2**

Source: Supervisory reports.

(1) The data for November 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.

loans to companies in the service sector continued to increase (2.3 per cent in the twelve months) while those to manufacturing firms fell slightly (-0.5 per cent); the contraction in loans to construction companies worsened again (-5.4 per cent). Lending to firms with 20 or more workers was almost flat, growing by 0.4 per cent, while the decline in lending to smaller businesses eased slightly, to -3.2 per cent.

Bank funding remains unchanged

Between August and November Italian banks' total funding remained substantially stable (Table 6); the increase in resident deposits and the greater recourse to refinancing operations with the Eurosystem offset the decrease in households' bond holdings. Placements of bonds with banks and institutional investors continued to decline.

Supply conditions are still accommodative

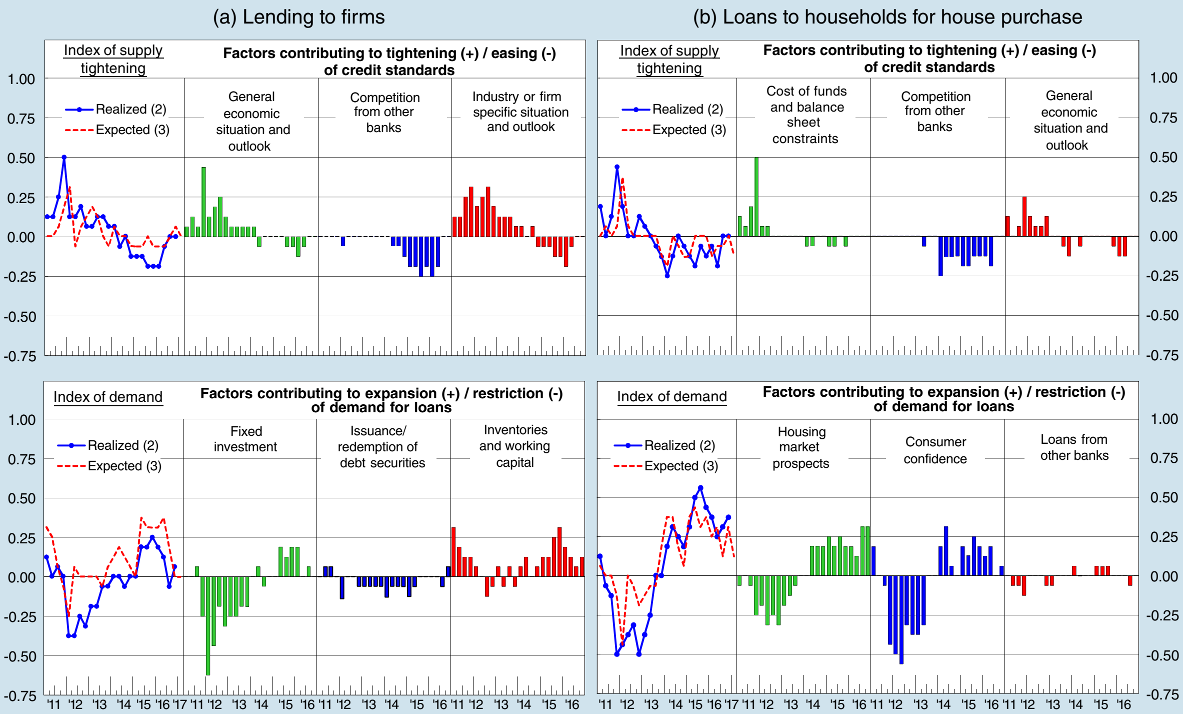
The banks interviewed for the quarterly survey on bank lending in the euro area reported virtually unchanged lending policies in the fourth quarter of 2016 (see the box 'Credit supply and demand'). The business surveys conducted in December by Istat and by the Bank of Italy together with *Il Sole 24 Ore* also found that credit conditions were stable overall, though with different trends for firms of different categories.

CREDIT SUPPLY AND DEMAND

According to the Italian banks interviewed in December's quarterly euro-area bank lending survey, in the fourth quarter of 2016 credit supply policies in relation to firms and to households for house

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.

purchase were unchanged from the third quarter (Figure A).[1] The average margin on loans to firms and households continued to narrow, though more gradually.

The demand for business loans remained virtually unchanged. Household demand for house purchase and consumer loans strengthened further, sustained by low interest rates and the improved outlook for the housing market.

Based on banks' forward-looking assessments, the lending criteria for loans to firms will remain the same during the current quarter, while those for loans to households will ease slightly.

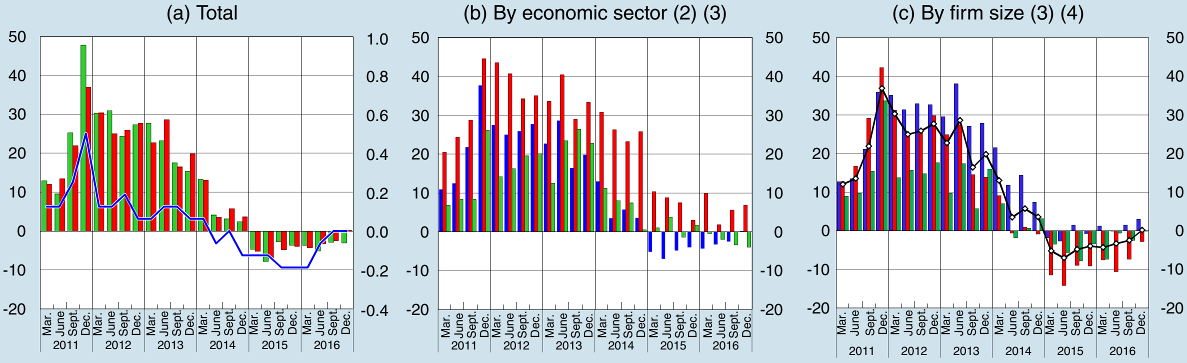
This survey contained specific questions relating to the effect of the targeted longer-term refinancing operations (TLTRO2) on credit conditions. Banks reported that they had made use of these operations mainly to benefit from highly favourable funding conditions. The liquidity obtained overall has been and will continue to be used to replace other Eurosystem refinancing operations, to grant loans to firms and households and, to a lesser extent, to replace other maturing debt. The operations have had a positive impact both on lending policies and on the terms and conditions for loans to customers.

The results of the business surveys conducted in December regarding the last quarter of 2016 indicate that credit access conditions remained practically the same, although they were still differentiated by category of firm and sector of economic activity (Figure B). According to Istat's business confidence survey and the Survey on Inflation and Growth Expectations conducted by the Bank of Italy with *Il Sole 24 Ore*, lending conditions for medium-sized and large manufacturing firms and service firms continued to be accommodative, although they remained tight for small firms and construction companies.

Figure B

Firms' access to credit (1)

(a) Total | (b) By economic sector (2) (3) | (c) By firm size (3) (4)

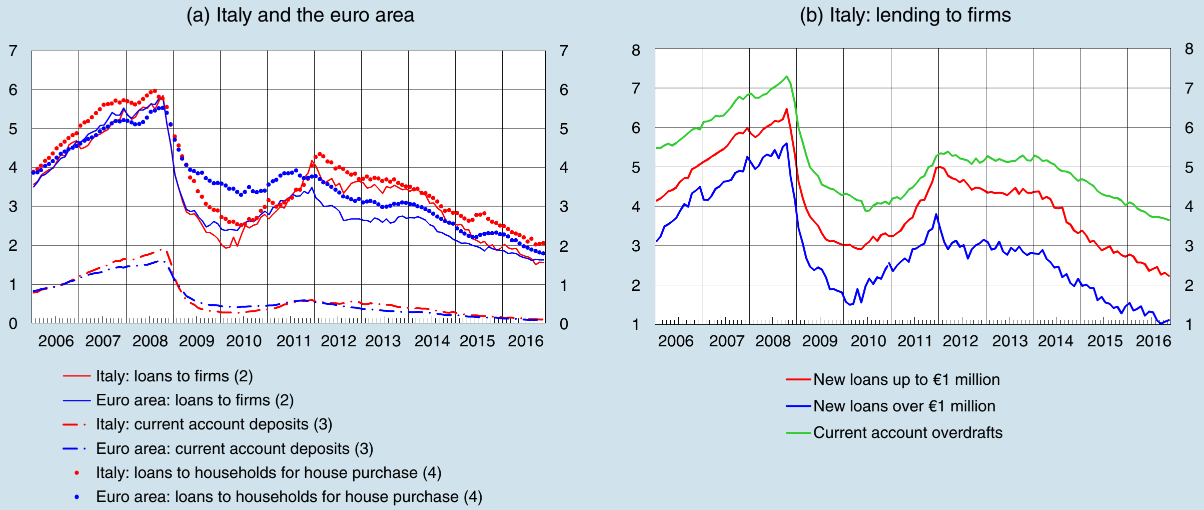


(1) The Bank of Italy-*Il Sole 24 Ore* survey is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and services; the Istat business confidence surveys are conducted on samples of manufacturing and service firms (excluding retail and wholesale trade) and construction companies. The data for 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* for data up to the third quarter of 2016 and in the *Statistics* series for those referring to the fourth quarter of 2016. – (6) Right-hand scale.

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

Figure 33

Bank interest rates (1)
(monthly data; percentage changes)



Source: 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.

The average cost of new loans continues to decrease

The cost of credit stands at historically low levels. In November the average interest rate on new loans to firms fell by another 10 basis points with respect to August, to 1.6 per cent (Figure 33). The cost of new mortgages came down by 15 basis points for fixed rate loans (to 2.2 per cent) and by 10 basis points for variable rate loans (to 1.7 per cent). The spread with the euro-area average remained practically nil for loans to firms and was very narrow for those to households (25 basis points).

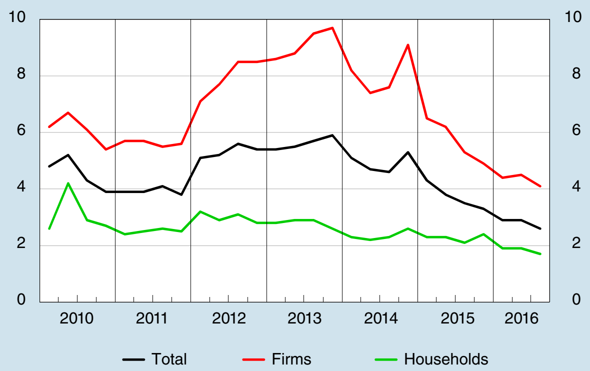
Credit quality continues to improve

The improvement in the economic outlook continues gradually to have a beneficial effect on the credit quality of Italian banks. In the third quarter of 2016, the ratio of new non-performing loans to outstanding loans fell from 2.9 to 2.6 per cent on a seasonally adjusted annualized basis (Figure 34). The ratio fell from 4.5 to 4.1 per cent for loans to firms and from 1.9 to 1.7 per cent for those to households.

For the banking groups classified as significant for supervisory purposes, the ratio of the stock of NPLs to total outstanding loans remained broadly stable in the third quarter, both in terms of gross values and net of write-downs (17.9 and 10.5 per cent respectively). The coverage ratio (i.e. the ratio of write-downs to the stock of NPLs) increased to 47.3 per cent.

Figure 34

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



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

Profitability diminishes

The profitability of the significant banking groups diminished in the first nine months of 2016 compared with the year-earlier period: annualized ROE fell to 1.4 per cent from 3.8 per cent. Net interest income and other income decreased by 4.3 and 1.4 per cent, respectively. Operating costs increased by 6.1 per cent, largely on account of the extraordinary expenses associated with early retirement incentive schemes for some personnel and with contributions to the deposit guarantee and resolution funds. Gross income diminished by about one fifth. Write-downs of loans rose by 20.6 per cent, following the significant increase in the NPL coverage ratios by some banks.

Capital ratios increase

Capital adequacy improved slightly in the third quarter. The CET1 ratio for the significant banking groups averaged 11.9 per cent of risk-weighted assets, about 10 basis points higher than in June.

The Government approves measures to support bank liquidity and capital

At the end of December the Government authorized the financing of possible measures, in the form of guarantees for newly issued liabilities or capital injections, to support Italian banks or banking groups, up to a maximum of €20 billion for 2017; it will proceed with the precautionary recapitalization requested by Banca Monte dei Paschi di Siena, in compliance with European regulations on bank recovery and resolution and State aid (see the box 'Government measures to support bank liquidity and capitalization').

GOVERNMENT MEASURES TO SUPPORT BANK LIQUIDITY AND CAPITALIZATION

On 23 December 2016 Decree Law 237/2016 was issued containing urgent measures for the protection of savings in the banking sector and creating an operational framework for public support for the banks; it contains measures to address potential liquidity needs and provisions allowing for precautionary recapitalization by the State (to this end, the Italian Government has authorized the allocation of up to €20 billion for 2017). The scheme complies with the European framework on State aid; the measures may be applied without placing the bank under resolution pursuant to Article 32 of Directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD) and Article 18 of Regulation (EU) No. 806/2014 (Single Resolution Mechanism Regulation, SRMR).[1]

State guarantees on newly issued liabilities. – Title 1 of the decree law provides that the Ministry of Economy and Finance (the Ministry) may grant a state guarantee both on liabilities issued by Italian banks after the decree law's entry into force and on emergency liquidity assistance. The guarantee may be extended to banks that meet the minimum (Pillar 1) capital requirements and do not have a capital shortfall according to stress tests conducted at national or European level. Guarantees may also be provided to banks under resolution, bridge institutions and banks with stress test capital shortfalls provided they have a positive net worth; in these cases, prior individual notification must be made to the European Commission for approval pursuant to the rules on State aid and a restructuring plan must be drawn up. The amount of the guarantee is limited to what is strictly necessary to restore the bank's medium- and long-term funding capacity. Banks must pay a fee to access the state guarantee scheme.

[1] For more information, see 'Hearing on Decree Law 237/2016 on urgent measures for the protection of savings in the banking sector', testimony of C. Barbagallo, Head of the Bank of Italy's Directorate General for Financial Supervision and Regulation, Senate of the Italian Republic, 17 January 2017.

Public precautionary recapitalization. – Title II covers capital strengthening measures. To avoid or remedy a serious disturbance in the economy and to preserve financial stability, the Ministry is authorized to purchase shares, following a request by banks, to cover capital shortfalls identified under the adverse scenario of a national or European stress test (referred to as precautionary recapitalization). Public capital injections are granted after the completion of proceedings designed to comply with the European framework on State aid. The measure can be adopted to assist banks that do not meet the conditions for the application of the crisis management procedures, including resolution. This means that before the State intervenes, burden sharing measures must be applied. Burden sharing shall consist of the partial or total conversion of hybrid and subordinated bonds into equity.

This conversion must respect the creditor hierarchy and the no creditor worse off (NCWO) principle which provides that no creditor incur greater losses than would have been incurred under normal insolvency proceedings. The NCWO assessment, which is also based on forward-looking assumptions, inevitably implies that various technical assumptions be made; it calls for the reconstruction, in a counterfactual scenario, of what would happen to all of a bank's balance sheet if the bank were liquidated. To quantify the number of shares to be assigned post-conversion, the economic value of the liabilities in question must be used as a basis for the calculation. The NCWO assessment and the economic value of the liabilities to be converted (both provided by the bank when requesting public intervention) must be certified by independent experts appointed by the Bank of Italy, with the costs being borne by the requesting bank. The issue price of shares is calculated using the theoretical ex-rights price (TERP), according to a market technique generally applied to capital increases.

The interventions will go ahead once the competent authority (the European Central Bank for significant banks, the Bank of Italy for the other banks) has quantified the capital shortfall and the European Commission has declared that the intervention complies with the European framework on State aid. The Commission must also approve the bank's restructuring plan. The Ministry will make the burden sharing arrangements proposed by the Bank of Italy and implement the public recapitalization programme after receiving the Bank of Italy's opinion on the latter.

The mechanism established by the decree law falls within the European regulatory framework concerning public precautionary measures; public recapitalizations affect shareholders, whose holdings are diluted in value, and hybrid and subordinated bondholders, whose investments are converted into equity as a result of burden sharing. In addition, a compensation mechanism is envisaged for retail investors subjected to the burden sharing measures; it is limited to retail investors who subscribed financial instruments requiring a prospectus or who purchased such instruments at a later stage, either through a bank or a company that is part of the same group or from other retail investors. The Ministry may intervene in support of a settlement agreement to avoid or resolve a dispute concerning the mis-selling of converted instruments: retail investors may exchange the converted shares with non-subordinated bonds issued by the bank, for a face value equal to the subscription price of the shares; the converted instruments will be purchased by the Ministry.

Banca Monte dei Paschi di Siena. – Following the failure of the capital strengthening plan aimed at private investors (the market solution), which also provided for the concurrent sale of the bank's bad-loan portfolio, on 23 December 2016 Banca Monte dei Paschi di Siena announced it would request the Italian state to effect a precautionary recapitalization. This request was presented to the Ministry, the Bank of Italy and the European Central Bank; the ECB, in its capacity as competent authority, communicated to the Ministry that Banca Monte dei Paschi di Siena needed €8.8 billion of regulatory capital. This amount was calculated by the ECB according to objectives and methodologies which are different from those applicable to the market solution and was based on the outcome of the 2016 stress test[2] run by the European Banking Authority considering the amount of capital necessary to re-establish a CET1 ratio of 8 per cent (the threshold used in the 2015 comprehensive assessment of the Greek banks) and a total capital ratio of 11.5 per cent.[3]

The decree law, which takes into account the independent assessments provided by the bank, sets the economic value of the subordinated bonds to be converted into equity. For Tier 2 bonds, the economic value is equal to 100 per cent of face value; for the other debt categories, it ranges from 18 to 75 per cent.

Contributions to the National Resolution Fund. – The decree law also clarifies that additional contributions to the National Resolution Fund may also be requested to offset the costs relating to the resolution of the four banks that began in November 2015. In order to lessen the burden on intermediaries of the additional contributions, it will be possible to pay in instalments.

[2] Under the adverse scenario, Banca Monte dei Paschi di Siena's fully loaded common equity tier one (CET1) ratio was -2.44 per cent.

[3] This second threshold is needed to compensate for the removal of subordinated instruments from total capital as a result of burden sharing. For further information on the calculation of the €8.8 billion capital requirement and the differences from the market solution, see The precautionary recapitalization of Monte dei Paschi di Siena published on the Bank of Italy's website on 29 December 2016.

2.8 THE FINANCIAL MARKETS

Stock market volatility peaked in conjunction with the constitutional referendum, then fell back as uncertainty dissipated. The spreads on Italian government securities nevertheless remained wide. Share prices rose in the final part of 2016; the measures adopted by the Government in the last ten days of December to support bank liquidity and recapitalization, in part expected by analysts, were preceded by an upswing in the share prices of Italian banks.

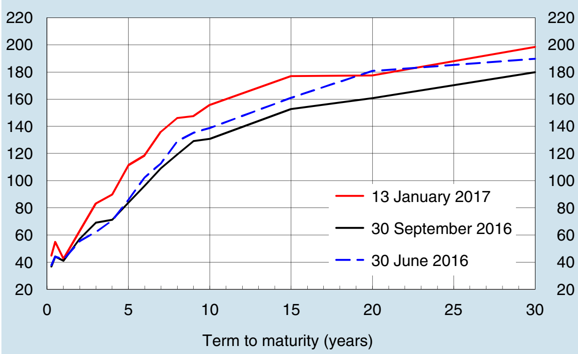
Interest rates and spreads on sovereign and corporate bonds increase

The yields on Italian government securities rose in the fourth quarter of 2016, more markedly for maturities beyond one year. They were affected by the increase in the corresponding yields on US Treasuries and the government bonds of other European countries and by a widening in the sovereign risk premium: the yield spread between ten-year Italian and German government bonds grew by 25 basis points between late September and the first ten days of January, reaching 156 basis points (Figure 35). During the same period the spreads on Italian non-financial corporate bonds increased slightly, by 21 basis points.

Figure 35

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

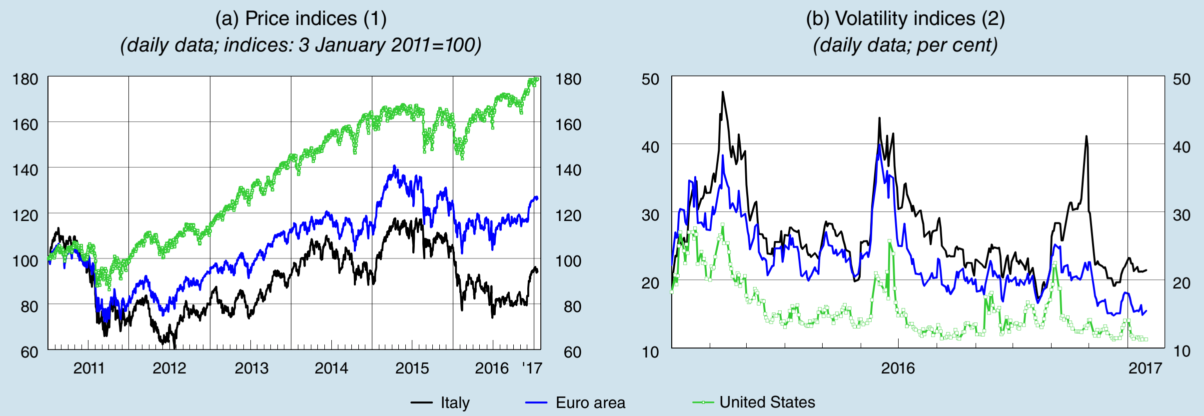
(basis points)



Source: Based on Bloomberg data.

Figure 36

Share prices



Source: Thomson Reuters Datastream.
(1) For Italy, FTSE MIB; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500. – (2) For the euro area, VSTOXX; for Italy, volatility implied by the prices of options on the FTSE MIB; for the United States, VIX.

Share prices rise ...

Since the end of September the general index of the Italian stock market has risen by 19 per cent, compared with 9 per cent for that of the main euro-area companies (Figure 36.a). The Italian stock market index rallied by 29 per cent from the low recorded in the week following the Brexit vote at the end of June, compared with a 23 per cent gain for the euro area. The increase was mainly attributable to a drop in the risk premium demanded by investors and a modest improvement in corporate earnings forecasts. The expected volatility implied by the prices of stock index options peaked just before the constitutional referendum in Italy, then returned to levels observed at the end of September as uncertainty faded (Figure 36.b).

... thanks in part to the recovery in the banking sector

After touching a low in the days preceding Italy's referendum, bank shares began to rise as anticipation mounted of support and capital strengthening measures for troubled banks, expectations that were subsequently confirmed (see the box 'Government measures to support bank liquidity and capitalization'). Between the end of September and the first ten days of January bank shares climbed by 28 per cent, easily outperforming the general index. The corresponding credit default swap (CDS) spreads have fallen by an average of 23 basis points, though with wide fluctuations.

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	-2.9	-124.9
2015 – Q1	-42.0	-5.8	0.4	-47.4
Q2	-26.4	-5.2	-3.9	-35.5
Q3	-26.7	-0.4	1.3	-25.8
Q4	-10.6	-5.0	-0.7	-16.3
2016 – Q1	-34.2	-5.1	-8.6	-47.9
Q2	-4.1	1.0	4.1	0.9
Q3	-12.3	2.6	2.5	-7.3
		Euro area		
2014	-395.6	20.3	56.6	-318.6
2015	-283.9	168.9	47.6	-67.3
2015 – Q1	-69.0	61.7	17.5	10.3
Q2	-69.1	11.5	-1.1	-58.6
Q3	-61.8	33.0	13.7	-15.1
Q4	-84.0	62.8	17.4	-3.8
2016 – Q1	-39.9	-125.4	-0.8	-166.2
Q2	-6.3	-37.4	28.5	-15.2
Q3	-53.7	77.2	22.7	46.2

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

Corporate bond issues increase

Bond issues by non-financial corporations gained pace in the third quarter, rising to €2 billion and €23 billion in Italy and the euro area, respectively (Table 7), confirming the positive impact of the expansion of the Eurosystem's asset purchase programme to include corporate securities. By contrast, there were further net bond redemptions by banks, both in Italy and in the euro area, amounting to about €12 billion and €54 billion, respectively.

Italian investment funds record a net inflow of resources

According to Assogestioni data, in the third quarter Italian and foreign open-ended investment funds recorded net inflows of savings amounting to €16 billion, against net outflows of €1 billion the previous quarter. Bond funds, flexible funds, balanced funds and equity funds accounted for the positive result, while the other segments reported slight net outflows.

2.9 THE PUBLIC FINANCES

Estimates based on provisional data suggest that last year general government net borrowing diminished with respect to 2015 and that the reduction could even have been slightly greater than that indicated by the Government in September's Update of the 2016 Economic and Financial Document; moreover, the ratio of debt to GDP is estimated to have expanded slightly. Official assessments indicate that the budgetary provisions for the three years 2017-19 increase the deficit by around half a percentage point of GDP compared with the current legislation scenario.

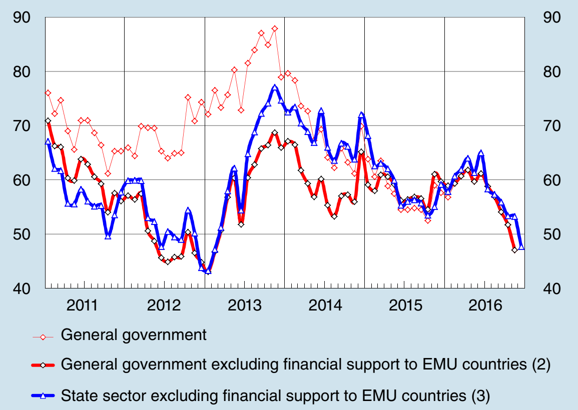
The available data point to an improvement in 2016's accounts

In 2016 the state sector borrowing requirement fell by around €11 billion from 2015, to €47.7 billion (Figure 37). In the first eleven months of the year, net of privatisation receipts, the general government borrowing requirement came to €53.3 billion, around €10.5 billion less than in the year-earlier period.

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 privatisation 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.

Taking account of the provisional data for December, the effects of the main financial operations, and cash/accruals differences, last year general government net borrowing is estimated to have fallen with respect to 2015, reaching an even slightly lower level than that forecast by the Government in its Update of the 2016 Economic and Financial Document (Table 8).

According to estimates released by Istat, in the first nine months of 2016 general government net borrowing came to 2.3 per cent of GDP, compared with 2.6 per cent in the year-earlier period (Table 9). The increase in current primary expenditure (1.2 per cent), driven by the growth of intermediate consumption expenditure (2.4 per cent) and of social benefits in cash (1.8 per cent), was more than offset by the positive performance of revenues (0.9 per cent), lower interest payments (-2.6 per cent) and by the reduction in capital account expenditure (-8.1 per cent). Regarding this last item, fixed gross investment recorded a modest decline of 0.5 per cent while the reduction in other capital account expenditure was more marked (-19.1 per cent).

Table 8

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

(billions of euros and per cent of GDP)

	2014	2015	2016	2017 (2)
Net borrowing	48.5	42.9	....	....
% of GDP	3.0	2.6	2.4	2.3
Primary surplus	25.9	25.3	....	....
% of GDP	1.6	1.5	1.5	1.4
Interest payments	74.3	68.2	....	....
% of GDP	4.6	4.2	4.0	3.7
Debt	2,137.1	2,172.7		
% of GDP	131.9	132.3	132.8	132.6

Source: For the items of the general government national accounts for the years 2014-15, Istat; for the years 2016-17, Ministry of Economy and Finance, 2017 Draft Budgetary Plan, October 2016.
(1) Rounding may cause discrepancies in totals. – (2) The data from the 2017 Draft Budgetary Plan do not take into account the financial effects of possible measures to support Italian banks in Decree Law 237/2016 containing urgent measures on the protection of savings in the banking sector. These measures would raise the borrowing requirement (and, *ceteris paribus*, the debt) by up to a maximum of around €20 billion; official estimates indicate there would be a slight increase in interest payments offset by a higher primary surplus while net borrowing would be unaffected.

In 2016 the ratio of debt to GDP expands marginally

At the end of November general government debt came to €2,229.4 billion, up by €56.7 billion from the end of 2015. Given the reduction of around €3 billion in the Treasury's liquid balance and the probable general government cash surplus in December, in 2016 the ratio of debt to GDP is expected to have increased by less than half a percentage point.

The budgetary provisions for 2017-19 are expansionary

In December Parliament approved the budgetary provisions for 2017-19.[2] These include expansionary measures for 2017 amounting to almost €26 billion, against just over €13 billion in sources of funding (Table 10). The provision with the greatest impact on the public accounts is the cancellation for this year only of the VAT increases which, in the current legislation scenario, would have generated over €15 billion in additional revenues. A further €11 billion or so are almost entirely allocated to expenditure increases to boost investment and provide income support for some segments of the population; finally, funds have been set aside for multiannual anti-seismic emergency plans. Half of the financial coverage comes from expected revenues from anti-tax evasion and collection measures, such as the

Table 9

Quarterly general government expenditure and revenue

(millions of euros, percentage changes and per cent of GDP)

	Nine months			
	2015	2016	Change on corresponding nine months	
			2015	2016
TOTAL EXPENDITURE	**580,170**	**581,128**	**-0.1**	**0.2**
Current expenditure net of interest payments	485,810	491,596	0.4	1.2
of which: compensation of employees	111,440	112,098	-1.4	0.6
intermediate consumption	63,119	64,651	0.6	2.4
social benefits in cash	232,995	237,081	2.0	1.8
Interest payments	50,587	49,284	-7.5	-2.6
Capital expenditure	43,773	40,248	3.6	-8.1
of which: gross fixed investment	25,965	25,846	-1.1	-0.5
TOTAL REVENUE	**548,182**	**553,318**	**1.1**	**0.9**
Current revenue	546,002	549,381	1.2	0.6
of which: direct taxes	158,037	159,906	1.1	1.2
indirect taxes	184,376	186,260	0.7	1.0
social security contributions	151,977	153,077	2.1	0.7
Capital revenue	2,180	3,937	-23.2	80.6
of which: capital taxes	692	2,823	-24.0	307.9
NET BORROWING	**31,988**	**27,811**		
% of GDP	2.6	2.3		
Primary balance	**18,599**	**21,473**		
% of GDP	1.5	1.7		

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

[2] The budgetary provisions for the three years 2017-19 comprise the budget law and that enacting Decree Law 193/2016 containing urgent measures on taxation and for the financing of non-deferrable needs. The budgetary provisions as outlined do not significantly depart from the draft budget law and tax decree law presented by the Government in October. For further details, see 'Audizione preliminare all'esame della manovra economica per il triennio 2017-19', testimony of L.F. Signorini, Deputy Governor of the Bank of Italy, Chamber of Deputies, Rome, 7 November 2016.

Table 10

Effects on the general government accounts of the budgetary provisions for 2017-19 (1)
(millions of euros)

	2017	2018	2019
SOURCES OF FUNDING	**13,435**	**13,177**	**17,269**
Increased revenue (A)	**9,669**	**11,039**	**9,937**
Anti-tax evasion and collection measures	6,705	6,958	4,298
Changes to the tax allowance for corporate equity (ACE)	1,706	1,527	1,423
2019 VAT clause	0	0	3,679
Move to cash-based taxation regime for taxpayers subject to simplified accounting	0	1,331	-553
Effects on revenue of public sector measures	560	907	907
Requalification of land, corporate holdings and company assets (net effect)	380	160	157
Other (including effects of spending measures) (2)	318	156	26
Lower expenditure (B)	**-3,766**	**-2,138**	**-7,332**
Current account expenditure	-1,336	-2,108	-3,808
Health (net effect)	-68	-1,003	-2,993
Measures to curb ministries' expenditure (3)	-591	-632	-626
Redefinition of expenditure on existing pension safeguards	-644	-407	-107
Other	-33	-66	-83
Capital account expenditure	-2,430	-31	-3,523
Changes to auctions for transmission frequencies	-2,010	65	130
Measures to curb ministries' expenditure (3)	-137	-78	-80
Other (4)	-283	-17	-3,573
USE OF RESOURCES	**25,763**	**20,811**	**22,253**
Lower revenue (C)	**-16,300**	**-6,133**	**-6,719**
Restructuring of VAT safeguard clauses	-15,133	0	0
Corporate income tax (net effect)	0	-1,986	-1,236
Increased amortization (super and hyper amortization)	0	-1,131	-1,923
Changes to tax credits for pension income	-213	-247	-246
Tax reductions for productivity bonuses and corporate welfare	-211	-392	-385
Tax credits for restructuring, purchases of movables and energy requalification (net effect)	45	-450	-989
Tax credits for anti-seismic measures (net effect)	-16	-288	-557
Other (including effects of expenditure measures) (2)	-772	-1,639	-1,383
Higher expenditure (D)	**9,464**	**14,678**	**15,534**
Current expenditure	7,105	8,803	8,343
Pensions (net effect)	1,797	2,591	2,855
Public sector	1,642	2,356	2,356
Local authorities	1,090	1,055	1,052
Measures for households (net effect)	750	876	865
Universities and research (net effect)	108	386	393
Other (4)	1,718	1,538	822
Capital expenditure	2,359	5,876	7,191
Fund for investment and infrastructure	629	1,968	3,500
Local authorities	774	1,115	1,106
Anti-seismic measures	600	800	950
Tax credits for research and development	0	727	727
Other	356	1,265	908
Change in net revenue (E=A+C)	**-6,630**	**4,906**	**3,218**
Change in net expenditure (F=B+D)	**5,698**	**12,540**	**8,202**
current	5,769	6,695	4,535
capital account	-71	5,845	3,668
Change in net borrowing (G=F-E) (5)	**12,329**	**7,634**	**4,984**
% of GDP (6)	0.7	0.4	0.3
Memorandum item: retroactive effects on net borrowing	-350	-1,050	-2,200

(1) Based on official estimates of provisions in Law 232/2016 (2017 budget law) and in Law 225/2016 converting Decree Law 193/2016 containing urgent measures on taxation and for the financing of non-deferrable needs. – (2) Includes the measures envisaged in Section II of the 2017 budget law. – (3) Includes the measures to cut ministries' expenditure contained in Sections I and II of the 2017 budget law. – (4) Includes the measures set out in Section II of the 2017 budget law except those to cut ministries' expenditure. – (5) Gross of retroactive effects. – (6) Projected nominal GDP as reported in the 2017 Draft Budgetary Plan.

extension of voluntary disclosure deadlines and settlements and concessions in tax collection cases. According to the official assessments, the budgetary provisions bring net borrowing for this year to 2.3 per cent of GDP, 0.7 percentage points more than on a current legislation basis.

The Government estimates that the deficit in 2018-19 will contract more rapidly than in 2017, mostly owing to the scheduled increases in indirect taxes under the safeguard clauses, the increased permanent revenue from anti-tax evasion measures and the postponement, envisaged under the budgetary provisions, from 2019 to 2020 of some capital expenditure items.

On 23 December the Government approved urgent measures on the protection of savings in the banking sector (Decree Law 237/2016) authorizing, amongst other things, the funding of possible intervention to support Italy's banks (see the box 'Government measures to support bank liquidity and capitalization'). These measures could raise the borrowing requirement (and, *ceteris paribus*, the debt) by up to a maximum of around €20 billion in 2017;[3] according to official assessments, however, the net borrowing requirement will be unaffected insofar as the projected small increase in interest payments will be offset by an increase in the primary surplus.

The EU Commission advises of the risk of breaching the Stability and Growth Pact and deems necessary additional measures

Last November the European Commission estimated that the structural deficit would worsen by half a percentage point in 2017. In its assessments, which amongst other things take account of margins of flexibility of around 0.3 percentage points of GDP, linked to exceptional expenditure on the management of migration flows and on securing Italy's territory and buildings, this deterioration risks breaching the Stability and Growth Pact, a possibility confirmed by the Eurogroup. In its customary exchanges with the Government and in line with the November assessments, on 17 January the Commission called on Italy to give a set of specific commitments to adjusting its structural accounts in 2017 by at least 0.2 percentage points of GDP, deemed necessary in order to limit the deviation from European fiscal rules. In the weeks ahead the Commission – having considered the updated macroeconomic projections it will release in February, possible additional measures, and the 'relevant factors' – will publish its assessment of Italy's compliance with the debt rule.

2.10 PROJECTIONS

The projections for the Italian economy presented in this *Economic Bulletin* update those prepared for December's Eurosystem staff macroeconomic projections to take account of subsequent developments. These do not warrant any significant adjustment in the outlook for the next three years, with the exception of consumer price inflation, which is expected to rise by almost half a percentage point this year, mainly owing to imported energy prices.

Fluctuations in the stock exchange indices and in government security yields have been limited as a whole, despite a surge in volatility in November. The 30 November agreement on production cuts signed by all the OPEC and some non-OPEC countries resulted in a sharp rise in oil prices. The decisions of the ECB Governing Council of 8 December last confirming its expansionary monetary policy stance have had only a limited impact on interest rates. On the other hand, the euro/dollar exchange rate, based on the average values recorded in the ten working days up to 5 January, has fallen by about 4 per cent compared with the rate on which the December scenario was based.

[3] On 21 December, Parliament, voting by an absolute majority in both chambers, approved the report presented by the Government in which it requested authorization to update the 2017 public finance objectives with respect to those established in the autumn.

The scenario is based on relaxed credit conditions

The forecasting scenario for 2017-19 is based on the assumption that monetary conditions will remain highly expansionary, as reflected in the projections for German long-term interest rates (to hold below 0.5 per cent this year and to increase moderately the next), even taking into account the widening of Italy's sovereign spread in the closing months of 2016 (see the box 'The assumptions underlying the macroeconomic scenario'). This scenario also assumes that credit conditions will remain generally favourable: the difference between interest rates on bank loans in Italy and in the rest of the euro area is not expected to exceed 30 basis points in the period 2017-19. According to the various surveys, credit standards will continue to be generally relaxed.

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

Since 2016 the forecasting scenario for the Italian economy prepared by Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise, has been published on the Bank's website at the start of June and December.[1] The macroeconomic projections for Italy presented here update those released on 9 December[2] on the basis of technical assumptions about developments in the exogenous variables that take account of the information available at 5 January.

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

	2016	2017	2018	2019
World trade	1.7	3.2	3.9	4.0
Potential foreign demand	2.4	3.3	3.9	3.9
Dollar/euro (1)	1.11	1.04	1.04	1.04
Nominal effective exchange rate (2)	0.3	1.8	0.0	0.0
Crude oil prices (1) (3)	43.6	57.7	57.8	57.4
3-month Euribor (1)	-0.3	-0.3	-0.2	-0.1
1-year BOTs (1)	-0.1	-0.2	-0.1	0.0
10-year BTPs (1)	1.5	2.1	2.5	2.9

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

The main assumptions underlying the scenario are as follows (see the table):

a) World trade expands by 1.7 per cent in 2016, accelerates to 3.2 per cent in 2017 and to 4 per cent on average in 2018-19, significantly below the average annual growth rate of 5.7 per cent recorded between 1990 and 2015. In 2016 foreign demand, weighted according to the markets for Italian exports, expanded by more than global demand (2.4 per cent) by virtue of the relatively high share of Italian exports to the euro area (where average demand conditions were better than the rest of the world);[3] in the three years 2017-19, the performance of foreign demand is similar to that for world trade;

b) The dollar/euro exchange rate averages 1.11 in 2016 and falls to 1.04 in the three years 2017-19;[4]

c) The price of a barrel of Brent crude oil averages $43.6 in 2016, reaches around $58 in 2017 and stays fairly close to this level over the rest of the forecasting horizon;

[1] See the Bank of Italy's website for The macroeconomic projections for Italy - 2016, which include the projections published to date as part of the Eurosystem exercise.
[2] See the Bank of Italy's website: Macroeconomic projections for the Italian economy (eurosystem staff macroeconomic projections), 9 December 2016.
[3] The assumptions for global economic activity and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented by the ECB in Eurosystem staff macroeconomic projections for the euro area, December 2016.
[4] The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days to 5 January.

d) The three-month interest rates on the interbank market (Euribor) stand at -0.3 per cent in the two years 2016-17, before gradually rising to -0.1 per cent on average in 2019;

e) The yield on ten-year BTPs, on average equal to 1.5 per cent in 2016, rises to 2.1 per cent in 2017, 2.5 per cent in 2018, and 2.9 per cent in 2019, in line with market expectations;

f) The scenario incorporates the 2017 budgetary provisions. It is also assumed that the increase in the VAT rates and excise duties envisaged under current legislation will not be applied in the two years 2018-19.

In the macroeconomic framework for the next three years ...

GDP is projected to grow by 1.0 per cent on average per year in 2017-19 (Table 11 and Figure 38). Economic activity will be driven by domestic demand and by a gradual strengthening of foreign demand (Figure 39). In 2019 output is expected to be about 4 percentage points below the value recorded in 2007.

... investment growth benefits from the support measures ...

So long as financial conditions remain favourable, the expansion of investment in production facilities will help to support economic activity and, despite the dampening effect of the uncertain growth outlook, will be boosted, up to the first half of 2018, by the measures put in place by the Government. According to our surveys, firms generally give a positive assessment of these measures, which have been renewed and extended in the 2017 budget law (see the box 'Growth and investment in Italy', *Economic Bulletin*, No. 4, 2016). According to our estimates, the overall stimulus they impart, mainly by prompting firms to anticipate planned expenditure, will be equivalent to about 3.5 percentage points of additional investment in machinery, equipment and transport equipment (METE) in 2016-18. When these effects terminate there will be a sharp but brief slowdown in investment at the end of the forecasting horizon. Residential investment is instead expected to increase on average at a slower pace.

Investment in production facilities as a share of GDP is projected to return to similar levels to those recorded on average in the decade leading up to the crisis (Figure 40), while investment in construction should stay more than 3 percentage points below.

Table 11

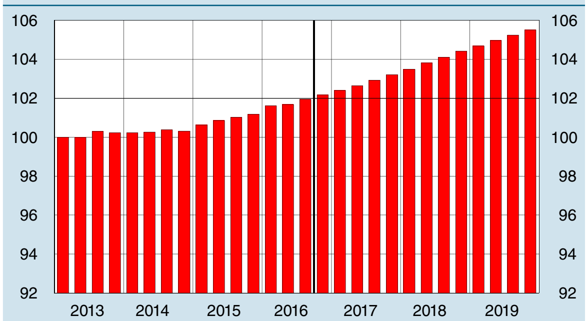
The macroeconomic scenario
(percentage changes on previous year unless otherwise indicated)

	2016	2017	2018	2019
GDP (1)	0.9	0.9	1.1	1.1
Household consumption	1.4	0.9	0.8	0.8
Government consumption	0.8	0.4	-0.1	-0.3
Gross fixed investment	2.1	2.8	2.7	0.8
of which: METE	3.1	4.6	3.0	0.1
Total exports	1.2	3.8	4.4	4.0
Total imports	1.8	4.9	3.9	2.4
Change in stocks (2)	-0.3	0.0	0.0	0.0
HICP	-0.1	1.3	1.3	1.5
HICP net of food and energy	0.5	0.8	1.4	1.6
Employment (3)	1.0	0.8	0.9	1.0
Unemployment rate (4)	11.6	11.6	11.3	10.9
Export competitiveness (5)	-1.3	1.6	0.1	-0.5
Current account balance (6)	2.4	1.7	1.9	2.2

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

Figure 38

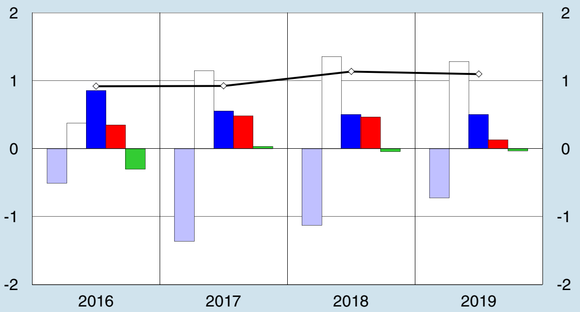
GDP projections: quarterly profile (1)
(Index: 2013 Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to 2016 Q3; projections thereafter.

Figure 39

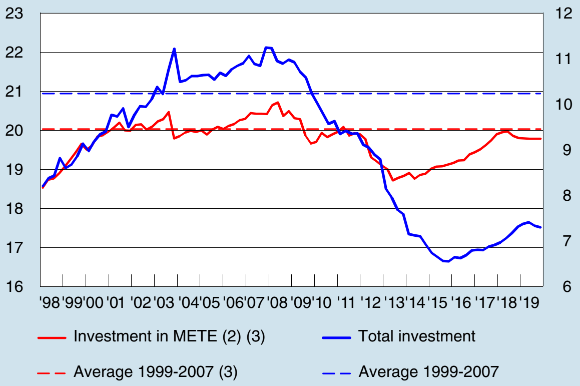
GDP growth and the contributions of the main demand components and imports (1)
(percentage points)



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

Figure 40

Investment as a percentage of GDP (1)
(quarterly data)



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

... consumption and employment continue to grow ...

Consumption is forecast to grow at a similar rate to output. The slowdown with respect to the previous two-year period presumably mainly reflects the impact of recent increases in energy commodity prices on households' spending power. The saving rate should rise slightly over the forecasting horizon, pursuing its usual pro-cyclical dynamics. Employment is forecast to grow, although briefly at a slower pace than last year's as the social security contribution relief on new permanent hires are phased out (see Section 2.5). The unemployment rate will diminish only gradually, going from 11.9 per cent in 2015 to less than 11 per cent in 2019: increased labour market participation in response to the improved economic outlook and structural factors such as the raising of the retirement age appear to be slowing the fall.

... and the contribution of exports strengthens

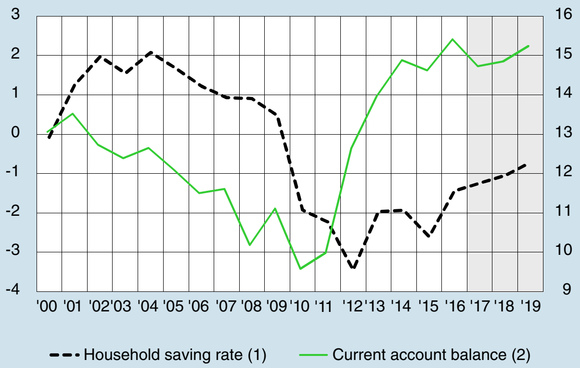
Exports are projected to increase at a faster rate than world trade, benefiting, among other things, from the euro's depreciation against the main currencies. Imports are also expected to gain pace, driven by the performance of demand components with a high import content (investment in production facilities and exports). The surplus on the current account of the balance of payments, which we estimate at 2.4 per cent in 2016, should stay close to the 2 per cent mark over the forecasting horizon (Figure 41).

Inflation surges in 2017, reflecting the oil price hike

Inflation, measured by the harmonized index of consumer prices, is expected to rise to 1.3 per cent on average this year and the next, from -0.1 per cent in 2016, and to 1.5 per cent in 2019 (Figure 42). This year's projected surge will be due primarily to the higher prices of energy imports, while core inflation, i.e. excluding the most erratic items, will increase more gradually over the forecasting

Figure 41

Household saving rate and current account balance
(percentage points)



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

horizon. The wage moderation incorporated in recently renewed employment contracts (see the box 'Private sector contract renewals in 2016') will nonetheless continue to hold down inflation. Profit margins in the private sector will continue to increase slowly as the outlook for growth gradually improves, and by the end of the forecasting horizon will have recouped just over half of the loss recorded from 2008 to 2012.

Growth forecasts are in line with the assessments we prepared in July ...

The projections for GDP growth are in line with the updated estimate given in the July *Economic Bulletin*. Inflation is forecast to be 0.4 percentage points higher this year, mainly owing to the increase in energy commodity prices, and slightly lower in 2018, chiefly reflecting the moderate wage growth built into recently renewed labour contracts.

... and with the latest estimates of other professional forecasters

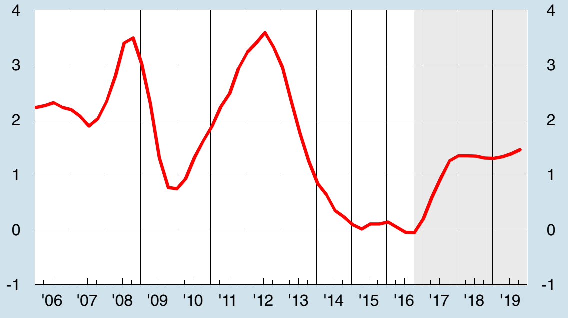
Our growth projections are generally in line with the ones recently published by the OECD and the European Commission (Table 12). The International Monetary Fund and private analysts polled by Consensus Economics in January instead forecast slower GDP growth this year and the next.

Our estimates for inflation are higher than those of the majority of forecasters, mostly reflecting the latest movements in energy commodity prices.

Figure 42

Consumer price inflation

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



Sources: Based on Bank of Italy and Istat data.

Table 12

Other organizations' forecasts for Italy

(percentage changes on previous period)

	GDP (1)			Inflation (2)		
	2017	2018	2019	2017	2018	2019
IMF	0.7	0.8	....	0.5	0.8	1.0
OECD	0.9	1.0	....	0.8	1.2	....
European Commission	0.9	1.0	....	1.2	1.4	....
Consensus Economics	0.7	0.9	....	0.9	1.1	....

Sources: For GDP, IMF, *World Economic Outlook Update*, January 2017; OECD, *OECD Economic Outlook*, 100, November 2016; European Commission, *European Economic Forecast Autumn 2016*, November 2016; Consensus Economics, *Consensus Forecasts*, 9 January 2017. For inflation, IMF, *World Economic Outlook*, October 2016; OECD, *OECD Economic Outlook*, 100, November 2016; European Commission, *European Economic Forecast Autumn 2016*, November 2016; Consensus Economics, *Consensus Forecasts*, 9 January 2017.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Stronger economic growth depends on accommodating policies and continued reform

In general, a highly accommodating stance of monetary policy and a continued, gradual improvement in credit growth, in keeping with the results of the latest surveys (see Section 2.7 and the box 'Credit supply and demand'), remain the premises for a strengthening of economic activity. Relaxed conditions, as factored into current market prices, will continue to prevail on the financial markets assuming, among other things, that Italy does not waver in its determination to complete the reform process it has begun. Budgetary policy is expected to remain moderately expansionary over the period 2017-19 (see Section 2.9).

The risks to growth stem mainly from the global economic cycle ...

The main risk for the recovery of the world economy is the potential emergence and subsequent spread of protectionist tendencies, as well as possible turmoil in the emerging economies linked to the normalization of monetary policy in the United States and lasting uncertainty about negotiations to re-shape trade relations between the European Union and the United Kingdom (see the box 'Possible repercussions of the UK referendum on the forecasting scenario', *Economic Bulletin*, No. 3, 2016). In the short term, however, world demand may be buoyed by the adoption of expansionary policies on the part of the new US Administration, although their effects will depend on how they are implemented. Any strengthening of economic growth in the US might push up commodity prices further and cause the euro to fall more sharply against the dollar, bringing upward pressure to bear on consumer prices.

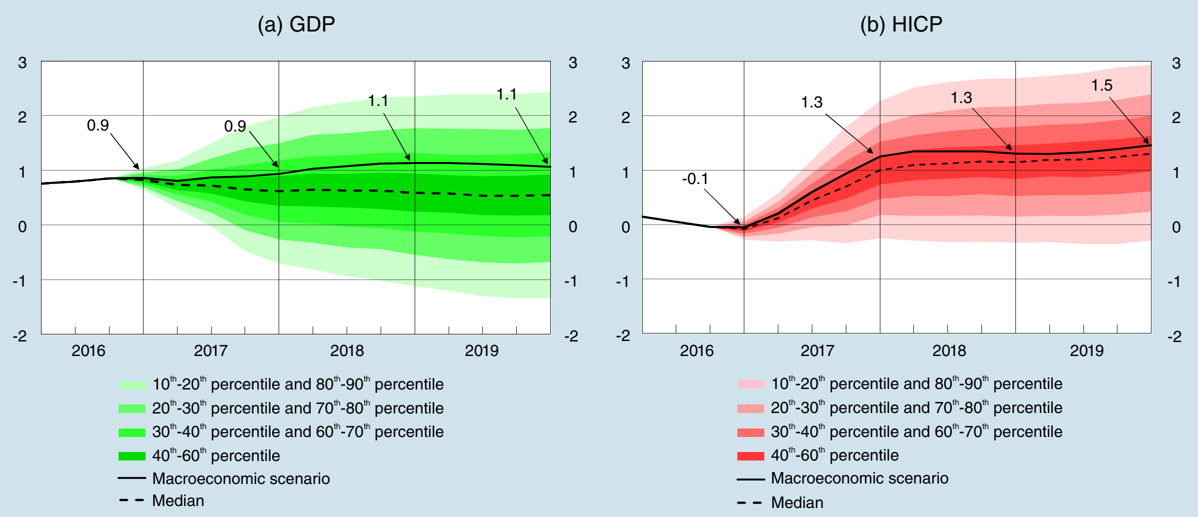
... while the risks to inflation are also linked to wage dynamics

The risk that inflation forecasts may be revised downwards stems from the renewal of several private sector employment contracts (see the box 'Private sector contract renewals in 2016'), which in some sectors index wages to past inflation and eliminate any link to expected inflation, leading to greater inflation inertia.

Overall, we estimate that most of the risks associated with last December's scenario are still downside risks for growth and a generally balanced outlook for inflation (Figure 43).

Figure 43

Distribution of probabilities of GDP and HICP projections (1)
(percentage changes on year-earlier period; 4-term moving averages)



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

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					
2013	-0.3	1.4	0.2	-3.5	-1.4	-2.5	-0.6	0.3	2.1
2014	1.2	4.9	2.2	-0.9	3.9	1.4	0.8	0.6	4.5
2015	2.0	6.4	3.3	1.3	5.0	3.2	1.8	1.4	6.5
2016	....	....	....	....	....	....	....	....	....
2014 – Q1	0.3	1.2	0.6	0.6	0.7	0.6	..	-0.1	0.9
Q2	0.2	1.3	0.5	-1.5	0.3	-0.6	0.3	0.2	1.1
Q3	0.4	1.5	0.7	-0.2	1.2	0.5	0.4	0.3	1.7
Q4	0.4	1.5	0.7	..	0.9	0.5	0.6	0.2	1.5
2015 – Q1	0.8	2.4	1.3	1.5	2.0	1.8	0.5	0.4	2.7
Q2	0.4	0.8	0.5	-0.5	0.5	..	0.5	0.4	1.1
Q3	0.3	1.1	0.6	0.2	1.2	0.7	0.4	0.4	0.3
Q4	0.5	1.5	0.8	1.3	1.3	1.3	0.4	0.6	0.8
2016 – Q1	0.5	-0.1	0.3	1.0	-0.3	0.4	0.7	0.6	0.2
Q2	0.3	1.2	0.6	-0.4	2.7	1.2	0.2	0.4	1.2
Q3	0.3	0.2	0.3	0.7	-0.4	0.2	0.3	0.5	0.1
Q4	....	....	....	....	....	....	....	....	....
				Implicit prices					
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
2016	....	....	....	....	....	....	....	....	....
2014 – Q1	0.3	-0.3	....	....	....	-0.1	0.2	0.6	-0.4
Q2	0.1	-0.6	....	....	....	..	..	0.1	-0.2
Q3	0.2	..	....	....	....	0.4	..	0.3	0.1
Q4	0.3	-0.9	....	....	....	0.4	..	0.1	..
2015 – Q1	0.3	-0.9	....	....	....	-0.2	-0.2	-0.1	-0.1
Q2	0.3	1.1	....	....	....	0.3	0.5	0.3	0.8
Q3	0.3	-1.4	....	....	....	0.2	-0.1	0.2	-0.6
Q4	0.4	-1.0	....	....	....	0.6	0.1	0.2	-0.3
2016 – Q1	0.1	-2.0	....	....	....	-0.2	-0.2	0.3	-1.5
Q2	0.2	0.2	....	....	....	0.2	0.2	0.2	-0.1
Q3	0.1	0.4	....	....	....	0.3	0.1	0.3	0.2
Q4	....	....	....	....	....	....	....	....	....

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

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					
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
2016	....	....	....	....	....	....	....	....	....
2014 – Q1	..	0.6	0.1	-0.9	-0.9	-0.9	0.1	-0.3	0.5
Q2	0.1	1.3	0.3	-1.9	1.1	-0.4	0.1	-0.7	1.1
Q3	..	1.2	0.3	-2.2	0.2	-1.0	0.1	0.5	0.7
Q4	..	0.2	..	-1.0	1.4	0.2	0.4	..	1.6
2015 – Q1	0.3	3.4	0.9	1.1	0.8	0.9	0.2	-0.8	1.6
Q2	0.3	1.3	0.5	-0.1	0.5	0.2	0.7	-0.2	1.2
Q3	0.1	..	0.1	0.5	0.4	0.4	0.6	0.4	-1.4
Q4	0.2	1.4	0.5	1.2	0.6	0.9	0.4	0.5	1.5
2016 – Q1	0.4	-1.1	0.1	..	1.1	0.6	0.4	0.1	-1.2
Q2	0.1	1.3	0.3	-0.1	0.1	..	0.2	-0.3	2.1
Q3	0.3	0.7	0.3	-0.2	1.7	0.8	0.1	0.2	0.1
Q4	....	....	....	....	....	....	....	....	....
				Implicit prices					
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
2016	....	....	....	....	....	....	....	....	....
2014 – Q1	0.7	-0.8	0.4	-0.3	1.0	0.4	0.1	..	0.2
Q2	-0.3	-0.6	-0.4	-0.1	-0.1	-0.1	..	-0.3	-0.3
Q3	..	-0.3	-0.1	0.4	0.8	0.6	-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	0.4	-1.2	..	..	0.3	0.1	0.1	..	-0.3
2016 – Q1	0.5	-2.3	-0.1	-0.3	0.5	0.1	-0.3	0.3	-0.9
Q2	-0.1	0.4	..	0.1	-0.3	-0.1	0.2	-0.3	0.1
Q3	-0.1	0.5	..	-0.1	1.1	0.5	0.2	-0.2	0.5
Q4	....	....	....	....	....	....	....	....	....

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

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2012	3.4	1.0	-1.3	-2.3	2.4
2013	2.8	0.8	-0.7	-1.5	2.0
2014	1.5	2.3	2.3	-0.0	-0.8
2015	1.3	3.6	4.1	0.5	-2.2
2014 – Q1	1.3	2.5	2.6	0.1	-1.1
Q2	1.7	2.7	2.4	-0.3	-0.9
Q3	1.4	2.4	2.3	-0.1	-1.0
Q4	1.7	1.9	2.2	0.3	-0.3
2015 – Q1	1.8	3.4	3.4	-0.1	-1.6
Q2	1.7	3.3	3.6	0.4	-1.5
Q3	1.4	3.7	4.2	0.4	-2.2
Q4	1.5	3.7	3.8	0.1	-2.2
2016 – Q1	1.0	0.7	1.6	0.9	0.3
Q2	0.6	0.2	1.2	1.0	0.4
Q3	….	0.3	0.9	0.6	….
		Services			
2012	2.2	0.7	-0.2	-0.9	1.5
2013	2.1	1.2	0.2	-1.0	0.9
2014	1.1	0.2	1.0	0.9	1.0
2015	1.1	0.1	1.5	1.4	1.0
2014 – Q1	1.1	0.4	1.1	0.7	0.7
Q2	1.2	0.2	0.8	0.7	1.1
Q3	1.1	0.0	1.0	0.9	1.0
Q4	1.2	0.0	1.2	1.2	1.2
2015 – Q1	1.2	0.6	1.5	0.9	0.6
Q2	1.0	0.3	1.6	1.2	0.7
Q3	1.0	-0.2	1.3	1.6	1.2
Q4	1.3	-0.1	1.4	1.5	1.5
2016 – Q1	1.1	-0.2	1.6	1.8	1.3
Q2	1.1	-0.2	1.7	1.9	1.2
Q3	….	0.4	1.7	1.3	….
		Total economy			
2012	2.6	0.9	-0.7	-1.6	1.7
2013	2.3	1.2	-0.1	-1.4	1.0
2014	1.2	0.6	1.2	0.5	0.5
2015	1.1	0.7	1.9	1.1	0.3
2014 – Q1	1.3	1.0	1.4	0.4	0.3
Q2	1.3	0.8	1.1	0.3	0.5
Q3	1.1	0.6	1.1	0.5	0.5
Q4	1.2	0.3	1.2	0.8	0.9
2015 – Q1	1.2	1.0	1.7	0.6	0.2
Q2	1.1	0.8	1.8	1.0	0.3
Q3	1.0	0.5	1.8	1.2	0.5
Q4	1.3	0.6	1.8	1.2	0.7
2016 – Q1	1.1	0.0	1.5	1.5	1.1
Q2	1.1	0.0	1.6	1.5	1.0
Q3	1.4	0.5	1.6	1.1	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.

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2012	2.8	1.6	-2.6	-4.2	1.1
2013	2.6	0.6	-2.2	-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	-0.0
Q2	0.5	1.2	-0.1	-1.2	-0.7
Q3	0.5	0.1	-0.8	-0.9	0.4
Q4	0.5	0.2	-0.7	-0.8	0.3
2015 – Q1	2.2	1.7	0.0	-1.6	0.5
Q2	2.0	0.8	0.6	-0.2	1.2
Q3	1.8	1.5	1.4	-0.1	0.3
Q4	2.0	0.2	1.2	1.0	1.8
2016 – Q1	-0.2	-1.0	1.9	3.0	0.8
Q2	0.2	-2.3	0.7	3.0	2.6
Q3	-0.1	-0.8	1.8	2.6	0.8
		Services			
2012	0.2	-0.9	-2.1	-1.1	1.2
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	0.0	0.6	0.9	0.3	-0.6
Q3	-0.2	0.2	0.8	0.6	-0.5
Q4	-0.9	-0.4	0.8	1.2	-0.5
2015 – Q1	-0.1	-0.1	0.5	0.6	0.0
Q2	0.1	-0.2	0.4	0.7	0.4
Q3	-0.1	-1.1	0.2	1.3	0.9
Q4	-0.6	-0.9	0.3	1.2	0.4
2016 – Q1	-0.5	-1.5	0.7	2.1	1.0
Q2	-0.9	-1.6	0.7	2.4	0.8
Q3	-0.4	-0.9	0.8	1.6	0.4
		Total economy			
2012	1.1	0.1	-2.4	-2.5	1.0
2013	1.6	1.2	-1.5	-2.6	0.5
2014	0.2	0.2	0.1	-0.1	0.0
2015	0.3	-0.4	0.5	0.9	0.7
2014 – Q1	0.7	0.8	0.4	-0.4	-0.1
Q2	0.1	0.5	0.4	-0.1	-0.3
Q3	-0.0	-0.0	0.1	0.1	0.0
Q4	-0.5	-0.7	0.0	0.8	0.2
2015 – Q1	0.5	0.0	0.2	0.2	0.5
Q2	0.6	-0.3	0.3	0.7	0.9
Q3	0.3	-0.4	0.4	0.8	0.8
Q4	0.0	-0.4	0.7	1.1	0.4
2016 – Q1	-0.4	-1.3	0.9	2.2	0.9
Q2	-0.5	-1.3	0.8	2.1	0.8
Q3	-0.2	-0.7	0.9	1.6	0.4

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

Table A5

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

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
2011	2.3	1.1	2.5	1.2	2.9	2.0	3.0	1.2	2.7	1.4
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	0.7	1.6	1.2	1.2	1.2	1.5	1.3	1.4	1.1
2014	0.6	1.0	0.8	1.1	0.2	0.7	-0.2	-0.1	0.4	0.8
2015	0.1	0.6	0.1	1.1	0.1	0.7	-0.6	0.3	0.0	0.8
2016	0.3	0.6	0.4	1.1	-0.1	0.5	-0.3	0.7	0.2	0.9
2015 – Jan.	-0.4	0.4	-0.4	1.0	-0.5	0.5	-1.5	0.0	-0.6	0.6
Feb.	-0.3	0.3	0.0	1.1	0.1	0.9	-1.2	0.0	-0.3	0.7
Mar.	0.0	0.4	0.2	1.0	0.0	0.5	-0.8	0.0	-0.1	0.6
Apr.	0.1	0.5	0.3	1.1	-0.1	0.3	-0.7	0.0	0.0	0.6
May	0.3	0.7	0.6	1.4	0.2	0.6	-0.3	0.3	0.3	0.9
June	0.3	0.7	0.2	0.8	0.2	0.7	0.0	0.4	0.2	0.8
July	0.2	0.8	0.1	0.9	0.4	1.0	0.0	0.5	0.2	1.0
Aug.	0.1	0.6	0.1	1.1	0.3	1.0	-0.5	0.4	0.1	0.9
Sept.	0.1	0.7	-0.1	1.0	0.2	0.9	-1.1	0.4	-0.1	0.9
Oct.	0.2	0.8	0.2	1.3	0.3	1.0	-0.9	0.6	0.1	1.1
Nov.	0.1	0.7	0.2	1.2	0.1	0.7	-0.4	0.7	0.1	0.9
Dec.	0.3	0.8	0.2	1.0	0.1	0.5	-0.1	0.6	0.2	0.9
2016 – Jan.	0.3	0.9	0.4	1.1	0.4	0.9	-0.4	0.7	0.3	1.0
Feb.	-0.1	0.7	-0.2	0.8	-0.2	0.5	-1.0	0.8	-0.2	0.8
Mar.	-0.1	0.7	0.1	1.3	-0.2	0.8	-1.0	0.8	0.0	1.0
Apr.	-0.1	0.6	-0.3	0.7	-0.4	0.6	-1.2	0.5	-0.2	0.7
May	0.1	0.6	0.0	1.1	-0.3	0.6	-1.1	0.5	-0.1	0.8
June	0.3	0.6	0.2	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	0.7	0.5	1.1	0.1	0.4	0.0	0.7	0.4	0.8
Oct.	0.5	0.6	0.7	1.1	-0.1	0.2	0.5	0.6	0.5	0.8
Nov.	0.7	0.6	0.7	1.0	0.1	0.4	0.5	0.7	0.6	0.8
Dec.	0.8	0.4	1.7	1.4	0.5	0.7	1.4	0.9	1.1	0.9

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

Table A6

Industrial production and business opinion indicators: Italy (1)

(seasonally adjusted data)

	Industrial production (2)					Business opinion indicators (3)				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	Level of orders			Expected demand in 3 months	Stocks of finished goods vis-à-vis normal
						domestic	foreign	total		
2009	93.5	97.9	89.9	91.7	97.6	-56.3	-59.3	-56.9	-6.1	2.5
2010	100.0	100.0	100.0	100.0	100.0	-29.8	-27.4	-27.0	12.3	-1.6
2011	100.4	97.7	104.1	100.5	97.9	-25.2	-15.0	-19.8	9.2	2.1
2012	94.4	93.5	98.0	91.7	95.4	-43.4	-27.5	-37.0	-3.1	3.3
2013	91.5	91.3	93.4	90.5	90.2	-44.4	-18.5	-32.1	4.1	1.5
2014	90.5	90.6	93.4	90.0	85.4	-33.1	-15.3	-19.3	8.9	2.1
2015	92.1	91.5	97.5	89.8	87.5	-21.7	-13.1	-12.8	12.5	3.1
2016	….	….	….	….	….	-18.7	-15.7	-13.7	11.1	3.8
2009 – Q1	93.5	97.1	92.0	91.5	97.3	-63.7	-63.3	-61.7	-24.0	6.7
Q2	91.4	95.8	86.6	88.1	96.8	-61.0	-66.3	-62.0	-7.3	3.3
Q3	92.5	97.8	86.3	89.4	97.7	-54.0	-58.0	-56.3	2.0	1.7
Q4	94.9	99.6	90.9	94.4	98.7	-46.7	-49.3	-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	-29.3	-30.0	12.0	-2.7
Q3	100.4	100.0	101.7	99.5	97.2	-25.7	-24.0	-22.3	13.0	-1.3
Q4	101.3	98.6	102.2	102.4	102.0	-21.7	-14.7	-17.0	15.7	0.7
2011 – Q1	102.0	98.3	105.0	102.8	100.0	-20.3	-10.0	-14.0	15.0	0.3
Q2	102.0	99.7	105.3	102.4	97.7	-20.3	-12.0	-14.7	14.0	0.7
Q3	100.7	97.1	105.3	100.8	98.8	-26.7	-15.7	-22.3	7.3	4.0
Q4	98.7	96.0	102.3	98.3	95.6	-33.3	-22.3	-28.3	0.3	3.3
2012 – Q1	96.2	93.7	99.8	94.2	98.1	-38.7	-26.0	-32.3	-1.3	3.0
Q2	94.9	93.9	97.7	92.9	95.2	-44.7	-27.7	-37.0	-2.7	5.0
Q3	94.9	94.3	99.1	91.7	96.8	-45.0	-26.3	-38.0	-4.0	3.7
Q4	92.3	91.8	96.7	88.5	91.0	-45.3	-30.0	-40.7	-4.3	1.7
2013 – Q1	91.8	92.0	92.3	89.5	92.7	-46.0	-30.0	-39.3	-1.0	3.0
Q2	91.5	90.3	94.6	89.8	90.2	-49.0	-21.7	-39.0	-0.3	2.7
Q3	91.5	91.4	93.0	91.5	89.2	-43.3	-11.7	-28.7	7.3	0.7
Q4	92.0	91.4	93.5	92.3	88.7	-39.3	-10.7	-21.3	10.3	-0.3
2014 – Q1	91.7	91.4	94.4	91.9	85.0	-36.7	-13.3	-19.7	9.7	-0.7
Q2	91.3	91.4	93.3	91.0	87.6	-31.3	-13.7	-17.7	10.7	1.3
Q3	90.6	90.7	93.1	90.0	85.7	-33.3	-15.7	-19.7	7.7	4.0
Q4	91.0	90.8	95.3	89.5	83.9	-31.0	-18.3	-20.3	7.7	3.7
2015 – Q1	91.4	91.4	95.3	89.6	86.6	-26.7	-16.3	-16.0	10.7	3.3
Q2	92.2	91.4	98.1	89.5	88.0	-22.0	-12.3	-12.0	13.0	2.7
Q3	92.2	91.0	97.5	89.3	90.1	-20.3	-13.3	-12.3	13.0	3.0
Q4	92.2	90.9	97.9	90.2	85.0	-17.7	-10.3	-10.7	13.3	3.3
2016 – Q1	92.9	91.0	101.2	90.9	85.1	-19.0	-16.0	-13.3	10.0	3.7
Q2	92.7	90.6	99.1	91.5	84.0	-19.0	-17.3	-14.0	10.7	3.3
Q3	93.9	91.4	102.4	92.2	86.6	-20.3	-15.7	-15.0	10.7	3.3
Q4	….	….	….	….	….	-16.3	-13.7	-12.3	13.0	5.0

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				
2008	854	4,928	1,953	15,355	16,658	6,432	23,090	1,664	24,755	6.7	62.9
2009	838	4,720	1,917	15,224	16,449	6,250	22,699	1,907	24,605	7.7	62.3
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
2008 – Q1	826	4,848	1,914	15,278	16,547	6,319	22,866	1,731	24,598	7.0	62.7
Q2	822	4,978	1,951	15,521	16,720	6,551	23,271	1,679	24,949	6.7	63.4
Q3	879	4,995	1,963	15,367	16,719	6,484	23,204	1,505	24,709	6.1	62.7
Q4	890	4,893	1,983	15,255	16,647	6,374	23,021	1,742	24,763	7.0	62.8
2009 – Q1	802	4,784	1,929	15,139	16,429	6,224	22,653	1,946	24,599	7.9	62.3
Q2	814	4,782	1,888	15,402	16,585	6,302	22,887	1,804	24,691	7.3	62.5
Q3	860	4,692	1,885	15,241	16,384	6,294	22,678	1,777	24,455	7.3	61.9
Q4	875	4,623	1,964	15,115	16,399	6,178	22,577	2,099	24,676	8.5	62.4
2010 – Q1	780	4,559	1,908	15,174	16,345	6,076	22,421	2,224	24,644	9.0	62.2
Q2	861	4,555	1,908	15,332	16,454	6,203	22,657	2,048	24,705	8.3	62.3
Q3	863	4,542	1,869	15,175	16,281	6,169	22,450	1,822	24,272	7.5	61.3
Q4	892	4,566	1,871	15,251	16,378	6,202	22,580	2,129	24,709	8.6	62.3
2011 – Q1	790	4,620	1,808	15,319	16,430	6,107	22,536	2,105	24,642	8.5	62.0
Q2	820	4,577	1,861	15,455	16,479	6,234	22,713	1,904	24,617	7.7	61.9
Q3	873	4,567	1,775	15,357	16,376	6,196	22,572	1,862	24,434	7.6	61.5
Q4	844	4,643	1,721	15,363	16,392	6,179	22,571	2,374	24,945	9.5	62.8
2012 – Q1	794	4,580	1,709	15,340	16,342	6,082	22,424	2,729	25,153	10.8	63.3
Q2	875	4,467	1,762	15,597	16,473	6,229	22,702	2,651	25,353	10.5	63.8
Q3	835	4,503	1,675	15,604	16,441	6,176	22,617	2,439	25,056	9.7	62.9
Q4	829	4,548	1,653	15,491	16,383	6,138	22,521	2,945	25,466	11.6	63.9
2013 – Q1	766	4,482	1,535	15,341	16,174	5,951	22,125	3,221	25,346	12.7	63.6
Q2	787	4,381	1,552	15,499	16,312	5,906	22,218	3,029	25,248	12.0	63.3
Q3	833	4,411	1,563	15,393	16,328	5,872	22,201	2,812	25,012	11.2	62.7
Q4	810	4,521	1,563	15,325	16,343	5,876	22,219	3,212	25,431	12.6	63.8
2014 – Q1	727	4,478	1,471	15,350	16,220	5,805	22,026	3,447	25,472	13.5	63.9
Q2	799	4,501	1,496	15,520	16,467	5,850	22,317	3,102	25,419	12.2	63.6
Q3	855	4,509	1,515	15,519	16,521	5,878	22,398	2,975	25,374	11.7	63.6
Q4	867	4,549	1,454	15,505	16,483	5,892	22,375	3,420	25,794	13.3	64.7
2015 – Q1	772	4,436	1,454	15,497	16,306	5,852	22,158	3,302	25,460	13.0	63.9
Q2	815	4,504	1,530	15,648	16,526	5,970	22,497	3,101	25,598	12.1	64.2
Q3	890	4,550	1,481	15,724	16,631	6,014	22,645	2,677	25,322	10.6	63.6
Q4	895	4,539	1,408	15,716	16,594	5,964	22,559	3,053	25,612	11.9	64.5
2016 – Q1	817	4,462	1,402	15,720	16,497	5,904	22,401	3,087	25,488	12.1	64.2
Q2	868	4,546	1,455	16,067	16,801	6,135	22,936	2,993	25,928	11.5	65.3
Q3	917	4,622	1,387	15,958	16,759	6,125	22,884	2,808	25,692	10.9	64.8

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
2010	-54,815	-21,730	-9,176	-3,907	-20,002	46	-75	121
2011	-49,302	-18,583	-6,173	-5,293	-19,253	1,032	-49	1,081
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
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
Q3	15,596	15,644	2,118	1,835	-4,001	-618	-774	156
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	8,604	8,202	1,179	654	-1,431	-173	-243	69
Aug.	3,173	3,233	692	570	-1,322	-156	-220	63
Sept.	3,820	4,209	248	611	-1,247	-288	-312	24
Oct.	(5,928)	(5,468)	(-97)	(1,358)	(-799)	(1,057)	(-225)	(1,282)
Nov.	(4,640)	(5,508)	(-658)	(580)	(-790)	(1,067)	(-67)	(1,134)

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

Table A9

Lending by banks in Italy by geographical area and sector (1)

(12-month percentage changes)

		General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
				Total	Medium and large	Small (2)	*of which:* producer households (3)			
						Centre and North				
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	-0.2
	Sept.	2.7	-1.2	-0.8	-0.4	-2.5	-1.4	0.9	-1.8	0.1
	Dec.	0.5	-2.6	-0.7	-0.3	-2.7	-1.7	1.3	-1.9	-0.2
2016 –	Mar.	0.7	0.0	-0.5	0.1	-2.9	-1.5	1.5	-1.6	0.2
	June	-3.8	0.4	-0.1	0.5	-2.6	-1.6	2.1	-3.6	-0.1
	Sept.	-2.8	3.6	-0.2	0.4	-2.8	-1.8	2.3	-2.2	0.3
	Oct.	-2.5	0.5	0.7	1.2	-1.8	-1.0	2.3	-3.8	0.6
	Nov.	-3.4	-2.9	-0.1	0.4	-2.4	-1.3	2.4	-3.4	-0.2
						South and Islands				
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	-0.9	-0.6	-1.8	-1.0	-0.4	0.6	-1.1
	June	-4.1	-4.6	-0.4	0.1	-1.6	-0.7	0.0	-0.7	-0.6
	Sept.	-8.4	-2.2	-0.2	0.2	-1.2	-0.6	0.5	-2.7	-0.7
	Dec.	-4.3	-2.2	0.2	0.6	-0.9	-0.4	1.3	-3.2	0.2
2016 –	Mar.	-5.3	-0.1	0.1	0.3	-0.6	0.1	1.8	-3.7	0.3
	June	-5.5	2.8	0.5	0.8	-0.2	0.4	2.3	-3.3	0.8
	Sept.	-1.5	2.8	0.4	0.7	-0.4	0.2	2.6	-3.0	1.2
	Oct.	-2.6	1.5	0.6	0.8	0.1	0.5	2.7	-4.1	1.2
	Nov.	-4.0	1.7	0.3	0.6	-0.4	0.0	2.7	-3.8	1.0
						Italy				
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	-2.3	-1.2	0.4	-0.7	-0.3
	Sept.	1.7	-1.2	-0.7	-0.3	-2.2	-1.2	0.8	-1.9	0.0
	Dec.	0.1	-2.6	-0.6	-0.1	-2.4	-1.4	1.3	-2.1	-0.2
2016 –	Mar.	0.1	0.0	-0.4	0.1	-2.4	-1.1	1.6	-1.8	0.2
	June	-3.9	0.4	0.0	0.5	-2.1	-1.1	2.1	-3.6	0.0
	Sept.	-2.7	3.6	-0.1	0.4	-2.3	-1.3	2.3	-2.3	0.5
	Oct.	-2.5	0.6	0.7	1.1	-1.4	-0.7	2.4	-3.9	0.7
	Nov.	-3.4	-2.8	-0.1	0.4	-2.0	-1.0	2.5	-3.4	0.0

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. The rates of growth of loans are recalculated, starting in March 2015, to take account of newly available statistical data on write-offs and of some data revisions. – (2) Limited partnerships and general partnerships with fewer than 20 employees, informal associations, de facto companies and sole proprietorships with fewer than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which*: investments of liquidity	Borrowing requirement	*of which*: in connection with financial support to EMU countries (3)
2010	1.1	-4.8	-10.0	87.9	0.8	1.2	80.9	-11.5	0.0	69.4	3.9
2011	-3.6	-3.1	1.3	42.9	0.2	4.0	44.8	19.0	0.0	63.8	9.2
2012	7.0	-1.3	20.4	24.1	1.3	23.8	76.6	-10.1	0.0	66.5	29.5
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
2014 – Jan.	4.2	-0.6	6.7	10.2	0.8	-0.3	21.6	-20.2	-4.4	1.4	0.0
Feb.	-1.3	-0.1	-2.8	23.4	-0.5	-0.5	18.3	-6.8	0.6	11.4	0.0
Mar.	3.3	0.3	-0.4	12.6	-0.1	-0.4	14.9	2.8	-2.7	17.7	0.0
Apr.	-1.8	-0.1	-1.5	28.7	0.0	1.6	27.0	-15.5	2.5	11.5	4.3
May	1.1	-0.2	0.3	19.3	-0.1	-0.3	20.3	-14.9	-2.8	5.5	0.0
June	3.1	0.0	-0.4	2.5	-3.3	0.5	2.4	-13.0	-26.7	-10.6	0.0
July	-2.7	0.3	-1.6	7.5	0.3	-2.4	1.1	-4.5	-3.3	-3.4	0.2
Aug.	-0.9	0.5	-2.1	-16.7	-0.4	-0.2	-20.3	27.3	-1.6	7.0	0.2
Sept.	-0.1	-0.4	-1.2	-11.4	0.1	0.1	-12.5	30.9	3.3	18.3	0.0
Oct.	-1.5	-0.8	-3.0	30.8	-0.9	-0.3	25.1	-17.8	-1.1	7.3	0.0
Nov.	3.1	-0.6	-1.7	0.2	0.2	0.2	2.1	3.2	-9.7	5.2	0.0
Dec.	8.1	0.7	-8.2	-24.9	-0.5	0.8	-24.7	19.8	17.9	-4.9	0.0
2015 – Jan.	1.3	-0.4	7.3	24.7	-1.1	-0.5	31.7	-36.4	-18.1	-4.7	0.0
Feb.	-3.3	-0.8	-0.1	5.9	4.4	-2.4	4.5	3.6	-10.9	8.2	-2.1
Mar.	0.4	0.3	-1.7	18.5	0.9	0.2	18.3	0.2	3.2	18.5	0.0
Apr.	-0.9	-0.1	-1.0	12.1	1.2	-0.3	11.1	-4.2	6.2	6.9	0.0
May	1.7	-0.4	-0.1	20.1	0.6	-0.2	22.1	-17.8	1.2	4.2	0.0
June	4.3	0.1	-0.9	-16.4	-2.2	0.6	-14.6	0.0	-0.6	-14.6	0.0
July	-3.1	-0.2	0.0	0.3	-1.9	-0.4	-5.1	4.7	-0.2	-0.4	0.0
Aug.	0.9	0.5	-2.3	-13.4	-0.2	-0.2	-15.2	22.5	-1.5	7.3	0.0
Sept.	-1.3	0.3	-2.1	11.2	-0.1	0.6	8.2	9.7	4.9	17.9	0.0
Oct.	-0.6	-0.1	-1.4	22.8	-0.2	-0.6	20.0	-17.7	1.1	2.3	0.0
Nov.	-0.7	-0.8	-0.4	0.9	4.3	0.3	4.4	7.3	1.7	11.7	0.0
Dec.	6.3	0.1	-6.8	-42.6	-3.8	1.8	-45.0	38.7	21.0	-6.3	0.0
2016 – Jan.	1.6	0.6	4.5	17.1	-0.3	-0.6	22.3	-27.8	-22.1	-5.5	0.0
Feb.	-2.6	-1.0	-1.1	25.0	0.8	-0.3	21.9	-11.2	-0.5	10.7	0.0
Mar.	-0.7	0.2	0.2	16.3	1.2	0.4	17.3	4.7	-2.1	22.0	0.0
Apr.	-2.0	-0.3	0.2	4.9	0.2	-0.4	2.8	5.2	3.3	8.0	0.0
May	0.0	0.1	-0.1	9.5	0.8	-0.1	10.1	-8.0	4.8	2.1	0.0
June	-2.4	0.4	-0.8	14.3	-2.9	-0.5	7.8	-19.8	-9.5	-12.0	0.0
July	0.7	-0.6	-0.6	3.3	1.0	0.6	5.0	-8.5	9.5	-3.6	0.0
Aug.	-0.5	0.2	-0.3	-29.2	-0.5	-0.5	-31.0	36.4	0.6	5.4	0.0
Sept.	-1.1	-0.1	-0.7	-8.3	0.5	-0.5	-10.2	25.3	13.9	15.2	0.0
Oct.	1.1	0.0	-1.4	12.6	-1.4	0.6	11.4	-8.4	-3.5	3.0	0.0
Nov.	-2.0	-0.2	-0.6	7.9	0.0	0.3	5.5	1.6	2.5	7.1	0.0

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General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	of which: in connection with EFSF loans	General government debt	Memorandum item: Treasury's liquid balances (2)	Memorandum item: *of which:* investments of liquidity	Memorandum item: Deposits with resident MFIs net of liquidity transactions	Memorandum item: Financial support to EMU countries (3)
2010	156.9	25.2	129.9	1,418.6	132.8	13.4	0.0	1,851.5	43.2	….	35.7	3.9
2011	153.3	22.1	131.2	1,473.0	133.0	17.4	3.1	1,907.8	24.3	0.0	35.4	13.1
2012	160.3	20.8	151.6	1,502.6	134.3	41.2	26.9	1,989.9	34.4	0.0	27.2	42.7
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
2014 – Jan.	162.7	18.0	147.3	1,602.8	131.8	45.7	34.1	2,090.3	57.9	14.4	23.7	55.6
Feb.	161.4	17.9	144.5	1,626.1	131.3	45.2	34.1	2,108.5	64.7	13.8	22.8	55.6
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
Apr.	162.9	18.0	142.6	1,665.0	131.2	46.4	35.6	2,148.0	77.4	14.0	26.8	59.9
May	164.0	17.8	142.9	1,683.9	131.1	46.1	35.6	2,168.0	92.3	16.8	24.9	59.9
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
July	164.4	18.1	140.8	1,692.6	128.1	44.2	35.8	2,170.1	109.7	46.8	26.2	60.1
Aug.	163.5	18.6	138.7	1,675.7	127.7	44.0	36.0	2,149.7	82.4	48.4	24.4	60.3
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
Oct.	161.9	17.4	134.5	1,692.6	127.0	43.9	36.0	2,159.8	69.4	46.2	24.1	60.3
Nov.	165.1	16.8	132.7	1,693.1	127.2	44.1	36.0	2,162.2	66.2	55.9	23.2	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 – 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	41.7	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	2,230.2	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
Sept.	171.2	15.5	116.3	1,754.1	129.2	41.8	33.9	2,212.6	39.3	32.1	31.2	58.2
Oct.	172.3	15.5	114.9	1,766.5	127.8	42.4	33.9	2,223.8	47.7	35.6	31.7	58.2
Nov.	170.3	15.2	114.2	1,774.5	127.8	42.6	33.9	2,229.4	46.1	33.1	33.5	58.2

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