BANCA D'ITALIA

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# Economic Bulletin

2 | 2017

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# Economic Bulletin

**Number 2 / 2017**
**April**

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# CONTENTS



## LIST OF BOXES

## SYMBOLS AND CONVENTIONS

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

In the following tables:

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

# OVERVIEW

**World trade picks up but downside risks persist**

*The prospects of a global recovery are gaining ground, driven in part by expansionary policies in the main economic areas; the pace of international trade has accelerated, benefiting from increased investment in many countries. However, there are still considerable risks stemming from persistent uncertainty surrounding the future stance of economic policies: the fiscal stimulus package in the US has yet to be defined and possible adverse effects of protectionist measures on international trade cannot be ruled out.*

**Optimism on the financial markets increases but uncertainty over policies also rises**

*Financial market conditions suggest optimism about stronger international growth; share indices have risen in all the main advanced economies, including in the banking sector. There has been a resumption of net capital inflows to emerging economies, where financial conditions have generally improved. However, the indices gauging levels of uncertainty about economic policies are at exceptionally high levels; this could have adverse repercussions on investors' assessments and on the volatility of stock markets, posing risks to the broader economic outlook.*

**Long-term yields rise in the euro area**

*Long-term interest rates rose in the euro area, driven by expectations of better cyclical conditions, but also by higher sovereign spreads, which have been hit by deepening uncertainty.*

**A very substantial degree of monetary accommodation is still needed**

*Growth strengthened in the euro area. Inflation rose, averaging 1.7 per cent in the first three months of the year. The increase, however, is attributable to the most volatile components – food and energy prices; it has not yet led to any upward revision of inflation expectations beyond the current year, as prospects for wage growth are still weak in many countries. The Governing Council of the ECB confirmed that a very substantial degree of monetary accommodation is still needed and that it would keep its key interest rates at present levels or lower for an extended period of time, and well past the horizon of its net asset purchases.*

**In Italy the recovery is proceeding at a moderate pace**

*The latest available indicators signal that in the first three months of the year the Italian economy continued to expand, gaining around 0.2 per cent compared with the previous quarter, though with downside risks. The expansion of activity in services more than offset the weakening trend in manufacturing, signalled by industrial production data in the two months January-February and the most recent information on goods transport and electricity consumption. In the Bank of Italy's survey conducted in March, firms' assessments of the general state of the economy improved. Intentions regarding investment plans were also generally favourable: the percentage of firms planning to increase investment expenditure in 2017 is 14 percentage points greater than that expecting to decrease it.*

**Exports expand, boosting the current account surplus**

*The brighter global and European outlook benefited Italy's foreign trade. Exports rose, driven above all by the expansion of EU markets; surveys suggest that the prospects for foreign orders are also favourable. The current account surplus reached 2.6 per cent of GDP in 2016, providing an important contribution to the rebalancing of Italy's negative net international investment position, which fell* *to 14.9 per cent of output (from 25.3 per cent at the end of 2013).*

**Employment increases**

*In the fourth quarter of 2016 the number of persons in employment (which had stalled in the previous quarter), and total hours worked both recorded increases. Overall, the number of those employed expanded by 2.7 per cent in the last three years, though this was still 1.3 per cent below the level recorded at the outbreak of the global crisis. In the same period, the number of hours worked rose by 3.4 per cent; during the recession they had fallen markedly as a result of increased recourse to wage supplementation, lower overtime payments, and the shift in employment towards short-time contracts. Hours worked still remain about 5 per cent below what they were at the end of 2008. The latest cyclical indicators suggest that employment will continue to recover in the early part of 2017. The unemployment rate declined to 11.7 per cent on average for the first two months of this year.*

**The cost of labour registers modest growth**

*In the closing months of 2016 the cost of labour increased moderately for the economy as a whole, while in industry excluding construction it fell for the fourth consecutive quarter. Wage agreements stipulated during recent contractual renewals, which include indexation mechanisms linking pay increases to past, rather than expected, inflation, point to continuing slow wage growth in the future.*

**So far the rise in inflation has not extended to core items**

*As in the euro area, consumer price inflation also accelerated in Italy. In the first quarter it rose to an average of 1.3 per cent, the highest level recorded in the last four years. Excluding the most volatile components, however, it was still low at around 0.5 per cent; this reflected still ample margins of labour underutilization and spare production capacity, as well as persistently slow wage growth. According to the surveys, the inflation expectations of households and firms have been revised upwards, but remain moderate overall.*

**Growth in lending strengthens**

*Growth in private-sector lending continued into the early months of this year and strengthened for households; it is still, however, highly uneven across the various sectors of activity and categories of firm. The pace of lending is increasing sharply in services, remains slightly negative in manufacturing, and continues to contract in construction. Survey results suggest that supply conditions remain accommodative. Credit quality continues to improve gradually, reflecting the strengthening cyclical outlook. Italian banks' share prices staged a recovery, in part benefiting from the very positive outcome of a number of recapitalizations.*

**The Government outlines the 2017 Economic and Financial Document**

*General government net borrowing declined from 2.7 per cent of GDP in 2015 to 2.4 per cent last year; the ratio of debt to GDP increased by around half a percentage point to 132.6 per cent. On 11 April the Government approved the 2017 Economic and Financial Document. The objective for net borrowing in 2017 was revised down from 2.3 to 2.1 per cent of GDP. This result will be achieved thanks to the additional measures defined after discussions with the European authorities. In 2017 the ratio of debt to GDP is expected to remain basically unchanged at the level recorded last year. In the coming weeks the European Commission will assess Italy's fiscal position.*

# 1 THE WORLD ECONOMY

## 1.1 THE WORLD ECONOMY

Recent cyclical indicators signal a gradual firming up of the outlook for global growth, thanks in part to expansionary policies. World trade has accelerated, benefiting from stronger investment in many economies. The persistent uncertainty surrounding prospective economic policies, notably the contents of the fiscal stimulus package currently under preparation in the United States and the positions adopted on trade policy, continues to be a risk factor.

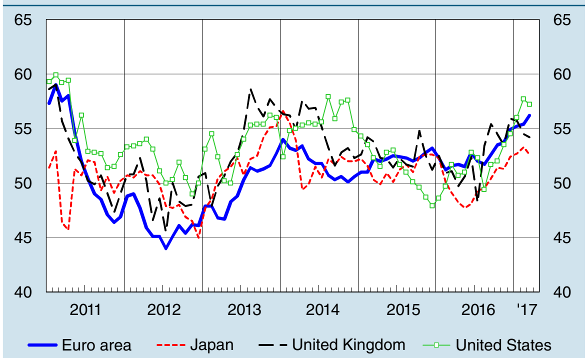
**The recovery firms up in the advanced economies**

In the fourth quarter of 2016 domestic demand in the United States strengthened as a result of resilient private consumption and growing investment. The slowdown in GDP growth, which fell to an annualized 2.1 per cent from 3.5 per cent in the previous period, was due to the decline in exports, which had surged to exceptionally high levels in the third quarter. The data for the early months of 2017 indicate a continuation of the positive performance of the economy. Employment increased beyond expectations, consumer confidence improved significantly and the purchasing managers' index (PMI) reached its highest level in over two years (Figure 1).

Figure 1

**Manufacturing PMIs in the main advanced economies** (1)

*(monthly data)*




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

In Japan, GDP growth was unchanged at 1.2 per cent. The data for the first quarter of 2017 point to a strengthening of domestic demand and an improvement in the labour market.

In the United Kingdom, growth accelerated to 2.7 per cent on an annualized basis from 2.0 per cent in the previous quarter, thanks to the net positive contribution of foreign trade; exports grew significantly, thanks in part to the depreciation of the pound sterling, while imports contracted. Industrial production and PMIs signal further expansion in the first quarter of 2017 (Figure 1). The medium-term prospects remain subject to a high degree of uncertainty in connection with the outcome of the complex procedure for leaving the European Union that the United Kingdom initiated on 29 March with the delivery of the formal notification letter (see the box 'The implications of the referendum for relations between the United Kingdom and the European Union', *Economic Bulletin*, 3, 2016).

**Growth strengthens in China and turns positive again in Russia**

In China, the rate of growth increased slightly in the fourth quarter of 2016 (6.8 per cent year-on-year, against 6.7 per cent in the third quarter). The recovery in exports and the protracted effects of fiscal and monetary stimulus on domestic demand appear to have continued to support economic activity in the early months of 2017.

In India, GDP growth slowed moderately in the fourth quarter of 2016 (to 7.0 per cent year-on-year, from 7.4 per cent). In the same period, Russia's GDP returned to growth (0.3 per cent year-on-year), benefiting from the upturn in oil prices. In Brazil, GDP shrunk by 0.9 per cent compared with a year earlier after contracting by 0.7 per cent in the third quarter; early data for 2017 do not point to a recovery.

**Inflation picks up in the advanced economies**

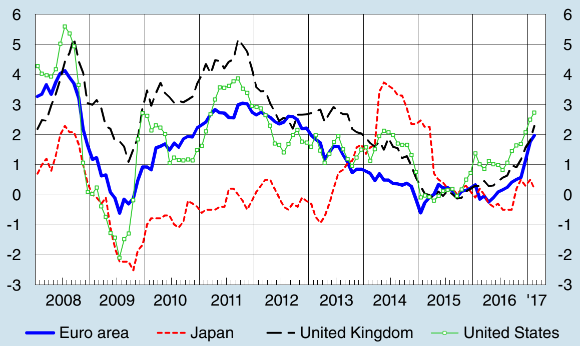
Consumer price inflation increased in the advanced economies, mainly owing to the upturn in the prices of energy products (Figure 2), but the core component remained practically unchanged. In February consumer price inflation in the United States rose to 2.7 per cent (2.2 per cent net of food and energy products). In Japan, inflation remained very low (0.3 per cent); the core component turned positive (0.2 per cent in February). In the United Kingdom, consumer price inflation increased to 2.3 per cent.

Inflation decreased in February in all the main emerging economies, to 0.8 per cent in China, 3.2 per cent in India, 4.8 per cent in Brazil and 4.6 per cent in Russia.

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.

**The global recovery is expected to strengthen gradually ...**

According to OECD projections released in March, global GDP will grow by 3.3 per cent in 2017 (versus 3.0 per cent in 2016) and by 3.6 per cent in 2018 (Table 1). Compared with November 2016, the estimates for 2017 were revised slightly upwards for almost all the main advanced economies while remaining practically unchanged for the emerging countries. The gradual recovery projected for the next two years reflects the favourable scenario suggested by the latest short-term economic indicators and the boost likely to come from the expansionary fiscal policies that are already under way (e.g. in China) or expected (e.g. in the United States).

Among the emerging economies, the rebound in the prices of raw materials should assist the recovery in Brazil and Russia and benefit the other commodity-producing countries as well. In China, the expectation is that GDP growth will continue to slow gradually, with a further shifting of demand towards domestic consumption and of supply towards services. The imbalances accumulated in recent years, for example the high level of debt incurred by public undertakings and local governments, continue to be a significant risk factor.

Table 1

**Macroeconomic projections**

*(changes and percentage points)*

| | | 2016 | March 2017 forecasts | | Difference Mar. 2017/ Nov. 2016 | |
|---|---|---|---|---|---|---|
| | | | 2017 | 2018 | 2017 | 2018 |
| **GDP** | | | | | | |
| **World** | | **3.0** | **3.3** | **3.6** | **0.0** | **0.0** |
| **Advanced countries** | | | | | | |
| *of which:* | Euro area | 1.7 | 1.6 | 1.6 | 0.0 | -0.1 |
| | Japan | 1.0 | 1.2 | 0.8 | 0.2 | 0.0 |
| | UK | 1.8 | 1.6 | 1.0 | 0.4 | 0.0 |
| | US | 1.6 | 2.4 | 2.8 | 0.1 | -0.2 |
| **Emerging countries** | | | | | | |
| *of which:* | Brazil | -3.5 | 0.0 | 1.5 | 0.0 | 0.3 |
| | China | 6.7 | 6.5 | 6.3 | 0.1 | 0.2 |
| | India (1) | 7.0 | 7.3 | 7.7 | -0.3 | 0.0 |

Source: OECD, *Interim Economic Outlook*, March 2017.
(1) The data refer to the fiscal year starting in April.

**... but remains exposed to several factors of uncertainty**

The recovery of the global economy remains subject to several elements of uncertainty arising, among others sources, from the possibility that the economic policies of the main areas could follow diverging paths, partly in connection with the risks associated with a normalization of US monetary policy (see the box 'The evolution of uncertainty regarding economic policy and the financial markets in the advanced countries'). In the United States, the expansionary fiscal policy measures the new administration intends to adopt have not yet been clearly spelled out; there is the possibility that protectionist measures will be taken, entailing the risk of a negative impact on world trade and global economic activity. In Europe, the uncertainty due to Brexit is coupled with that connected to the outcome of the general elections to be held in some of the major countries. The more financially vulnerable among the emerging economies could be affected by sudden increases in foreign interest rates and further depreciation of their currencies against the dollar.

## THE EVOLUTION OF UNCERTAINTY REGARDING ECONOMIC POLICY AND THE FINANCIAL MARKETS IN THE ADVANCED COUNTRIES

Empirical evidence shows that uncertainty with regard to the outlook for economic policy or the prospects of the financial markets can have negative effects on economic activity.[1]

Since 2016 the global scenario has been characterized by the diverging evolution of uncertainty indicators regarding economic policy on the one hand and financial markets on the other. Policy uncertainty indicators have worsened sharply in the leading economies: in the first quarter of 2017 the Economic Policy Uncertainty (EPU) index[2] reached its highest level since its inception in 1997 at both global and euro-area levels (Figures A and B), while the index for the United States rose to a four-year peak (Figure C).[3] The behaviour of the EPU index in the United States was probably affected by the absence of details about the new administration's economic policy decisions. In the euro area, the index was pushed up by the components relating to France and Germany, where the upcoming elections are a factor.

By contrast, uncertainty on the financial markets, gauged by the implied volatility of stock option prices, has diminished. In the United States, the VIX index is currently lower than it was before the financial crisis, while in the euro area the VSTOXX is at its lowest level since the second quarter of 2014.

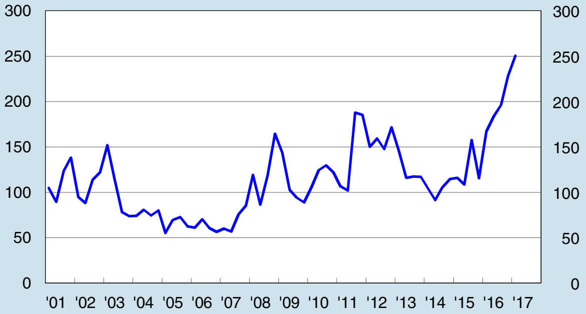
The divergent behaviour of the two indicators, observed since mid-2016 in the United States and since the first quarter of 2016 in the euro area, is atypical in historical terms. In the past, their trends were positively correlated in general. With reference to the United States, some empirical studies have concluded that both indicators have a negative impact on economic activity but the effects of policy uncertainty are smaller.[4]

1 For a review of the literature on the subject, see the ECB's *Economic Bulletin*, 8, 2016.
2 The index is presented in S. R. Baker, N. Bloom and S. J. Davis, 'Measuring economic policy uncertainty', *The Quarterly Journal of Economics*, 131, 4, 2016.
3 The EPU index for the United States is calculated as the weighted average of three components: a) the frequency with which key words such as 'policy uncertainty' are found in the print media; b) the number of federal tax code provisions set to expire in future years; and c) the dispersion of the expectations for inflation and public spending on goods and services. The global index and the indices for Germany, France, Italy and Spain are based only on the first component. For a more detailed description of the indices, see http://www.policyuncertainty.com/. The index for the euro area is calculated as the quarterly average of the indices for Germany, France, Italy and Spain, weighted by the GDP of each country in 2015.
4 See S. R. Baker, N. Bloom and S. J. Davis, 2016, op. cit.

**Figure A**

**Global uncertainty index**

*(index numbers)*

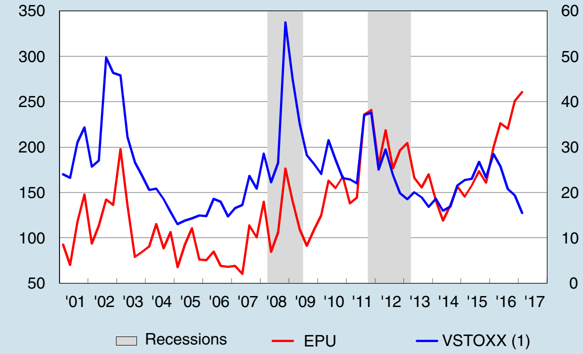


Sources: EPU index and Bank of Italy staff calculations.

**Figure B**

**Euro-area: uncertainty index and VSTOXX**

*(index numbers and percentage points)*

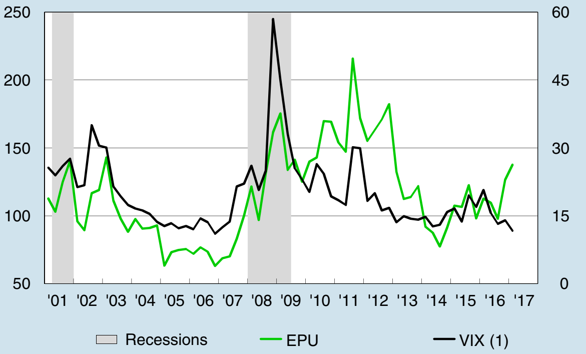



Sources: EPU index, Thompson Reuters Datastream and Bank of Italy staff calculations.
(1) Right-hand scale.

**Figure C**

**United States: uncertainty index and VIX**

*(index numbers and percentage points)*

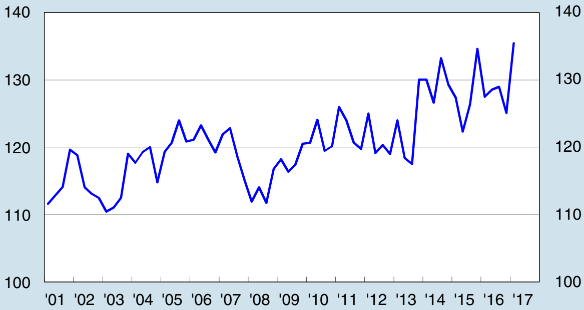



Sources: EPU index, Thompson Reuters Datastream and Bank of Italy staff calculations.
(1) Right-hand scale.

**Figure D**

**CBOE SKEW Index** (1)

*(index numbers)*



Source: Thompson Reuters Datastream.
(1) A value of 100 indicates no skew and higher values indicate the growing probability of significant negative adjustments to the S&P 500 index.

The current divergence between the two indicators is a risk factor for the prospects of the global economic recovery under way. The increase in economic policy uncertainty in the leading economies could tail off in the next few months without any significant adverse effects on households' spending decisions and firms' investment plans, for which the confidence indicators have so far continued to improve. But if this increased uncertainty proved not to be transitory, it could impact on business sentiment and financial market volatility.

Some indicators suggest there are downside risks; in particular, in the first quarter of 2017 the Chicago Board Options Exchange (CBOE)'s Skew Index[5] (derived from the price of S&P 500 tail risk) reached its highest average quarterly value since calculations began, indicating the possibility of significantly negative yields and confirming the downside risks for the stock market (Figure D).

[5] For a description of the index, see https://www.cboe.com/products/vix-index-volatility/volatility-indicators/skew.

**The outlook for world trade improves**

On average in 2017 world trade is expected to return to a rate of growth similar to that of GDP. In 2016 as a whole international commerce grew very slowly, by about 2 per cent. In the fourth quarter, however, it accelerated, most notably in Asia. Beginning-of-year data confirm the recovery in world trade, which appears to be connected to stronger investment in several economies, investment being one of the most trade-intensive components of demand. Downside risks could arise mainly from the emergence of protectionist pressures.

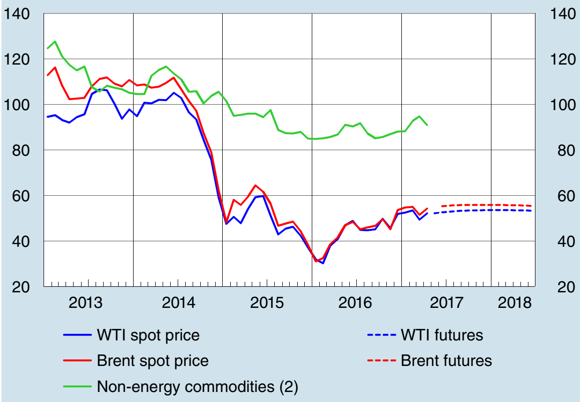
**The evolution of oil prices remains uncertain**

After their rise following the oil production cutback agreement reached by the OPEC countries and some non-OPEC members at the end of November, oil prices remained stable at around $55 a barrel until the end of March; after that, the increase in production in the United States and the consequent build-up of inventories prompted a temporary downward adjustment (Figure 3).

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 7 April 2017. – (2) Goldman Sachs Commodity Index, non-energy component (January 2010=100).

In the first three months of implementation of the agreement the production cutback exceeded 90 per cent of the agreed target. It remains in doubt, however, whether the agreement will be extended beyond the meeting scheduled in May to assess its implementation. Production levels and the oil rig count in the United States have increased significantly since last summer, giving rise to further downside risks on oil prices. Pressure in the opposite direction could stem from stronger demand for crude oil; the projections for 2017 have been revised upwards by the International Energy Agency. An improvement in cyclical economic conditions has supported the prices of non-energy commodities; the prices of industrial metals have benefited from recovering demand in China.

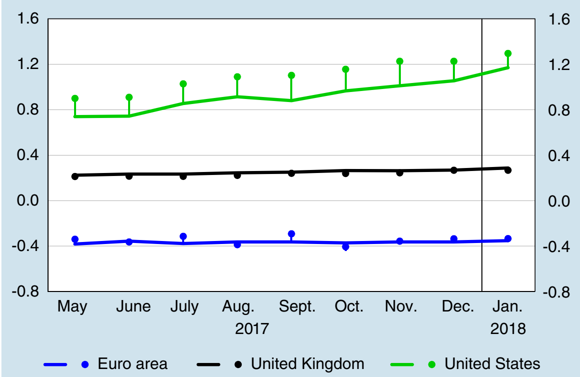
**The Federal Reserve raises its benchmark interest rates**

As expected, at its meeting of 15 March the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 0.75-1.00 per cent, citing improvement in the labour market and signs of recovery in investment. The Federal Open Market Committee kept its projections for interest rates in the next three years practically unchanged, confirming there will be two further interest rate hikes in 2017 (median assessment) for a total of 50 basis points. The expectations implied by prices in the federal funds futures market have risen and come closer to those formulated by the FOMC (Figure 4). In February the Bank of England confirmed the expansionary stance it adopted at the end of August. The Bank of Japan kept its monetary policy stance unchanged, holding its ten-year rates near zero.

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 11 January 2017, the dots show those forecast on 7 April 2017.

In China, the central bank tightened monetary conditions slightly by raising its official rates on refinancing operations and on its standing facilities by 20 basis points. In India, the Reserve Bank kept its reference rates unchanged after lowering them in the autumn. In response to the attenuation in inflationary pressures, in the early months of 2017 the Central Bank of Brazil cut its official rate further by a combined 150 basis points, bringing it to 12.25 per cent, while the Bank of Russia lowered its key rate by 25 basis points to 9.75 per cent.

## 1.2 THE EURO AREA

Economic activity in the euro area continued to expand, driven by domestic demand. Inflation picked up, but the core component remains modest, being restrained by high unemployment and continued wage moderation in many of the area's economies. The ECB Governing Council confirmed that a very substantial degree of monetary accommodation is still needed to support inflation over the medium term.

**The expansion in GDP continues in the fourth quarter of 2016 ...**

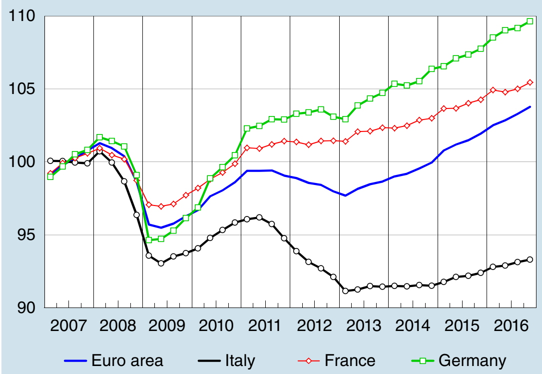
Euro-area GDP grew by 0.5 per cent in the fourth quarter of 2016 compared with 0.4 per cent growth in the third quarter (Figure 5). Economic activity benefited from the acceleration in household consumption (0.5 per cent, compared with 0.3 per cent in the third quarter) and from the strong recovery in investment (3.3 per cent, compared with -0.2 per cent). The contribution of foreign trade was firmly negative, with a strong rise in imports that more than offset the increase in exports. Among the major euro-area countries, GDP grew in Germany and in France by 0.4 per cent (compared with 0.1 per cent and 0.2 per cent respectively in the third quarter) and in Italy by 0.2 per cent (compared with 0.3 per cent).

**... and firms up at the start of this year**

Based on the latest data, the euro-area economy expanded in the first quarter of 2017 at the same rate as in the previous period. The Bank of Italy's €-coin indicator, which estimates the underlying trend of euro-area GDP growth, recorded an increase with the beginning of spring, reaching 0.72 in March (from 0.59 in December; Figure 6). The purchasing managers' indices (PMI) also indicate that GDP continued to grow. In March, consumer confidence

Figure 5

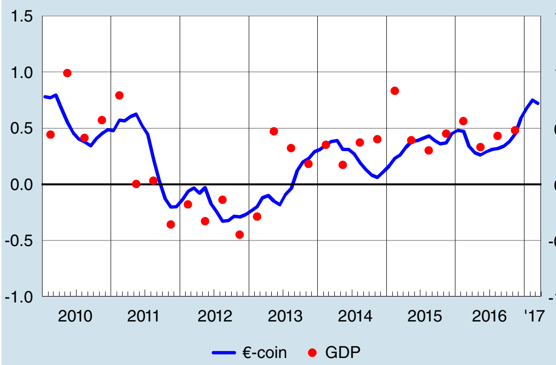
**GDP of the euro area and of its main countries** (1)
*(quarterly data; indices: 2007=100)*




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 on the Bank of Italy's website at: *€-coin: March 2017*. 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.

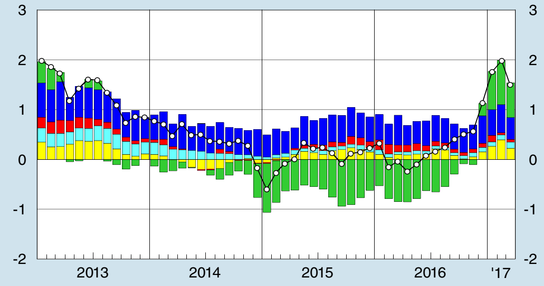
recovered from the drop of the previous month, when it was affected by more pessimistic assessments of their financial situation. According to the ECB staff projections released in March, GDP will grow by 1.8 per cent in 2017.

**Inflation rises on average in the first quarter of 2017 ...**

Inflation continued to rise at the start of the year. The risks of deflation have largely disappeared, but core inflation remains moderate (see the box 'The risk of low inflation in the euro area'). According to the flash estimate, consumer price inflation was 1.5 per cent in March (against 2.0 per cent in February; Figure 7). The 0.4 percentage point increase from the end of 2016 reflects the strong rise in energy and unprocessed food prices.

Figure 7

**Euro-area inflation and contributions of its components** (1)
*(monthly data; 12-month percentage changes and percentage points)*



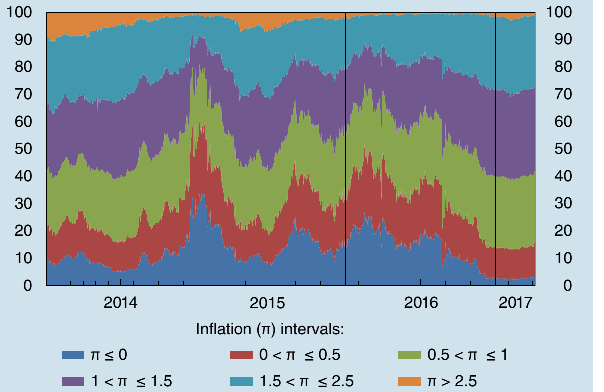

Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices; flash estimate for March 2017.

## THE RISK OF LOW INFLATION IN THE EURO AREA

Harmonized inflation in the euro area averaged 1.7 per cent in the first three months of 2017, compared with an average of 0.2 per cent in 2016. This rise in inflation, which exceeded the expectations held at the end of 2016, was largely due to an acceleration in the prices of the most volatile components, while core inflation remained practically unchanged at very modest levels.

The prices of inflation derivatives indicate that the ECB's monetary policies have helped to markedly reduce the risk of deflation. The probability of inflation significantly lower than the objective set by the ECB nonetheless remains high, even after the recent acceleration in the consumer price index.

**Option-implied probability distribution of average inflation over a 5-year horizon** (1)
*(daily data; per cent)*




Source: Based on Bloomberg data.
(1) Risk-neutral probability of 5-year inflation in the euro area implied by options prices. For the methodology used, see S. Cecchetti, F. Natoli and L. Sigalotti, 'Tail comovement in option-implied inflation expectations as an indicator of anchoring', Banca d'Italia, Temi di Discussione (Working Papers), 1025, 2015. Risk-neutral probabilities reflect both expected inflation and risk premiums. The figure shows the evolution of the probability of inflation falling with various intervals over a 5-year horizon. The probability of values less than or equal to zero are shown in blue at the bottom of the figure.

The developments in the option-implied probability distribution of inflation (see the figure) over the last year indicate that after the extension of the Eurosystem's Asset Purchase Programme in March 2016, the probability of deflation, which had reached 34 per cent at the start of 2015, fell to nearly zero, while the probability of inflation above 2.5 per cent remained practically nil. The probability of inflation being positive but very low, below or equal to 1.0 per cent, stayed high, at around 40 per cent.

Additional evidence suggests that most market participants consider the recent upturn in inflation to be temporary. Specifically, the medium-long term expectations implied by inflation swaps did not increase substantially in the last quarter (see Section 1.2).

... but underlying pressures remain modest

Excluding the most volatile components, inflation remained very low (0.7 per cent), reflecting in part slow wage growth. In the fourth quarter the increase in euro-area contractual wages compared with the year-earlier period remained stable at 1.4 per cent, consistent with the values registered in the last seven quarters; in Germany it rose by 2.3 per cent and in France by just above 1.0 per cent, while in Italy it was just below 0.5 per cent for the economy as a whole.

The ECB staff projections released in March indicate that inflation will rise to 1.7 per cent in 2017 (from 0.2 per cent in 2016), consistent with the projections of the professional forecasters polled by Consensus Economics. Short- and medium-term option-implied inflation expectations remain historically low at 1.0 per cent over the two-year horizon and 1.6 per cent over the five-year horizon five years forward (Figure 8).

Figure 8

**Option-implied inflation expectations** (1)

*(daily data; per cent)*


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

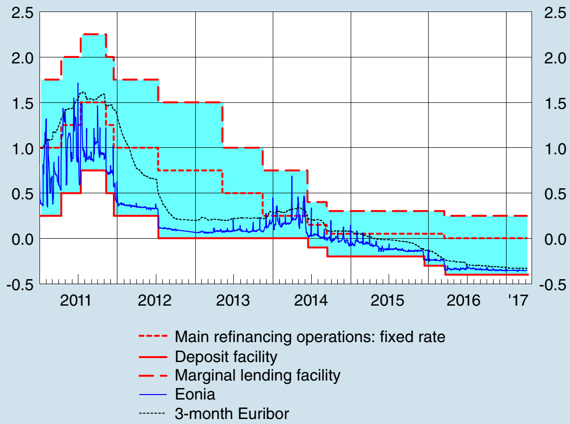
Very accommodative monetary conditions are still needed

The ECB Governing Council expects the key ECB interest rates to remain at present levels or lower (Figure 9) for an extended period of time, and well past the horizon of the net asset purchases. It confirmed that it will continue to make purchases under the expanded asset purchase programme until the end of 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. A very substantial degree of monetary accommodation is still needed for underlying inflation pressures to build up and support headline inflation in the medium term.

Figure 9

**Official interest rates and money market rates in the euro area**

*(daily data; per cent)*




Sources: ECB and Thomson Reuters Datastream.

The Eurosystem's asset purchases continued regularly. At 7 April 2017 purchases of government securities amounted to €1,474 billion, covered bank bonds to €215 billion, asset-backed securities to €24 billion and corporate bonds to €78 billion. At the end of March the Eurosystem had purchased about €245 billion worth of Italian government securities, of which €221 billion by the Bank of Italy.

The fourth of the new targeted refinancing operations has been carried out

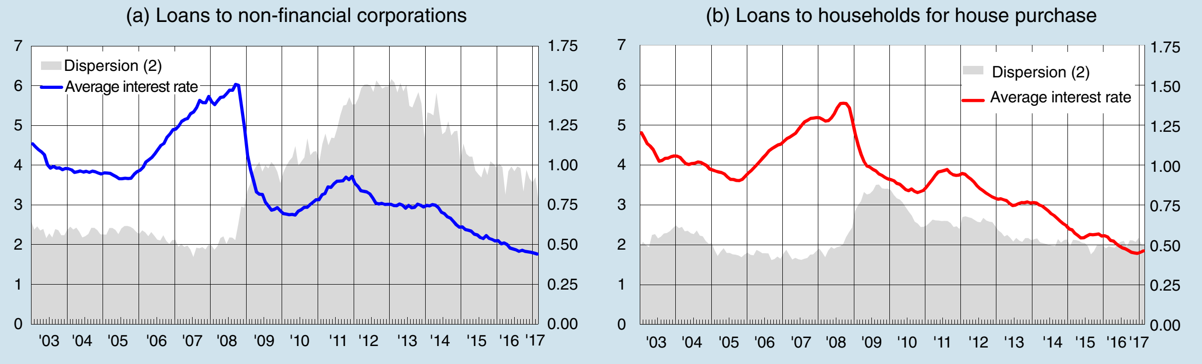
On 29 March the last of the four new targeted longer-term refinancing operations (TLTRO II) was carried out; 474 euro-area banks took part, obtaining funds amounting to around €233 billion (€217 billion net of the repayments of outstanding loans obtained under TLTRO I). The total value of the funds raised in the four operations comes to €740 billion (€331 billion net). The Bank of Italy's counterparties were assigned just over €67 billion (about €65 billion net of repayments), for a total of €241 billion in the four operations (€128 billion net).

**Growth in lending to non-financial corporations strengthens**

The expansion in lending gained pace. Adjusted for seasonal factors and for the accounting effect of securitizations, in the three months ending in February lending increased to both firms and households (by 2.4 per cent and 2.9 per cent on an annual basis respectively). The average cost of new loans to firms and of those to households for house purchase stabilized around the lowest levels observed since the inception of the Monetary Union (1.8 per cent for both); the dispersion between countries decreased for firms and remained at the same level as in the preceding months for households (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

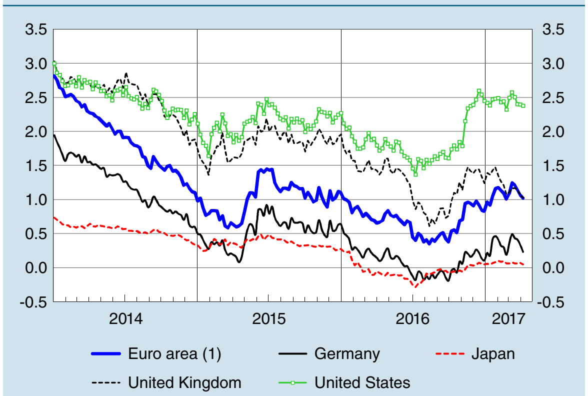
in the first three months of the year conditions in the financial markets remained relaxed; stock market indices continued to rise. In the euro area long-term interest rates increased, mainly reflecting the improvement in economic conditions, but also an increase in sovereign spreads. Net capital inflows towards the emerging economies turned positive; their currencies showed an overall appreciation.

**Yields on ten-year government bonds increase in the euro area**

In the United States long-term interest rates stabilized, having recorded a marked increase following the presidential election. In the euro area the ten-year yields rose, mainly due to the cyclical improvement (Figure 11). Compared with the end of December, the yield on ten-year German government securities rose by 12 basis points to 0.2 per cent, while that on ten-year US Treasury notes fell by 7 basis points, to about 2.4 per cent. Japanese yields remained practically unchanged following the interventions

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.

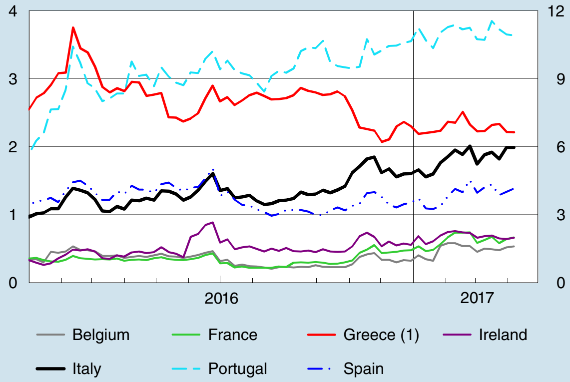
by the central bank, whose main objective is to keep long-term rates close to zero (see Section 1.1). In the United Kingdom the ten-year rates decreased by 22 basis points to 1.0 per cent.

**Sovereign spreads widen in the euro area**

In the first quarter, the heightened uncertainty in the face of upcoming elections in several countries led to a general increase in euro-area sovereign spreads, partly offset after the Dutch election. The yield spreads between ten-year government bonds and the corresponding German Bund fluctuated significantly (Figure 12). The most pronounced increases occurred in Italy, Belgium, France and Spain; the widening of Italy's spread is partly attributable to technical factors linked to the change in the benchmark (see Section 2.8). Greece's spread actually narrowed slightly, albeit with substantial fluctuations due to uncertainty over the outcome of negotiations with international creditors for the second revision of the third international aid programme.

Figure 12

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



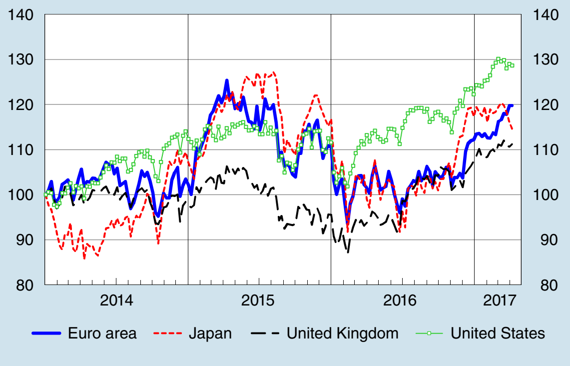

Sources: Based on Bloomberg and Thomson Reuters Datastream data.
(1) Right-hand scale.

**Share prices rise**

The upward trend in equity prices in the advanced economies continued in the early months of the year (Figure 13). Compared with the end of December, stock market indices are up 5.2 per cent in the United States, 6.7 per cent in the euro area and 3.5 per cent in the United Kingdom, while share prices in Japan have gone down slightly since mid-March, by 2.4 per cent compared with the end of 2016. The implied volatility of option prices remains at low levels on equity markets, although it increased on European equity markets in the last week of March (see the box: 'The evolution of uncertainty regarding economic policy and the financial markets in the advanced countries'); the volatility of US bond markets has decreased, while that of euro-area government bonds increased slightly (Figure 14).

Figure 13

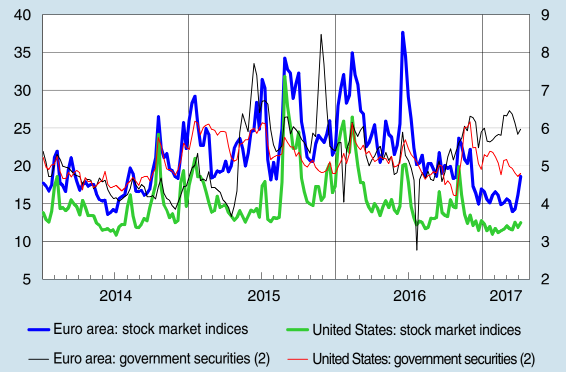
**Stock market indices** (1)
*(end-of-week data; 1st week of January 2014=100)*




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

Figure 14

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




Source: Based on Thomson Reuters Datastream data.
(1) 5-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.

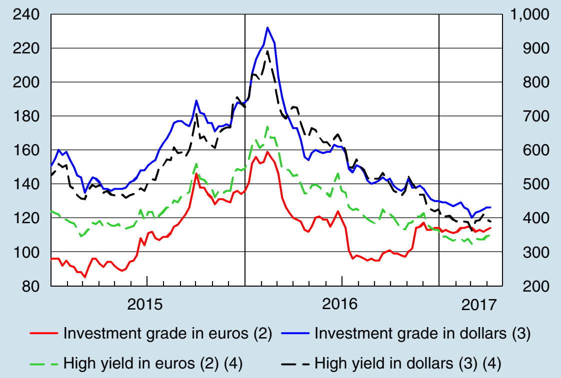
**The fall in the spreads on high yield bonds continues**

Since the end of December the spreads on corporate bonds denominated in dollars have declined in both the investment grade and even more so in the high yield segments, by 4 and 36 basis points respectively (Figure 15). However, in the first weeks of March the spreads on the high yield index, in which issuers in the energy sector have significant weight, recorded an increase associated with the temporary decline in the price of crude oil. The spreads on euro-denominated securities have remained stable in the investment grade segment, while they have diminished by 17 basis points in the high yield segment, driven down by the improvement in economic conditions and investors' preference for certain types of high-yield securities issued by the euro area's private sector. The five-year CDS premiums of the leading banks have fallen in all the main economies, by 15 basis points in the United Kingdom and the euro area and by 6 basis points in the United States.

Figure 15

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

*(end-of-week data; basis points)*




Source: Bank of America 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 1 year, issued in the Euromarket; yield spreads are calculated with respect to French and German 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.

**Financial conditions in the emerging markets improve**

Following a period of turmoil in the wake of the US election, the conditions in the financial markets of the emerging countries were relaxed until the end of February. Currencies have appreciated, in many cases completely recouping the losses recorded in November; the renminbi has remained stable. Sovereign spreads have decreased everywhere and share prices have risen. The flow of savings into investment funds specializing in emerging markets has remained positive in both the bond and the equity sectors. In late February and early March there was a partial reversal in the trend on the foreign exchange markets, in response to strengthening expectations of a rise in US interest rates.

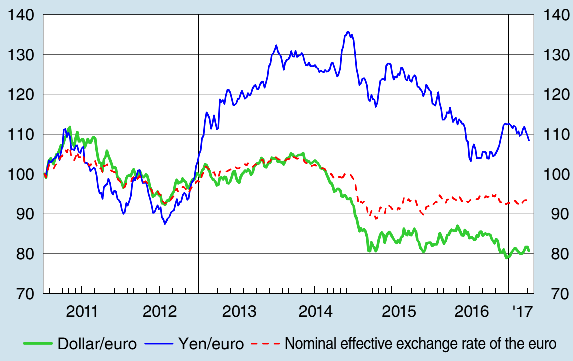
**The euro records modest changes in effective terms**

In the early months of 2017 there were modest fluctuations in the exchange rates of the main advanced economies. Since the beginning of the year the euro has appreciated slightly against the dollar, by 0.8 per cent, while it has weakened against the yen by 4.7 per cent and remained virtually unchanged against the pound sterling. In nominal effective terms the common currency has weakened somewhat compared with the end of last year, by 0.8 per cent (Figure 16).

Figure 16

**Exchange rates**

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




Source: ECB.

# 2 THE ITALIAN ECONOMY

## 2.1 THE CYCLICAL SITUATION

The recovery in the Italian economy continued in the fourth quarter thanks mainly to the stimulus from investment spending. According to the annual accounts, economic activity expanded by 0.9 per cent in 2016 as a whole, compared with 0.8 per cent in 2015. In addition, the growth rate of investment in capital goods was revised significantly upwards. The cyclical indicators suggest that GDP continued to expand in the first quarter of 2017, rising by 0.2 per cent on the fourth quarter of 2016, a similar pace to the previous quarter-on-quarter growth.

**In the autumn, national demand sustains the expansion in GDP**

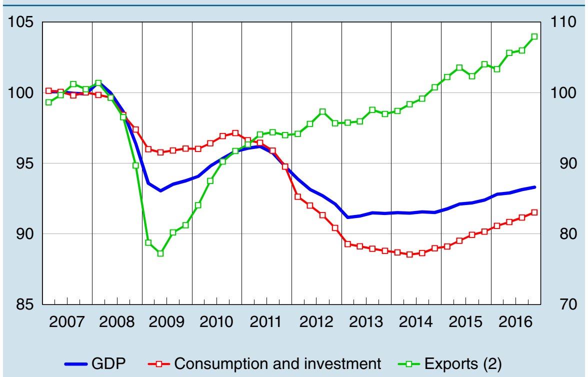
Italian GDP grew by 0.2 per cent in the fourth quarter of 2016 (Figure 17). National demand, net of stocks, contributed 0.4 percentage points to growth. The increase in investment (1.3 per cent on the previous quarter) was most significant in the transport equipment component (13.6 per cent), more modest for machinery and equipment and for construction. Spending by households and non-profit institutions slowed slightly from 0.2 to 0.1 per cent as a result of the drop in purchases of semi-durable goods and the stagnation in purchases of non-durable goods. Imports and exports increased markedly, by 2.2 and 1.9 per cent respectively (Table 2). The contribution of foreign trade to GDP growth was close to nil. Value added grew by 0.9 per cent in industry excluding construction and by 0.6 per cent in construction; it remained unchanged in services, held back by contraction in the financial and insurance sectors and in professional services. In the agricultural sector value added fell by 3.7 per cent.

**Growth appears to have continued in the first quarter of 2017**

The latest available indicators suggest that GDP continued to grow in the

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)*

| | 2016 | | | | 2016 |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | |
| GDP | 0.4 | 0.1 | 0.3 | 0.2 | 0.9 |
| Total imports | -1.1 | 2.2 | 1.0 | 2.2 | 2.9 |
| National demand (2) | 0.4 | .. | 0.4 | 0.2 | 1.0 |
| National consumption | 0.3 | 0.3 | 0.1 | 0.2 | 1.2 |
| household spending (3) | 0.2 | 0.5 | 0.2 | 0.1 | 1.4 |
| other spending (4) | 0.9 | -0.3 | -0.2 | 0.6 | 0.6 |
| Gross fixed investment | 1.0 | 0.4 | 1.5 | 1.3 | 2.9 |
| construction | 0.2 | .. | 0.7 | 0.5 | 1.1 |
| other investment goods | 1.8 | 0.7 | 2.2 | 2.0 | 4.7 |
| Change in stocks (5) (6) | -0.1 | -0.3 | 0.1 | -0.2 | -0.5 |
| Total exports | -0.7 | 2.2 | 0.3 | 1.9 | 2.4 |
| Net exports (6) | 0.1 | 0.1 | -0.2 | .. | -0.1 |

Source: Istat.
(1) Chain-linked volumes; the quarterly data are 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.

first quarter of 2017 at the same rate as the previous quarter (see the box 'Economic activity in the first quarter of 2017 according to cyclical indicators'). After five consecutive monthly increases, the Bank of Italy's Ita-coin indicator, which tracks the underlying trend of the Italian economy, remained stable in March at 0.16, higher than its average over the last few quarters (Figure 18). Encouraging signs emerge from such qualitative indicators as the PMI, Istat's business confidence surveys and the quarterly survey by the Bank of Italy and *Il Sole 24 Ore* (see Section 2.2).

Figure 18

**ITA-coin coincident cyclical indicator and GDP in Italy** (1)
*(percentage changes)*


Sources: Bank of Italy and Istat.
(1) For the methodology of the indicator's construction, see the box 'Ita-coin: a coincident indicator of the Italian economic cycle', *Economic Bulletin*, 2, 2015. Further details are available on the Bank of Italy's website at: Ita-coin: a coincident indicator. For GDP, quarterly data; changes on the previous quarter. The shaded circle shows the forecast for GDP growth in the first 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**

In the first three months of the year inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), reached its highest levels since 2013; the preliminary estimate suggests that it rose to 1.3 per cent in March. The pick-up in recent months has largely reflected the performance of the most volatile components, especially the acceleration in the prices of unprocessed food and energy products (see Section 2.6). Core inflation, though slightly higher than the previous quarter, remained weak, slipping from 0.7 per cent in February to 0.5 per cent in March.

## ECONOMIC ACTIVITY IN THE FIRST QUARTER OF 2017 ACCORDING TO CYCLICAL INDICATORS

An assessment of the performance of GDP in advance of the official data – which Istat releases on a provisional basis about 45 days after the end of the reference quarter – can draw on a wide range of sources, which together provide a normally quite reliable snapshot of the current state of the economy. The data in question are partial and taken from a variety of sources (e.g. electricity consumption, road and rail transport flows and industrial production) as well as from surveys of firms and other qualitative assessments, which can be combined according to the various statistical models that the Bank of Italy uses for its short-term projections.[1]

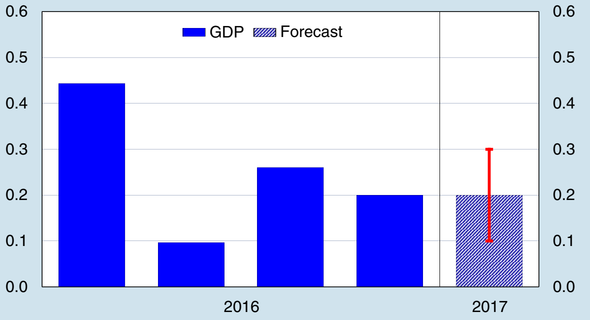
Based on these sources, our models indicate that in the first quarter of this year GDP expanded by 0.2 per cent compared with the previous quarter (when it had also expanded by 0.2 per cent; Figure A). The uncertainty of the estimates lies within a range of 0.1 percentage points on either side of the central value; in the first quarter downside risks may be prevalent.

The main factor contributing to GDP growth in the first three months was the estimated positive performance of the service sector, following the temporary standstill recorded in the closing months of 2016; the recovery in this sector was signalled by the improvement in the purchasing managers' indices (PMI), which rose from 52.2 to 53.1 in the first quarter, reaching one of its highest levels since the outbreak of the sovereign debt crisis (Figure B).

[1] See the box 'Economic activity in the fourth quarter of 2016 according to coincident cyclical indicators', *Economic Bulletin*, 1, 2017, and the references in the Bank of Italy's website: *Macroeconomic models*.

**Figure A**

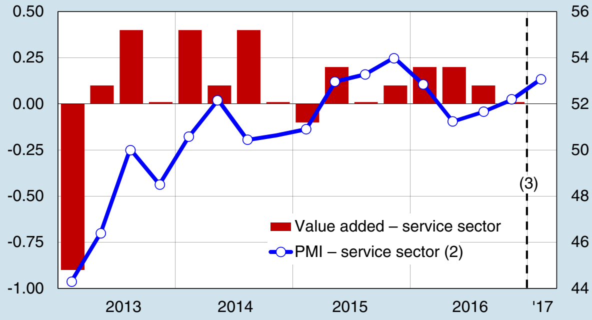
**GDP and expectations for the first quarter** (1)
*(percentage changes)*




Source: Based on Istat data.
(1) GDP and expectations, percentage change on previous period. The red line indicates the uncertainty of the estimates, in a range of 0.1 percentage points on either side of the central value and equal in width to twice the forecast root mean square error over the last 3 years.

**Figure B**

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



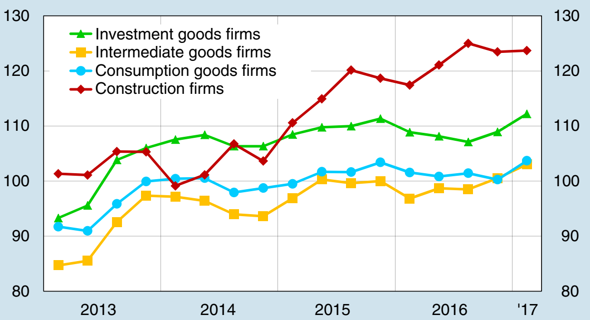

Source: Based on Istat and Markit data.
(1) For the PMI indices, average level in the reference quarter; for value added in the service sector, percentage change on previous period, seasonally adjusted. – (2) Right-hand scale. – (3) The data on value added in services in the first quarter of 2017 are not yet available.

Signs of an upturn in demand in the construction sector were most prevalent in the residential property component, as confirmed by Bank of Italy surveys;[2] indications on business confidence among construction firms, which rose considerably in the past year, were also favourable (Figure C). However, the outlook for firms most active in the infrastructure sector remains cloudy.

In the first quarter the contribution of industry excluding construction was instead negative. According to our estimates, in the first three months of 2017 industrial production recorded a decline, in the order of half a percentage point compared with the previous quarter, owing

**Figure C**

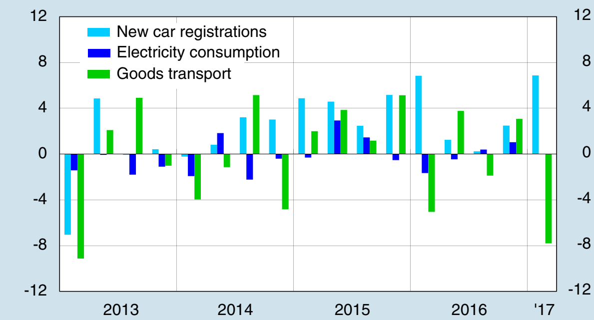
**Business confidence indices** (1)
*(levels)*




Source: Based on Istat data.
(1) Average level in the reference quarter.

**Figure D**

**Cyclical indicators** (1)
*(percentage changes)*




Source: Based on Istat, Terna, Autostrade per l'Italia and Ferrovie dello Stato data.
(1) Average change in the reference quarter; seasonally adjusted data. For goods flows, synthetic indicator extracted from road and rail transport flows provided respectively by Autostrade per l'Italia and Ferrovie dello Stato. The two companies are not responsible for the estimates and the indications derived therefrom.

[2] See Section 2.2 and Bank of Italy, Statistics, 'Italian Housing Market Survey', 23 February 2017.

above all to the sharp fall recorded in January, which was only partly recouped in the months that followed. Data indicating a negative trend on average during the quarter in road and rail transport flows and the stagnation of electricity consumption were a factor in this assessment. Growth in new car registrations, by contrast, was a decidedly positive signal (up by 6.9 per cent on the previous period; Figure D).

The performance of the Ita-Coin coincident indicator, which in March stood at 0.16 (see Section 2.1) corroborates these findings and confirms the continuing moderate recovery in economic activity.

## 2.2 FIRMS

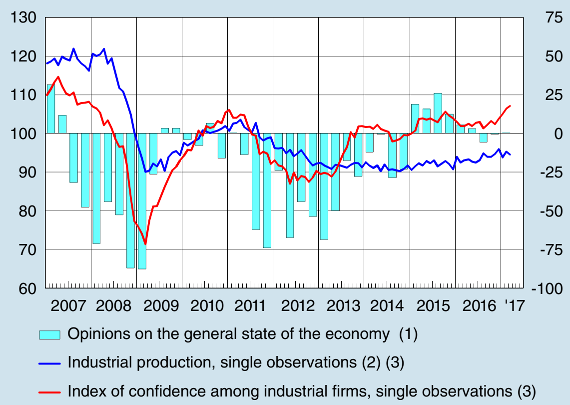
After the expansion recorded in the second half of last year, industrial activity weakened in the first quarter of 2017, owing above all to the drop-off registered in January. The cyclical indications inferable from services and the property market, instead, are gradually improving. Investment remains well below pre-crisis levels but continued to strengthen in the second half of 2016. Business confidence indicators are still high in manufacturing and services.

**Industrial activity contracts overall in the first quarter**

In February industrial production rose by 1.0 per cent, partly recouping the steep drop recorded in January (-2.3 per cent). Our estimates show that overall in the first quarter of 2017 activity declined by around half a percentage point, following two quarters of expansion (Figure 19).

Figure 19

**Industrial production and business confidence indices**
*(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', 10 April 2017, available on the Bank of Italy's website in the Statistics section). – (2) Industrial production adjusted for seasonal and calendar effects; for March 2017, estimated data. – (3) Index, 2010=100.

**Business confidence remains high**

In the early months of this year business confidence improved compared with the fourth quarter of 2016. The positive trend in manufacturing and retail trade was confirmed, buoyed respectively by assessments of current and expected orders, and of sales; business confidence also turned up again in the market services sector, while it was virtually unchanged in construction. The purchasing managers' indices (PMI) remain at high levels in both manufacturing and services. Similar indications have emerged from the Bank of Italy-*Il Sole 24 ore* quarterly survey conducted in March, which points to an improvement in firms' assessments of the general state of the economy in the first quarter of this year compared with end-2016 and a continuation of positive views on developments in demand and investment conditions (see the box 'Investment plans of Italian firms according to the survey on inflation and growth expectations'). The percentage of firms that expect greater demand for their own products in the short term was higher than in the previous survey, especially for those most active on foreign markets; uncertainty stemming from economic and political factors is once again the main obstacle to growth.

**The recovery in investment continues**

The new national accounts, which were revised last September, paint a more favourable picture of investment in capital goods, above all for the components other than construction; overall in the last three years investment in these components increased by 11.0 per cent. In the fourth quarter of 2016 investment expenditure expanded at a relatively rapid pace (up by 1.3 per cent on the previous period), mainly driven by that on capital goods (2.0 per cent; 13.6 per cent on transport equipment alone) while investment in construction recorded a more modest increase (0.5 per cent). According to the Bank of Italy-*Il Sole 24 Ore* survey, industrial and service firms are planning to increase investment expenditure in the first half of 2017 compared with the second half of 2016, most especially in the manufacturing sector. Investment incentives are one contributory factor (see the box 'Investment plans of Italian firms according to the survey on inflation and growth expectations'). Firms' inflation expectations have been revised upwards (see Section 2.6), which could help increase their propensity to expand production capacity (see the box 'The very low inflation expectations and investment plans of Italian firms', *Economic Bulletin*, 1, 2017).

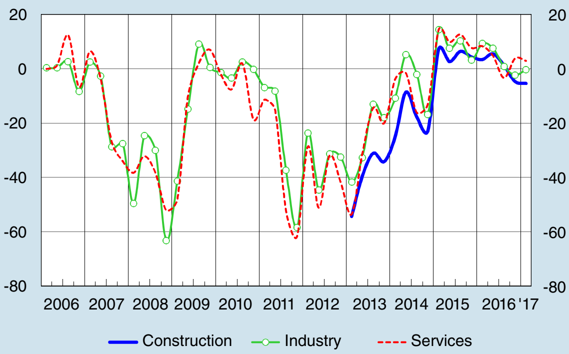
## INVESTMENT PLANS OF ITALIAN FIRMS ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

In March the Bank of Italy, together with *Il Sole 24 Ore*, conducted its latest quarterly survey of a sample of about 1,000 Italian firms with 50 or more workers in industry excluding construction, services, and construction (see 'Survey on Inflation and Growth Expectations', 10 April 2017, available on the Bank of Italy's website in the Statistics section).

By comparison with the December survey, firms expressed a more positive judgment on the current state of the economy, while expectations for the medium term stabilized at a high level. Industrial and service firms indicated that over the coming months their activity would be sustained above all by strengthening demand, especially external demand; the more favourable conditions for access to credit will also continue to provide a mildly positive impulse.

Assessments of investment conditions are broadly in line with those for the previous quarter. An improvement in industry excluding construction, most markedly among the larger firms, was offset by a worsening in construction and services (where, however, the balance between favourable and unfavourable valuations remains positive; see the figure). In the construction sector negative valuations again prevailed among the firms most active in non-residential construction, while among those engaged in housing construction the balance stayed slightly positive. In manufacturing, the improvement in the assessment of investment conditions was accompanied by more positive judgments on access to credit and better expectations for liquidity.

**Firms' assessment of conditions for investing by comparison with the previous quarter** (1)
*(quarterly data; percentage points)*




(1) Balance between judgments of improvement and deterioration with respect to the previous quarter in the quarterly survey of firms with 50 or more workers conducted by the Bank of Italy together with *Il Sole 24 Ore* (see 'Survey on Inflation and Growth Expectations', 10 April 2017, available on the Bank of Italy's website in the Statistics section).

The percentage of firms planning to increase investment in the first half of 2017 by comparison with the second half of 2016 again exceeded that of those expecting to decrease it (see the table). However, compared with the previous survey, the positive balance narrowed from 14.7 to 8.1 percentage points, presumably owing to the increased investment made in the second half of 2016. For 2017 as a whole expectations remained amply positive, in line with the previous survey, though differences between sectors persisted. The positive balance increased in industry and narrowed sharply in services; among construction firms the balance turned marginally negative.

Finally, respondents confirmed their assessments of incentives for investment in advanced information technology (the hyper amortization introduced by the 2017 Budget Law and covered by the Industry 4.0 national plan). About a fifth of firms in industry and services considered the measure to be important; among firms reporting plans to increase investment this year, the proportion rises to a third.

**Firms' investment plans** (1)
*(per cent)*

| RESPONSE | Industry excluding construction | Services | Construction | Total economy |
|---|---|---|---|---|
| | Planned investment expenditure for H1 2017 with respect to H2 2016 | | | |
| Higher | 32.5 | 23.8 | 14.4 | 27.5 |
| About the same | 47.7 | 57.4 | 65.7 | 53.2 |
| Lower | 19.8 | 18.8 | 19.9 | 19.4 |
| | Planned investment expenditure for 2017 with respect to investment made in 2016 | | | |
| Higher | 37.4 | 30.2 | 18.1 | 33.1 |
| About the same | 43.8 | 51.2 | 62.1 | 48.2 |
| Lower | 18.8 | 18.5 | 19.8 | 18.7 |

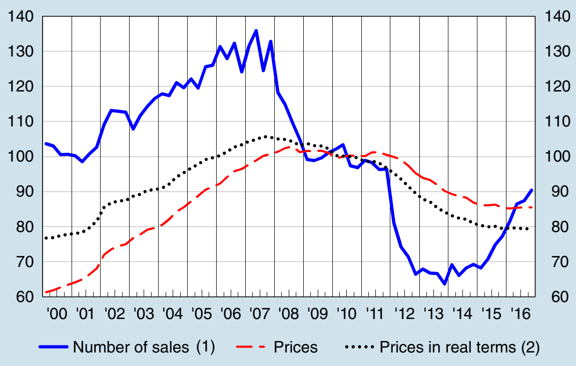
(1) Estimates weighted according to the number of firms surveyed and the number in the reference population in the quarterly survey of Italian firms with 50 or more workers conducted by the Bank of Italy together with Il Sole 24 Ore (see 'Survey on Inflation and Growth Expectations', 10 April 2017, available on the Bank of Italy's website in the Statistics section). Rounding may cause discrepancies in totals.

**The upswing in house sales gains momentum**

In the first quarter of 2017 the signs of improvement in the property market intensified. Confidence indicators for construction firms recouped the ground lost at the end of 2016, reaching cyclically high levels. The Italian Housing Market Survey (conducted between December and January) points to a progressive improvement in demand conditions. Estate agents' were generally upbeat regarding the short-term outlook for their own reference market and nationally. In the final quarter of 2016 house sales, which have been increasing since the spring of 2015, rose markedly (3.5 per cent, from 1.1 per cent in the third quarter), regaining the levels recorded at end-2011 (Figure 20). Overall in 2016 house sales were

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.

up by around 19 per cent on 2015. Sale prices were unchanged in the fourth quarter, continuing the stabilization under way since the second half of 2015. In the Bank of Italy-*Il Sole 24 Ore* survey, forward-looking assessments of demand and employment prospects by construction firms for which residential building accounts for a significant share of their business were cautiously optimistic.

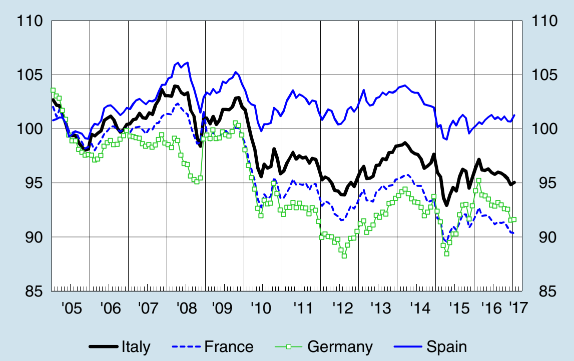
**Price competiveness improves ...**

According to our estimates price competiveness, as measured by the producer prices of manufactured goods, continued to improve in the first quarter of this year, gaining around 0.6 per cent on the previous period (Figure 21).

Since the end of 2014 Italian firms have made competitiveness gains of just over 3 per cent, favoured both by the depreciation of the euro and by weak domestic prices. The gain fell just short of that recorded by French firms, while it was stronger than that of German and, more markedly, Spanish firms.

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. A rise in the index indicates a loss of competitiveness; the latest data refer to January 2017. For the calculation methodology, see A. Felettigh, C. Giordano, G. Oddo and V. Romano, 'Reassessing price-competitiveness indicators of the four largest euro-area countries and of their main trading partners', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 280, 2015.

**... as does firms' profitability**

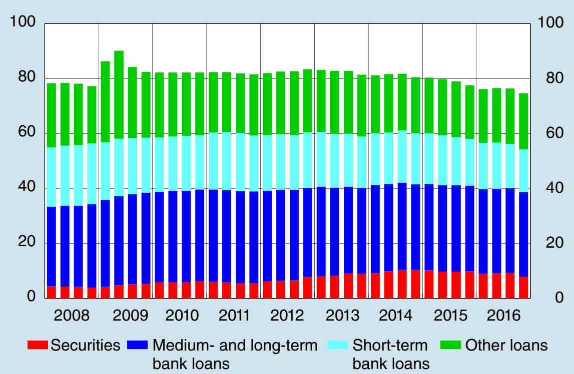
Based on Istat data and on our own estimates, in 2016 the ratio of gross operating profit to value added continued to improve. Firms' self-financing capacity, calculated as the difference between gross operating profit and total costs, continues to benefit from the gradual reduction in net interest expense. The ratio of investment expenditure to value added remained virtually unchanged, while firms' financing requirement contracted further.

**Credit growth continues to vary across sectors**

In the fourth quarter firms' overall debt as a share of GDP edged down from 76 to 75 per cent (Figure 22). Credit growth is still uneven across the various sectors of activity, with lending increasing in the services sector, still slightly negative in manufacturing, and continuing to contract sharply in construction (see Section 2.7).

Figure 22

**Debt of non-financial firms** (1)
*(quarterly data as a percentage of GDP)*




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

**Firms' net bond issues were virtually nil**

In the fourth quarter Italian firms' net bond issues were equal to -€0.2 billion (Table 7), while the gross equity issues of resident non-financial corporations rose from €77 million to €1.3 billion. According to preliminary data from Dealogic, Italian firms' net issues remained positive by €4 billion in the first quarter.

## 2.3 HOUSEHOLDS

Consumer spending continued to grow at a modest pace in the early months of this year, driven above all by the durable goods component. The propensity to save remains stable overall, but is still much lower than in the decade prior to the crisis. The consumer confidence indices fell slightly on average in the first quarter of 2017, after the increase recorded at the end of the previous year.

**Household spending grows, above all on durable goods**

In the fourth quarter of 2016 household spending, net of the particularly sharp fluctuations in purchases by non-profit institutions serving households, grew by 0.2 per cent in line with the previous quarters. The upturn in durable goods purchases to growth of 1.1 per cent, and the smaller pick-up in services of 0.3 per cent were counterbalanced by a decline in spending on semi-durable goods, down by 0.8 per cent, and virtual stagnation in non-durable goods at just 0.1 per cent.

**Disposable income increases in 2016**

Despite the decline in the last quarter, households' disposable income, measured in real terms, increased by 1.6 per cent overall in 2016 compared with 0.8 per cent in 2015 (Figure 23). The propensity to save remains stable, but considerably lower than in the decade prior to the crisis, at 8.6 per cent on average for the year and at 8.0 per cent in the last quarter (Figure 24).

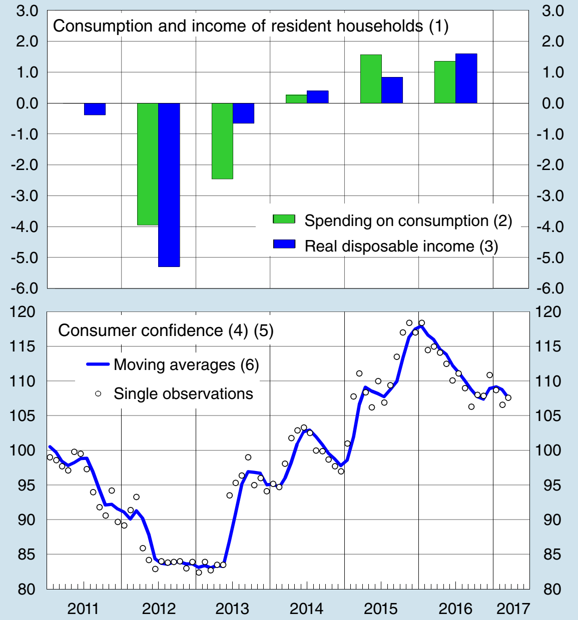
**The modest growth in consumption continues at the beginning of 2017**

The latest cyclical data are consistent with further moderate growth in consumption in the first quarter of this year. In March the consumer confidence index rose slightly; on average in the first quarter the index fell somewhat compared with the previous one, mainly as a result of worsening assessments of expectations regarding Italy's economic situation, while assessments of the current savings opportunities improved. In the first three months of 2017, the growth in the number of new car registrations strengthened, up by 6.9 per cent on a quarterly basis, having recorded an increase of 15.4 per cent in 2016 as a whole. By contrast, retail sales declined slightly over the three months ending in February.

Figure 23

**Consumption, disposable income and consumer confidence in Italy**

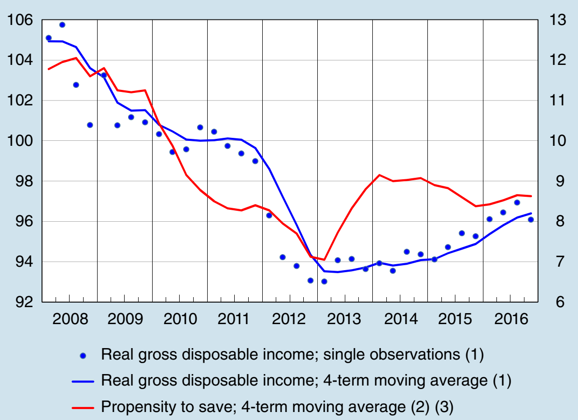
*(percentage changes and indices)*




Source: Based on Istat data.
(1) Percentage changes on the previous year. – (2) Volumes at chain-linked prices. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, reference year 2010. – (4) Seasonally adjusted monthly data. Indices: 2010=100. – (5) In June 2013 methodological changes were introduced that make the data since then not directly comparable with the earlier data. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

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. Indices: 2010=100. – (2) Percentage ratio between consumer households' savings and real gross disposable income. – (3) Right-hand scale.

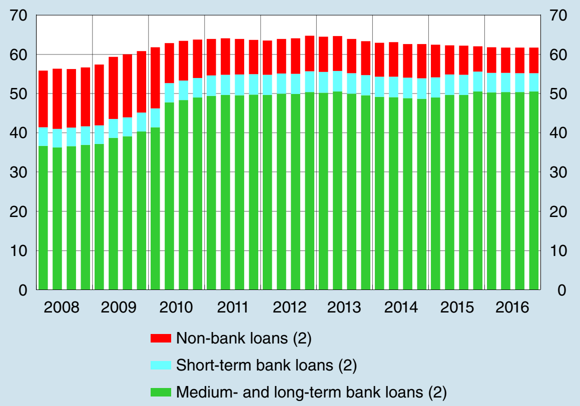
**Household debt is stable**

In the fourth quarter of 2016, Italian household debt in relation to disposable income remained essentially unchanged at 61.7 per cent (Figure 25), remaining well below the euro-area average of about 95.0 per cent recorded at the end of September. Interest rates on new mortgage loans remained stable in the quarter at extremely low levels by historical standards (see Section 2.7).

Figure 25

**Household debt** (1)

*(quarterly data; per cent of gross disposable income)*




Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. The data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology, see the note in 'Monetary and Financial Indicators. Financial Accounts', in *Supplements to the Statistical Bulletin*, 58, 2010.

## 2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italy's foreign trade benefited from the strengthening of global economic conditions. In the last quarter of 2016 the exports of goods and services returned to vigorous growth, led by an expansion in EU markets. The outlook for foreign orders continues to be favourable. The current account surplus widened further over the course of 2016, rising to 2.6 per cent of GDP compared with 1.4 per cent in 2015.

**Exports grow ...**

In the fourth quarter of 2016 exports grew by 1.9 per cent on the third quarter (2.1 per cent for the goods component alone) after stagnating in the previous period. The largest contribution to the growth in goods exports came from sales to EU countries (especially Germany and Spain). Among non-EU markets, sales to OPEC countries and the United States were especially strong. The growth was led by exports of mechanical machinery and equipment, chemicals and refined petroleum products; by contrast, sales of transport equipment declined, interrupting a long period of robust expansion.

**... and so do imports**

Imports also grew in the fourth quarter (up by 2.2 per cent in volume terms); the reduction in the services component (-0.3 per cent) was countered by strong growth in the imports of goods (2.8 per cent), mainly from EU countries (again, especially Germany and Spain). Among non-EU countries, imports from Russia and Turkey picked up while those from China continued to shrink.

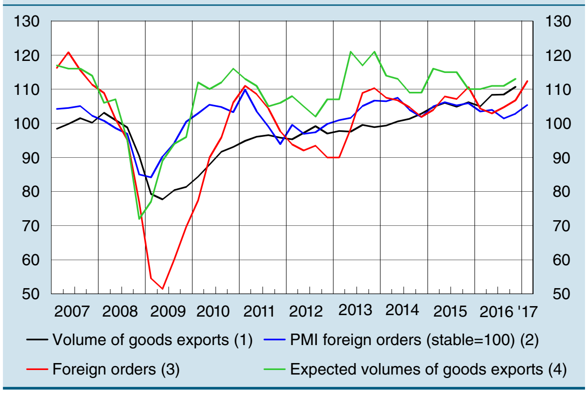
**The outlook for foreign orders remains favourable**

The data for the early months of 2017 signal moderate growth in the exports of goods, despite the decline in sales to non-EU markets recorded in February. Positive signs for the prospects of exports come from the manufacturing purchasing managers' index (PMI) regarding foreign orders and from Istat's analogous indicator, both of which point upwards and are at levels considered compatible with a stronger expansion of sales (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 3 months; percentage balance between replies of 'favourable' and 'unfavourable', plus 100.

**The current account surplus improves further**

The current account surplus widened further, reaching €43.1 billion, or 2.6 per cent of GDP, for 2016 as a whole, compared with €23.7 billion in 2015 (Table 3). The improvement was mainly due to the primary income balance, which swung back into surplus partly as a result of the reduction in outflows in respect of portfolio liabilities, and to the growing trade surplus, which benefited from the decrease in expenditure for energy commodities (Figure 27).

**Italian investment in foreign securities increases**

In 2016 residents continued to invest in foreign portfolio securities (€78.7 billion in the year as a whole). Their purchases mainly consisted of foreign investment fund units (€49.0 billion) and reflect the gradual rebalancing of Italian households' portfolios induced in part by the Eurosystem's asset purchase programme, with a reduction in the proportion consisting of government securities and bank bonds and a shift towards insurance products and managed assets, which present a higher degree of international diversification (see the box 'Italy's portfolio investment abroad' in *Economic Bulletin*, 1, 2017).

On the liability side, foreign investors decreased their holdings of Italian portfolio securities by €75.2 billion in 2016 as a whole. The disposals mainly concerned bank bonds (€28.7 billion), as a result of the non-rollover of maturing securities by banks that relied heavily on Eurosystem funding. Non-residents' holdings of Italian government securities also decreased, by €24.6 billion. Non-resident investors in other euro-area countries also showed a diminished interest in government securities.

**The debtor position in TARGET2 widens**

Owing to these developments, the Bank of Italy's debtor position in the TARGET2 payment system at the end of March reached €420 billion, compared with €357 billion at the end of December (Figure 28). The widening of the debtor position from October through January (the last month for which balance of payments data are available) mainly reflected the decrease in banks' funding on international markets, which coincided with

Table 3

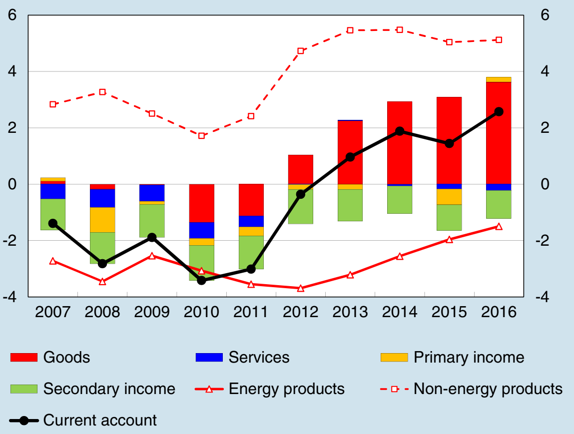
**Italy's balance of payments** (1)
*(billions of euros)*

| | 2015 | 2016 | Jan. 2016 | Jan. 2017 |
|---|---|---|---|---|
| **Current account** | **23.7** | **43.1** | **-1.6** | **-1.9** |
| *Memorandum item:* % of GDP | 1.4 | 2.6 | – | – |
| Goods | 50.7 | 60.7 | 0.8 | 0.3 |
| non-energy products (2) | 82.9 | 85.6 | 2.7 | 2.5 |
| energy products (2) | -32.2 | -25.0 | -1.9 | -2.2 |
| Services | -2.7 | -3.6 | -0.8 | -1.1 |
| Primary income | -9.2 | 2.8 | -0.1 | 0.4 |
| Secondary income | -15.0 | -16.8 | -1.5 | -1.5 |
| **Capital account** | **2.6** | **-2.1** | **..** | **-0.2** |
| **Financial account** | **27.4** | **63.4** | **1.0** | **-3.8** |
| Direct investment | 2.7 | -5.6 | -1.0 | -2.3 |
| Portfolio investment | 89.5 | 153.9 | 20.3 | -3.0 |
| Derivatives | 3.4 | 3.2 | 1.8 | -0.1 |
| Other investment (3) | -68.6 | -87.0 | -20.0 | 1.5 |
| Change in official reserves | 0.5 | -1.2 | -0.1 | 0.1 |
| **Errors and omissions** | **1.1** | **22.4** | **2.7** | **-1.7** |

(1) Based on the international standards set out in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6), 2009. For January 2017, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in TARGET2 balance.

Figure 27

**Current account balance and main components**
*(per cent of GDP)*




Sources: For GDP, Istat; for the breakdown between energy and non-energy products, based on Istat foreign trade data.

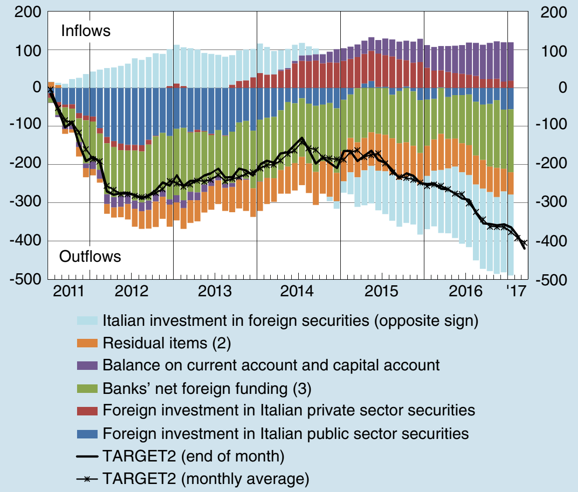
liquidity creation through the Eurosystem programmes; this effect was partially countered by the current account surplus. The increase recorded in March was also due to the effects of liquidity creation stemming from the fourth targeted longer-term refinancing operation (TLTRO-II).

**The current account surplus is reducing Italy's net international debtor position**

At the end of the fourth quarter Italy's net international investment position was negative by €249.6 billion, equal to 14.9 per cent of GDP. The improvement of more than 2 percentage points of GDP compared with the previous quarter is ascribable to the current account and capital account surplus; valuation adjustments, mainly the reduction in the market value of portfolio liabilities (particularly government securities), also contributed. Since 2013 Italy's net international debtor position has decreased by more than 10 percentage points of GDP, of which 7 points are attributable to the current account and capital account surplus.

Figure 28

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

## 2.5 THE LABOUR MARKET

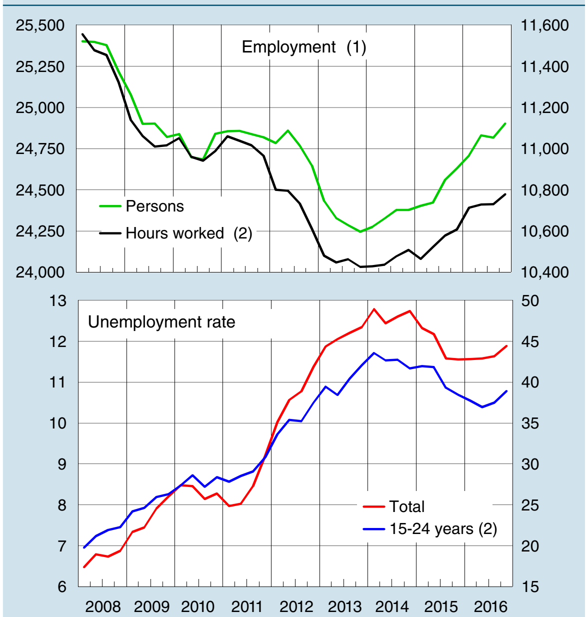
In the fourth quarter of 2016 the numbers of persons in employment and of hours worked both rose. Fixed-term payroll jobs increased and open-ended employment contracts stabilized. The latest cyclical data indicate that employment continued to expand in early 2017 despite the termination of social contribution relief at the end of 2016. Growth in labour costs remained very modest.

**In the fourth quarter labour input increases**

Following a pause in the third quarter of 2016, the number of hours worked and the number of persons in employment, as reported in the national accounts, returned to growth in the fourth quarter (of 0.3 and 0.4 per cent respectively on the previous period; see Figure 29 and Table 4). Employment grew by 1.3 per cent on average for the year, increasing in services, declining in construction and holding steady in manufacturing. In the fourth quarter the number of hours worked per employee, which began to recover in July, was still 4 per cent lower than at the start of the recession.

Figure 29

**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.

Table 4

**Employment and hours worked**

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

| | Level | Change | | | |
|---|---|---|---|---|---|
| | Q4 2016 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| **Total number of persons employed** | **24,902** | **0.3** | **0.5** | **-0.1** | **0.3** |
| *of which:* industry excluding construction | 4,184 | 0.1 | -0.1 | 0.1 | .. |
| private services (1) | 10,892 | 0.4 | 1.2 | 0.1 | 0.4 |
| Employees | 18,740 | 0.5 | 0.5 | 0.1 | 0.5 |
| Self-employed | 6,162 | -0.1 | 0.7 | -0.6 | .. |
| **Hours worked** | **10,779** | **1.0** | **0.1** | **..** | **0.4** |
| *of which:* industry excluding construction | 1,853 | 1.8 | -0.1 | -0.1 | 0.6 |
| private services (1) | 4,941 | 1.1 | 0.7 | 0.2 | 0.4 |
| Employees | 7,442 | 0.9 | 0.4 | 0.1 | 0.7 |
| Self-employed | 3,336 | 1.2 | -0.4 | -0.2 | .. |

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

**The number of payroll employees continues to expand**

In the fourth quarter the contraction in self-employment came to a halt, while fixed-term payroll employment continued to expand (rising by 0.9 per cent in the quarter and 2.1 per cent on average for the year, according to Istat's labour force survey). The number of employees with open-ended contracts remained basically unchanged, after increasing for six consecutive quarters (1.8 per cent in 2016 as a whole).

**The employment trend remains positive in early 2017**

According to provisional data from Istat's labour force survey, in January and February the number of persons employed rose by 0.1 per cent on the previous two months. Data on new hires and terminations recorded by INPS in December and in January, which are reflected, with a lag, in the employment trend recorded in Istat's estimates, also indicate a further increase in payroll employment in early 2017. According to the surveys conducted by Istat and Eurostat, firms' expectations and the PMI index are consistent with a positive employment situation, especially in manufacturing.

**The unemployment rate is still high**

In the fourth quarter the unemployment rate rose by 0.3 percentage points to 11.9 per cent, reflecting an increase in the participation rate. In the 15-24 age group it reached 38.9 per cent (equal to 10 per cent of this population segment). According to Istat's provisional data, the average overall unemployment rate for the two months of January and February did however decline to 11.7 per cent and the youth unemployment rate to 36.1 per cent.

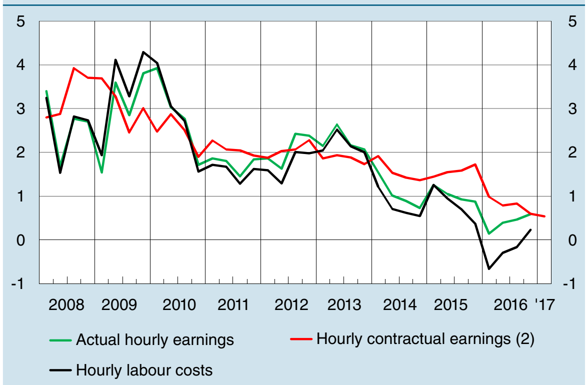
**The growth in labour costs is virtually nil**

In the last quarter of 2016 the cost of labour in the non-farm private sector rose by just 0.2 per cent on an annual basis (Figure 30), reflecting the fall in social security contributions, the modest growth of contractual

Figure 30

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

*(quarterly data; percentage changes on the year-earlier period)*




Source: Istat, quarterly national accounts and survey of contractual earnings.
(1) Seasonally adjusted data for hourly labour costs and actual hourly earnings. – (2) For March 2017, estimated data.

earnings (0.6 per cent for the quarter as a whole) and virtually no growth (0.1 per cent) in the non-contractual component; in industry excluding construction the cost of labour declined for the fourth consecutive quarter.

According to Istat's provisional data, in the two months of January and February contractual earnings in the non-farm private sector rose by an average of 0.5 per cent on an annual basis. The numerous contract renewals signed in the fourth quarter of 2016 and the first quarter of 2017 (including those for the basic metal and engineering, textile and wood industries) point to slow wage growth in the future as well; there has been increasing application of indexation mechanisms linking pay increases to past inflation, excluding energy products (see the box 'Private sector contract renewals in 2016', in *Economic Bulletin*, 1, 2017).

Unit labour costs in the non-farm private sector increased as a result of a fall in hourly productivity (-0.9 per cent in the fourth quarter compared with the same period of 2015); this trend is entirely due to the performance of the service sector. Instead in industry excluding construction, unit labour costs fell (-0.9 per cent), thanks in part to productivity gains (0.3 per cent).

## 2.6 PRICE DEVELOPMENTS

Consumer price inflation, sustained by the change in its most volatile components (energy and unprocessed food products), has risen since last autumn, reaching, in the first quarter of 2017, its highest levels since early 2013. However, core inflation is still low by historical standards. Households, firms and the leading analysts have revised upwards their expectations for average inflation in 2017.

**The most volatile components push up inflation to its highest levels since 2013 ...**

The 12-month change in the harmonized index of consumer prices (HICP) rose significantly in the first few months of the year, pushed by the abrupt acceleration in prices of unprocessed food products and of energy products. In the first quarter, inflation rose on average to its highest levels since the start of 2013, despite the drop observed in March on the basis of preliminary estimates (1.3 per cent, down from 1.6 per cent in February; Figure 31).

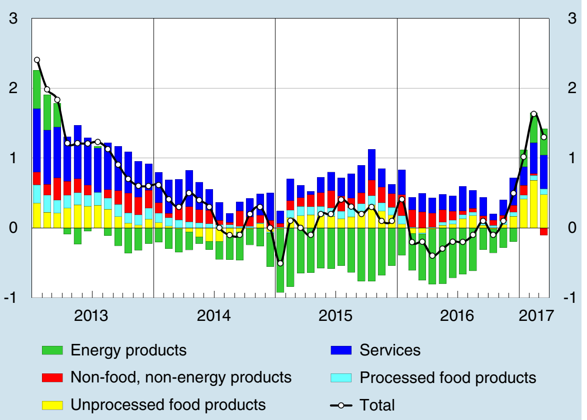
**...but core inflation remains weak**

Although it rose slightly in the last quarter of 2016, core inflation remains weak and continues to hover around historic lows (0.5 per cent in March, from 0.7 per cent in February; Table 5), in connection with lingering ample margins of spare capacity and moderate wage growth (see Section 2.5). In February, the most recent month for which detailed data are available, the share of elementary items with negative price changes fell with respect to January (from 30 per cent to 26 per cent); the share for core components also declined from 28 per cent to 25 per cent although it remains high.

**Figure 31**

**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; preliminary data for March 2017.

**The acceleration in producer prices continues**

The producer prices of industrial products sold on the domestic market continued to accelerate in February (3.7 per cent over twelve

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 | 0.0 | – | 0.5 | -3.4 |
| 2016 | -0.1 | 0.5 | -0.1 | -0.1 | – | 0.5 | -2.2 |
| 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 | 0.0 | 0.3 | -3.0 |
| May | 0.2 | 0.6 | 0.1 | 0.1 | 0.1 | 0.6 | -2.6 |
| June | 0.2 | 0.7 | 0.1 | 0.2 | 0.0 | 0.6 | -3.0 |
| July | 0.4 | 1.0 | 0.3 | 0.2 | -0.1 | 0.7 | -3.0 |
| Aug | 0.3 | 1.0 | 0.2 | 0.2 | -0.1 | 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 | -0.1 | 0.5 | -4.1 |
| Mar. | -0.2 | 0.8 | -0.2 | -0.2 | 0.1 | 0.7 | -3.9 |
| Apr. | -0.4 | 0.6 | -0.4 | -0.5 | -0.2 | 0.5 | -4.5 |
| May | -0.3 | 0.6 | -0.3 | -0.3 | 0.2 | 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 | 0.1 | 0.6 | -1.4 |
| Aug | -0.1 | 0.4 | -0.1 | -0.1 | 0.0 | 0.5 | -1.0 |
| Sept. | 0.1 | 0.4 | 0.0 | 0.1 | 0.1 | 0.4 | -0.8 |
| Oct. | -0.1 | 0.2 | -0.2 | -0.2 | 0.0 | 0.1 | -0.6 |
| Nov. | 0.1 | 0.4 | 0.1 | 0.1 | 0.1 | 0.4 | -0.3 |
| Dec. | 0.5 | 0.7 | 0.5 | 0.5 | 0.2 | 0.6 | 0.9 |
| 2017 – Jan. | 1.0 | 0.5 | 1.0 | 1.0 | 0.3 | 0.5 | 2.9 |
| Feb. | 1.6 | 0.7 | 1.5 | 1.6 | .... | 0.6 | 3.7 |
| Mar. | (1.3) | (0.5) | .... | (1.4) | .... | (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.

months, from 2.9 per cent in January), driven mainly by the energy component and other intermediate goods. The change in the prices of non-food final consumption products has been slightly negative since September (-0.3 per cent in February).

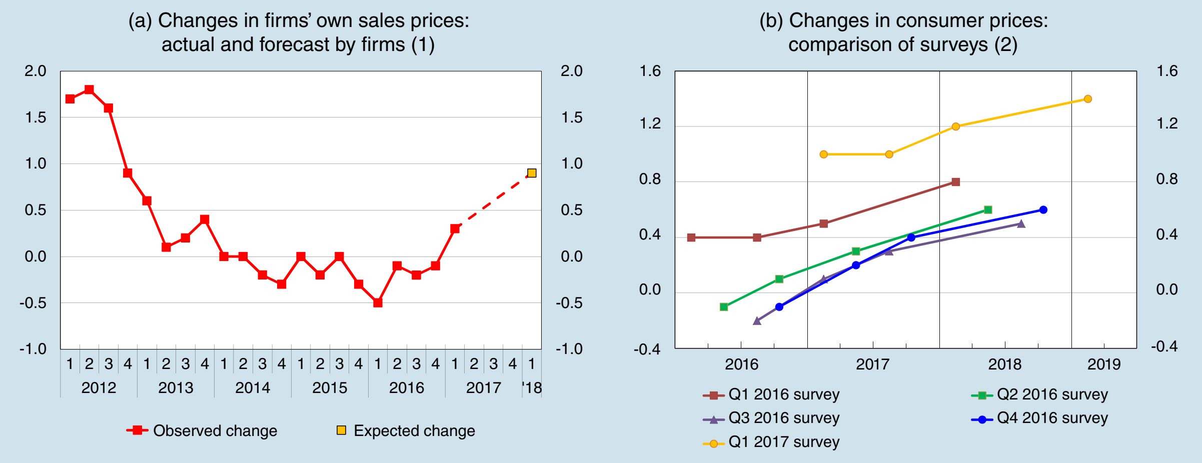
**Firms and households expect inflation to rise**

The quarterly survey conducted in March by the Bank of Italy and *Il Sole 24 Ore* found that firms expect to increase their list prices by 0.9 per cent over the next twelve months (Figure 32.a) as a result of the higher cost of energy inputs. Firms' expectations of consumer price inflation rose above the level forecast a year earlier (Figure 32.b), but remain below 1.5 per cent for the year. According to Istat surveys, in the first quarter the average percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months has fallen since the autumn (52.6 per cent, down from 59.2 per cent). The balance between the share of manufacturing firms expecting to raise their prices and that of those planning to reduce them rose by about the same amount as in the previous period.

The analysts polled in March by Consensus Economics expected the average rate of inflation to rise in 2017 to 1.3 per cent from -0.1 per cent in 2016, still below that forecast for the euro area as a whole (see Section 1.2).

Figure 32

**Inflation expectations of industrial (excluding construction) and service firms**
*(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', 10 April 2017, available on the Bank's website in the Statistics section). – (2) The first point of each curve is the definitive figure available at the time of the survey that is provided to interviewees in the questionnaire to be used as the basis for formulating their expectations; the second point represents the average of the forecasts for the subsequent 6 months; the third point is the average of the forecasts for the subsequent 12 months; the fourth point is the average of the forecasts for the subsequent 24 months.

## 2.7 BANKS

Lending to the private sector is sustained by low interest rates and the improving economic outlook. Rates of growth in corporate lending and credit policies are still differentiated according to sector of economic activity and firm size. The loan quality of Italian banks continues to benefit from the improvement in the economy.

**The growth in loans to households strengthens …**

In the three months ending in February, growth in lending to the non-financial private sector strengthened slightly (1.4 per cent; Figure 33.a). Lending to households accelerated to 2.7 per cent on a seasonally adjusted annualized basis, partly supported by the expansion of loans for house purchase (2.9 per cent).

**… and lending to firms is positive**

Lending to firms grew by 0.4 per cent on a seasonally adjusted, annualized basis in the three months to February but stagnated on a 12-month basis. Credit growth varies by sector of economic activity (Figure 33.b): lending to companies in the service sector grew at a 12-month rate of 2.4 per cent, while loans to manufacturing firms and construction companies continued to contract, by -0.7 and -5.5 per cent respectively. Lending to firms with 20 or more workers expanded further, by 0.4 per cent, while the contraction in lending to smaller businesses eased slightly, to -2.8 per cent.

**Bank funding remains stable**

Between November and February Italian banks' total funding remained virtually unchanged (Table 6); the increase in residents' deposits and the greater recourse to refinancing operations with the Eurosystem offset the slight decrease in wholesale funding.

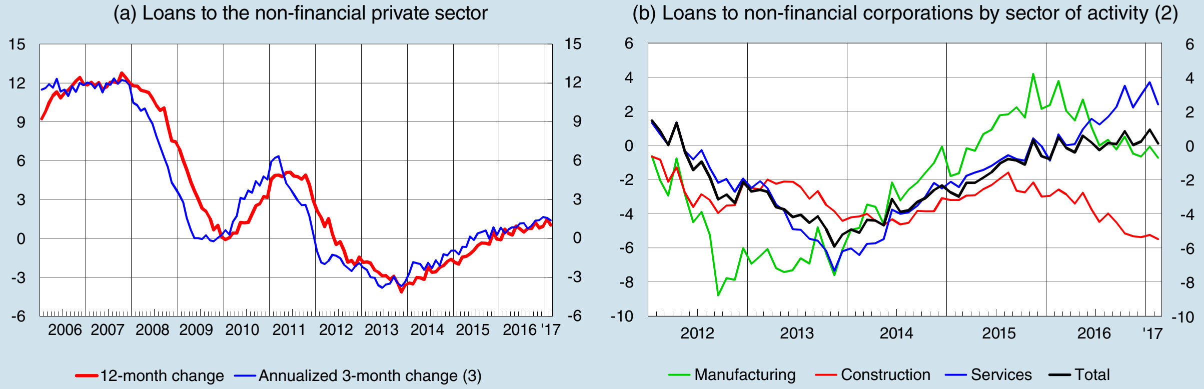
**Supply conditions are still broadly accommodative**

The business surveys conducted in March by Istat and by the Bank of Italy together with *Il Sole 24 Ore* found that credit access conditions were generally favourable, though with different trends for firms of different categories and

Figure 33

## Bank lending (1)

*(monthly data; percentage changes)*




Source: Supervisory reports.
(1) Includes bad loans, repos, and loans not reported in banks' balance sheets because they have been securitized. The percentage change is net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Twelve-month changes; the data for each sector are not adjusted for exchange rate variations, or, until December 2013, for value adjustments. – (3) Seasonally adjusted. In conformity with the guidelines of the European Statistical System, the models used to make seasonal adjustments are reviewed annually to ensure they correctly represent the dynamics of the time series. Consequently, direct comparison between the series shown in the graph and that of the series presented in previous issues of the Economic Bulletin may not be possible.

Table 6

## Main assets and liabilities of Italian banks (1)

| | End-of-month stocks (2) | | 12-month percentage changes (3) | |
|---|---|---|---|---|
| | November 2016 | February 2017 | November 2016 | February 2017 |
| **Assets** | | | | |
| Loans to Italian residents (4) | 1,801 | 1,801 | -1.1 | -0.5 |
| *of which:* firms (5) | 786 | 779 | 0.0 | 0.1 |
| households (6) | 624 | 626 | 1.8 | 2.2 |
| Claims on central counterparties (7) | 89 | 71 | -7.9 | -30.6 |
| Debt securities excluding bonds of resident MFIs (8) | 510 | 509 | -2.6 | -1.5 |
| *of which:* securities of Italian general government entities | 391 | 391 | -4.3 | -4.2 |
| Claims on the Eurosystem (9) | 48 | 55 | 135.5 | 185.4 |
| External assets (10) | 343 | 358 | 2.1 | 6.6 |
| Other assets (11) | 1,129 | 1,101 | -0.1 | -4.9 |
| **Total assets** | **3,919** | **3,895** | **-0.2** | **-1.2** |
| **Liabilities** | | | | |
| Deposits of Italian residents (4) (12) (13) | 1,412 | 1,428 | 3.0 | 2.9 |
| Deposits of non-residents (10) | 306 | 303 | -4.8 | -6.8 |
| Liabilities towards central counterparties (7) | 148 | 139 | 2.6 | -21.2 |
| Bonds (13) | 339 | 334 | -17.4 | -14.6 |
| Liabilities towards the Eurosystem (9) | 185 | 200 | 19.9 | 31.7 |
| Liabilities connected with transfers of claims | 118 | 117 | -3.7 | -0.4 |
| Capital and reserves | 443 | 462 | -1.3 | 2.7 |
| Other liabilities (14) | 968 | 913 | 1.5 | -3.4 |
| **Total liabilities** | **3,919** | **3,895** | **-0.2** | **-1.2** |

Source: Supervisory reports.
(1) The data for February 2017 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 'Banks and Money: National Data', Tables 3.3a and 3.3b, available on the Bank of Italy's website in the Statistics section. – (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.

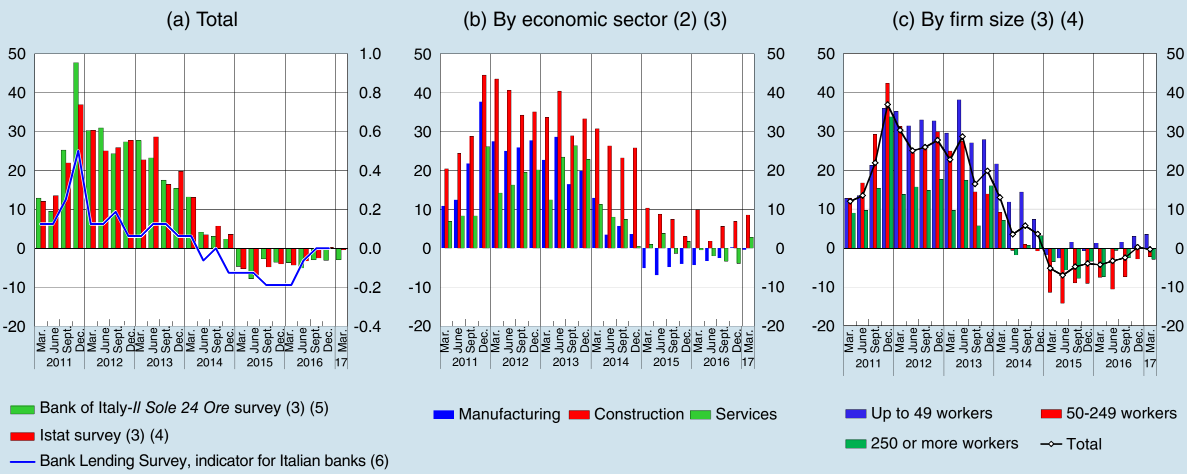
sectors of economic activity. The banks interviewed for the quarterly survey on bank lending in the euro area reported unchanged lending policies in the fourth quarter of 2016 (see the box 'Credit supply and demand').

## CREDIT SUPPLY AND DEMAND

The banks interviewed in last December's euro-area bank lending survey reported that their credit supply policies for households and firms had remained unchanged in the fourth quarter of 2016. According to the survey, demand for business loans had also remained essentially unchanged, while household demand for house purchase and consumer loans had strengthened further (see *Economic Bulletin*, 1, 2017).

The business surveys conducted in March confirmed that in the first quarter of the year credit access conditions were differentiated by category of firm and sector of economic activity (see the figure).

**Firms' access to credit** (1)




(1) The Bank of Italy-*Il Sole 24 Ore* survey is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and services; the Istat business confidence surveys are conducted on samples of manufacturing and service firms (excluding retail and wholesale trade) and construction companies. The data 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 in the box 'Credit supply and demand' in *Economic Bulletin*, 1, 2017. – (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 thereafter. – (6) Right-hand scale.

Based on Istat's business confidence survey, medium-sized and large manufacturing firms continued to benefit from accommodative lending conditions. By sector, the survey found negligible changes in credit supply policies for service and manufacturing firms, while construction firms still had poor access to financing.

The survey on inflation and growth expectations conducted by the Bank of Italy and *Il Sole 24 Ore* (on a sample of medium-sized and large firms) also showed that lending conditions continued to be tight for construction companies, although credit access conditions overall were accommodative.

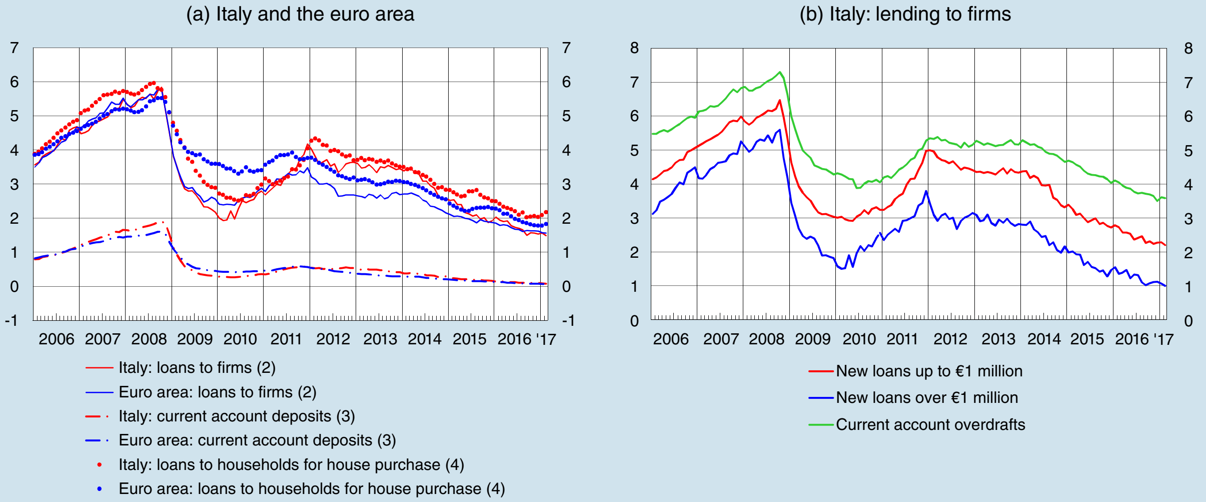
**The average cost of new loans is low**

The cost of credit remains stable at historically low levels. In February the average rate on new loans to firms was 1.5 per cent (Figure 34). The cost of new mortgages remained unchanged for variable rate loans (at 1.8 per cent) and rose by about 10 basis points for fixed rate loans (to 2.3 per cent). The spread in relation to the euro-area remained nil for loans to firms and very narrow (26 basis points) for those to households.

Figure 34

**Bank interest rates** (1)

*(monthly data; per cent)*




Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are collected and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current account deposits of households and firms. – (4) Rate on new loans to households for house purchase.

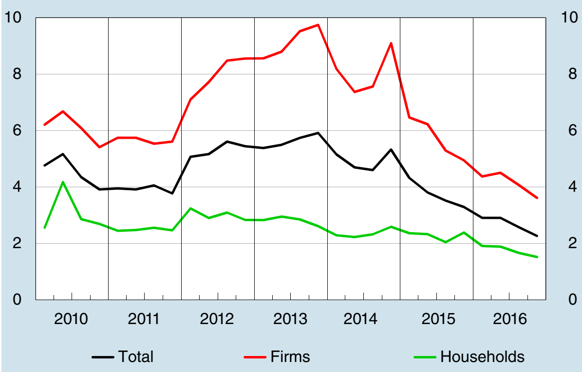
**Credit quality continues to improve**

The improvement in the economic outlook is having a favourable, even if gradual, effect on the credit quality of Italian banks. In the fourth quarter of 2016, the ratio of new non-performing loans to outstanding loans fell, on a seasonally adjusted annualized basis, by 0.3 percentage points to 2.3 per cent (Figure 35). For loans to firms the ratio came down by 0.5 points to 3.6 per cent and for households by 0.2 points to 1.5 per cent.

Figure 35

**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.

For the banking groups classified as significant for supervisory purposes, the ratio of the stock of NPLs to total outstanding loans diminished in the fourth quarter compared with the third, both in terms of gross values (to 17.6 per cent from 18.0 per cent) and net of write-downs (to 9.4 per cent from 10.4 per cent). The coverage ratio (i.e. the ratio of write-downs to the stock of NPLs) increased markedly, from 47.3 to 51.7 per cent, thanks in part to the extraordinary write-downs entered in the accounts of UniCredit.

**NPL coverage ratios increase**

Banks' actions to increase NPL coverage ratios affected profitability in 2016. Return on equity of the significant banking groups fell to -9.9 per cent, from 3.5 per cent in 2015, partly on account of the extraordinary write-downs by UniCredit. Gross income contracted by 7.2 per cent, mainly owing to the fall of 7.1 per cent in net interest income and, among the other revenue items, the fall in profits deriving from the sale of available-for-sale financial assets. Operating costs grew by 3.7 per cent; they remained substantially stable net of the banks' extraordinary contributions to the National Resolution Fund and the higher expenses associated with early retirement incentive schemes for some personnel.

As a result of the decrease in profitability, the level of capitalization fell in the fourth quarter of 2016 but should be recouped by the end of the current quarter. At the end of December, the CET1 ratio for the significant banking groups averaged 10.4 per cent of risk-weighted assets, representing a reduction of 1.5 percentage points since September. Taking into account UniCredit's capital increase, completed in the first few months of 2017, the CET1 ratio averaged 11.6 per cent of risk-weighted assets, in line with the figure for September.

## 2.8 THE FINANCIAL MARKETS

In the first quarter of this year, the general increase in sovereign spreads also affected Italian government securities. The share prices of banks benefited from a number of highly successful recapitalization operations.

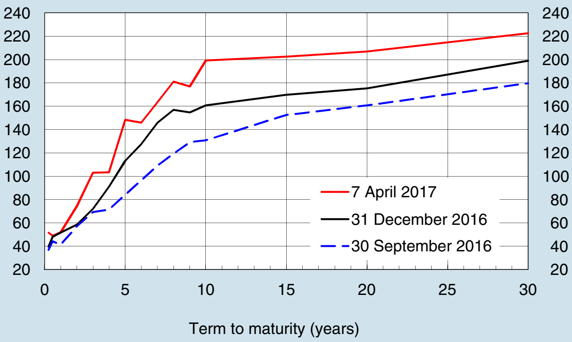
**Interest rates and sovereign spreads rise**

Since the start of 2017 the yields on Italian government securities have risen for maturities beyond one year (by around 35 basis points on average) as a result both of the rise in the corresponding German Bund yields (see Section 1.3) and of the further increment in the sovereign spread. The yield spread between ten-year Italian and German government bonds grew by 39 basis points, to 199 points (Figure 36). Part of this increase (17 basis points) was attributable to the change in the benchmark used by market operators to calculate the ten-year yield starting from the end of March. The spreads on the bonds issued by non-financial corporations remained essentially the same as at the start of the year.

Figure 36

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

*(basis points)*




Source: Based on Bloomberg data.

**Share prices rise ...**

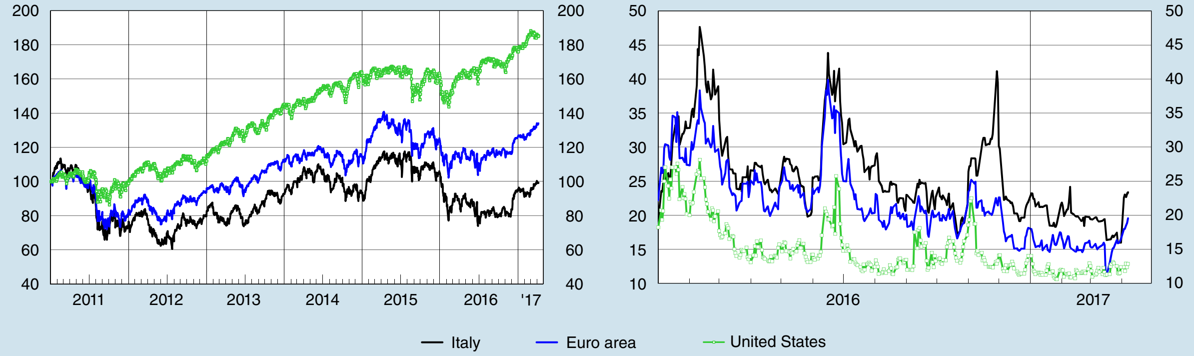
Since the end of December the general index of the Italian stock market has gained 6 per cent, compared with a 7 per cent rise in that of the main euro-area companies (Figure 37). The rise in the first quarter can be attributed to the improvement in corporate earnings forecasts and, in part, to a reduction in the risk premium demanded by investors; at the same time, the stock market gain was held back by the rise in long-term interest rates. The volatility implied by the prices of stock index options continues to hover near average long-term levels and therefore has not been significantly affected by heightened political uncertainty in the euro area (see the box 'The evolution of uncertainty regarding economic policy and the financial markets in the advanced economies' in Section 1).

Figure 37

**Share prices**

(a) Price indices (1)
*(daily data; indices: 3 January 2011=100)*

(b) Volatility indices (2)
*(daily data; per cent)*




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

**... including in the banking sector**

Bank share prices have risen by 5 per cent, though with wide fluctuations, since the end of last year. While they have been affected adversely by the heightened uncertainty in the euro area, since the end of February they have more than recouped their earlier losses, benefitting from a number of highly successful recapitalization operations. The credit default swap (CDS) spreads have fallen by an average of 11 basis points. On 13 January the ratings firm DBRS downgraded Italy's credit rating to BBB (high), attributing this decision to slow economic growth, tensions in the banking system and the risk that political uncertainty could jeopardize structural reforms. The downgrade raised the haircuts on Italian government securities used in Eurosystem refinancing operations. The decision has had a limited impact on Italian banks' ability to refinance, prompting only a slight change in the composition of the assets used as collateral.

**Net corporate bond issues improve**

Bond issues by non-financial corporations were essentially flat in Italy in the fourth quarter of 2016 against -€1.7 billion in the fourth quarter of 2015, while in the euro area they rose to about €27 billion over the same period, up from €16.5 billion (Table 7). By contrast, both Italian and euro-area banks continued to make net redemptions, amounting to €16 billion and €48 billion respectively.

Table 7

**Net bond issues** (1)
*(billions of euros)*

| | Banks | Other financial corporations | Non-financial corporations | Total |
|---|---|---|---|---|
| | | **Italy** | | |
| 2015 | -105.7 | -16.4 | -3.8 | -125.9 |
| 2016 | -66.9 | 0.8 | -2.4 | -68.5 |
| 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 | -1.7 | -17.3 |
| 2016 – Q1 | -34.2 | -5.1 | -8.6 | -47.9 |
| Q2 | -4.1 | 1.0 | 3.9 | 0.8 |
| Q3 | -12.3 | 2.5 | 2.5 | -7.3 |
| Q4 | -16.3 | 2.5 | -0.2 | -14.0 |
| | | **Euro area** | | |
| 2015 | -287.7 | 177.9 | 46.7 | -63.1 |
| 2016 | -146.2 | -73.9 | 78.1 | -142.0 |
| 2015 – Q1 | -70.6 | 62.4 | 17.5 | 9.3 |
| Q2 | -70.4 | 11.4 | -1.0 | -60.0 |
| Q3 | -62.7 | 32.9 | 13.7 | -16.1 |
| Q4 | -84.0 | 71.2 | 16.5 | 3.6 |
| 2016 – Q1 | -38.7 | -126.8 | -0.7 | -166.2 |
| Q2 | -5.1 | -33.5 | 28.4 | -10.2 |
| Q3 | -54.2 | 51.9 | 23.3 | 21.0 |
| Q4 | -48.3 | 34.6 | 27.2 | 13.4 |

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.

According to preliminary data from Dealogic, gross issuance by Italian banks fell in the first quarter of 2017 to €9 billion, from €10 billion in the previous quarter.

**The net flow of resources to Italian investment funds contracts in the fourth quarter**

According to Assogestioni data, in the fourth quarter of 2016 Italian and foreign open-end investment funds recorded net inflows of savings of €7 billion, less than the €16 billion raised in the previous quarter. Investors' preferences went largely to bond funds, flexible funds and balanced funds, while equity, money market and hedge funds saw small net outflows.

## 2.9 THE PUBLIC FINANCES

General government net borrowing declined from 2.7 per cent of GDP in 2015 to 2.4 per cent last year, a level consistent with the Government's autumn estimates. The ratio of debt to GDP increased by around half a percentage point to 132.6 per cent. In its 2017 Economic and Financial Document approved on 11 April, the Government revised down its objective for net borrowing this year from 2.3 to 2.1 per cent of GDP; it plans to meet this objective thanks to the additional corrective measures defined after discussions with the European authorities. For subsequent years the Government confirmed the adjustment path towards balance. In 2017 the ratio of debt to GDP is expected to remain basically unchanged at the level recorded last year; in 2018-20 it is expected to fall by around 7 percentage points. In the coming weeks the European Commission will assess Italy's fiscal position.

**In 2016 the general government deficit contracts**

In 2016 net borrowing was lowered from 2.7 to 2.4 per cent of GDP (Table 8), a result consistent with the Government's autumn estimates (Table 9). The improvement was driven by both the reduction in interest payments (which declined by €1.8 billion) and the increase in the primary surplus (by €1.6 billion). According to the European Commission's estimates, the primary surplus in Italy's public accounts, equal to 1.5 per cent of GDP, continues to be over 1 percentage point of GDP higher than the average for the other euro-area countries.

Table 8

**Main aggregates of the general government accounts** (1)
*(billions of euros and per cent of GDP)*

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Net borrowing | 46.9 | 49.0 | 44.2 | 40.8 |
| % of GDP | 2.9 | 3.0 | 2.7 | 2.4 |
| Primary surplus | 30.7 | 25.4 | 23.9 | 25.5 |
| % of GDP | 1.9 | 1.6 | 1.5 | 1.5 |
| Interest payments | 77.6 | 74.4 | 68.1 | 66.3 |
| % of GDP | 4.8 | 4.6 | 4.1 | 4.0 |
| Borrowing requirement | 77.0 | 66.6 | 50.3 | 42.1 |
| % of GDP | 4.8 | 4.1 | 3.1 | 2.5 |
| Net borrowing requirement (2) | 78.9 | 69.9 | 56.9 | 43.0 |
| % of GDP | 4.9 | 4.3 | 3.5 | 2.6 |
| Debt | 2,070.2 | 2,137.2 | 2,172.9 | 2,217.9 |
| % of GDP | 129.0 | 131.8 | 132.1 | 132.6 |

Source: The items of the general government consolidated accounts are based on Istat data.
(1) Rounding may cause discrepancies in totals. – (2) Net of state privatization receipts.

**Expenditure is basically unchanged**

Last year total general government expenditure was basically stable with respect to 2015 (-0.1 per cent; Table 10). The reductions in capital account expenditure (-16.0 per cent) and debt interest payments (-2.6 per cent) were largely offset by the increase in current primary expenditure (1.7 per cent). On the capital

**Table 9**

**Public finance objectives and estimates for 2016**
*(per cent of GDP)*

| | General government | | | *Memorandum item:* real GDP growth rate (%) |
|---|---|---|---|---|
| | Net borrowing | Primary surplus | Debt | |
| **Objectives** | | | | |
| April 2015 (1) | 1.8 | 2.4 | 130.9 | 1.4 |
| September 2015 (2) | 2.2 | 2.0 | 131.4 | 1.6 |
| April 2016 (3) | 2.3 | 1.7 | 132.4 | 1.2 |
| September 2016 (4) | 2.4 | 1.5 | 132.8 | 0.8 |
| **Estimates** | | | | |
| April 2016 (3) | 2.3 | 1.7 | 132.4 | 1.2 |
| September 2016 (4) | 2.4 | 1.5 | 132.8 | 0.8 |
| **Outcomes** (5) | **2.4** | **1.5** | **132.6** | **0.9** |

(1) *2015 Economic and Financial Document*. – (2) *Update of the 2015 Economic and Financial Document*. – (3) *2016 Economic and Financial Document*. – (4) *Update of the 2016 Economic and Financial Document*. – (5) Net borrowing, primary balance and GDP growth are based on Istat data.

account, gross fixed investment expenditure contracted for the seventh consecutive year (-4.5 per cent), even though the Government had forecast growth of 1 per cent. The other capital expenditure items were more than halved, after increasing sharply in 2015 following Judgment 70/2015 of Italy's Constitutional Court declaring illegitimate the freezing of inflation-linked increases for pensions and disbursements by the National Resolution Fund to the four banks placed under resolution. As for current primary expenditure, compen-sation of employees rose by 1.3 per cent, in part reflecting statistical discontinuities. Social benefits in cash expanded by 1.4 per cent, driven above all by welfare payments.

**The tax ratio diminishes**

In 2016 general government revenues rose by 0.3 per cent compared with 2015. Current revenues expanded by 0.2 per cent: the increases of 1.1 per cent in social security contributions and of 2.3 per cent in direct tax revenues (partly owing to statistical breaks) were almost wholly offset by the reduction of 3.1 per cent in those from indirect taxes, primarily owing to lower receipts from IRAP, the regional tax on productive activity (due to the new rules on the deductibility of

**Table 10**

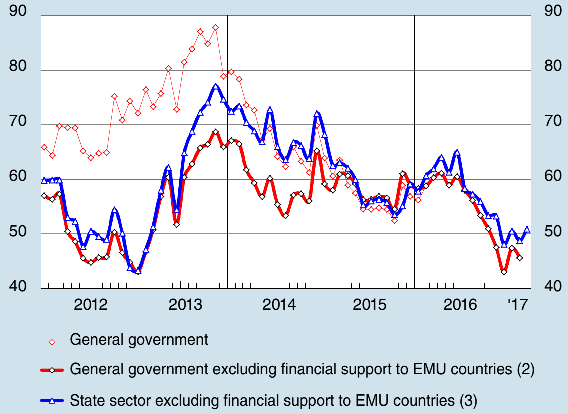
**General government expenditure and revenue** (1)
*(billions of euros and percentage changes)*

| | 2015 | 2016 | % change on previous year 2015 | % change on previous year 2016 |
|---|---|---|---|---|
| **EXPENDITURE** | | | | |
| Final consumption expenditure | 311.6 | 316.0 | -0.5 | 1.4 |
| *of which:* | | | | |
| compensation of employees | 162.0 | 164.1 | -0.9 | 1.3 |
| Intermediate consumption | 90.1 | 91.1 | 1.4 | 1.1 |
| social benefits in kind | 43.8 | 44.5 | -1.0 | 1.7 |
| Social benefits in cash | 332.8 | 337.5 | 1.8 | 1.4 |
| Interest payments | 68.1 | 66.3 | -8.5 | -2.6 |
| Other expenditure | 65.2 | 68.5 | -3.6 | 5.2 |
| **Current expenditure** | **761.9** | **772.0** | **-0.5** | **1.3** |
| % of GDP | 46.3 | 46.2 | | |
| **Current expenditure net of interest payments** | **693.8** | **705.7** | **0.4** | **1.7** |
| % of GDP | 42.2 | 42.2 | | |
| Investment (2) | 36.7 | 35.0 | -0.3 | -4.5 |
| Investment grants | 15.8 | 15.9 | 20.6 | 0.7 |
| Other capital expenditure | 15.8 | 6.4 | 54.6 | -59.4 |
| **Capital expenditure** | **68.2** | **57.3** | **13.6** | **-16.0** |
| **Total expenditure net of interest payments** | **762.1** | **763.0** | **1.5** | **0.1** |
| % of GDP | 46.3 | 45.6 | | |
| **TOTAL EXPENDITURE** | **830.1** | **829.3** | **0.6** | **-0.1** |
| % of GDP | 50.5 | 49.6 | | |
| **REVENUE** | | | | |
| Direct taxes | 243.0 | 248.5 | 2.2 | 2.3 |
| Indirect taxes | 249.9 | 242.2 | 0.4 | -3.1 |
| Social security contributions | 219.1 | 221.4 | 2.2 | 1.1 |
| Production for market and for own use | 38.4 | 38.0 | 3.1 | -0.9 |
| Other current revenue | 30.2 | 31.8 | -4.3 | 5.1 |
| **Current revenue** | **780.5** | **781.9** | **1.4** | **0.2** |
| % of GDP | 47.4 | 46.7 | | |
| **Capital revenue** | **5.4** | **6.6** | **-18.2** | **21.9** |
| *of which*: capital taxes | 1.2 | 5.2 | -23.1 | 327.2 |
| **TOTAL REVENUE** | **785.9** | **788.5** | **1.2** | **0.3** |
| % of GDP | 47.8 | 47.1 | | |
| *of which*: taxes and social security contributions | 43.3 | 42.9 | | |
| **NET BORROWING** | **44.2** | **40.8** | | |
| % of GDP | 2.7 | 2.4 | | |
| **Primary balance** | **23.9** | **25.5** | | |
| % of GDP | 1.5 | 1.5 | | |
| *Memorandum item:* | | | | |
| GDP | 1,645.4 | 1,672.4 | | 1.6 |

Source: Based on Istat data.
(1) Some of the expenditure and revenue items show discontinuities between 2015 and 2016 mainly owing to the inclusion of RAI in the general government perimeter; the effects on balances are instead negligible. – (2) Includes proceeds of property sales entered with a negative sign.

Figure 38

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




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

Table 11

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

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| **Change in the debt = (a)+(b)+(c)+(d)** | **80.1** | **67.1** | **35.6** | **45.1** |
| (a) Total borrowing requirement | 77.0 | 66.6 | 50.3 | 42.1 |
| *of which:* support to EMU countries | 13.0 | 4.7 | -2.1 | 0.0 |
| (b) Change in the Treasury's liquid balance | 3.2 | 8.8 | -10.7 | 7.4 |
| (c) Issue discounts and premiums / redemptions (1) | -0.1 | -8.8 | -4.4 | -4.5 |
| (d) Euro equivalent of foreign currency liabilities | -0.1 | 0.5 | 0.4 | 0.0 |

(1) Includes the effect of the revaluation of inflation-indexed securities.

labour costs), and TASI, the municipal services tax (eliminated on primary residences except for luxury houses). The ratio of taxes and social security contributions to GDP fell by about half a percentage point with respect to 2015, to 42.9 per cent. Net of the change in capital tax receipts, which more than quadrupled as a result of voluntary disclosure programmes, the reduction would have amounted to 0.7 percentage points.

**The general government borrowing requirement decreases**

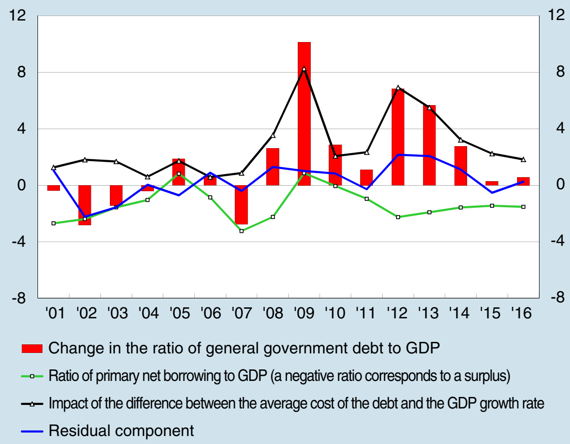
Excluding privatization receipts, the general govern-ment borrowing requirement came to €43.0 billion, €13.9 billion less than in 2015 (Figure 38). In addition to lower net borrowing, the contraction also reflec-ted differences between the accounts on a cash and on an accruals basis, mainly linked to Italy's financial relations with the EU.

**The ratio of debt to GDP rises by around half a percentage point**

Last year general government debt expanded by €45.1 billion (Table 11 and Figure 39). Aside from the increase in the borrowing requirement, this reflected the Treasury's liquid balance, which rose by €7.4 billion to €43.1 billion; the overall effect of issue discounts and premiums, as well as of the variation in the exchange rate, was to reduce debt by €4.4 billion. The ratio of debt to GDP rose from 132.1 to 132.6 per cent; net of the increase in the Treasury's liquid balances, it would have been basically unchanged.

Figure 39

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



**In the first quarter the state sector borrowing requirement is higher compared with 2016**

In the first quarter of 2017 the state sector borrowing requirement amounted to €29 billion, up by 2.6 per cent on the year-earlier period. The worsening was due in part to the deferral to this year of some payments relative to 2016.

**The Government approves the 2017 EFD**

On 11 April the Government approved the 2017 Economic and Financial Document. The objective for net borrowing in 2017 was revised down from 2.3 to 2.1 per cent of GDP. This result will be achieved thanks to the additional measures defined after discussions with the European authorities. For subsequent years the Government confirmed the adjustment path towards balance. In 2017 the ratio of debt to GDP is expected to remain basically unchanged at the level recorded last year; in 2018-20 it is expected to fall by around 7 percentage points. In the coming weeks the European Commission will assess Italy's fiscal position based on budgetary outcomes for 2016, additional measures for this year, and its spring economic forecasts.

# 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 | 4.1 | 1.5 | 0.8 | 0.6 | 4.4 |
| 2015 | 2.0 | 6.5 | 3.3 | 1.4 | 5.0 | 3.2 | 1.8 | 1.3 | 6.5 |
| 2016 | 1.8 | 4.0 | 2.4 | 2.4 | 5.1 | 3.7 | 2.0 | 1.9 | 2.9 |
| 2014 – Q1 | 0.4 | 1.1 | 0.6 | 0.4 | 1.0 | 0.7 | .. | -0.1 | 0.9 |
| Q2 | 0.2 | 1.3 | 0.5 | -1.6 | 0.3 | -0.6 | 0.3 | 0.1 | 1.1 |
| Q3 | 0.4 | 1.6 | 0.7 | 0.2 | 1.2 | 0.7 | 0.4 | 0.4 | 1.7 |
| Q4 | 0.4 | 1.3 | 0.7 | .. | 0.6 | 0.3 | 0.5 | 0.2 | 1.5 |
| 2015 – Q1 | 0.8 | 2.4 | 1.3 | 1.3 | 2.5 | 1.9 | 0.5 | 0.3 | 2.7 |
| Q2 | 0.4 | 0.9 | 0.5 | -0.6 | 0.4 | -0.1 | 0.5 | 0.3 | 1.2 |
| Q3 | 0.3 | 1.2 | 0.6 | 0.9 | 1.4 | 1.1 | 0.4 | 0.5 | 0.2 |
| Q4 | 0.4 | 1.4 | 0.7 | 0.8 | 0.6 | 0.7 | 0.4 | 0.5 | 0.7 |
| 2016 – Q1 | 0.6 | -0.1 | 0.4 | 0.9 | 0.6 | 0.8 | 0.7 | 0.7 | 0.3 |
| Q2 | 0.3 | 1.5 | 0.7 | -0.6 | 2.9 | 1.1 | 0.4 | 0.3 | 1.3 |
| Q3 | 0.4 | 0.1 | 0.3 | 1.5 | -1.8 | -0.2 | 0.3 | 0.1 | 0.4 |
| Q4 | 0.5 | 3.9 | 1.5 | 0.1 | 6.5 | 3.3 | 0.5 | 0.5 | 1.8 |
| | | | | **Implicit prices** | | | | | |
| 2013 | 1.2 | -1.3 | …. | …. | …. | 0.4 | 1.1 | 1.2 | -0.5 |
| 2014 | 0.9 | -1.5 | …. | …. | …. | 0.6 | 0.5 | 0.9 | -0.7 |
| 2015 | 1.1 | -1.9 | …. | …. | …. | 0.7 | 0.1 | 0.5 | 0.1 |
| 2016 | 0.9 | -2.5 | …. | …. | …. | 0.8 | 0.3 | 0.8 | -1.4 |
| 2014 – Q1 | 0.3 | -0.3 | …. | …. | …. | -0.1 | 0.2 | 0.5 | -0.4 |
| Q2 | 0.1 | -0.5 | …. | …. | …. | 0.1 | 0.1 | 0.1 | -0.2 |
| Q3 | 0.2 | 0.1 | …. | …. | …. | 0.4 | .. | 0.4 | 0.2 |
| Q4 | 0.3 | -1.0 | …. | …. | …. | 0.3 | .. | 0.1 | -0.1 |
| 2015 – Q1 | 0.3 | -0.9 | …. | …. | …. | -0.2 | -0.2 | -0.1 | -0.1 |
| Q2 | 0.3 | 1.1 | …. | …. | …. | 0.4 | 0.5 | 0.2 | 0.8 |
| Q3 | 0.2 | -1.4 | …. | …. | …. | 0.2 | -0.1 | 0.2 | -0.6 |
| Q4 | 0.4 | -1.2 | …. | …. | …. | 0.4 | 0.1 | 0.2 | -0.5 |
| 2016 – Q1 | 0.1 | -1.8 | …. | …. | …. | -0.3 | -0.2 | 0.1 | -1.3 |
| Q2 | 0.1 | 0.3 | …. | …. | …. | 0.3 | 0.2 | 0.1 | .. |
| Q3 | 0.2 | 0.6 | …. | …. | …. | 0.4 | 0.2 | 0.3 | 0.4 |
| Q4 | 0.4 | 1.1 | …. | …. | …. | 0.8 | 0.6 | 0.2 | 1.0 |

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

**Table A2**

## Sources and uses of income: Italy (1)

*(percentage changes on previous period)*

| | Sources | | | Uses | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | GDP | Imports | Total | Gross fixed capital formation | | | Resident households' consumption expenditure (2) | General government consumption expenditure | Exports |
| | | | | Construction | Machinery, equipment, sundry products & vehicles | Total | | | |
| | | | | **Chain-linked volumes** | | | | | |
| 2013 | -1.7 | -2.4 | -1.9 | -8.0 | -5.1 | -6.6 | -2.5 | -0.3 | 0.7 |
| 2014 | 0.1 | 3.2 | 0.8 | -6.6 | 2.4 | -2.3 | 0.3 | -0.7 | 2.7 |
| 2015 | 0.8 | 6.8 | 2.0 | -0.4 | 3.5 | 1.6 | 1.6 | -0.7 | 4.4 |
| 2016 | 0.9 | 2.9 | 1.3 | 1.1 | 4.7 | 2.9 | 1.4 | 0.6 | 2.4 |
| 2014 – Q1 | 0.1 | 0.5 | 0.2 | -1.2 | 0.3 | -0.5 | .. | -0.2 | 0.4 |
| Q2 | .. | 1.3 | 0.2 | -2.3 | 1.1 | -0.6 | 0.1 | -0.7 | 1.0 |
| Q3 | 0.1 | 1.3 | 0.4 | -1.4 | 0.5 | -0.4 | 0.1 | 0.5 | 0.8 |
| Q4 | .. | 0.3 | .. | 0.1 | 1.4 | 0.7 | 0.4 | 0.1 | 1.6 |
| 2015 – Q1 | 0.3 | 4.0 | 1.1 | 0.1 | 0.9 | 0.6 | 0.3 | -0.7 | 1.4 |
| Q2 | 0.4 | 1.3 | 0.6 | 0.1 | 0.8 | 0.4 | 0.7 | -0.2 | 1.3 |
| Q3 | 0.1 | .. | 0.1 | 0.1 | 0.7 | 0.4 | 0.6 | 0.1 | -1.2 |
| Q4 | 0.2 | 1.6 | 0.5 | 0.9 | 0.1 | 0.5 | 0.3 | -0.1 | 1.7 |
| 2016 – Q1 | 0.4 | -1.1 | 0.1 | 0.2 | 1.8 | 1.0 | 0.2 | 0.9 | -0.7 |
| Q2 | 0.1 | 2.2 | 0.5 | .. | 0.7 | 0.4 | 0.5 | -0.3 | 2.2 |
| Q3 | 0.3 | 1.0 | 0.4 | 0.7 | 2.2 | 1.5 | 0.2 | -0.2 | 0.3 |
| Q4 | 0.2 | 2.2 | 0.6 | 0.5 | 2.0 | 1.3 | 0.1 | 0.6 | 1.9 |
| | | | | **Implicit prices** | | | | | |
| 2013 | 1.2 | -1.8 | 0.6 | 0.1 | .. | 0.1 | 1.2 | 0.3 | -0.3 |
| 2014 | 1.0 | -2.7 | 0.2 | 0.1 | 0.7 | 0.4 | 0.3 | .. | -0.1 |
| 2015 | 0.7 | -2.7 | -0.1 | -0.1 | 0.6 | 0.2 | .. | 0.2 | -0.4 |
| 2016 | 0.8 | -3.4 | -0.1 | .. | -0.2 | -0.1 | .. | 0.7 | -0.9 |
| 2014 – Q1 | 0.7 | -0.7 | 0.4 | -0.3 | 1.2 | 0.5 | 0.2 | .. | 0.2 |
| Q2 | -0.3 | -0.5 | -0.4 | -0.1 | -0.1 | -0.1 | .. | -0.3 | -0.2 |
| Q3 | .. | -0.3 | .. | 0.4 | 0.8 | 0.6 | -0.1 | 0.1 | 0.4 |
| Q4 | 0.7 | -1.2 | 0.3 | 0.1 | 0.6 | 0.4 | .. | 0.5 | -0.3 |
| 2015 – Q1 | .. | -1.1 | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.3 | -0.3 |
| Q2 | .. | 1.1 | 0.3 | -0.3 | 0.3 | .. | 0.3 | .. | 0.4 |
| Q3 | 0.3 | -1.9 | -0.2 | 0.4 | -0.1 | 0.1 | -0.1 | 0.2 | -0.4 |
| Q4 | 0.3 | -1.3 | -0.1 | -0.1 | -0.4 | -0.3 | 0.1 | -0.1 | -0.4 |
| 2016 – Q1 | 0.5 | -2.4 | -0.1 | -0.3 | -0.4 | -0.3 | -0.2 | 0.6 | -1.0 |
| Q2 | -0.4 | 0.1 | -0.3 | 0.1 | -1.0 | -0.5 | -0.1 | -0.2 | 0.1 |
| Q3 | 0.1 | 0.6 | 0.2 | -0.1 | 1.7 | 0.8 | 0.1 | 0.3 | 0.5 |
| Q4 | 0.4 | 0.9 | 0.5 | 0.4 | 1.9 | 1.2 | 0.4 | 0.3 | 0.6 |

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

**Table A3**

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

*(percentage changes on the year-earlier period)*

| | Hourly compensation | Hourly productivity | | | Unit labour costs |
|---|---|---|---|---|---|
| | | | Value added (2) | Hours worked | |
| | | | **Total industry excluding construction** | | |
| 2013 | 2.8 | 0.8 | -0.7 | -1.5 | 1.9 |
| 2014 | 1.5 | 2.4 | 2.4 | 0.0 | -0.8 |
| 2015 | 1.2 | 3.8 | 4.3 | 0.5 | -2.5 |
| 2016 | 1.0 | 0.8 | 1.5 | 0.7 | 0.2 |
| 2014 – Q1 | 1.5 | 2.6 | 2.6 | 0.1 | -1.0 |
| Q2 | 1.7 | 2.7 | 2.4 | -0.3 | -1.1 |
| Q3 | 1.4 | 2.5 | 2.4 | -0.1 | -1.0 |
| Q4 | 1.6 | 1.9 | 2.3 | 0.4 | -0.3 |
| 2015 – Q1 | 1.6 | 3.4 | 3.5 | 0.1 | -1.7 |
| Q2 | 1.5 | 3.3 | 3.9 | 0.5 | -1.7 |
| Q3 | 1.2 | 3.9 | 4.4 | 0.5 | -2.6 |
| Q4 | 1.4 | 3.9 | 3.9 | 0.0 | -2.4 |
| 2016 – Q1 | 0.9 | 0.7 | 1.7 | 1.0 | 0.2 |
| Q2 | 0.4 | 0.3 | 1.2 | 0.9 | 0.2 |
| Q3 | 1.2 | 0.8 | 1.2 | 0.4 | 0.4 |
| Q4 | 1.1 | 1.4 | 2.0 | 0.5 | -0.3 |
| | | | **Services** | | |
| 2013 | 2.1 | 1.2 | 0.2 | -1.0 | 0.9 |
| 2014 | 1.1 | 0.2 | 1.0 | 0.9 | 0.9 |
| 2015 | 1.1 | -0.1 | 1.5 | 1.5 | 1.2 |
| 2016 | 1.6 | 0.5 | 1.8 | 1.3 | 1.1 |
| 2014 – Q1 | 1.2 | 0.5 | 1.1 | 0.7 | 0.7 |
| Q2 | 1.3 | 0.2 | 0.8 | 0.7 | 1.1 |
| Q3 | 1.1 | 0.1 | 1.0 | 0.9 | 1.0 |
| Q4 | 1.1 | 0.0 | 1.2 | 1.2 | 1.1 |
| 2015 – Q1 | 1.1 | 0.6 | 1.5 | 0.9 | 0.6 |
| Q2 | 1.0 | 0.3 | 1.6 | 1.3 | 0.7 |
| Q3 | 1.0 | -0.2 | 1.3 | 1.6 | 1.3 |
| Q4 | 1.4 | -0.1 | 1.4 | 1.5 | 1.5 |
| 2016 – Q1 | 1.4 | -0.2 | 1.6 | 1.8 | 1.5 |
| Q2 | 1.4 | -0.1 | 1.7 | 1.8 | 1.5 |
| Q3 | 1.6 | 0.6 | 1.8 | 1.3 | 1.0 |
| Q4 | 1.7 | 0.7 | 1.8 | 1.1 | 1.0 |
| | | | **Total economy** | | |
| 2013 | 2.3 | 1.2 | -0.1 | -1.4 | 1.0 |
| 2014 | 1.2 | 0.7 | 1.2 | 0.5 | 0.5 |
| 2015 | 1.1 | 0.7 | 1.9 | 1.2 | 0.3 |
| 2016 | 1.5 | 0.5 | 1.7 | 1.1 | 0.9 |
| 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 | 0.9 | 0.9 |
| 2015 – Q1 | 1.2 | 1.0 | 1.7 | 0.7 | 0.2 |
| Q2 | 1.0 | 0.8 | 1.9 | 1.1 | 0.2 |
| Q3 | 1.0 | 0.5 | 1.8 | 1.2 | 0.4 |
| Q4 | 1.3 | 0.7 | 1.8 | 1.1 | 0.6 |
| 2016 – Q1 | 1.2 | 0.1 | 1.5 | 1.5 | 1.1 |
| Q2 | 1.2 | 0.1 | 1.6 | 1.5 | 1.1 |
| Q3 | 1.6 | 0.7 | 1.7 | 1.0 | 0.8 |
| Q4 | 1.8 | 0.9 | 1.8 | 0.9 | 0.8 |

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

Table A4

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

*(percentage changes on the year-earlier period)*

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

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

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

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

| | France | | Germany | | Italy | | Spain | | Euro area (1) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Total excl. food and energy | Total | Total excl. food and energy | Total | Total excl. food and energy | Total | Total excl. food and energy | Total | Total excl. food and energy |
| 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 |
| 2016 – Jan. | 1.6 | 0.7 | 1.9 | 1.1 | 1.0 | 0.5 | 2.9 | 1.2 | 1.8 | 0.9 |
| Feb. | 1.4 | 0.3 | 2.2 | 1.1 | 1.6 | 0.7 | 3.0 | 1.3 | 2.0 | 0.9 |
| Mar. | (1.4) | …. | (1.5) | …. | (1.3) | (0.5) | (2.1) | …. | (1.5) | (0.7) |

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

## 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: domestic | Level of orders: foreign | Level of orders: total | Expected demand in 3 months | Stocks of finished goods vis-à-vis normal |
| 2009 | 93.5 | 97.9 | 89.9 | 91.7 | 97.6 | -56.3 | -59.2 | -57.0 | -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 | -25.3 | -15.0 | -19.8 | 9.2 | 2.1 |
| 2012 | 94.4 | 93.5 | 98.0 | 91.7 | 95.4 | -43.4 | -27.4 | -36.9 | -3.2 | 3.3 |
| 2013 | 91.5 | 91.3 | 93.4 | 90.5 | 90.2 | -44.5 | -18.3 | -32.0 | 4.1 | 1.5 |
| 2014 | 90.5 | 90.6 | 93.3 | 90.0 | 85.4 | -33.1 | -15.2 | -19.3 | 8.9 | 2.1 |
| 2015 | 92.1 | 91.5 | 97.7 | 89.8 | 87.5 | -21.7 | -13.1 | -12.7 | 12.5 | 3.1 |
| 2016 | 93.2 | 91.0 | 100.4 | 91.3 | 87.2 | -18.6 | -15.7 | -13.7 | 11.0 | 3.7 |
| 2009 – Q1 | 93.5 | 97.1 | 92.1 | 91.4 | 97.4 | -63.7 | -63.3 | -61.7 | -24.0 | 6.7 |
| Q2 | 91.4 | 95.8 | 86.6 | 88.1 | 96.9 | -61.0 | -66.3 | -62.3 | -7.3 | 3.3 |
| Q3 | 92.5 | 97.8 | 86.3 | 89.3 | 97.7 | -54.0 | -58.0 | -56.3 | 2.0 | 1.7 |
| Q4 | 95.0 | 99.6 | 90.9 | 94.4 | 98.7 | -46.7 | -49.0 | -47.7 | 5.0 | -1.7 |
| 2010 – Q1 | 97.3 | 99.6 | 94.5 | 96.4 | 101.5 | -39.3 | -41.7 | -38.7 | 8.3 | -3.0 |
| Q2 | 99.2 | 99.3 | 98.7 | 99.4 | 99.0 | -32.7 | -29.7 | -30.0 | 12.0 | -2.7 |
| Q3 | 100.3 | 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 | -14.3 | -17.0 | 15.7 | 0.7 |
| 2011 – Q1 | 102.0 | 98.4 | 105.0 | 102.8 | 100.0 | -20.3 | -9.7 | -14.0 | 15.0 | 0.3 |
| Q2 | 102.0 | 99.7 | 105.3 | 102.4 | 97.8 | -20.7 | -12.0 | -14.7 | 14.0 | 0.7 |
| Q3 | 100.7 | 97.2 | 105.3 | 100.8 | 98.8 | -26.7 | -16.0 | -22.3 | 7.3 | 4.0 |
| Q4 | 98.6 | 96.0 | 102.2 | 98.2 | 95.6 | -33.3 | -22.3 | -28.3 | 0.3 | 3.3 |
| 2012 – Q1 | 96.1 | 93.6 | 99.8 | 94.2 | 97.9 | -38.7 | -26.0 | -32.3 | -1.3 | 3.3 |
| Q2 | 94.9 | 93.9 | 97.6 | 92.9 | 95.3 | -44.7 | -27.7 | -37.0 | -3.0 | 5.0 |
| Q3 | 94.9 | 94.3 | 99.2 | 91.7 | 96.8 | -45.0 | -26.3 | -38.0 | -4.0 | 3.7 |
| Q4 | 92.3 | 91.8 | 96.7 | 88.4 | 91.0 | -45.3 | -29.7 | -40.3 | -4.3 | 1.3 |
| 2013 – Q1 | 91.8 | 92.1 | 92.4 | 89.5 | 92.7 | -46.3 | -29.7 | -39.3 | -1.0 | 3.0 |
| Q2 | 91.5 | 90.3 | 94.6 | 89.8 | 90.3 | -49.0 | -21.7 | -39.0 | -0.3 | 2.7 |
| Q3 | 91.5 | 91.5 | 93.0 | 91.5 | 89.2 | -43.3 | -11.7 | -28.7 | 7.3 | 0.7 |
| Q4 | 92.0 | 91.3 | 93.4 | 92.3 | 88.7 | -39.3 | -10.3 | -21.0 | 10.3 | -0.3 |
| 2014 – Q1 | 91.7 | 91.4 | 94.5 | 92.0 | 85.0 | -36.7 | -13.0 | -20.0 | 9.7 | -0.7 |
| Q2 | 91.3 | 91.4 | 93.3 | 90.9 | 87.7 | -31.7 | -13.7 | -17.7 | 10.7 | 1.3 |
| Q3 | 90.5 | 90.7 | 92.9 | 90.0 | 85.7 | -33.3 | -15.7 | -19.7 | 7.7 | 4.0 |
| Q4 | 90.9 | 90.8 | 94.9 | 89.3 | 83.8 | -30.7 | -18.3 | -19.7 | 7.7 | 3.7 |
| 2015 – Q1 | 91.5 | 91.7 | 95.9 | 89.7 | 86.6 | -26.7 | -16.3 | -15.7 | 10.7 | 3.3 |
| Q2 | 92.3 | 91.3 | 98.3 | 89.6 | 88.1 | -22.0 | -12.7 | -12.0 | 13.0 | 2.7 |
| Q3 | 92.3 | 90.8 | 97.6 | 89.4 | 90.2 | -20.3 | -13.3 | -12.3 | 13.0 | 3.0 |
| Q4 | 91.9 | 90.5 | 97.5 | 90.0 | 84.9 | -17.7 | -10.0 | -10.7 | 13.3 | 3.3 |
| 2016 – Q1 | 93.2 | 91.0 | 102.1 | 91.1 | 85.0 | -18.7 | -16.0 | -13.7 | 10.0 | 3.7 |
| Q2 | 92.9 | 90.6 | 99.4 | 91.5 | 84.1 | -19.0 | -17.3 | -14.0 | 10.3 | 3.3 |
| Q3 | 94.0 | 91.6 | 102.5 | 92.3 | 86.6 | -20.3 | -15.7 | -15.3 | 10.7 | 3.0 |
| Q4 | 94.9 | 91.4 | 101.8 | 92.9 | 92.7 | -16.3 | -13.7 | -11.7 | 13.0 | 4.7 |
| 2017 – Q1 | …. | …. | …. | …. | …. | -13.3 | -8.3 | -7.0 | 15.3 | 3.7 |

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

Table A7

## Labour force, employment and unemployment: Italy

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

| | In employment | | | | | | | Job-seekers | Labour force | 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 | | | | |
| 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 |
| 2016 | 884 | 4,541 | 1,404 | 15,929 | 16,707 | 6,051 | 22,758 | 3,012 | 25,770 | 11.7 | 64.9 |
| 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 |
| Q4 | 935 | 4,535 | 1,371 | 15,970 | 16,770 | 6,041 | 22,811 | 3,161 | 25,972 | 12.2 | 65.5 |

Source: Istat, labour force survey.

**Table A8**

## Balance of payments of Italy: current account and capital account (1)

*(millions of euros)*

| | Current account | | | | | Capital account | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Goods | Services | Primary income | Secondary income | Total | Intangible assets | Capital transfers |
| 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 | 15,451 | 36,099 | 443 | -3,035 | -18,056 | 181 | -3,142 | 3,322 |
| 2014 | 30,502 | 47,407 | -1,017 | -46 | -15,841 | 3,386 | -942 | 4,328 |
| 2015 | 23,734 | 50,728 | -2,750 | -9,217 | -15,028 | 2,629 | -1,183 | 3,812 |
| 2016 | 43,085 | 60,662 | -3,589 | 2,772 | -16,761 | -2,117 | -1,776 | -341 |
| 2016 – Q1 | 2,785 | 11,534 | -2,884 | 131 | -5,996 | -289 | -73 | -216 |
| Q2 | 11,444 | 16,636 | 192 | -3,395 | -1,988 | -279 | -103 | -176 |
| Q3 | 15,629 | 16,204 | 1,537 | 2,177 | -4,289 | -608 | -766 | 157 |
| Q4 | 13,226 | 16,289 | -2,433 | 3,858 | -4,488 | -941 | -834 | -106 |
| 2016 – Jan. | -1,644 | 760 | -765 | -123 | -1,516 | -10 | 39 | -49 |
| Feb. | 1,632 | 4,682 | -1,040 | -52 | -1,957 | -26 | 39 | -65 |
| Mar. | 2,796 | 6,093 | -1,080 | 306 | -2,523 | -252 | -151 | -102 |
| Apr. | 4,237 | 5,408 | -713 | 300 | -758 | -120 | -64 | -56 |
| May | 3,203 | 5,794 | 330 | -2,579 | -341 | -116 | -56 | -60 |
| June | 4,005 | 5,434 | 575 | -1,116 | -889 | -42 | 17 | -59 |
| July | 8,681 | 8,422 | 964 | 747 | -1,453 | -171 | -241 | 70 |
| Aug. | 3,215 | 3,375 | 514 | 714 | -1,389 | -154 | -217 | 63 |
| Sept. | 3,733 | 4,406 | 59 | 716 | -1,448 | -284 | -308 | 24 |
| Oct. | 4,806 | 4,986 | -550 | 1,594 | -1,224 | -224 | -213 | -11 |
| Nov. | 3,541 | 4,905 | -1,090 | 953 | -1,227 | -222 | -203 | -20 |
| Dec. | 4,879 | 6,398 | -794 | 1,312 | -2,037 | -494 | -419 | -75 |
| 2017 – Jan. | (-1,913) | (273) | (-1,141) | (442) | (-1,487) | (-193) | (-141) | (-52) |

(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 – | June | 3.5 | -1.6 | -1.4 | -1.2 | -2.6 | -1.4 | 0.5 | -1.4 | -0.3 |
| | Sept. | 2.7 | -1.2 | -0.8 | -0.5 | -2.6 | -1.5 | 0.9 | -2.6 | 0.1 |
| | Dec. | 0.5 | -2.8 | -0.7 | -0.3 | -2.7 | -1.6 | 1.2 | -1.9 | -0.3 |
| 2016 – | Mar. | 0.6 | -0.1 | -0.4 | 0.1 | -2.8 | -1.4 | 1.5 | -2.7 | 0.2 |
| | June | -3.8 | 0.2 | 0.0 | 0.5 | -2.5 | -1.4 | 2.0 | -4.4 | -0.1 |
| | Sept. | -2.9 | 3.3 | -0.1 | 0.5 | -2.6 | -1.5 | 2.2 | -3.0 | 0.3 |
| | Dec. | -3.8 | 2.2 | 0.1 | 0.7 | -2.6 | -1.3 | 2.4 | -4.0 | 0.2 |
| 2017 – | Jan. | -3.3 | -1.7 | 0.8 | 1.3 | -1.3 | -0.4 | 2.6 | -1.8 | 0.4 |
| | Feb. | -3.4 | -1.3 | -0.1 | 0.3 | -2.0 | -0.9 | 2.7 | -3.7 | 0.0 |
| | | | | | | **South and Islands** | | | | |
| 2014 – | Dec. | -4.0 | -3.1 | -1.6 | -1.5 | -1.8 | -1.0 | -0.6 | -1.7 | -1.4 |
| 2015 – | June | -4.1 | -4.6 | -0.4 | 0.0 | -1.7 | -0.8 | -0.1 | -0.7 | -0.6 |
| | Sept. | -8.4 | -2.2 | -0.3 | 0.1 | -1.4 | -0.8 | 0.4 | -2.7 | -0.7 |
| | Dec. | -4.4 | -2.2 | 0.2 | 0.6 | -0.8 | -0.3 | 1.2 | -3.1 | 0.2 |
| 2016 – | Mar. | -5.6 | -0.1 | 0.2 | 0.4 | -0.3 | 0.4 | 1.8 | -3.7 | 0.4 |
| | June | -5.7 | 2.9 | 0.7 | 0.9 | 0.2 | 0.8 | 2.2 | -3.2 | 0.8 |
| | Sept. | -1.8 | 2.8 | 0.6 | 0.8 | 0.0 | 0.6 | 2.5 | -2.9 | 1.2 |
| | Dec. | -3.2 | 3.1 | 0.5 | 0.7 | -0.3 | 0.0 | 2.7 | -3.4 | 1.2 |
| 2017 – | Jan. | -4.3 | 3.4 | 0.8 | 1.0 | 0.4 | 0.5 | 2.8 | -3.4 | 1.3 |
| | Feb. | -3.2 | 3.2 | 0.8 | 1.1 | 0.0 | 0.3 | 2.9 | -2.3 | 1.4 |
| | | | | | | **Italy** | | | | |
| 2014 – | Dec. | 3.4 | -0.5 | -2.0 | -1.9 | -2.3 | -1.4 | -0.2 | -1.6 | -0.7 |
| 2015 – | June | 2.8 | -1.6 | -1.3 | -1.0 | -2.4 | -1.3 | 0.4 | -1.4 | -0.3 |
| | Sept. | 1.7 | -1.2 | -0.8 | -0.4 | -2.3 | -1.3 | 0.8 | -2.6 | -0.1 |
| | Dec. | 0.0 | -2.8 | -0.6 | -0.2 | -2.3 | -1.3 | 1.2 | -2.1 | -0.2 |
| 2016 – | Mar. | 0.1 | -0.1 | -0.3 | 0.2 | -2.2 | -0.9 | 1.6 | -2.8 | 0.3 |
| | June | -4.0 | 0.3 | 0.1 | 0.6 | -1.9 | -0.9 | 2.0 | -4.2 | 0.0 |
| | Sept. | -2.8 | 3.3 | 0.0 | 0.5 | -2.1 | -1.0 | 2.3 | -3.0 | 0.5 |
| | Dec. | -3.7 | 2.2 | 0.2 | 0.7 | -2.1 | -1.0 | 2.5 | -3.9 | 0.4 |
| 2017 – | Jan. | -3.4 | -1.5 | 0.8 | 1.2 | -0.9 | -0.2 | 2.6 | -2.0 | 0.5 |
| | Feb. | -3.4 | -1.2 | 0.1 | 0.4 | -1.6 | -0.6 | 2.7 | -3.5 | 0.2 |

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 differ slightly from those published in the last Bulletin to take account of some revisions to reports sent by the banks. – (2) Limited partnerships and general partnerships with fewer than 20 employees, informal associations, de facto companies and sole proprietorships with fewer than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

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

*(billions of euros)*

| | Currency and deposits | *of which:* PO funds | Short-term securities | Medium- and long-term securities | MFI loans | Other liabilities | Transactions in debt instruments | Change in Treasury's liquid balances (2) | *of which:* investments of liquidity | Borrowing requirement | *of which:* in connection with financial support to EMU countries (3) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011 | -3.6 | -3.1 | 1.3 | 42.9 | 0.2 | 3.9 | 44.7 | 19.0 | 0.0 | 63.7 | 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 | 82.1 | -4.3 | -1.2 | 75.3 | -8.8 | -28.0 | 66.6 | 4.7 |
| 2015 | 5.1 | -1.5 | -9.5 | 43.5 | 1.7 | -1.1 | 39.6 | 10.7 | 8.0 | 50.3 | -2.1 |
| 2016 | -4.9 | 0.1 | -8.0 | 62.7 | 1.1 | -1.4 | 49.5 | -7.4 | -3.0 | 42.1 | 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 | 11.0 | -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 | -43.4 | -3.8 | 1.9 | -45.7 | 38.7 | 21.0 | -6.9 | 0.0 |
| 2016 – Jan. | 1.6 | 0.6 | 4.5 | 17.1 | -0.2 | -0.6 | 22.4 | -27.8 | -22.1 | -5.4 | 0.0 |
| Feb. | -2.6 | -1.0 | -1.1 | 25.0 | 0.9 | -0.3 | 21.9 | -11.2 | -0.5 | 10.8 | 0.0 |
| Mar. | -0.7 | 0.2 | 0.2 | 16.3 | 1.3 | 0.4 | 17.5 | 4.7 | -2.1 | 22.2 | 0.0 |
| Apr. | -2.0 | -0.3 | 0.2 | 4.9 | -0.1 | -0.5 | 2.5 | 5.2 | 3.3 | 7.7 | 0.0 |
| May | -0.0 | 0.1 | -0.1 | 9.5 | 0.8 | -0.1 | 10.0 | -8.0 | 4.8 | 2.1 | 0.0 |
| June | -2.4 | 0.4 | -0.8 | 14.3 | -2.9 | -0.4 | 7.8 | -19.8 | -9.5 | -12.0 | 0.0 |
| July | 0.7 | -0.6 | -0.6 | 3.3 | 1.0 | 0.5 | 4.9 | -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 | -10.1 | 25.3 | 13.9 | 15.2 | 0.0 |
| Oct. | 1.1 | -0.0 | -1.4 | 12.6 | -1.4 | 0.5 | 11.3 | -8.4 | -3.5 | 2.9 | 0.0 |
| Nov. | -2.0 | -0.2 | -0.6 | 7.9 | 1.2 | 0.3 | 6.7 | 1.6 | 2.5 | 8.3 | 0.0 |
| Dec. | 3.1 | 0.9 | -7.2 | -10.6 | 0.7 | -0.3 | -14.4 | 3.0 | 0.1 | -11.4 | 0.0 |
| 2017 – Jan. | 2.3 | -1.4 | 7.3 | 24.1 | -1.4 | 0.9 | 33.3 | -34.3 | -2.9 | -1.0 | 0.0 |
| Feb. | -1.9 | 0.5 | 0.2 | -10.9 | 1.1 | -0.2 | -11.7 | 20.7 | -0.1 | 9.0 | 0.0 |

(1) For more information, see the Methodological Appendix in 'The Public Finances, borrowing requirement and debt' in *Supplements to the Statistical Bulletin* for data up to December 2016 and for subsequent months 'The Public Finances: borrowing requirement and debt' in the Statistics series – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

**Table A11**

## General government debt: Italy (1)

*(billions of euros)*

| | Currency and deposits | *of which:* PO funds | Short-term securities | Medium- and long-term securities | MFI loans | Other liabilities | *of which:* in connection with EFSF loans | General government debt | Memorandum item: Treasury's liquid balances (2) | *of which:* investments of liquidity | Deposits with resident MFIs net of liquidity transactions | Financial support to EMU countries (3) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011 | 153.3 | 22.1 | 131.2 | 1,473.0 | 133.0 | 17.5 | 3.1 | 1,907.9 | 24.3 | 0.0 | 35.4 | 13.1 |
| 2012 | 160.3 | 20.8 | 151.6 | 1,502.6 | 134.3 | 41.3 | 26.9 | 1,990.0 | 34.4 | 0.0 | 27.2 | 42.7 |
| 2013 | 158.5 | 18.6 | 140.6 | 1,593.9 | 131.0 | 46.2 | 34.1 | 2,070.2 | 37.6 | 10.0 | 24.7 | 55.6 |
| 2014 | 173.2 | 17.5 | 124.5 | 1,667.7 | 126.8 | 45.0 | 36.0 | 2,137.2 | 46.4 | 38.0 | 25.7 | 60.3 |
| 2015 | 178.3 | 16.0 | 115.0 | 1,707.2 | 128.5 | 43.9 | 33.9 | 2,172.9 | 35.7 | 30.0 | 26.9 | 58.2 |
| 2016 | 173.4 | 16.2 | 107.0 | 1,765.3 | 129.7 | 42.5 | 33.9 | 2,217.9 | 43.1 | 33.0 | 29.9 | 58.2 |
| 2015 – Jan. | 174.5 | 17.2 | 131.9 | 1,691.7 | 125.6 | 44.5 | 36.0 | 2,168.2 | 82.8 | 56.1 | 21.0 | 60.3 |
| Feb. | 171.2 | 16.4 | 131.7 | 1,696.5 | 130.0 | 42.1 | 33.9 | 2,171.5 | 79.1 | 67.0 | 20.2 | 58.2 |
| Mar. | 171.6 | 16.7 | 130.0 | 1,711.8 | 130.9 | 42.3 | 33.9 | 2,186.7 | 78.9 | 63.8 | 23.2 | 58.2 |
| Apr. | 170.7 | 16.6 | 129.0 | 1,723.4 | 132.1 | 42.0 | 33.9 | 2,197.2 | 83.1 | 57.6 | 23.6 | 58.2 |
| May | 172.4 | 16.2 | 128.9 | 1,744.8 | 132.7 | 41.8 | 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 | 42.5 | 33.9 | 2,206.1 | 100.9 | 57.0 | 25.5 | 58.2 |
| July | 173.6 | 16.0 | 128.0 | 1,729.6 | 128.5 | 42.0 | 33.9 | 2,201.7 | 96.2 | 57.2 | 26.6 | 58.2 |
| Aug. | 174.5 | 16.5 | 125.7 | 1,716.2 | 128.3 | 41.8 | 33.9 | 2,186.6 | 73.7 | 58.7 | 27.0 | 58.2 |
| Sept. | 173.2 | 16.8 | 123.6 | 1,726.2 | 128.2 | 42.4 | 33.9 | 2,193.5 | 64.0 | 53.8 | 27.3 | 58.2 |
| Oct. | 172.6 | 16.7 | 122.2 | 1,749.0 | 127.9 | 41.7 | 33.9 | 2,213.5 | 81.7 | 52.7 | 29.3 | 58.2 |
| Nov. | 171.9 | 15.9 | 121.8 | 1,749.4 | 132.2 | 42.0 | 33.9 | 2,217.4 | 74.4 | 51.0 | 30.2 | 58.2 |
| Dec. | 178.3 | 16.0 | 115.0 | 1,707.2 | 128.5 | 43.9 | 33.9 | 2,172.9 | 35.7 | 30.0 | 26.9 | 58.2 |
| 2016 – Jan. | 179.8 | 16.7 | 119.6 | 1,724.0 | 128.4 | 43.3 | 33.9 | 2,195.1 | 63.5 | 52.1 | 26.5 | 58.2 |
| Feb. | 177.3 | 15.7 | 118.5 | 1,748.6 | 129.2 | 43.0 | 33.9 | 2,216.6 | 74.7 | 52.6 | 27.6 | 58.2 |
| Mar. | 176.6 | 15.9 | 118.7 | 1,762.0 | 130.5 | 43.4 | 33.9 | 2,231.2 | 70.0 | 54.6 | 27.4 | 58.2 |
| Apr. | 174.5 | 15.6 | 118.9 | 1,766.4 | 130.5 | 42.9 | 33.9 | 2,233.2 | 64.7 | 51.4 | 27.9 | 58.2 |
| May | 174.5 | 15.6 | 118.7 | 1,776.7 | 131.2 | 42.9 | 33.9 | 2,244.1 | 72.7 | 46.6 | 29.9 | 58.2 |
| June | 172.2 | 16.1 | 117.9 | 1,790.2 | 128.3 | 42.4 | 33.9 | 2,251.0 | 92.5 | 56.1 | 29.0 | 58.2 |
| July | 172.9 | 15.5 | 117.3 | 1,793.7 | 129.3 | 43.0 | 33.9 | 2,256.2 | 101.0 | 46.6 | 31.0 | 58.2 |
| Aug. | 172.4 | 15.6 | 117.0 | 1,764.6 | 128.8 | 42.4 | 33.9 | 2,225.3 | 64.6 | 46.0 | 32.1 | 58.2 |
| Sept. | 171.2 | 15.5 | 116.3 | 1,754.4 | 129.3 | 42.0 | 33.9 | 2,213.2 | 39.3 | 32.1 | 31.2 | 58.2 |
| Oct. | 172.3 | 15.5 | 114.9 | 1,766.8 | 127.9 | 42.5 | 33.9 | 2,224.3 | 47.7 | 35.6 | 31.7 | 58.2 |
| Nov. | 170.3 | 15.2 | 114.2 | 1,774.8 | 129.0 | 42.8 | 33.9 | 2,231.1 | 46.1 | 33.1 | 33.5 | 58.2 |
| Dec. | 173.4 | 16.2 | 107.0 | 1,765.3 | 129.7 | 42.5 | 33.9 | 2,217.9 | 43.1 | 33.0 | 29.9 | 58.2 |
| 2017 – Jan. | 175.7 | 14.8 | 114.3 | 1,789.1 | 128.3 | 43.4 | 33.9 | 2,250.8 | 77.4 | 35.9 | 29.9 | 58.2 |
| Feb. | 173.8 | 15.2 | 114.5 | 1,779.2 | 129.5 | 43.2 | 33.9 | 2,240.1 | 56.8 | 36.0 | 31.4 | 58.2 |

(1) For more information, see the Methodological Appendix in 'The Public Finances, borrowing requirement and debt' in *Supplements to the Statistical Bulletin* for data up to December 2016 and for subsequent months 'The Public Finances: borrowing requirement and debt' in the Statistics series – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.