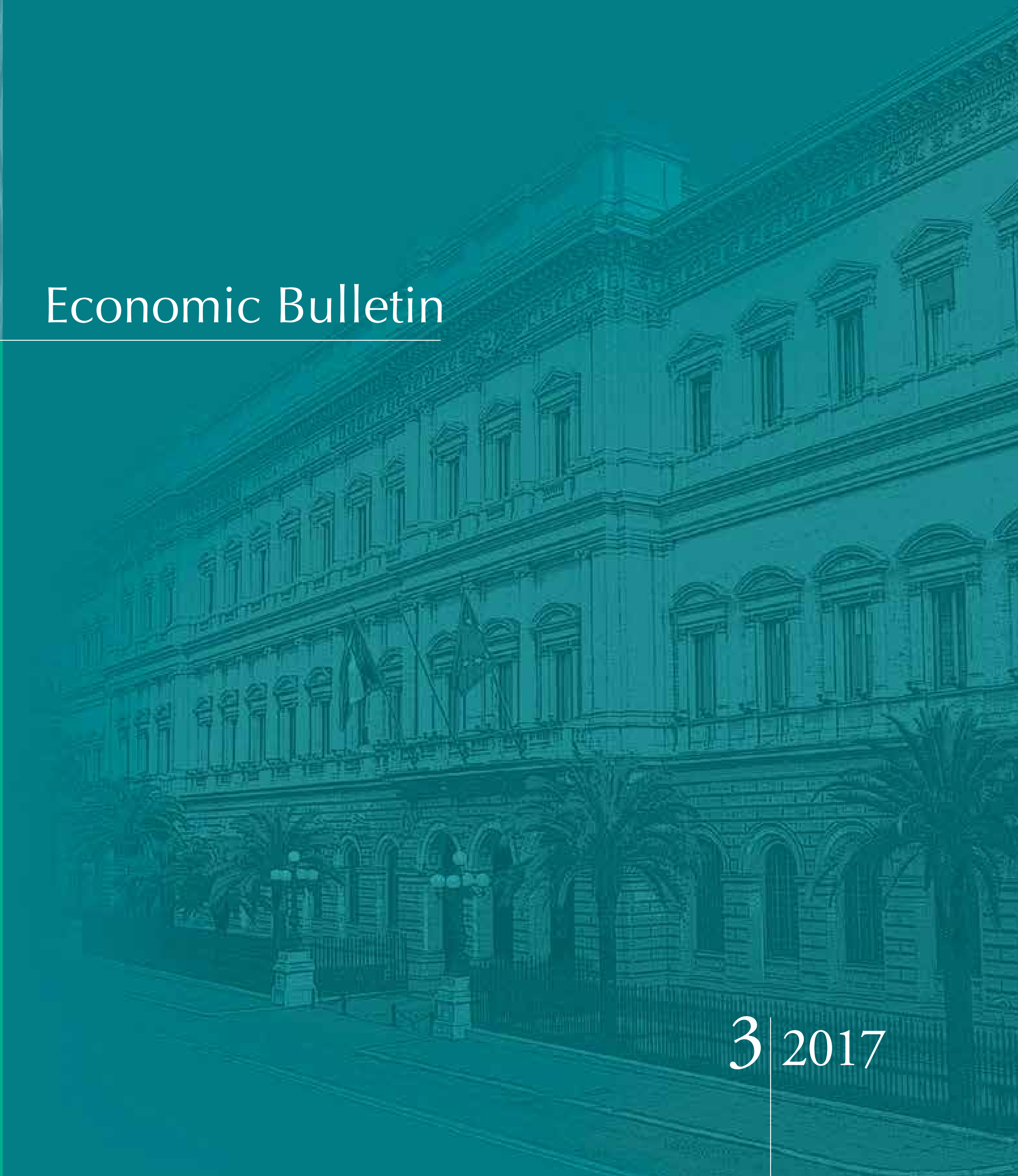
BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin



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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

Growth in the world economy strengthens but risks persist

Global economic recovery is gaining strength. The acceleration of investment in most of the economies is driving world trade, which has been picking up rapidly since the end of 2016. The volatility of the financial markets is very low. However, there is a high level of uncertainty about economic policies at the global level, which could have negative repercussions on investors' assessments. In the United States the timing and composition of the fiscal stimulus measures announced at the start of the year have not yet been decided. Possible protectionist measures could hamper international trade.

Long-term interest rates remain low

After recording a general decline in the spring, yields on government bonds in the advanced countries have picked up since the last week in June, albeit remaining low, partly reflecting firmer expectations of less accommodative monetary conditions in the United States and the strengthening of economic activity in the euro area. Sovereign risk spreads narrowed in the euro area, partly owing to the results of the French election.

Growth consolidates in the euro area but inflation remains weak

In the euro area the latest indications are mixed: the positive signs of economic growth were more marked, while inflation surprisingly fell below the expectations of the last few months. The ECB Governing Council believes that a substantial degree of monetary accommodation is still needed to secure a sustained adjustment of inflation towards its aim.

In Italy economic activity gathers momentum …

Our estimates show that in Italy GDP growth, which was revised upwards by Istat in the first quarter, continued, settling at around 0.4 per cent in the second. GDP appears to have benefited from the positive trend in the services sector, in line with the indications given by firms, and from the recovery of valued added in industry, following the brief dip recorded at the start of the year.

… and investment strengthens

In the Bank of Italy's surveys, firms said they are more optimistic about the general economic situation; their assessments of investment conditions improved for all sectors. The respondents also indicated that capital investment, weaker in the first quarter, appears to have recovered in the second, pointing to an acceleration in the second half of 2017. The latest economic data are also consistent with the continuing growth in household spending in recent months.

The current account surplus reduces the net international debtor position

In the first part of the year exports continued to expand, particularly to non-EU markets. The outlook for foreign orders remains positive. The balance of payments current account surplus remains high (at 2.6 per cent of GDP) and contributes to the marked reduction of Italy's net international debtor position, which fell to 13.5 per cent of GDP.

Employment increases

In the first quarter employment and the number of hours worked continued to grow, despite the ending of the incentives to hire new staff on permanent contracts. Preliminary data from Istat's labour force survey suggest that the number of persons employed rose further in April and May, by 0.2 per cent on average compared with the previous two months. In the winter, private sector *contractual earnings increased modestly (0.5 per cent compared with a year earlier); gross wages and salaries grew at a faster pace, in line with the improvement in economic conditions.*

Inflation rises but the underlying component remains weak

In the second quarter consumer price inflation in Italy rose slightly on average, largely reflecting the acceleration in regulated energy prices. In June, however, it was still only just above 1 per cent, according to the flash estimate. The core component also continued to be low. Households and firms raised their inflation expectations, but do not anticipate significant strengthening in the next twelve months compared with current levels.

Modest credit growth continues

The growth in lending to the non-financial private sector was driven by the expansion in loans to households. The rates of growth in corporate lending remained differentiated according to firm size and sector of economic activity. The rate was higher in services, slightly positive for manufacturing firms and remained negative for construction firms. Credit quality continued to improve, thanks to the more favourable economic conditions. The stock of non-performing loans fell; for the banking groups classified as significant, the coverage ratio was 52.8 per cent at the end of the first quarter, about 8 percentage points higher than the average for the leading European banks.

Measures are taken to resolve the crises of some banks

On 25 June the Italian authorities, in full agreement with the European authorities, began the orderly liquidation of Banca Popolare di Vicenza and Veneto Banca with government support. The liquidation was carried out in such a way as to ensure the continuity of existing business relationships and to limit the effects on the economy. Shareholders and junior bondholders participated in the losses, but no bail-in was used, which would have included senior bondholders as well as customers with deposits above €100,000; provision has also been made for compensating some retail junior bondholders. On 4 July the procedure for MPS's access to precautionary recapitalization was completed, in full compliance with the European rules.

The projections indicate that growth is strengthening in Italy ...

Based on the projections presented in this bulletin, Italy's GDP should increase by 1.4 per cent this year, 1.3 per cent next year and 1.2 per cent in 2019. Compared with last January's projections, growth has been revised significantly upwards, reflecting the acceleration of economic activity since the start of the year and the favourable developments in foreign demand and in the energy commodity markets. Investment not including construction will grow faster than GDP thanks to favourable financial conditions and tax incentives. Consumer price inflation will remain low at 1.4 per cent this year, 1.1 per cent next year, and rise to 1.6 per cent in 2019, in response to a moderate acceleration in earnings.

... reflecting expansionary monetary conditions

This macroeconomic scenario incorporates market expectations of a gradual adjustment of long-term interest rates and generally relaxed credit conditions, in keeping with the assumption that there will be no particular tensions in the financial system or any episodes involving significantly higher volatility or higher risk premiums.

Downside risks remain

These growth projections are subject to mainly downside risks: in addition to the uncertainties linked to the financial markets there are those connected with future global economic and trade policies. Downside risks to inflation could stem from slower than projected wage growth, while the evolution of energy commodity prices in the near future continues to be highly uncertain.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The international economic cycle is strengthening: the acceleration of investment in most of the economies is driving trade, which has been picking up rapidly since the end of 2016. The medium-term outlook for global growth is quite favourable overall, although there are still significant downward risks connected with the uncertainty about economic policies and the ongoing geopolitical tensions.

Growth in the world economy strengthens

The recovery proceeded in the advanced economies (Table 1). In the United States, after a slowdown in the first quarter, the latest indicators point to stronger growth driven by domestic demand. In the United Kingdom, the purchasing managers' indices (PMI) continued to signal solid economic conditions despite the ongoing uncertainty connected to Brexit (Figure 1). In Japan, cyclical indicators point to a strengthening of the economy.

In the emerging countries, the picture remained positive overall. In China, growth strengthened at the beginning of the year thanks to fiscal expansion and a revival in foreign demand; in the upcoming quarters GDP growth is expected to slow gradually, in keeping with the government's policy of reabsorbing the existing economic and financial imbalances.

Inflation remains low

Consumer price inflation decreased slightly in the main advanced economies (Figure 2); in the United States it returned below 2 per cent in May. The exception is the United Kingdom, where the Bank of England expects inflation to remain above target for some time, also owing to the depreciation of the pound. Core inflation remains very low in the advanced economies

Table 1

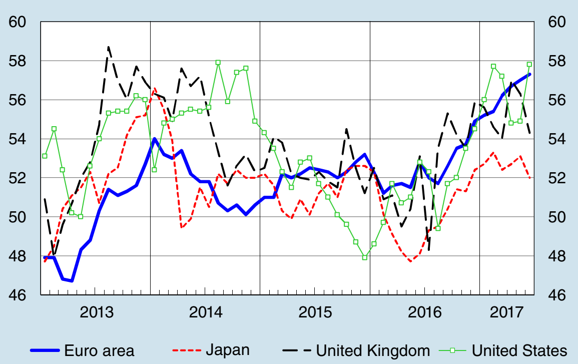
GDP growth and inflation
(percentage points)

	GDP growth			Inflation (1)
	2016	2016 Q4	2017 Q1	May 2017
Advanced countries (2)				
Japan	1.0	1.4	1.0	0.4
UK	1.8	2.7	0.9	2.9
US	1.6	2.1	1.4	1.9
Emerging countries (3)				
Brazil	-3.6	-2.5	-0.4	3.6
China	6.7	6.8	6.9	1.5
India	7.9	7.0	6.1	2.2
Russia	-0.2	0.3	0.5	4.1

Source: Thomson Reuters Datastream.
(1) Consumer price index, monthly data. – (2) Seasonally adjusted data; annualized quarterly percentage change. – (3) Year-on-year percentage change.

Figure 1

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

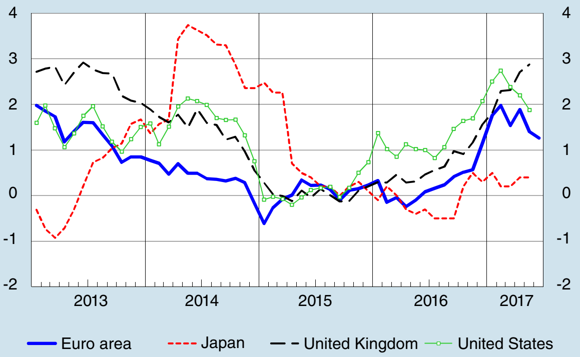


Sources: Markit, ISM and Thomson Reuters Datastream.
(1) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments.

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.

and negative in Japan. The emerging economies are also displaying moderate price growth.

The outlook for world growth improves ...

According to the most recent OECD projections, global GDP will grow by almost 3.5 per cent in 2017-18, accelerating compared with last year (Table 2). A contribution will come from the end of the recession in Russia and Brazil and stronger investment and employment in the advanced economies.

... but downward risks persist

The uncertainty about economic policies, and especially about the magnitude, composition, and timing of the fiscal stimulus measures put forward by the US administration, constitutes a risk factor for the prospects of the global economy. The spread of protectionist measures could have repercussions on international trade. Moreover, geopolitical tensions persist in several parts of the world. The Economic Policy Uncertainty (EPU) indices stood at high levels, although they are declining (Figure 3), while the volatility of the financial markets remains very low (see the box 'The evolution of uncertainty regarding economic policy and the financial markets in the advanced countries', *Economic Bulletin*, 2, 2017). Should the risk perception be adjusted suddenly, this could have negative effects on the financial markets and, as a consequence, on the spending decisions of households and firms.

Table 2

Macroeconomic projections

(changes and percentage points)

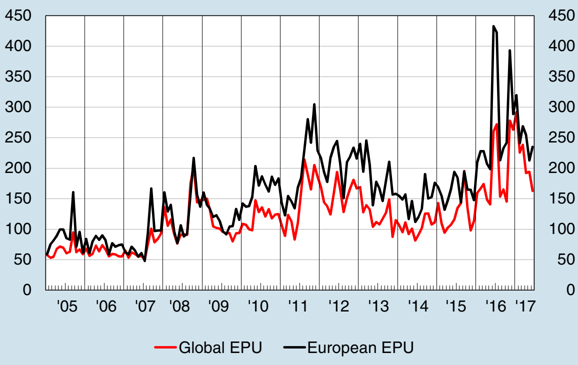
	2016	June 2017 forecasts		Difference June 2017/ March 2017	
		2017	2018	2017	2018
GDP					
World	**3.0**	**3.5**	**3.6**	**0.2**	**0.0**
Advanced countries					
Euro area	1.7	1.8	1.8	0.2	0.2
Japan	1.0	1.4	1.0	0.2	0.2
UK	1.8	1.6	1.0	0.0	0.0
US	1.6	2.1	2.4	-0.3	-0.4
Emerging economies					
Brazil	-3.6	0.7	1.6	0.7	0.1
China	6.7	6.6	6.4	0.1	0.1
India (1)	7.1	7.3	7.7	0.0	0.0
Russia (2)	-0.2	1.4	1.6	0.6	0.6
World trade	**2.4**	**4.6**	**3.8**	**1.7**	**0.6**

Source: OECD, *OECD Economic Outlook*, June 2017.
(1) The data refer to the fiscal year starting in April. – (2) For Russia and for world trade the forecasts refer to November 2016 and June 2017.

Figure 3

Economic Policy Uncertainty (EPU) indices

(index number; monthly values)



Source: Economic Policy Uncertainty index.

World trade accelerates

The latest data confirm the strengthening in trade, which has grown more vigorously since the end of 2016, driven by the recovery in manufacturing and a revival in investment in both the advanced and the emerging economies. Short-term prospects remain favourable. The OECD has revised upwards its forecasts for world trade growth in 2017 (Table 2).

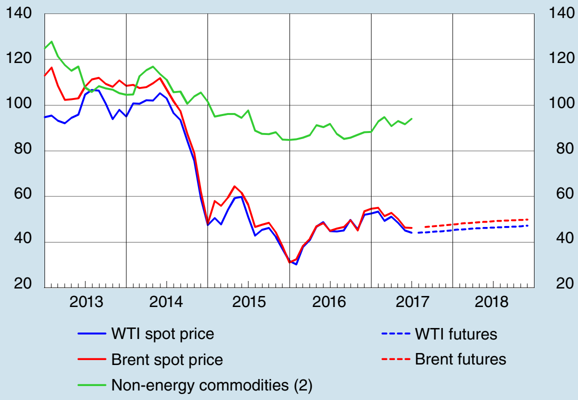
Oil prices are expected to recover slowly during the rest of year

In recent weeks oil prices have slid below $45 a barrel to the lowest levels since the beginning of the year (Figure 4). Futures contracts indicate that oil prices will increase very gradually. Although OPEC members and Russia have continued to cut oil supply, the reduction in global inventories has proceeded very slowly, partly because of an upturn in production in the United States, Nigeria and Libya.

Figure 4

Commodity prices (1)

(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly average data through June 2017; the last data available refer to 7 July 2017. – (2) Goldman Sachs Commodity Index, non-energy component (January 2010=100).

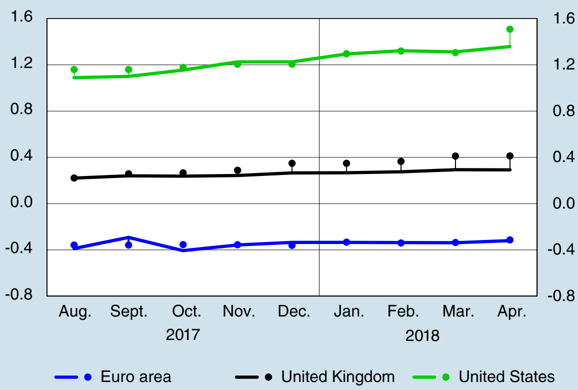
The Federal Reserve raises its rates and sets out a plan to reduce the size of its balance sheet

As expected, at its June meeting the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 1.00-1.25 per cent. The Federal Open Market Committee predicts a further increase before the end of the year, in line with market expectations (Figure 5). The Federal Reserve laid out the steps by which it intends to reduce the size of its balance sheet: the process will begin by the end of 2017 by not reinvesting the proceeds of maturing securities; the amount not reinvested will have a monthly upper limit, which will be gradually raised from $10 billion to $50 billion over a period of twelve months. No indications were provided as to what the size of the Federal Reserve balance sheet will be at the end of this process. The Bank of Japan did not modify its monetary policy stance. In China, the central bank kept its official rates unchanged; the upward trend in interest rates in the interbank and bond markets under way since 2016 has in any case proceeded, partly owing to stricter regulatory requirements for banks and non-financial corporations.

Figure 5

Overnight interest rates implied by derivative instruments (1)

(monthly values; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid lines indicate the interest rates forecast on 7 April 2017, the dots show those forecast on 7 July 2017.

1.2 THE EURO AREA

Signs of an expansion in economic activity in the euro area have strengthened, driven mainly by investment. There was, however, no improvement in the outlook for inflation, which surprisingly fell below the expectations of recent months; core inflation remains modest, restrained by persistently high unemployment and continued wage moderation in many of the area's economies. The ECB Governing Council believes that a substantial degree of monetary accommodation is still needed for a sustained adjustment in the path of inflation.

Table 3

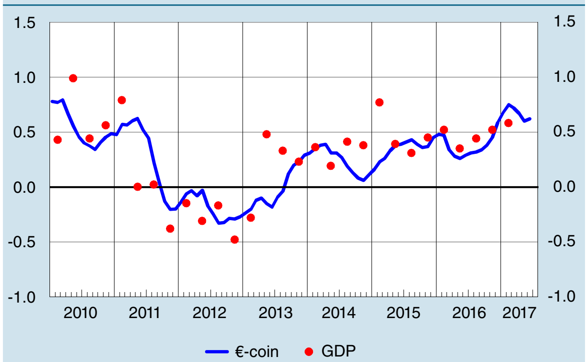
Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation (2)
	2016	Q4 2016 (1)	Q1 2017 (1)	June 2017
France	1.2	0.5	0.5	0.8
Germany	1.9	0.4	0.6	1.5
Italy	0.9	0.3	0.4	1.2
Spain	3.2	0.7	0.8	1.6
Euro area (3)	1.8	0.5	0.6	1.3

Source: Based on national statistics and Eurostat data.
(1) Quarterly series adjusted for seasonal and calendar effects; percentage changes on previous quarter, not year-on-year. – (2) Preliminary figure. – (3) The euro-area aggregate based on a 19-country composition.

Figure 6

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



Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July, 2009. Details on the indicator are available at: *€-coin: June 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.

Euro-area growth strengthens

Euro-area GDP grew by 0.6 per cent in the first quarter of this year compared with the previous quarter (Table 3), more than initially projected. Based on the data available, it appears that economic activity continued to expand at a similar pace throughout the area in the second quarter. The Bank of Italy's €-coin indicator, which estimates the underlying trend of euro-area GDP growth, hit 0.62 in June (Figure 6). Qualitative indicators for households and firms are positive: purchasing managers' indices confirm the enduring expansion in both manufacturing and services. In June consumer confidence continued to rise.

According to the ECB staff projections released in June, GDP will grow by 1.9 per cent overall in 2017. National accounts data released after the projections exercise suggest that GDP growth for the year could be even higher.

Inflation is down in the second quarter

Inflation, which had reached 2.0 per cent in February, fell to an average of 1.5 per cent in the second quarter. This was slightly lower than projected in March and driven mainly by energy prices; preliminary estimates indicate that it stood at 1.3 per cent in June (Figure 7).

Pressure on prices remains modest

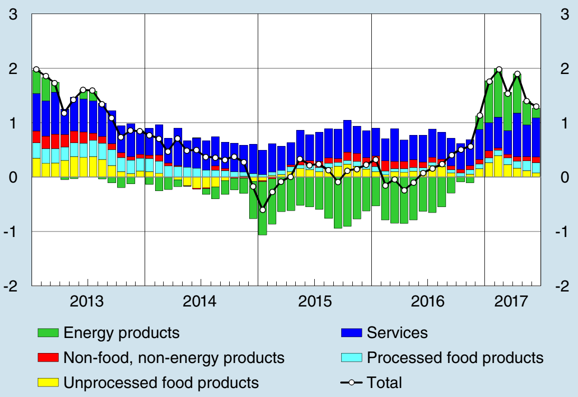
The risks of deflation have all but disappeared. However, underlying price growth continues to be low, in part reflecting sluggish wage growth in the last two years; excluding the most volatile components and based on provisional data, inflation stood at 1.1 per cent in June, after it had risen briefly in April owing to the calendar effects of the Easter holidays.

According to the ECB staff projections released in June, inflation will average 1.5 per cent in 2017, 0.2 percentage points below the March projections.

Short- and medium-term inflation expectations as implied by inflation-swap yields remain low at 1.1 per cent over the two-year horizon and at 1.6 per cent over the five-year horizon five years forward (Figure 8).

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; preliminary data for June 2017.

Figure 8

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

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

According to the ECB Governing Council monetary conditions must remain very accommodative

The ECB Governing Council believes that a substantial degree of monetary accommodation is still needed to secure a sustained adjustment of inflation towards its aim. It expects key ECB interest rates to remain at present levels (Figure 9) for an extended period of time and well past the horizon of its net asset purchases. The expanded asset purchase programme will run until the end of December 2017, or beyond, if necessary, and in any case until the Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

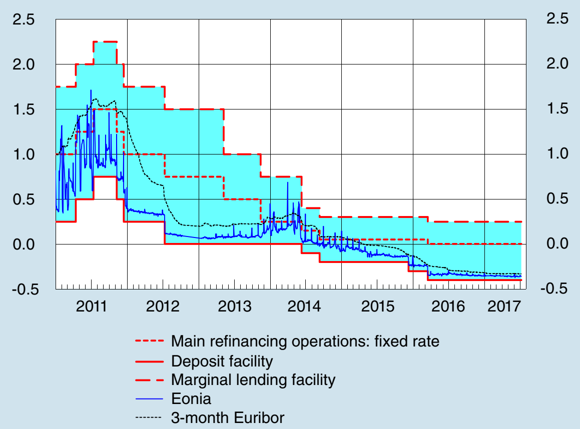
Eurosystem asset purchases continued to be made regularly. At 7 July 2017 the book value of government securities amounted to €1,623 billion, covered bank bonds to €223 billion, asset-backed securities to €24 billion and corporate bonds to €99 billion. At the end of June the Eurosystem had purchased about €274 billion worth of Italian government securities, of which €247 billion by the Bank of Italy.

Growth in lending to firms increases

The expansion in lending has continued. Adjusted for seasonal factors and for the accounting effect of securitizations, in the three months ending in May the pace of lending increased for both firms and households (by 3.7 and 3.1 per cent, respectively, on an annual basis). The average cost of new loans to firms and of those to households for house purchase remains at the lowest levels observed since the inception of Economic and Monetary

Figure 9

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

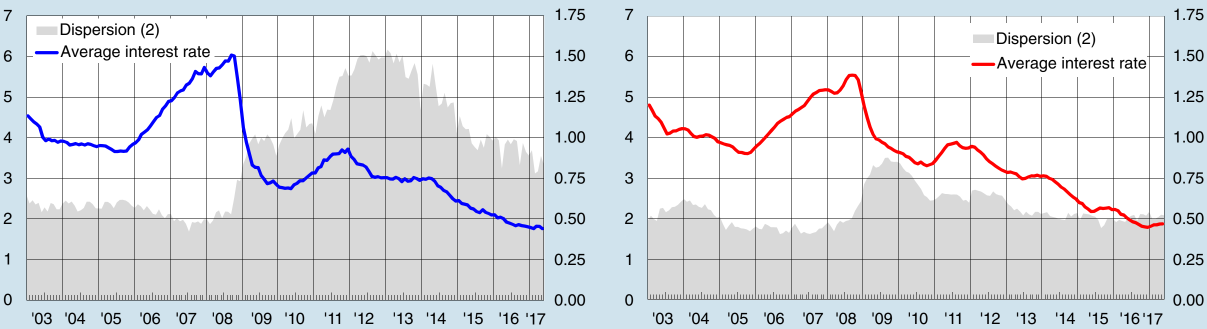


Sources: ECB and Thomson Reuters Datastream.

Union (1.6 and 1.9 per cent respectively); the dispersion across countries stayed at levels similar to those of the preceding months for both sectors (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

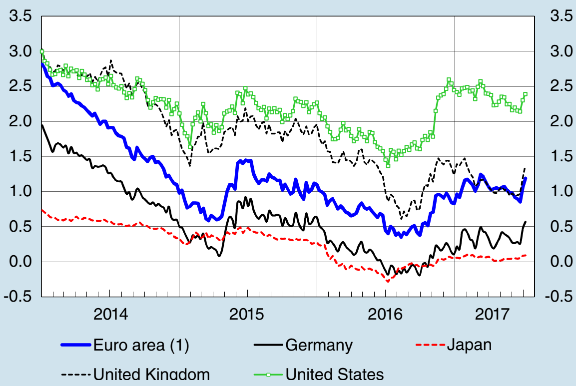
After recording a general decrease in the spring, yields on government bonds in the advanced countries have risen since the last week of June, partly reflecting firmer expectations of less accommodative monetary conditions in the United States and the signs that economic activity is strengthening in the euro area; yields remain, however, at low levels. Sovereign spreads narrowed in the euro area. The rise in share prices continued against a backdrop of low volatility. Net capital inflows to the emerging economies continued. The euro strengthened against the main currencies.

Yields on ten-year government bonds remain low

After a decline attributable in part to the weakening of expectations as to inflation and to the fiscal expansion announced by the new US administration, long-term yields in the United States returned to the levels of the end of the previous quarter. This was due to the improvement in labour market conditions and to the prospect that the Federal Reserve will begin to scale down, albeit gradually, its stock of US government securities. Interest rates also rose in the euro area, driven by the strengthening of economic activity. Compared with the end of March, the yield on ten-year US Treasury notes remained essentially unchanged at 2.39 per cent (Figure 11); that on German government securities rose by 25 basis points to 0.57 per cent.

Figure 11

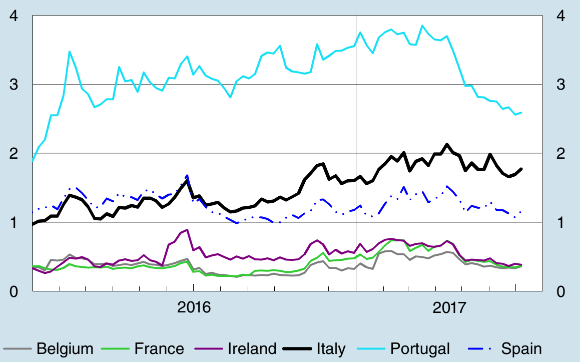
Yields on 10-year government bonds
(end-of-week data; percentage points)



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

Figure 12

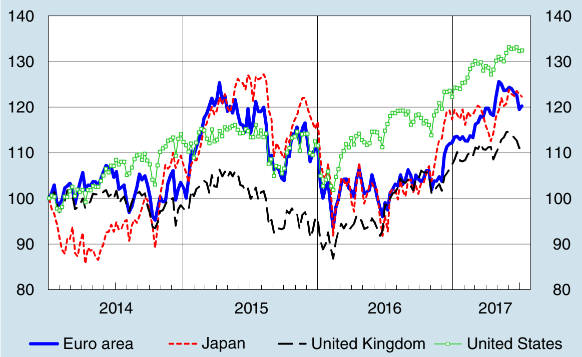
Yield spreads between 10-year government bonds and the corresponding German Bund
(end-of-week data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data.

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.

Sovereign spreads narrow in the euro area

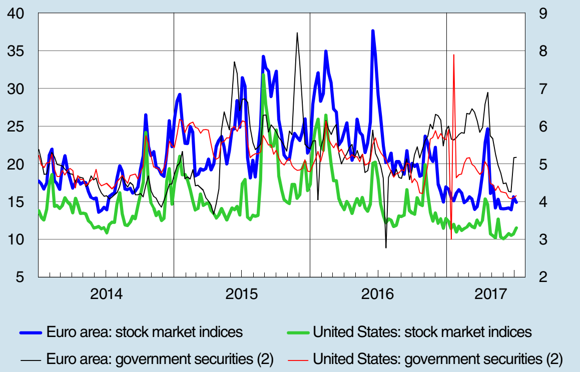
Since the beginning of the second quarter, the reduced uncertainty following the French presidential election and the publication of better than expected macroeconomic data have led to a general narrowing of euro-area sovereign spreads. The yield spreads between ten-year government bonds and the corresponding German Bund decreased in Portugal, France, Ireland, Italy, Spain and Belgium by 106, 28, 25, 22, 18 and 16 basis points respectively (Figure 12).

Share prices increase

The upward trend in equity prices in the advanced economies continued (Figure 13). The implied volatility of option prices diminished on equity markets, with some brief increases in April that were offset after the French presidential election; volatility also decreased on US and euro-area government securities markets (Figure 14). In the United States risk premiums on

Figure 14

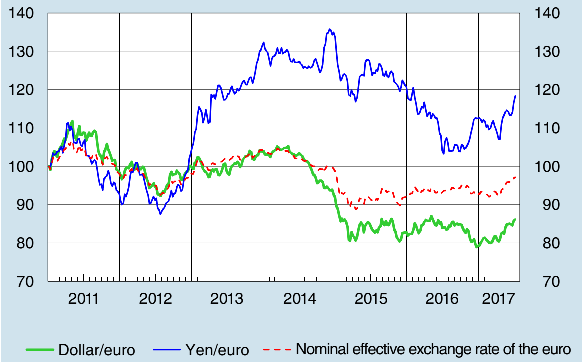
Implied volatility of share and government securities prices (1)
(average weekly data; percentage points)



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

Figure 15

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



Source: ECB.

corporate bonds fell slightly. The conditions on the financial markets of the emerging countries, though relaxed overall, have been affected in recent months by the volatility stemming from geopolitical tensions.

The euro appreciates

Since mid-April the euro has appreciated by 7.1 per cent against the dollar, by 10.5 per cent against the yen and by 3.5 per cent against the pound sterling, mainly thanks to the improved outlook for growth in the euro area. In nominal effective terms the euro has appreciated by 5.3 per cent (Figure 15).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

Economic activity accelerated in the first few months of 2017, buoyed above all by the marked increase in household spending and, on the supply side, by the strengthening in the service sector. In the second quarter GDP seems to have continued to grow, at about 0.4 per cent on the previous period.

National demand sustains GDP in the first quarter

In the first quarter of 2017, GDP grew by 0.4 per cent against the previous period (Table 4); this figure was revised significantly upwards with respect to Istat's initial estimates. National demand contributed 0.7 percentage points to GDP growth (of which 0.4 points in response to the change in stocks). Stronger household spending, especially in services and durable goods, more than offset the fall in fixed investments due to the non-construction components. Value added grew in all the main sectors of the economy with the exception of industry excluding construction; there was a pronounced acceleration in services.

Growth appears to continue in the spring

Our assessments suggest that GDP continued to grow in the second quarter of this year at the same rate as the first (see the box 'Economic activity in the second quarter of 2017 based on cyclical indicators'). In June, the Bank of Italy's Ita-coin indicator remained at a level similar to that of the first quarter (Figure 16). Household and business surveys report cyclically high confidence levels overall (see Section 2.2).

Table 4

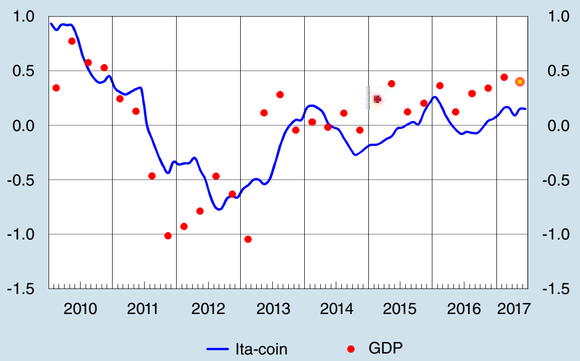
GDP and its main components (1)
(percentage changes on previous period)

	2016			2017	2016
	Q2	Q3	Q4	Q1	
GDP	0.1	0.3	0.3	0.4	0.9
Total imports	2.2	1.0	2.3	1.6	2.9
National demand (2)	0.1	0.5	0.4	0.7	1.0
National consumption	0.4	0.1	0.2	0.5	1.2
household spending (3)	0.5	0.2	0.1	0.5	1.4
other spending (4)	-0.2	-0.2	0.6	0.5	0.6
Gross fixed investment	0.4	1.5	1.2	-0.8	2.9
construction	-0.1	0.6	0.4	0.6	1.1
other investment goods	0.7	2.3	1.9	-2.0	4.7
Change in stocks (5) (6)	-0.3	0.1	0.0	0.4	-0.5
Total exports	2.2	0.3	1.9	0.7	2.4
Net exports (6)	0.0	-0.2	-0.1	-0.2	-0.1

Source: Istat.
(1) Chain-linked values; 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.

Figure 16

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



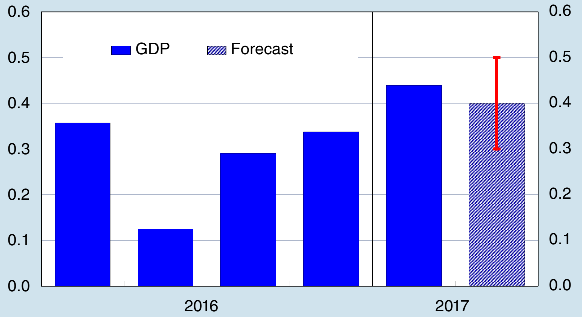
Sources: Bank of Italy and Istat.
(1) For the methodology and construction of the indicator, see the box 'Itacoin: a coincident indicator of the Italian economic cycle', *Economic Bulletin*, 2, 2015. Further details are available at Ita-coin: a coincident indicator. For GDP, quarterly data; changes on the previous quarter. The shaded circle shows the forecast for GDP growth in the second quarter based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

ECONOMIC ACTIVITY IN THE SECOND QUARTER OF 2017 BASED ON CYCLICAL INDICATORS

Based on the latest economic data, calculated using the Bank of Italy's statistical models,[1] in the second quarter of 2017 GDP grew at a rate of 0.4 per cent, similar to that recorded for the first three months of the year (Figure A). The uncertainty of the GDP forecast lies within a range of 0.1 percentage points on either side of the central projection.

Figure A

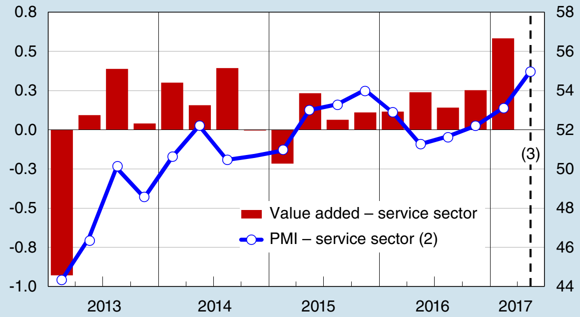
GDP estimates in the second quarter (1)
(percentage changes)



Source: Based on Istat data.
(1) For GDP and estimates, percentage changes 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

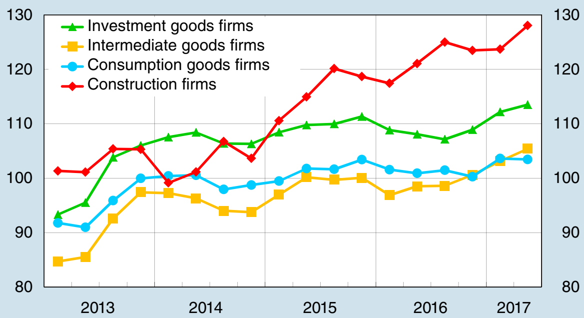
PMI and value added in services (1)
(levels and percentage changes)



Sources: Based on Istat and Markit data.
(1) For the PMI index, average level in the reference quarter. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) Right-hand scale. – (3) The figure for value added in the second quarter of 2017 is not available yet.

Figure C

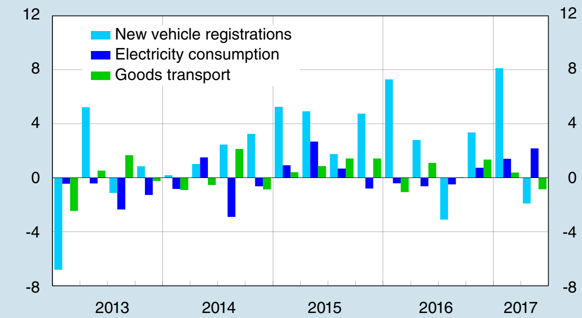
Business confidence indices (1)
(levels)



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

Figure D

Cyclical indicators (1)
(percentage changes)



Sources: Based on data from Istat, Terna, Autostrade per l'Italia and Ferrovie dello Stato.
(1) Average change in the reference quarter; seasonally adjusted data. For goods flows, the synthetic indicator is drawn 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 related conclusions.

We estimate that GDP received a boost from the further rise in value added in the service sector. The very encouraging signs in this sector come from the improvement in the purchasing managers' index (PMI) which, in the second quarter, reached its highest point since 2007 (Figure B). However, these

[1] The evaluation of GDP performance, in advance of the official figure released by Istat provisionally, about 45 days after the end of the reference quarter, is based on a wide range of partial information (such as electricity consumption, goods transport and industrial production), on business surveys and other qualitative assessments, that can then be combined according to the statistical models. For an overview of the short-term forecasting models see the box 'Economic activity in the fourth quarter of 2016 according to coincident indicators', *Economic Bulletin*, 1, 2017. See also 'Macroeconomic models' on the Bank of Italy website.

positive developments are partly offset by indications of a slowdown in growth derived from changes in business demographics.

Following a temporary contraction in the first quarter, non-construction industry began once again to support GDP growth. Our estimates suggest that in the second quarter industrial production rose by about 1 percentage point compared with the previous quarter. This assessment is based on the positive performance of the PMI and business confidence indices (Figure C), and of electricity consumption (Figure D).

Value added appears to have substantially stagnated in the construction sector, an assessment backed up by signs of a reduction in building production. Signs that demand is holding up in the sector come from the opinions of firms expressed in the Bank of Italy's business surveys (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics series, 10 July 2017).

2.2 FIRMS

After the brief dip recorded early this year, in the second quarter manufacturing activity expanded again. The positive demand signals from the construction sector are strengthening. Business confidence indicators remain at high levels across all sectors. Based on the indications from surveys of firms, capital accumulation, which had weakened in the first quarter after rising sharply in the second half of 2016, appeared to pick up again in the spring.

Industrial production returns to growth

In May industrial production rose by 0.7 per cent compared with April. Based on our estimates, after declining briefly during the first quarter manufacturing activity made strong gains on average in the second, in the order of 1 per cent (Figure 17).

Business confidence stays strong

During the spring months business confidence indicators rose in all sectors of economic activity. According to the Bank of Italy-*Il Sole 24 Ore* quarterly survey conducted in June, firms' assessments of the general state of the economy improved compared with those for the previous period; expectations for both demand and investment conditions also improved. Similar indications have emerged from purchasing managers' indices, which have hit cyclically high levels in both manufacturing and services.

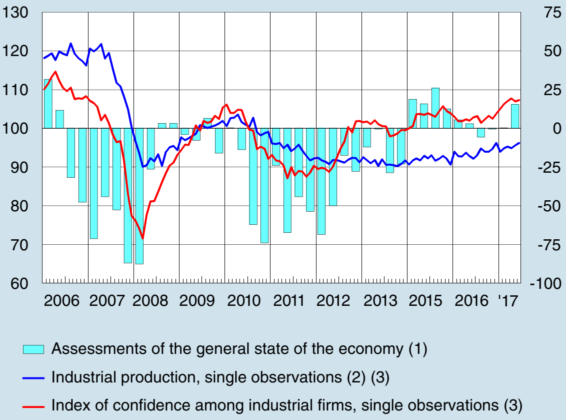
Capital accumulation appears to recover in the second quarter

In the first quarter investment diminished for the first time since the start of 2014, owing to lower expenditure on machinery, equipment and transport equipment. The dip is likely to prove short-lived and partly reflects the uncertainty which, towards the end of 2016, surrounded the possible extension of tax incentives set to expire and led firms to

Figure 17

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', Banca d'Italia, Statistics series, 10 July 2017). – (2) Industrial production adjusted for seasonal and calendar effects; for June 2017, estimated data. – (3) Index, 2010=100.

anticipate purchases already planned. The Bank of Italy-*Il Sole 24 Ore* quarterly survey conducted in June points to an increase in investment expenditure in the second half of 2017 (see the box 'Investment plans of Italian firms according to the quarterly survey on inflation and growth expectations'). Similar indications emerge from the Bank of Italy's broader annual Survey of Industrial and Service Firms, which was completed between March and May and includes smaller firms. The respondent firms also reported that the tax concessions had a significant impact on their expenditure (see the box 'The Bank of Italy's annual survey on non-construction industrial firms and non-financial private service firms').

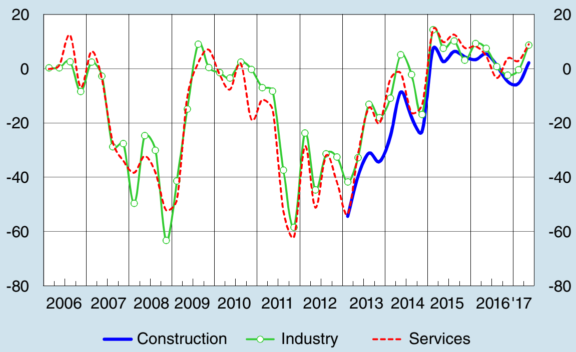
INVESTMENT PLANS OF ITALIAN FIRMS ACCORDING TO THE QUARTERLY SURVEY ON INFLATION AND GROWTH EXPECTATIONS

In June 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', Statistics series, 10 July 2017).

Compared with the March survey, firms expressed a more positive judgment on the current state of the economy; their expectations for the medium term remained high. The respondent firms indicated that over the coming months activity would be sustained above all by strengthening demand; they also reported that the more favourable conditions for access to credit would continue to provide a mildly positive impulse.

Assessments of investment conditions improved compared with the last quarter across all the main sectors: the balance of opinions became positive again in industry excluding construction and strengthened in services, moving from 2.9 to 9.1 percentage points (see the figure). In construction the net balance of assessments turned positive among non-residential construction firms; for residential construction firms, the already positive net balance was consolidated. 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', Banca d'Italia, Statistics series, 10 July 2017).

The percentage of firms planning to increase investment over the course of 2017 continues to exceed the share of those expecting to reduce it, and by a larger margin than that recorded in the March survey (21.0 percentage points for the entirety of firms, up from 14.4 points; see the table). The balance improved in all the sectors and returned to positive territory in construction; it remained very wide in industry excluding construction. Investment expenditure should increase during the year; the percentage of industrial and service firms expecting it to rise in the second half of 2017 compared with the first outstripped by 23 percentage points the share expecting it to decrease; large firms submitted very favourable assessments.

Firts' investment plans (1)
(per cent)

RESPONSE	Industry excluding construction	Services	Construction	Total economy
	Planned investment expenditure for H2 2017 with respect to H1 2017			
Higher	39.1	29.4	24.1	33.8
About the same	50.9	57.8	61.8	54.7
Lower	10.0	12.7	14.1	11.5
	Planned investment expenditure for 2017 with respect to investment made in 2016			
Higher	40.8	33.2	26.1	36.5
Practically the same	43.8	51.7	54.2	48.0
Lower	15.4	15.1	19.7	15.5

(1) Estimates weighted according to the ratio of number of firms surveyed to number of firms 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', Banca d'Italia, Statistics series, 10 July 2017). Rounding may cause discrepancies in totals.

THE BANK OF ITALY'S ANNUAL SURVEY ON NON-CONSTRUCTION INDUSTRIAL FIRMS AND NON-FINANCIAL PRIVATE SERVICE FIRMS

The Bank of Italy conducts a yearly survey on about 4,200 non-construction industrial firms and non-financial private service firms with at least 20 workers. The results of the survey, conducted between March and May, confirm the positive signs that emerged in 2016, but indicate slightly more prudent investment plans compared with last year (see 'Survey of Industrial and Service Firms', Banca d'Italia, Statistics series, 3 July 2017).

Total sales continued to grow in 2016, though to a limited extent (0.3 per cent; see the table). The increase was less than expected by firms in the previous survey; this discrepancy is attributable to unexpected decreases in sales in some sectors, such as chemicals, textiles and clothing, and to the sharper than expected downturn in the metal and engineering sector. The growth in manufacturing

Main trends in 2016 and expectations for 2017
(percentage changes)

	Turnover (1)		Investment (1)		Employment	
	2016	2017	2016	2017	2016	2017
Sector						
Manufacturing	0.6	2.4	6.9	4.7	0.6	0.7
Energy and extraction	-3.3	-1.2	-3.6	8.0	-0.8	-1.8
Non-financial services	1.1	1.4	4.0	0.2	1.1	0.9
Number of workers						
20-49	1.0	1.5	15.6	-2.5	0.0	1.2
50-249	0.7	1.2	6.3	2.2	0.7	-0.1
250 and over	-0.4	1.5	-0.7	4.9	1.3	0.9
Total	**0.3**	**1.4**	**3.9**	**2.8**	**0.8**	**0.7**

(1) Calculated at constant prices using deflators found in the survey. Averages weighted by firm distribution and investment spending. Based on winsorized microdata.

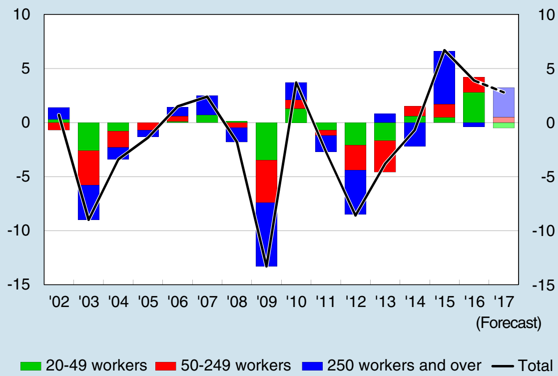
and non-financial private service firms' sales was accompanied by a new increase in total hours worked, boosted by a rise in the number of persons in employment. In industry excluding construction, the only sector for which production capacity data are collected, capacity utilization was at least 80 per cent for roughly 40 per cent of firms. Though still a long way from the nearly three quarters recorded in the two years prior to the global financial crisis, this figure has been steadily increasing since it hit a low point in 2012.

Excluding the energy and extraction sectors, which continue to decline owing to the global trends in raw material prices, firms expect their sales volumes to increase in 2017. Growth in employment should continue, and the manufacturing sector is likely to see a further increase in capacity utilization.

The growth in own sales prices should regain momentum: the expected growth in prices, weighted by the value of turnover, is just under 2 per cent (against 0.4 in 2016); it is forecast at over 1 per cent for more than half of firms.

According to the survey results, investment continued to grow in 2016, though at a slower pace than in 2015 (3.9 per cent against 6.7 per cent; see the figure). The slowdown reflected the curb on spending by service firms (down from 9.3 to 4.0 per cent) that they had widely anticipated in the previous survey, and the dip in spending in the energy sector (from 3.9 to -3.6 per cent); these were offset by the marked acceleration in spending by manufacturing firms (up from 3.0 to 6.9 per cent). In contrast to previous years, the growth in investment in 2016 is entirely attributable to small and medium-sized enterprises (up to 249 workers), especially those with between 20 and 49 workers, and above all in manufacturing.

Investment (1)
(percentage changes; contributions to growth by size class)



(1) Calculated at constant prices using deflators found in the survey. Statistics weighted by firm distribution and investment spending. The dotted line and the areas in less bright colours indicate firms' expectations for 2017.

Some 45 per cent of total firms declared that they benefited from at least one of the main measures in force in 2016 to boost investment, and accounted for roughly two thirds of the increase in overall investment.[1] Nearly 20 per cent of these firms said that without such measures their spending would have been lower.

Firms' investment plans for 2017 envisage a further increase of 2.8 per cent in spending. Investment is likely to be driven by the plans of larger firms in all the main sectors. The incentive measures, supplemented by the launch of the hyper amortization, will continue to attract interest and those declaring their intention to exploit them will account for most of the increased spending.[2]

1 This refers specifically to the measures introduced by the 2016 and 2017 Budget Laws: (a) the new Sabatini measure, a financial incentive that supports investment for the purchase or leasing of machinery, equipment, plant, capital goods for productive use and hardware, as well as software and digital technology; (b) the tax credit for firms in the regions lagging behind in development that will invest in capital goods; (c) the super amortization which, in the case of investment in capital goods, envisages an increase of 40 per cent, solely for tax purposes, in the value of depreciable goods purchased between October 2015 and December 2017.

2 For investment in advanced technology, the hyper amortization introduced by the 2017 Budget envisages an increase of 150 per cent, solely for tax purposes, in the value of depreciable goods purchased or ordered in 2017 and delivered by June 2018.

All the main forecasters expect investment to grow in the two years 2017-18 (see Section 2.9). The tax incentives for investment in advanced digital technologies introduced by the 2017 Budget Law could help support technology upgrades and the potential growth of Italy's economy (see the box 'Productivity growth, investment, and technical progress in Italy').

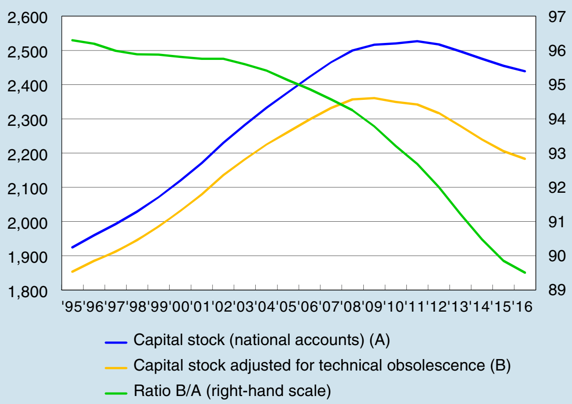
PRODUCTIVITY GROWTH, INVESTMENT, AND TECHNICAL PROGRESS IN ITALY

The low growth rate that has been a hallmark of the Italian economy over the last twenty years can be put down, above all, to modest labour productivity dynamics; these reflect not only total factor productivity (TFP), which measures the economy's overall productivity, but also a lack of investment, which has led to lower capital intensity. The annual growth gap with respect to Germany present since 1995 (0.8 percentage points) is entirely due to weaker labour productivity dynamics; estimates based on national accounts data put 0.6 points of the gap down to TFP and 0.2 points to investment.[1] The quantification of these contributions is important because it offers a measure of the contribution that a recovery in investment, such as the one under way in recent quarters, can make to raising the rate of GDP growth on a long-term basis.

An estimate of the economy's productive capital stock (and hence of that stock's contribution to labour productivity) depends, however, on the assumptions made regarding its depreciation rate. The latter not only takes account of the gradually diminishing efficiency of installed capital goods, but also includes a component relating to their technological obsolescence with respect to more recent investments.

According to our studies based on firm level data,[2] the rate of capital depreciation due to technological obsolescence is on average 5 per cent a year in Italy. This is added to the amortization in the national accounts, which, in line with EU principles, only record the consumption of the item associated with its use in production over the period. Our assumptions indicate that the sharp contraction in investment during the long recession led not only to a decrease in installed capacity, but also caused it to become much less technologically advanced as the pace of replacement of old capital goods with more recent and more advanced ones slowed (see the figure).

Estimates of capital stock and technical progress
(chain-linked prices in billions of euros and percentage ratio)



If we use a measure of capital based on these assumptions in a growth accounting exercise, we find that the poor growth of productivity in recent years was due to a greater extent to slack investment than would appear using the national accounts standard measure of capital.

1 See the box 'Long-term trends in total factor productivity in Italy and other industrialized countries', Chapter 15, *Annual Report for 2016*, 2017.

2 A. Mistretta and F. Zollino, 'Recent trends of activity and TFP in Italy with a focus on embodied technical progress', Banca d'Italia, Temi di Discussione (Working Papers), forthcoming.

Going forward, the further expansion in investment predicted by all the leading forecasters for 2017-18 should boost efforts to update the productive capital stock, as should the tax incentives for purchases of high-tech capital goods. If this does happen, it could lead to an improvement in the Italian economy's potential growth in the near future.

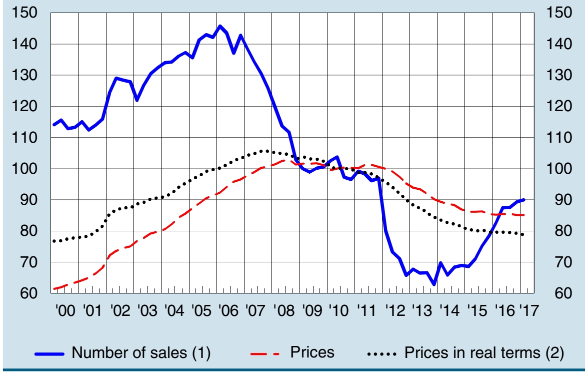
The upswing in house sales continues but prices remain stable

In the first quarter house sales rose again, though they remain well below the levels reached prior to the economic and financial crisis (Figure 18). Investment in construction, which has been increasing since the middle of 2016, accelerated slightly. During the spring months construction firms' confidence improved further. According to the 'Italian Housing Market Survey' conducted in April, demand conditions have become more favourable and assessments of short-term trends are marked by optimism. In the first quarter house sales prices were unchanged.

Figure 18

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.

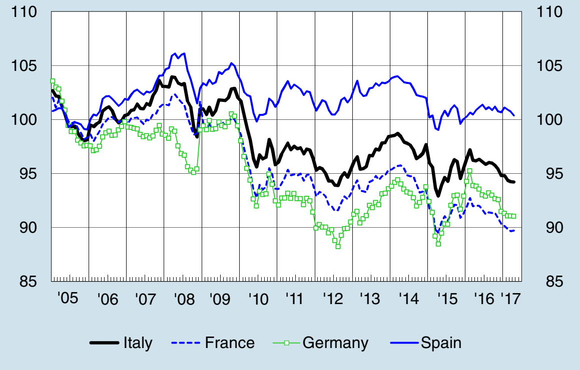
Price competitiveness worsens slightly in the second quarter

According to our estimates, price competitiveness as measured by the producer prices of manufactured goods deteriorated slightly in the second quarter compared with the first (Figure 19). Since the end of 2014 Italian firms made competitiveness gains amounting to around 2.5 percentage points, mainly stemming from growth in relative prices. The recovery in competitiveness was less marked for German and Spanish firms.

Figure 19

Indicators of competitiveness (1)

(monthly data; indices: 2005=100)

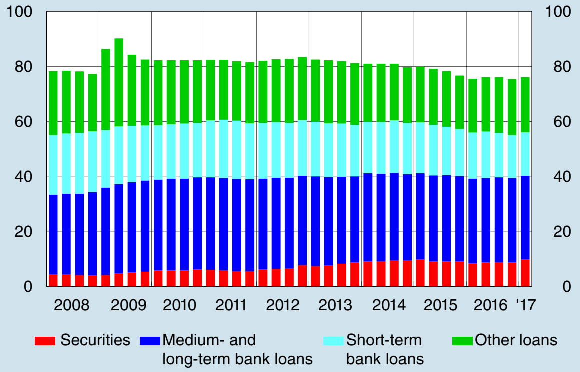


Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN and national statistics.
(1) Vis-à vis 61 competitor countries; based on producer prices of manufactures. A rise in the index indicates a loss of competitiveness; the latest data refer to April 2017. For the calculation methodology, 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.

Figure 20

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' profitability shows a small decline

Based on Istat data and on our own estimates, in the first quarter of 2017 the ratio of gross operating profit to value added fell slightly. Firms' self-financing capacity, calculated as the difference between gross operating profit and total costs, instead remained stable, continuing to benefit from the reduction in net interest expense. The ratio of investment expenditure to value added remained virtually unchanged.

Trends in business lending continue to be uneven

In the first quarter firms' overall debt as a share of GDP edged upwards to 76 from 75 per cent (Figure 20). Growth in bank business lending is still weak and uneven across the various sectors of activity, with total loans increasing in the service sector, stagnating in manufacturing, and continuing to decline in construction (see Section 2.7). In recent years the business sector has become a net creditor. The financial balance has been positive since 2012 and the sector's financial structure has strengthened (see *Financial Stability Report*, 1, 2017 and Chapter 6, *Annual Report for 2016*, 2017).

2.3 HOUSEHOLDS

In the early months of the year household spending increased, mainly driven by purchases of services and durable goods; the propensity to save remained stable. Despite a slight worsening in the spring, consumer confidence remains consistent with continuing growth in spending in the second quarter.

Growth in consumption gains strength

In the first quarter of the year private consumption rose by 0.5 per cent compared with the previous period (0.6 per cent excluding non-profit institutions serving households), boosted by spending on services, durable goods and semi-durable goods. The favourable climate for consumption continued in the spring. The number of new car registrations remained very high in the second quarter, though slightly lower than in the previous period.

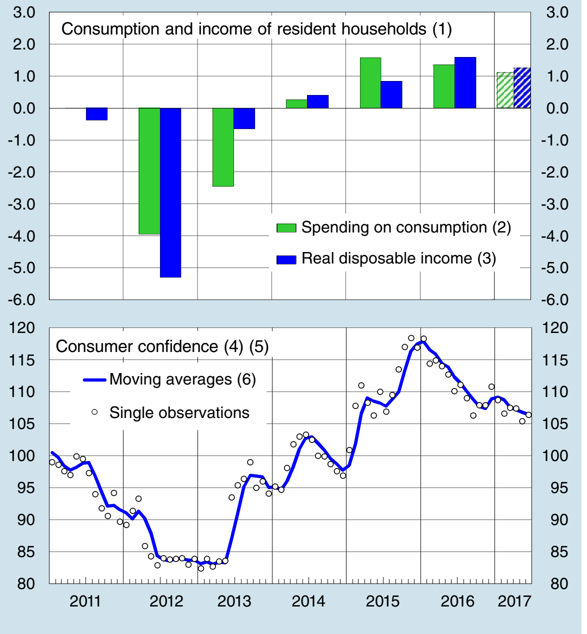
The consumption trend over the winter months was positively influenced by the increase in disposable income, which resumed the upward trend under way over the last two years (Figure 21), also reflecting the strengthening of the labour market (see Section 2.5). The propensity to save remained stable at around 8.6 per cent (Figure 22).

Household debt is stable

In the first quarter of 2017, Italian household debt in relation to disposable income remained essentially unchanged at 61.8 per cent (Figure 23), well below the euro-area average of 94.7 per cent recorded at the end of December. In the same period, interest rates on new mortgage loans remained very low by historical standards (see Section 2.7).

Figure 21

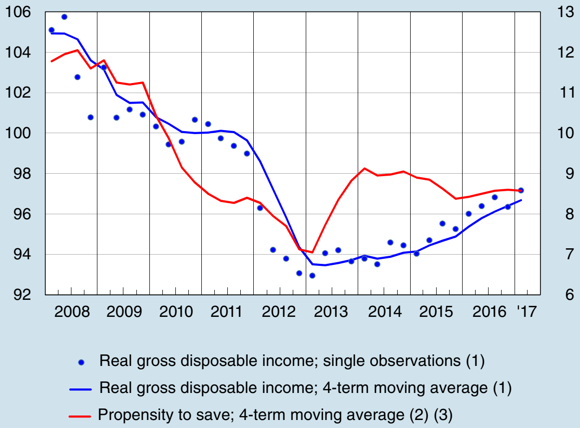
Consumption, disposable income and consumer confidence in Italy
(percentage changes and index numbers)



Source: Based on Istat data.
(1) Percentage changes on the previous year. – (2) 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 22

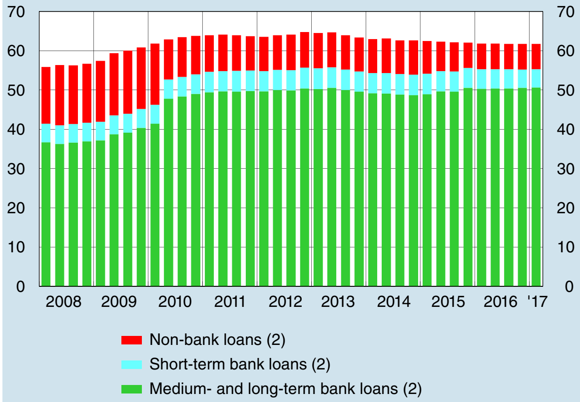
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



Source: Based on Istat data.
(1) Net of the variation in the consumption deflator for resident households' final consumption expenditure. Indices: 2010=100. – (2) Consumer households' savings as a percentage of real gross disposable income. – (3) Right-hand scale.

Figure 23

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

In the first quarter Italian exports continued to grow, especially to non-EU markets, and business surveys indicate that the outlook remains favourable. The current account surplus is still large and the net international investment position continues to improve.

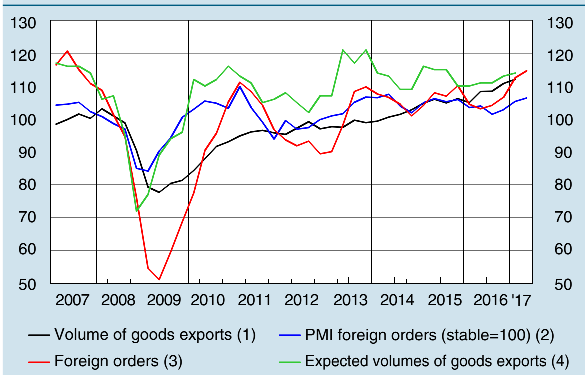
The expansion in exports and foreign orders continues

In the first quarter of 2017 exports expanded further (up by 0.7 per cent in volume terms compared with the previous period), driven by the goods component. Sales in Russia, the United States and East Asia were particularly strong, while they were more disappointing in the OPEC countries and, though less so, in euro-area markets. The growth in exports was especially significant for refined petroleum products, pharmaceuticals, and transport equipment. Imports also continued to expand, rising by 1.6 per cent in volume terms in the first three months of the year. For the goods component, the increase was mainly due to purchases from non-EU markets.

In April seasonally adjusted exports at current prices decreased by 1.8 per cent, settling at levels close to the first-quarter average. In May, sales to non-EU markets increased by 2.2 per

Figure 24

Export volumes and 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.

Table 5

Italy's balance of payments (1)

(billions of euros)

	2015	2016	Jan.-Apr. 2016	Jan.-Apr. 2017
Current account	**23.7**	**42.8**	**7.3**	**8.9**
Memorandum item: % of GDP	1.4	2.6	–	–
Goods	50.7	59.9	16.7	13.4
non-energy products (2)	82.9	85.0	24.2	24.1
energy products (2)	-32.2	-25.1	-7.4	-10.7
Services	-2.7	-3.2	-3.1	-2.4
Primary income	-9.2	2.8	0.4	2.8
Secondary income	-15.0	-16.8	-6.8	-4.9
Capital account	**2.6**	**-2.1**	**-0.4**	**-0.6**
Financial account	**27.4**	**63.9**	**12.5**	**-0.1**
Direct investment	2.7	-5.6	-3.1	4.0
Portfolio investment	89.5	153.9	54.1	38.9
Derivatives	3.4	3.2	4.0	1.5
Other investment (3)	-68.6	-86.5	-40.9	-46.8
Change in official reserves	0.5	-1.2	-1.6	2.3
Errors and omissions	**1.1**	**23.2**	**5.6**	**-8.4**

(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 April 2017, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in TARGET2 balance.

cent. The manufacturing purchasing managers' index regarding foreign orders rose for the third consecutive quarter, as did Istat's indicators of foreign orders and sales expectations for the next three months (Figure 24).

The current account surplus remains large

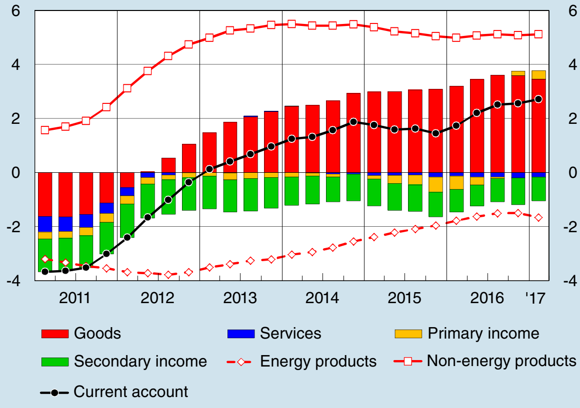
In the first four months of 2017 the current account surplus stood at €8.9 billion. The small year-on-year increase was mainly due to an improvement in the primary and secondary income balances and, to a lesser degree, the reduction of the deficit in services (Table 5). As a percentage of GDP, the current account balance came to 2.6 per cent, as at end-2016 (Figure 25).

Since the beginning of the year foreign investors have made net purchases of Italian portfolio securities worth €4.0 billion; disposals of government securities totalling €14.3 billion were more than offset by investment in equity and private sector bonds, mainly bank bonds. Residents' net purchases of foreign portfolio securities came to €42.8 billion, primarily by insurance companies and pension funds, with most of the investment still in investment fund units.

Figure 25

Current account balance and main components

(per cent of GDP; 4-quarter moving averages)

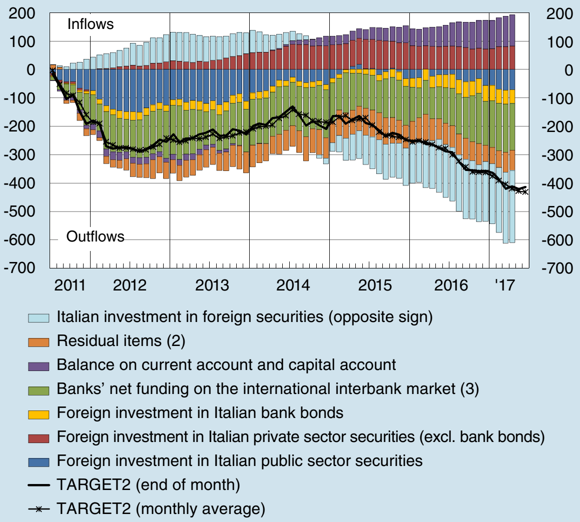


Sources: For GDP, Istat; for the breakdown between energy and non-energy products, based on Istat foreign trade data.

Figure 26

TARGET2 balance and cumulative balance of payments flows (1)

(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's 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) Direct investment, derivatives, other investment, official reserves, errors and omissions. – (3) Net bank funding in the form of loans, deposits and other investments by the banking sector, including that intermediated by resident central counterparties.

The debtor position in TARGET2 widens

The Bank of Italy's debtor position in the TARGET2 payment system continued to widen owing to the reallocation of the excess liquidity injected by the Eurosystem. The debit balance reached €414 billion at the end of June, up from €357 billion at the end of 2016. Between January and April (the last month for which balance of payments data are available) the widening mainly reflected residents' investment in foreign portfolio securities (see the box 'The Bank of Italy's balance in TARGET2', Chapter 10, *Annual Report for 2016*, 2017); Italian banks' funding on the international markets was largely stable (Figure 26).

Italy's net international debtor position continues to narrow

At the end of the first quarter Italy's net international investment position was negative by €226.1 billion or 13.5 per cent of GDP. The improvement compared with the end of 2016 (about 1.5 percentage points of GDP) is mainly due to valuation adjustments but also to the current account and capital account surpluses. Since 2013 Italy's net international debtor position has narrowed by about 12 percentage points of GDP.

2.5 THE LABOUR MARKET

In the first quarter of 2017, despite the ending of the incentives to hire new staff on permanent contracts, employment continued to grow, driven by the increase in fixed-term contracts. According to the latest short-term economic indicators, the number of persons employed continued to expand in the spring months. The unemployment rate fell. Contractual earnings in the private sector continued to grow modestly.

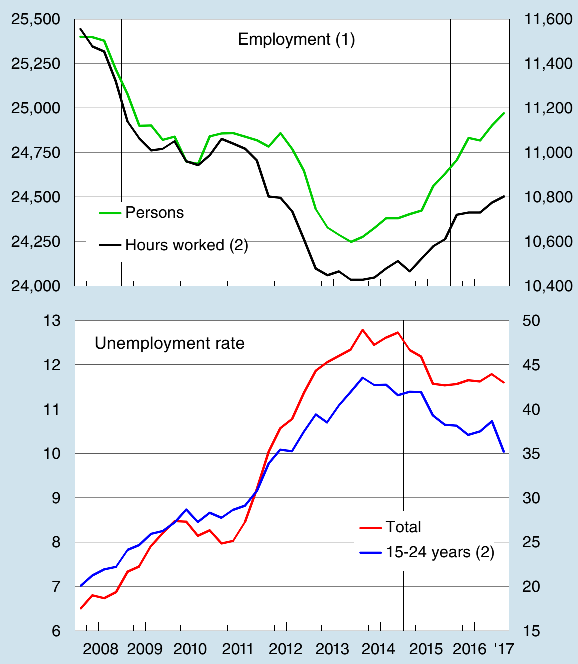
Labour input increases in the first quarter

Both the number of persons employed and the number of hours worked continued to expand in the first quarter of 2017 (Figure 27 and Table 6). Hours worked remained stable in per capita terms, about 4 per cent below pre-crisis levels. In the private sector, the increase in employment was seen across all the main subsectors, markedly in agriculture and construction. The reduction in self-employment resumed, while there was a sharp rise in payroll employment, due to the acceleration in fixed-term positions (up 2.1 per cent against 1.3 per cent in the previous quarter), but also to the rise in the number of workers on permanent contracts (up by 0.2 per cent compared with -0.1 per cent in the previous quarter). INPS real time administrative data, which are reflected with a lag in Istat's estimates,[1] point towards an increase in permanent contracts, which appears to be at least partly due to previous hirings and contract conversions made in light of the phasing out of the social contribution relief.

Figure 27

Employment and unemployment

(seasonally adjusted quarterly data)



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

[1] See the box 'Hirings: the effects of the labour market measures as reflected in the administrative data', *Economic Bulletin*, 4, 2015.

Table 6

Employment and hours worked

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

	Stocks	Changes			
	Q1 2017	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Total number of persons employed	**24,969**	**0.5**	**-0.1**	**0.4**	**0.3**
of which: industry excluding construction	4,189	-0.2	0.1	..	0.1
private services (1)	10,905	1.2	..	0.4	0.2
Payroll employees	18,820	0.5	0.1	0.5	0.4
Self-employed	6,149	0.6	-0.7	..	-0.2
Hours worked	**10,801**	**0.1**	**..**	**0.4**	**0.3**
of which: industry excluding construction	1,863	..	-0.1	0.4	0.6
private services (1)	4,924	0.7	..	0.3	-0.2
Payroll employees	7,484	0.4	0.1	0.6	0.6
Self-employed	3,317	-0.6	-0.3	-0.1	-0.4

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

Employment continues to expand in the spring

Preliminary data from Istat's labour force survey indicate that the number of persons employed continued to rise on average in April and May (up 0.2 per cent from February and March), driven above all by the fixed-term component. According to the findings of Istat's survey on firms' employment expectations and on the basis of the purchasing managers' index (PMI), employment should continue to increase in the summer months.

The unemployment rate falls

In the first quarter of 2017, despite a further slight increase in the participation rate, the unemployment rate fell by 0.2 percentage points to 11.6 per cent (it peaked at 12.8 per cent in the first quarter of 2014). The reduction was particularly marked in the 15-24 years age group (down by 3.4 points to stand at 35.2 per cent). Preliminary data from Istat's labour force survey suggest that the unemployment rate in April and May on average diminished further to 11.2 per cent while the youth unemployment rate rose to 36.1 per cent.

Growth in contractual earnings remains moderate

In the first quarter, hourly contractual earnings in the private sector continued to grow at a historically slow pace (0.5 per cent compared with a year earlier). There was an increase of 0.6 per cent on average in April and May. Looking ahead, wage growth is likely to be curbed by the evolution of inflation excluding imported energy goods (0.1 per cent in 2016 and, according to Istat's forecasts, 1.3 per cent on average in 2017-2020), which will probably be reflected in the wage increases regulated by contracts that include ex post indexing clauses and in those to be agreed by the trade unions at the time of renewal (see the box 'Private sector contract renewals in 2016 *Economic Bulletin*, 1, 2017). Gross wages and salaries in the non-farm private sector, which rose by 1.1 per cent in the first quarter, are expected to continue increasing at a faster pace than contractual earnings, benefiting from the gradual improvement in economic conditions.

2.6 PRICE DEVELOPMENTS

In the second quarter inflation rose slightly, though in June it was just above 1.0 per cent, with core inflation also remaining low. Households and firms have revised their inflation expectations slightly upwards, but do not expect inflation to rise significantly above current levels over the next twelve months.

Consumer price inflation increases slightly on average in the second quarter ...

Consumer price inflation rose on average to 1.6 per cent in the second quarter, though based on the flash estimate, it fell back to 1.2 per cent in June (Figure 28). The trend during the quarter largely reflects the acceleration in energy prices, especially for electricity and gas, and in the prices of services, only partly offset by more sluggish growth in those of unprocessed food products.

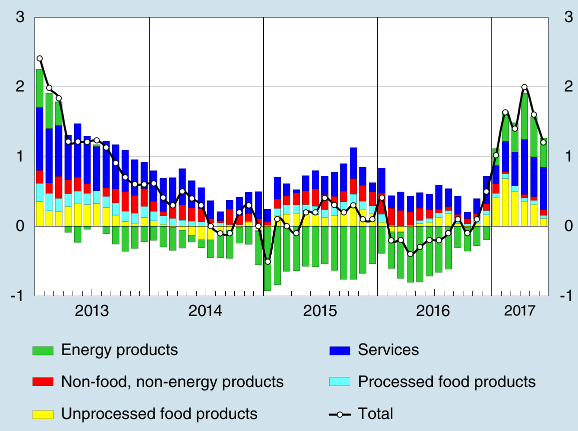
... but underlying inflation remains weak

After briefly increasing in April, core inflation continues to hover around historic lows, averaging 1.1 per cent in the second quarter, just above the level for June (Table 7). In May, the most recent month for which detailed data are available, the share of elementary items with negative price changes fell to 25 per cent, from 28 per cent in April, 14 percentage points below the peak reached in December 2014; for core components, the share instead rose marginally (from 26 to 28 per cent).

Figure 28

Consumer price inflation in Italy and contributions of its components (1)

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



Source: Based on Eurostat data.
(1) HICP; preliminary data for June 2017.

Table 7

Indicators of inflation in Italy

(12-month percentage changes)

	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	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	1.4
2013	1.2	1.2	1.1	1.2	–	1.1	-1.2	1.2
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	1.0
2015	0.1	0.7	0.0	0.0	–	0.5	-3.4	0.7
2016	-0.1	0.5	-0.1	-0.1	–	0.5	-2.2	0.8
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	0.5	0.6	3.7	–
Mar.	1.4	0.6	1.3	1.4	-0.1	0.7	3.3	–
Apr.	2.0	1.3	1.9	1.9	0.3	1.1	4.4	–
May	1.6	0.9	1.5	1.4	-0.3	0.8	3.1	–
June	(1.2)	(1.0)	....	(1.2)	(-0.1)	(1.0)	....	–

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

Producer prices decelerate

Producer prices of industrial products sold on the domestic market slowed in May, reaching a twelve-month rate of 3.1 per cent, mainly owing to the lower contribution of the energy component. The prices of non-food final consumption products remained essentially unchanged.

Firms and households expect inflation to rise but analysts do not

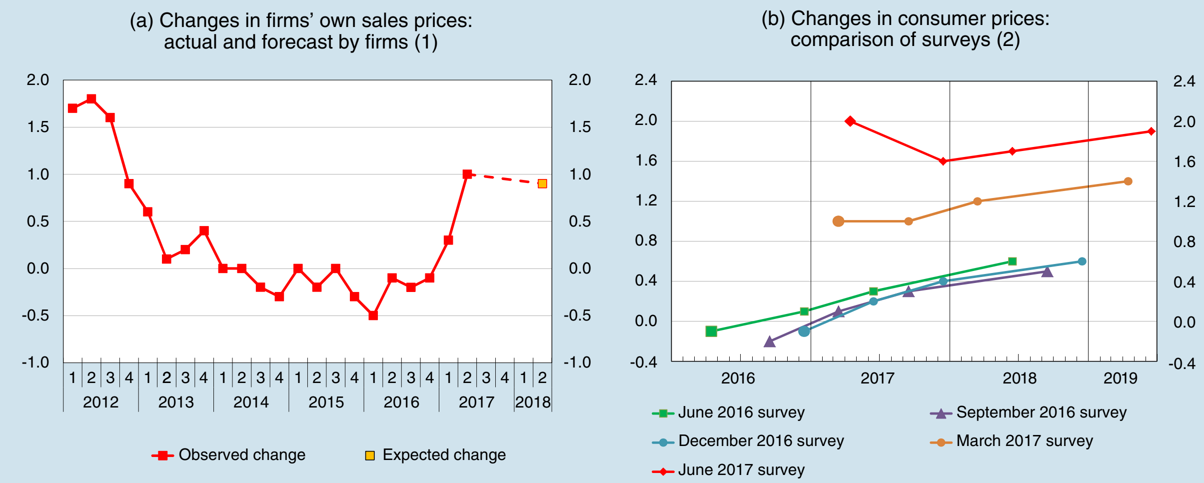
The list prices of the firms interviewed in the quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* rose by 1.0 per cent in the last twelve months (Figure 29); similar growth is expected next year (0.9 per cent). However, respondent firms revised their expectations of consumer price inflation slightly upwards, probably also influenced by the temporary acceleration of prices in April (the latest figure reported to the firms at the time of preparation of the questionnaire). According to Istat surveys, in the spring months the balance between the share of manufacturing firms expecting to raise their prices and that of those planning to reduce them grew very slightly compared with the previous period, while the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months fell to 50.5 per cent, compared with 52.6 per cent in the first quarter.

The analysts polled in June by Consensus Economics expect inflation to average 1.4 per cent in 2017 (as in May), just below the rate expected for the euro area as a whole (see Section 1.2).

Figure 29

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', Banca d'Italia, Statistics Series, 10 July 2017). – (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).

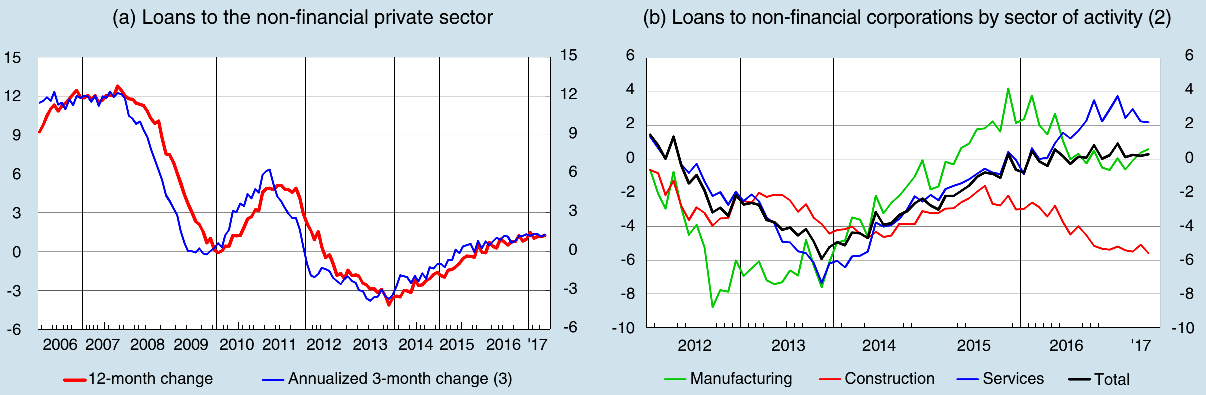
2.7 BANKS

The expansion in lending to the non-financial private sector continued, driven by the growth in lending to households. The trend in corporate lending remains differentiated by sector of economic activity and by firm size. The crises faced by certain financial intermediaries were resolved.

Figure 30

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.

The growth in loans to the private sector continues ...

The growth in lending to the non-financial private sector continued in the three months ending in May (by 1.3 per cent on a seasonally adjusted annualized basis; see panel (a) of Figure 30), buoyed by the expansion in lending to households, which grew by 2.8 per cent. The growth in mortgage lending eased slightly, to 2.5 per cent, while growth in consumer credit strengthened.

In May lending to firms stagnated on a 3-month (0.2 per cent) and a 12-month basis (0.3 per cent). Despite the low cost of credit and the gradual strengthening of growth prospects, firms' demand for credit was curbed by their ample liquidity levels (see *Financial Stability Report*, 1, 2017).

... though with heterogeneous trends

The rates of growth in corporate lending remain highly differentiated according to the sector of economic activity (see panel (b) of Figure 30): the rate is higher in services (2.3 per cent in the 12 months ending in May), slightly positive for manufacturing firms (0.6 per cent), and still negative for construction firms (-5.4 per cent). Moreover, lending remains more favourable for large firms, growing at 0.7 per cent compared with -3.1 per cent for small firms.

Bank funding increases

Between February and May Italian banks' total funding increased (Table 8). The increase in resident deposits and greater recourse to Eurosystem refinancing operations more than offset the fall in wholesale funding and bonds placed through the branch networks.

Supply conditions are accommodating

The business surveys conducted in June by Istat and by the Bank of Italy together with *Il Sole 24 Ore* found that credit access conditions were generally favourable, though with differences between firms in different economic sectors. The banks interviewed for the quarterly survey on bank lending in the euro area reported a slight easing in supply policies in the first quarter of 2017 (see the box 'Credit supply and demand').

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		12-month percentage changes (3)	
	February 2017	May 2017	February 2017	May 2017
Assets				
Loans to Italian residents (4)	1,801	1,802	-0.5	-0.2
of which: firms (5)	779	773	0.1	0.3
households (6)	626	631	2.2	2.5
Claims on central counterparties (7)	71	71	-30.6	-26.6
Debt securities excluding bonds of resident MFIs (8)	510	510	-1.4	-2.3
of which: securities of Italian general government entities	391	394	-4.2	-4.2
Claims on the Eurosystem (9)	55	94	185.4	396.0
External assets (10)	358	357	6.4	3.8
Other assets (11)	1,101	1,084	-4.9	-1.9
Total assets	**3,896**	**3,918**	**-1.2**	**0.7**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,428	1,445	2.9	3.0
Deposits of non-residents (10)	303	298	-6.8	-8.9
Liabilities towards central counterparts (7)	139	129	-21.2	-24.3
Bonds (13)	334	315	-14.6	-16.1
Liabilities towards the Eurosystem (9)	200	255	31.7	69.6
Liabilities connected with transfers of claims	118	115	0.0	-3.4
Capital and reserves	462	451	2.7	1.8
Other liabilities (14)	913	910	-3.5	0.5
Total liabilities	**3,896**	**3,918**	**-1.2**	**0.7**

Source: Supervisory reports.
(1) The data for May 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 the Bank of Italy website, 'Banks and Money: National Data', Tables 3.3a and 3.3b, Statistics series. – (10) In the period considered these refer mainly to interbank transactions. – (11) Bonds issued by resident MFIs, loans to resident MFIs, shares and other equity of resident companies, cash, money market fund units, derivatives, movable and immovable goods, and some minor items. – (12) Excludes liabilities connected with transfers of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Bonds held by resident MFIs, deposits of resident MFIs, derivatives, and some minor items.

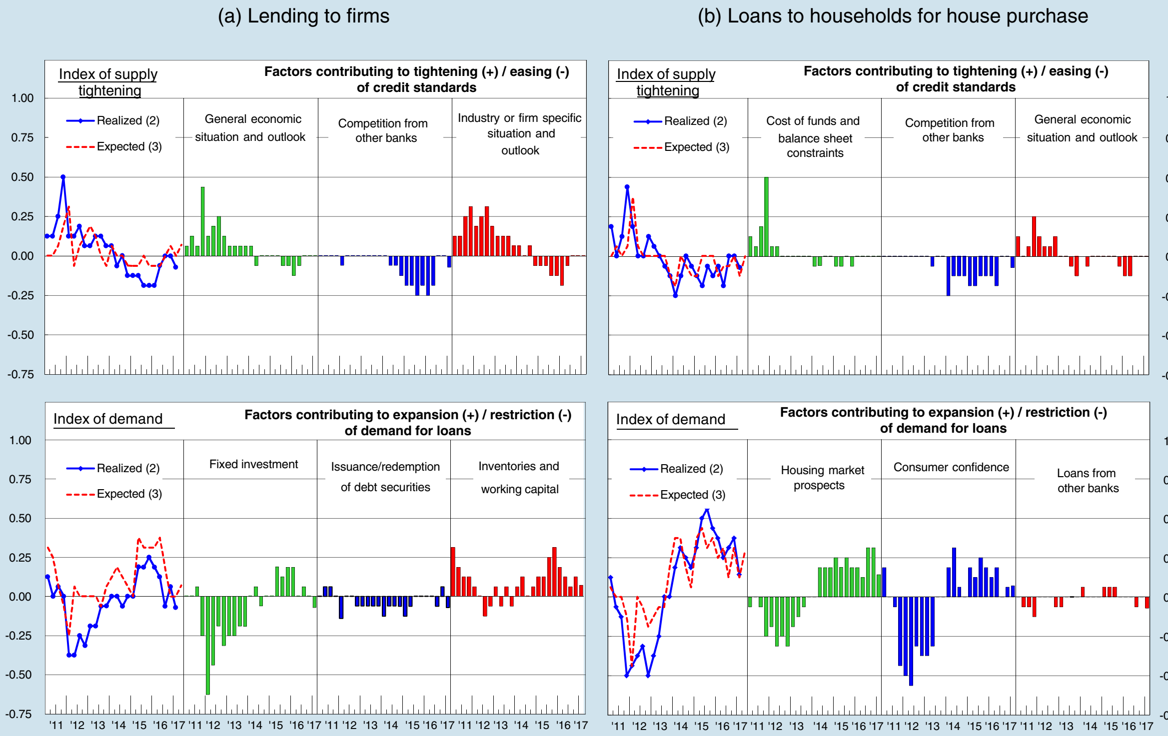
CREDIT SUPPLY AND DEMAND

The Italian banks interviewed in the quarterly euro-area bank lending survey reported that their credit supply policies for households and firms had eased slightly in the first quarter of 2017, reflecting an improvement in banks' balance sheets and the effects of competitive pressures (Figure A).[1] The average margin on loans narrowed further, especially for those to households.

[1] Seven of the main Italian banking groups took part in the survey, which ended in late March. The results for Italy are available at www.bancaditalia.it, those for the euro area are available at www.ecb.int.

Figure A

Supply conditions and trends in credit demand in Italy (1)



Source: Euro-area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand, 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the time of the survey. – (3) Forecasts made in the preceding quarter.

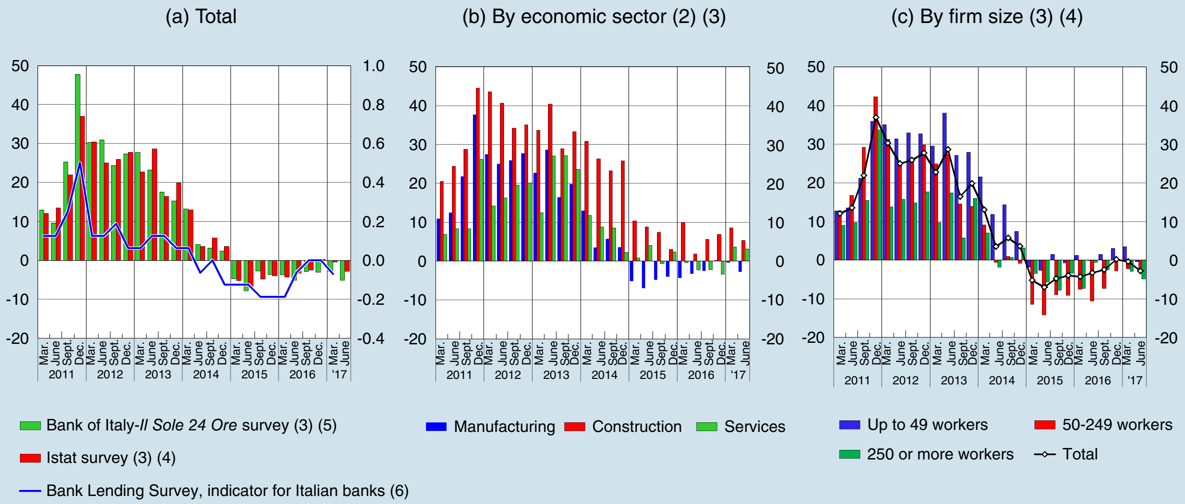
According to the banks interviewed, the demand for business loans remained modest while household demand strengthened further, driven by the improved housing market outlook and low interest rates.

The survey contained specific questions relating to the effect of certain unconventional measures taken by the ECB's Governing Council on credit conditions. Banks reported that over the last six months, the Expanded Asset Purchase Programme contributed to the expansion of banks' balance sheets and the improvement in their funding conditions; the liquidity provided by the Eurosystem was mostly used to support lending to firms and households. The ECB's negative deposit facility rate, while negatively effecting interest margins, helped to reduce the cost of bank loans to firms and households and increased the volume of loans.

Based on Istat's business confidence survey and the 'Survey on Inflation and Growth Expectations' conducted by the Bank of Italy with *Il Sole 24 Ore*, in the second quarter of 2017 there was a slight improvement in credit access conditions for manufacturing firms, while they tightened slightly for service and construction firms (Figure B). Supply conditions improved for manufacturing firms of all sizes, but more markedly so for large firms.

Figure B

Firms' access to credit (1)



(1) The Bank of Italy-*Il Sole 24 Ore* survey is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and services; the Istat business confidence surveys are conducted on samples of manufacturing and service firms (excluding retail and wholesale trade) and construction companies. The data for the Istat survey are taken from the end-of-quarter observations; in June 2013 some methodological changes involving the sample and data observation techniques were made that preclude direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, business confidence surveys. – (3) Net percentage of firms reporting difficulty in obtaining credit. The net percentage is calculated as the difference between the percentage of replies indicating a worsening of credit access conditions and the percentage of those indicating an improvement. – (4) Istat, business confidence survey in the manufacturing sector. – (5) 'Survey on Inflation and Growth Expectations' conducted by the Bank of Italy and *Il Sole 24 Ore*, published in *Supplements to the Statistical Bulletin* for data up to the third quarter of 2016 and in the Statistics series thereafter. – (6) Right-hand scale.

The average cost of new loans remains low

In May the average rate on new loans to firms was 1.6 per cent (Figure 31), a historically low level. The loan cost dispersion among borrowers with different credit ratings fell but remains high by historical standards. The cost of new mortgage loans is about a tenth lower for variable rate loans (1.7 per cent) and remained unchanged for fixed rate loans (at 2.3 per cent). The spread in relation to the euro area was substantially nil for loans to firms and very narrow (29 basis points) for those to households.

The new non-performing loan rate returns to pre-crisis levels ...

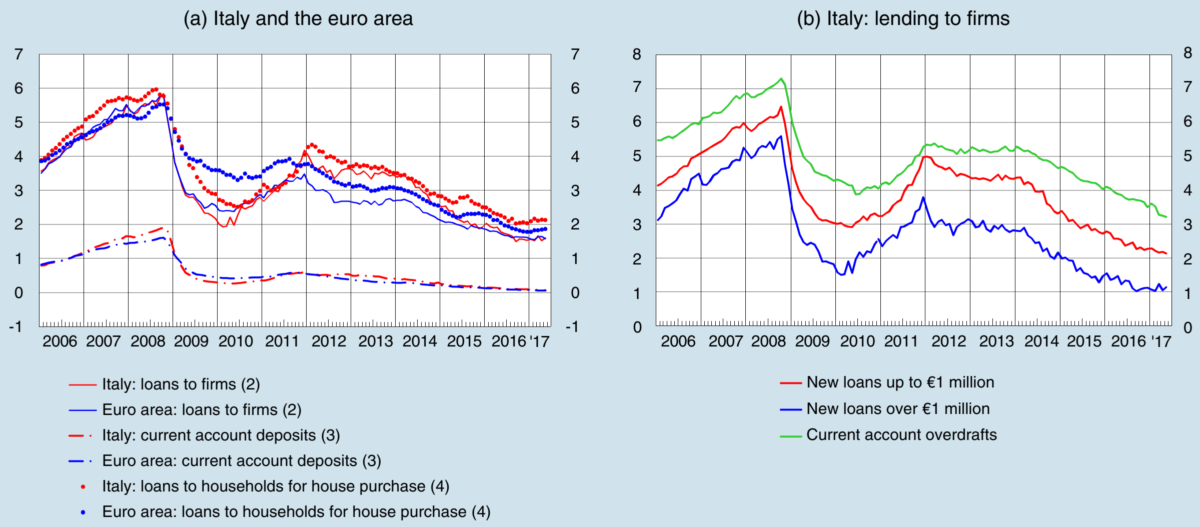
Benefiting from the more favourable macroeconomic conditions, the new non-performing loan rate for Italian banks returned to pre-crisis levels for loans to households, while it was slightly higher for those to firms. In the first quarter of 2017 the ratio of new non-performing loans to outstanding loans was 2.4 per cent, on a seasonally adjusted annualized basis (Figure 32); the ratio was 3.6 per cent for loans to firms and 1.6 per cent for those to households.

... and the proportion of the stock of NPLs declines

For the banking groups classified as significant for supervisory purposes, the ratio of the stock of NPLs to total outstanding loans diminished in the first quarter compared with the fourth quarter of 2016, both in terms of gross values (to 17.5 per cent from 17.6 per cent) and net of write-downs (to 9.2 per cent from 9.4 per cent). The coverage ratio (i.e. the ratio of write-downs to the stock of NPLs) continued to increase, rising from 51.7 to 52.8 per cent; it is about 8 percentage points higher than the average for the main European banks. Sales and securitizations currently under way will lead to a further significant drop in the volume of net non-performing exposures.

Figure 31

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



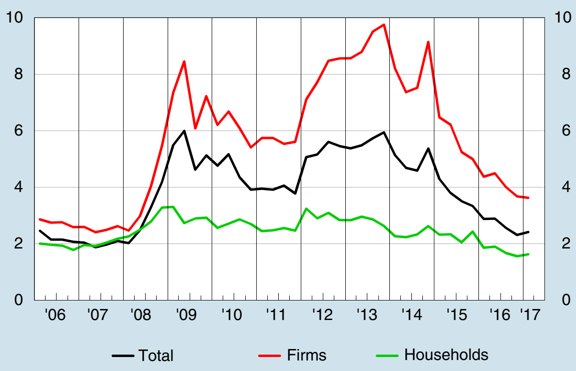
Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are collected and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current account deposits of households and firms. – (4) Rate on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

Profitability improves

The profitability of the significant banking groups increased compared with the year-earlier period: annualized ROE rose from 3.3 per cent to 7.0 per cent. This growth is partly due to an extraordinary transaction carried out at the start of the year, net of which ROE would have nonetheless increased to 5.1 per cent. Gross income expanded by 1.3 per cent, largely on account of the improvement in net commissions which more than offset the fall in interest income. Operating costs fell by 0.7 per cent, thanks to the reduction in personnel costs; operating profit rose by 5.8 per cent. Loan loss provisions fell by more than a fifth, leading to a reduction in risk premiums of about 20 basis points. The average level of capitalization benefited from the completion of UniCredit Group's capital increase. At the end of March, the CET1 ratio for the significant banking groups averaged 11.5 per cent of risk-weighted assets, an increase of 1.1 percentage points on a quarterly basis.

Figure 32

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.

Measures are taken to resolve the crises of the struggling banks

On 25 June a plan was drawn up to resolve the crisis of Banca Popolare di Vicenza and Veneto Banca. Following the decisions of the European authorities and in accordance with Decree Law 99/2017, the Ministry of Economy and Finance, acting on the proposal of the Bank of Italy, put the two banks into compulsory administrative liquidation. At the same time, with the support of the Italian Government, some of the assets and liabilities were sold to Intesa Sanpaolo, the buyer selected on the basis of an open, competitive and non-discriminatory procedure. The liquidation was carried out in such a way as to ensure the continuity of existing business relationships and to limit the effects of the crisis on the economy. Shareholders and junior bondholders participated in the losses, but no bail-in was used, which would have included senior bondholders as well as customers with deposits above €100,000; provision has also been made for compensating some retail junior bondholders.[2]

On 4 July the European Commission's approval of the restructuring plan for Banca Monte dei Paschi di Siena (MPS) completed the procedure for MPS's access to precautionary recapitalization. This measure, provided for by the Bank Recovery and Resolution Directive (BRRD)[3] and in full compliance with the applicable European rules on State aid, is aimed at satisfying the potential capital requirement that would arise under the particularly adverse economic conditions used in the stress test carried out last year by the European Banking Authority (EBA) and the ECB. The intervention provides for an overall capital increase of €8.1 billion, of which €4.2 billion from the conversion into equity of capital instruments subject to burden-sharing measures and €3.9 billion from the State. To prevent or conclude proceedings relating to the mis-selling of these instruments to non-qualified customers, the State may acquire some of the converted shares, up to a maximum amount of €1.5 billion, offering senior MPS bonds in exchange.

2.8 THE FINANCIAL MARKETS

In the second quarter, conditions on the Italian financial markets improved in line with those of other euro-area countries. Diminishing uncertainty in the euro area following the French elections, the publication of better than expected macroeconomic data, and fading concern about the Italian banking sector all contributed.

Sovereign spreads fall

The yields on Italian government securities remained virtually unchanged during the period overall, and were unaffected by Fitch's downgrade of Italy from BBB+ to BBB in April. The yield on ten-year bonds, which had fallen, though with fluctuations, until late June, turned upward again, reaching 2.34 per cent. The spread between ten-year Italian and German government bonds declined by 22 basis points to 177 basis points (Figure 33).

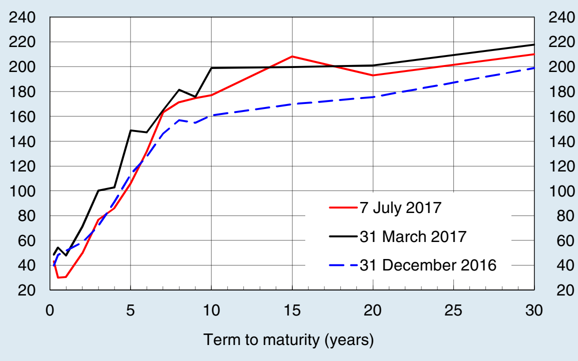
Share prices continue to rise ...

Since the end of March the general index of the Italian stock market has gained 2.5 per cent, compared with a 0.4 per cent rise in that of the main euro-area companies (Figure 34). This is attributable mainly to the

Figure 33

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

(basis points)



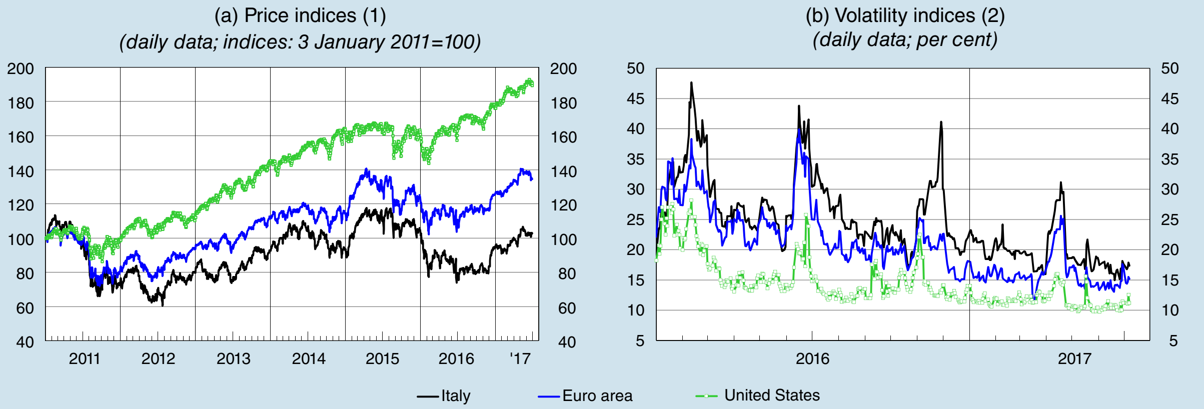
Source: Based on Bloomberg data.

[2] See on the Bank of Italy's website 'Address by Governor Visco to the Italian Banking Association (ABI) Annual Meeting' and *Domande e risposte sulla soluzione della crisi di Veneto Banca e Banca Popolare di Vicenza*.

[3] Directive 2014/59/EU.

Figure 34

Share prices



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.

improvement in corporate earnings forecasts. The volatility implied by the prices of stock index options declined after the French elections to below average long-term levels.

... including in the banking sector

Over the same time period Italian bank share prices have risen by 15 per cent (compared with a euro-area increase of 7 per cent), while the corresponding credit default swaps (CDS) have fallen by an average of 82 basis points. The strengthened capital position of the banking system and the introduction of measures for distressed Italian banks contributed to this.

Net corporate bond issues increase

Net bond issues by non-financial corporations were positive in the first quarter, compared with net redemptions in the corresponding period of 2016. By contrast, banks continued to make net redemptions (see *Selected Statistics,* Table A10). According to preliminary data from Dealogic, gross issuance by Italian banks fell marginally in the second quarter of 2017, to €10 billion from €12 billion in the previous quarter.

The flow of resources to investment funds grows

According to Assogestioni data, in the first quarter of 2017 net inflows of savings to Italian and foreign open-ended investment funds rose to €16 billion, compared with €6 billion in the previous quarter. Investors largely preferred bond, balanced, flexible and equity funds, while money market and hedge funds saw small net outflows.

2.9 PROJECTIONS

The projections for the Italian economy presented in this *Economic Bulletin* update those prepared as part of the Eurosystem staff macroeconomic projections that are based on information available up to 23 May,[4] and take subsequent developments into account. They incorporate the new national accounts data released by Istat on 1 June, which revise GDP growth upwards for the last quarter of 2016 and the first quarter of 2017. The data show an upward revision of realized growth for the current year of 0.3 percentage points. The scenario also takes account of the favourable cyclical data that have since become available

[4] See on the Bank of Italy's website 'Macroeconomic projections for the Italian economy included in the Eurosystem staff projections', 9 June 2017.

for the quarter just ended (see the box 'Economic activity in the second quarter of 2017 based on cyclical indicators'). Developments on the financial and commodities markets instead entail minor adjustments to the technical assumptions with respect to those underlying the forecasting scenario published on 9 June.

The forecasting scenario assumes accommodative monetary and financial conditions

The economic outlook for 2017-19 is based on the assumption that monetary and financial conditions will remain expansionary. According to the trends implied by current market prices, short-term interest rates will increase by a total of around 30 basis points in the three years 2017-19; yields on ten-year BTPs will rise gradually; the spread vis-à-vis the corresponding German Bund will reach 185 basis points on average (see the box 'The assumptions underlying the macroeconomic scenario'). In keeping with survey findings, credit supply conditions are expected to remain relaxed. The scenario incorporates the public finance measures approved on 24 April and, as in previous projections, excludes the effects of the increase in indirect taxes under the safeguard clauses in the next two years and any measures alternative to those already set out in current legislation.

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published on the Bank's website at the start of June and December in concomitance with the euro-area projections. The macroeconomic projections for Italy presented here update those released on 9 June[1] on the basis of information that has become available in the meantime, including the latest national accounts data published by Istat on 1 June. The technical assumptions about developments have also been revised in the light of changes in the exogenous variables at 7 July.

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

	2016	2017	2018	2019
World trade	1.8	4.5	3.9	4.0
Potential foreign demand	3.0	4.1	3.8	3.8
Dollar/euro (1)	1.11	1.11	1.14	1.14
Nominal effective exchange rate (2)	-0.6	1.3	-0.8	0.0
Crude oil prices (1) (3)	44.1	50.2	50.2	51.7
3-month Euribor (1)	-0.3	-0.3	-0.2	0.0
1-year BOTs (1)	-0.1	-0.3	-0.2	0.0
10-year BTPs (1)	1.5	2.3	2.7	3.1

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

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

a) World trade accelerates to just over 4 per cent on average in the three years 2017-19 (from 1.8 per cent in 2016); foreign demand weighted by the outlet markets for Italian exports expands at a slightly slower pace than world trade;

b) The euro-dollar exchange rate holds stable at 1.14 on average in the next two years;[2]

c) The price of a barrel of Brent crude oil, which averaged $44 last year, rises to $50.2 in 2017 and in 2018, and to $51.7 in 2019;

1 The assumptions for global economic activity and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented by the ECB in 'Eurosystem staff macroeconomic projections for the euro area, June 2017'.
2 The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days to 7 July.

d) Three-month interest rates on the interbank market (Euribor), equal to -0.3 per cent in the two years 2016-17, rise gradually until they are practically nil overall in 2019;

e) The yield on ten-year BTPs, which averaged 1.5 per cent in 2016, rises to 2.3 per cent in 2017, 2.7 per cent in 2018, and 3.1 per cent in 2019, in line with market expectations;

f) The scenario incorporates the adjustments to the public finances contained in Decree Law 50/2017 issued on 24 April. In keeping with the stance outlined in the 2017 Economic and Financial Document, it does not include the effects of the increase, from 2018, in indirect taxes under the safeguard clauses introduced in recent years. In accordance with the guidelines underlying the ESCB forecasts, which do not incorporate interventions that have yet to be defined in sufficient detail, the macroeconomic scenario excludes any measures for recouping revenue other than those already set out in current legislation; this is also the case of the recent projections of the European Commission.

Compared with June's macroeconomic projections, the price of oil is revised marginally down, the euro-dollar exchange rate is around 4 per cent higher (1.4 per cent higher in effective terms), and forward interest rates on ten-year BTPs decline slightly.

Under the macroeconomic scenario growth strengthens

Based on these assumptions GDP will grow by 1.4 per cent this year, 1.3 per cent in 2018, and 1.2 per cent in 2019 (Table 9 and Figure 35). Domestic demand is expected to be the main driver of economic activity; the contribution of net foreign demand, negative again this year, should be practically nil in 2018-19 (Figure 36). By 2019 GDP should have fully recouped the ground lost as a result of the sovereign debt crisis that began in 2011; it is still expected to be around 3 per cent below the level of 2007.

Table 9

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

	2016	2017	2018	2019
GDP (1)	1.0	1.4	1.3	1.2
Household consumption	1.3	1.2	1.2	1.1
Government consumption	0.7	1.2	0.1	-0.2
Gross fixed investment	3.1	2.7	3.1	1.9
of which: in machinery, equipment and transport equipment	4.7	3.2	4.0	2.1
Total exports	2.6	4.0	3.0	3.4
Total imports	3.2	5.9	3.0	2.9
Change in stocks (2)	-0.3	0.4	0.0	0.0
HICP	-0.1	1.4	1.1	1.6
HICP net of food and energy	0.5	1.0	1.1	1.6
GDP deflator	0.8	0.7	1.5	1.5
Employment (3)	1.4	1.0	0.9	0.9
Unemployment rate (4)	11.7	11.3	10.9	10.7
Export competitiveness (5)	-2.1	1.2	0.2	0.0
Current account balance (6)	2.6	2.2	2.2	2.2

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

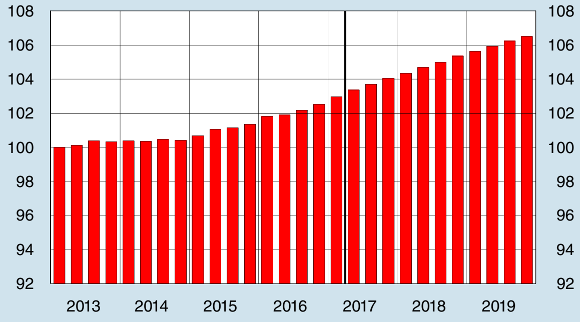
Consumption continues to expand ...

Though slowing a little compared with 2015-16, consumption will expand at a similar pace to output and disposable income (Figure 37). The latter appears to have been held back by the increase in energy commodity prices since last summer, but will be boosted by the rise in employment, which is continuing but at a slightly slower pace than in the last two years now that the social security contribution relief for new permanent hires has come to an end. The unemployment rate will fall gradually, from 11.7 per cent in 2016 to 10.7 per cent in 2019; increased labour market participation in response to the steady improvement in employment prospects and the raising of the retirement age appears to be slowing the fall. The employment rate is projected to increase by around 2 percentage points overall compared with 2016.

Figure 35

GDP projections: quarterly profile (1)

(Index: 2013 Q1=100)

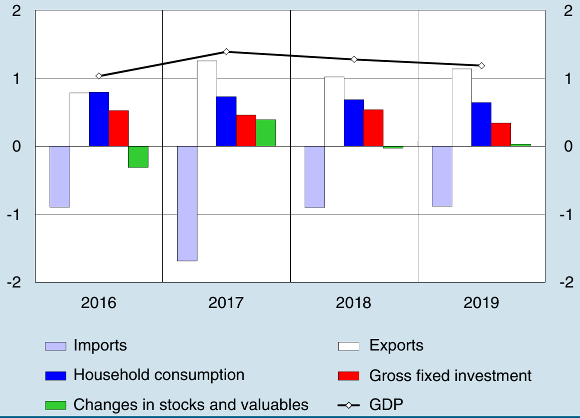


Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to 2017 Q1; projections thereafter.

Figure 36

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

(percentage points)



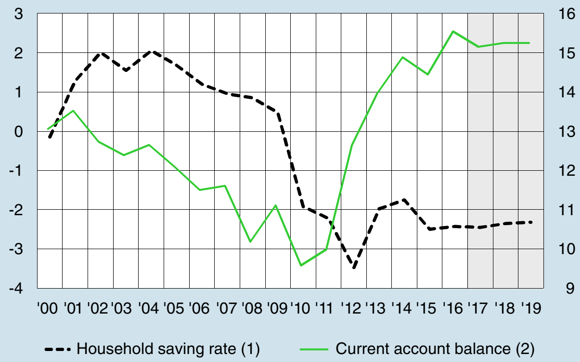
Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted.

... as does investment Investment, which began to expand at the end of 2014, will continue to do so at a relatively fast pace. That in productive facilities will grow at an average annual rate of 3 per cent, thanks to strengthening demand prospects, still very favourable financial conditions, and tax incentives. It is estimated that these measures contributed significantly to the acceleration of investment in 2016, which was especially marked in the second half of the year (see the box 'The trend in investment and the cyclical recovery', Chapter 6, *Annual Report for 2016*, 2017). The positive effects of the tax incentives – extended by the 2017 Stability Law that also contains new incentives for investment in advanced digital technologies – are expected to last until the second half of 2018, when their discontinuation will probably be followed by a temporary slowdown in capital accumulation. Investment in residential construction, which has been picking up since 2015, will instead continue to grow slowly. At the end of the forecasting horizon it is expected that the ratio of investment to GDP will be just above the pre-crisis average (1998-2007) for machinery, equipment and transport equipment, while in the construction sector it will be more than 3 percentage points below that level (Figure 38).

Figure 37

Household saving rate and current account balance

(percentage points)

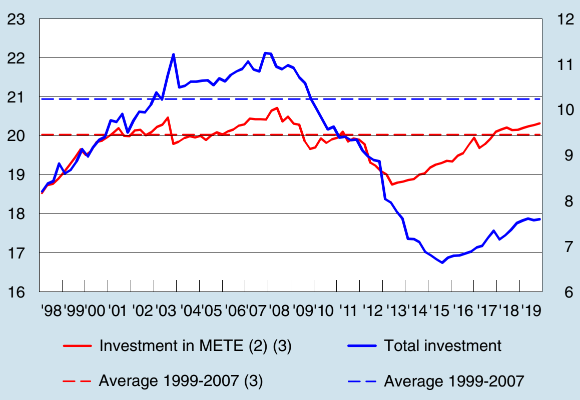


Sources: Based on Bank of Italy and Istat data.
(1) Right-hand scale. – (2) Per cent of GDP.

Exports grow along with foreign demand In the three years 2017-19 exports are expected to grow at virtually the same pace as demand from outlet markets, averaging around 3.5 per cent per year. Imports, which will rise by almost 6 per cent in 2017, will slow in 2018-19 in response to the performance of demand components with high import content (investment in production facilities and exports). In the macroeconomic scenario the surplus on the current account of the balance of payments will remain wide, at more than 2 per cent of output over the forecasting horizon.

Figure 38

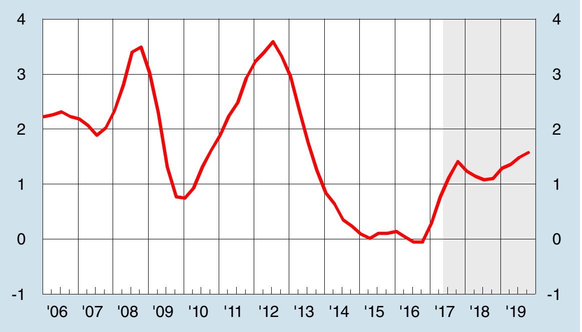
Investment as a percentage of GDP (1)
(quarterly data)



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

Figure 39

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



Sources: Based on Bank of Italy and Istat data.

Inflation rises gradually ...

Inflation, as measured by the harmonized index of consumer prices, will rise to 1.4 per cent this year (from -0.1 per cent in 2016), fall to 1.1 per cent in 2018, then turn upwards again to 1.6 per cent in 2019 (Figure 39). The projected trend for the two years 2017-18 can be ascribed mainly to the prices of imported energy and food products.

... assuming stronger wage growth

Core inflation is projected to stay at around 1 per cent this year and the next, and to reach 1.6 per cent in 2019, thanks to the gradual though still moderate acceleration in unit wages and to the effects – probably more marked towards the end of the forecasting horizon – of the end of social security contribution relief for workers hired in 2015 and 2016. Wages in the non-farm private sector will go up by around 1 per cent this year and the next, rising to 1.7 per cent in 2019. Profit margins in the private sector will continue to benefit from the strengthening recovery, increasing in the three years 2017-19 by around 1.5 per cent overall, but still 5 per cent below the levels of 2007.

Growth projections are revised upwards, those for inflation, downwards

Compared with our estimates published on 9 June as part of the Eurosystem staff macroeconomic projection exercise, the growth projections have been revised upwards by 0.4 percentage points this year and by 0.1 points in 2018. The more favourable assessments for this year are mostly due to revisions of the national accounts data, as well as to a higher estimate of output in the quarter just ended suggested by cyclical indicators. Compared with the projections in last January's *Economic Bulletin*, GDP has been revised up by 0.8 percentage points overall in the three years 2017-19; this primarily reflects more favourable assumptions regarding international developments and energy commodity prices. The inflation projections are slightly below those published last January for 2018, principally owing to lower imported energy prices.

Our growth projections are more favourable than those of other forecasters

Our projections for GDP growth are more positive than those of the main international organizations (Table 10). For this year the differences are mostly ascribable to the better results to date, as confirmed by the revised national accounts data released in early June, and which are not incorporated in the projections of the IMF, OECD or European Commission.[5] Some of the differences for 2018-19, instead, can be ascribed to the technical assumptions regarding developments in the public accounts, for which the OECD and the IMF both incorporate a larger correction than the one envisaged in these projections. The Bank of Italy's inflation estimates are in line with those of the majority of the other forecasters for this year and on average 0.2 percentage points lower for 2018.

Table 10

Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)			Inflation (2)		
	2017	2018	2019	2017	2018	2019
IMF (April)	0.8	0.8	0.8	1.3	1.3	1.4
OECD (June)	1.0	0.8	–	1.5	1.3	–
European Commission (May)	0.9	1.1	–	1.5	1.3	–
Consensus Economics (June)	1.1	1.0	–	1.4	1.3	–

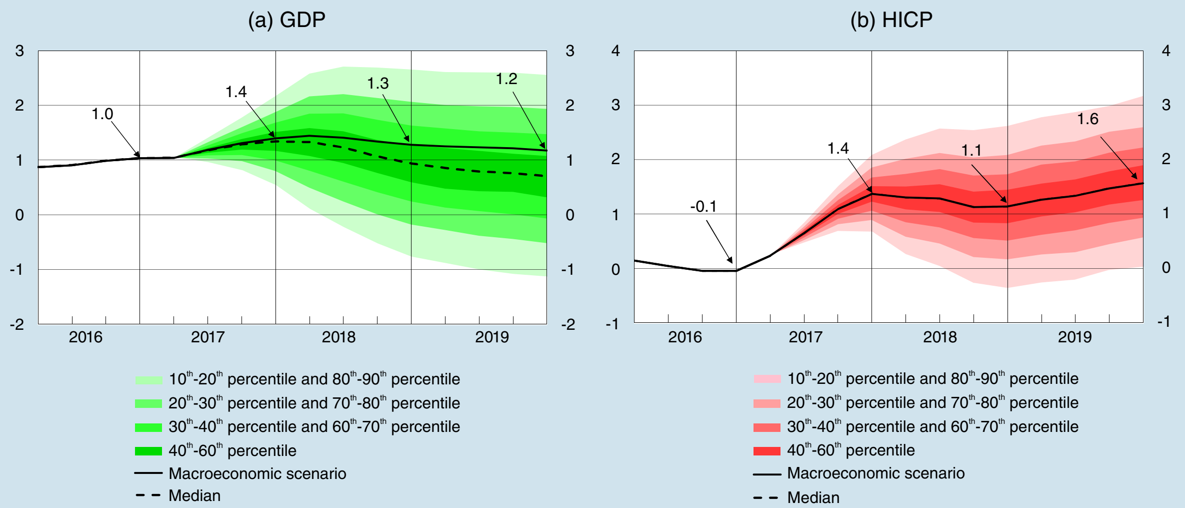
Sources: IMF, *World Economic Outlook*, April 2017; OECD, *OECD Economic Outlook*, *June 2016; European Commission*, *European Economic Forecast Spring 2017*, May 2016; Consensus Economics, *Consensus Forecasts*, June 2017.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

The risks to growth stem from the global economic cycle and international financial markets ...

The macroeconomic developments outlined here assume that the cyclical upswing will strengthen gradually and that volatility will remain low on international financial markets, in line with the most recent developments. Uncertainty about the future of economic and trade policies remains high, however, at both global level and in the euro area. Uncertainties persist in particular about the future stance of policies in the United States and the outcome of talks to strike new trade deals with the United Kingdom.

Figure 40

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



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

[5] In the update to the outlook contained in the 'Italy: Staff Concluding Statement of the 2017 Article IV Mission' published on 12 June, the GDP growth estimate is revised upwards, to 1.3 per cent in 2017, and to around 1.0 per cent in the following two years.

... those to inflation from wage dynamics

Downside risks to inflation mainly stem from a possible weakening of the prospects for global expansion and lower wage growth: the gradual recovery in wages assumed here could be hindered by unused labour force capacity (which in terms of hours worked is greater than the rate of unemployment) and by the increased use of mechanisms linking pay increases to past rather than expected inflation. Near-term trends in energy commodity prices also continue to be shrouded in uncertainty. Overall, the risks are estimated to be mostly on the downside for growth and balanced for inflation (Figure 40).

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: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
					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	2.3	-0.8	4.2	1.6	0.8	0.7	4.4
2015	2.0	6.3	3.3	1.4	5.0	3.2	1.8	1.3	6.2
2016	1.8	4.1	2.5	2.3	5.1	3.7	2.1	1.8	3.0
2014 – Q1	0.4	1.1	0.6	0.3	1.0	0.7	0.0	0.0	0.9
Q2	0.2	1.4	0.5	-1.5	0.4	-0.6	0.3	0.1	1.0
Q3	0.4	1.5	0.7	0.4	1.2	0.8	0.4	0.4	1.6
Q4	0.4	1.3	0.6	0.0	0.7	0.3	0.5	0.2	1.4
2015 – Q1	0.8	2.4	1.2	1.1	2.3	1.7	0.5	0.3	2.6
Q2	0.4	0.8	0.5	-0.6	0.5	0.0	0.4	0.3	1.1
Q3	0.3	1.3	0.6	1.0	1.3	1.2	0.4	0.4	0.3
Q4	0.4	1.4	0.7	0.8	0.8	0.8	0.4	0.6	0.7
2016 – Q1	0.5	0.0	0.4	0.5	0.4	0.5	0.7	0.7	0.4
Q2	0.3	1.6	0.7	-0.4	2.8	1.2	0.4	0.3	1.2
Q3	0.4	0.3	0.4	1.6	-1.5	0.0	0.4	0.1	0.4
Q4	0.5	3.8	1.5	0.1	6.5	3.4	0.4	0.3	1.7
2017 – Q1	0.6	1.3	0.8	1.3	1.4	1.3	0.3	0.4	1.2
					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	….	….	….	0.0	0.2	0.5	-0.4
Q2	0.1	-0.5	….	….	….	0.1	0.1	0.0	-0.2
Q3	0.3	0.1	….	….	….	0.4	0.0	0.4	0.2
Q4	0.4	-1.0	….	….	….	0.3	0.0	0.1	0.0
2015 – Q1	0.3	-0.8	….	….	….	-0.2	-0.2	-0.1	-0.1
Q2	0.3	1.1	….	….	….	0.4	0.5	0.2	0.9
Q3	0.2	-1.4	….	….	….	0.2	0.0	0.2	-0.5
Q4	0.5	-1.2	….	….	….	0.4	0.1	0.2	-0.4
2016 – Q1	0.0	-1.8	….	….	….	-0.3	-0.2	0.1	-1.5
Q2	0.1	0.2	….	….	….	0.4	0.2	0.1	-0.1
Q3	0.2	0.6	….	….	….	0.3	0.2	0.3	0.4
Q4	0.4	1.1	….	….	….	0.9	0.6	0.2	1.2
2017 – Q1	0.0	2.2	….	….	….	0.1	0.6	0.4	1.2

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

Table A2

Sources and uses of income: Italy (1)

(percentage changes on previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
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	0.0	0.5	0.1	-1.2	0.4	-0.4	-0.1	-0.2	0.4
Q2	0.0	1.3	0.3	-2.3	1.1	-0.6	0.1	-0.6	1.0
Q3	0.1	1.3	0.4	-1.4	0.4	-0.5	0.1	0.5	0.8
Q4	-0.1	0.4	0.0	0.1	1.4	0.7	0.4	0.1	1.6
2015 – Q1	0.3	3.9	1.0	0.0	0.9	0.5	0.3	-0.8	1.4
Q2	0.4	1.4	0.6	0.1	0.8	0.5	0.6	-0.2	1.3
Q3	0.1	0.0	0.1	0.1	0.7	0.4	0.6	0.1	-1.2
Q4	0.2	1.6	0.5	1.1	0.3	0.7	0.3	-0.1	1.6
2016 – Q1	0.4	-1.2	0.0	0.1	1.7	0.9	0.1	0.8	-0.6
Q2	0.1	2.2	0.6	-0.1	0.7	0.4	0.5	-0.2	2.2
Q3	0.3	1.0	0.4	0.6	2.3	1.5	0.2	-0.2	0.3
Q4	0.3	2.3	0.8	0.4	1.9	1.2	0.1	0.6	1.9
2017 – Q1	0.4	1.6	0.7	0.6	-2.0	-0.8	0.5	0.5	0.7
				Implicit prices					
2013	1.2	-1.8	0.6	0.1	0.0	0.1	1.2	0.3	-0.3
2014	1.0	-2.7	0.2	0.1	0.7	0.4	0.3	0.0	-0.1
2015	0.7	-2.7	-0.1	-0.1	0.6	0.2	0.0	0.2	-0.4
2016	0.8	-3.4	-0.1	0.0	-0.2	-0.1	0.0	0.7	-0.9
2014 – Q1	0.6	-0.8	0.3	-0.3	1.3	0.5	0.2	0.0	0.2
Q2	-0.3	-0.5	-0.4	-0.2	-0.1	-0.1	0.0	-0.3	-0.2
Q3	0.0	-0.3	0.0	0.4	0.8	0.6	-0.1	0.1	0.4
Q4	0.8	-1.2	0.4	0.1	0.6	0.4	0.0	0.5	-0.3
2015 – Q1	-0.1	-1.1	-0.3	-0.4	-0.3	-0.3	-0.2	-0.3	-0.3
Q2	0.1	1.2	0.3	-0.2	0.2	0.0	0.3	0.0	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	0.0	-0.2	-0.4	-0.3	0.1	-0.1	-0.4
2016 – Q1	0.5	-2.4	-0.1	-0.2	-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	0.0	0.7	0.2	-0.1	1.7	0.8	0.2	0.3	0.5
Q4	0.4	0.9	0.5	0.4	2.0	1.3	0.4	0.3	0.6
2017 – Q1	-0.6	2.1	0.0	0.1	-3.2	-1.6	0.8	-0.3	1.1

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

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2013	2.8	0.8	-0.7	-1.5	2.0
2014	1.6	2.5	2.5	0.0	-0.9
2015	1.1	3.6	4.1	0.5	-2.5
2016	1.4	1.2	1.6	0.4	0.2
2015 – Q1	1.5	3.2	3.4	0.2	-1.6
Q2	1.4	3.0	3.7	0.6	-1.6
Q3	1.1	3.6	4.2	0.6	-2.4
Q4	1.5	3.9	3.8	-0.2	-2.3
2016 – Q1	1.2	1.2	1.7	0.6	0.0
Q2	0.9	0.9	1.3	0.4	0.0
Q3	1.7	1.3	1.3	0.0	0.4
Q4	1.4	1.5	2.0	0.5	-0.1
2017 – Q1	1.5	1.1	1.7	0.6	0.4
			Services		
2013	2.0	1.2	0.2	-0.9	0.9
2014	1.2	0.2	1.1	0.9	1.0
2015	1.1	0.0	1.4	1.4	1.1
2016	2.0	0.8	1.7	1.0	1.3
2015 – Q1	1.1	0.5	1.4	0.9	0.6
Q2	1.0	0.3	1.5	1.2	0.7
Q3	1.1	-0.2	1.2	1.4	1.3
Q4	1.6	0.0	1.3	1.2	1.5
2016 – Q1	1.8	0.2	1.5	1.3	1.6
Q2	2.0	0.3	1.7	1.3	1.6
Q3	2.1	0.9	1.8	0.9	1.2
Q4	2.3	0.9	1.9	1.0	1.3
2017 – Q1	1.8	0.7	1.9	1.2	1.1
			Total economy		
2013	2.2	1.2	-0.1	-1.3	1.0
2014	1.3	0.7	1.2	0.6	0.6
2015	1.1	0.8	1.9	1.1	0.3
2016	1.9	0.8	1.6	0.8	1.0
2015 – Q1	1.1	0.9	1.6	0.7	0.2
Q2	1.0	0.8	1.8	1.1	0.2
Q3	1.0	0.6	1.7	1.1	0.4
Q4	1.4	0.9	1.8	0.9	0.6
2016 – Q1	1.6	0.4	1.5	1.1	1.1
Q2	1.7	0.6	1.5	1.0	1.1
Q3	2.0	1.1	1.7	0.6	1.0
Q4	2.1	1.1	1.8	0.7	1.0
2017 – Q1	1.7	0.8	1.8	1.0	0.9

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

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	1.8	1.0	-0.7	-0.4
Q2	0.7	1.5	0.2	-1.3	-0.8
Q3	0.6	0.5	-0.5	-1.0	0.2
Q4	0.4	0.1	-0.5	-0.6	0.3
2015 – Q1	1.8	1.6	0.8	-0.8	0.2
Q2	1.4	1.3	1.8	0.5	0.1
Q3	1.0	2.3	2.6	0.3	-1.3
Q4	0.9	1.8	2.2	0.4	-0.9
2016 – Q1	-1.6	-0.7	2.3	3.0	-0.9
Q2	-1.1	-1.7	0.7	2.5	0.7
Q3	-1.2	-0.6	1.5	2.0	-0.6
Q4	-0.5	0.5	2.6	2.1	-1.0
2017 – Q1	1.3	-0.4	0.5	1.0	1.7
			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	0.8	-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	-0.5
2015 – Q1	-0.1	-0.3	0.3	0.6	0.2
Q2	0.0	-0.3	0.4	0.7	0.3
Q3	-0.1	-1.2	0.1	1.3	1.2
Q4	-0.3	-1.0	0.2	1.2	0.7
2016 – Q1	-0.4	-1.9	0.5	2.5	1.6
Q2	0.3	-1.9	0.5	2.4	2.1
Q3	0.5	-1.0	0.6	1.6	1.5
Q4	0.7	-1.0	0.8	1.8	1.8
2017 – Q1	0.5	0.4	1.2	0.8	0.1
			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	1.0	0.6	-0.5	-0.2
Q2	0.3	0.5	0.4	-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	0.4	0.5
Q2	0.3	-0.2	0.6	0.8	0.5
Q3	0.2	-0.4	0.6	1.0	0.5
Q4	-0.1	-0.1	0.8	0.9	0.0
2016 – Q1	-0.7	-1.5	0.9	2.4	0.8
Q2	-0.1	-1.4	0.6	2.0	1.3
Q3	0.2	-0.7	0.7	1.4	0.9
Q4	0.5	-0.7	0.9	1.6	1.2
2017 – Q1	0.6	0.3	1.0	0.8	0.4

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

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

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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	0.5	1.5	0.9	1.4	0.6	2.1	0.8	1.5	0.7
Apr.	1.4	0.6	2.0	1.6	2.0	1.3	2.6	1.4	1.9	1.2
May	0.9	0.5	1.4	1.1	1.6	0.9	2.0	1.1	1.4	0.9
June	(0.8)	….	(1.5)	….	(1.2)	(1.0)	(1.6)	….	(1.3)	(1.1)

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

Table A6

Industrial production and business opinion indicators: Italy (1)

(seasonally adjusted data)

	Industrial production (2)					Business opinion indicators (3)				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	Level of orders			Expected demand in 3 months	Stocks of finished goods vis-à-vis normal
						domestic	foreign	total		
2009	93.5	97.9	89.9	91.7	97.6	-56.3	-59.3	-57.0	-6.1	2.5
2010	100.0	100.0	100.0	100.0	100.0	-29.8	-27.3	-27.0	12.3	-1.7
2011	100.4	97.7	104.1	100.5	97.9	-25.3	-15.1	-19.9	9.2	2.2
2012	94.4	93.5	98.0	91.7	95.4	-43.4	-27.5	-37.1	-3.2	3.5
2013	91.5	91.3	93.4	90.5	90.2	-44.5	-18.4	-32.1	4.2	1.5
2014	90.5	90.6	93.3	90.0	85.4	-33.1	-15.3	-19.3	8.8	2.2
2015	92.1	91.5	97.7	89.8	87.5	-21.7	-13.0	-12.7	12.5	3.1
2016	93.2	91.0	100.4	91.3	87.2	-18.7	-15.6	-13.7	10.9	3.7
2009 – Q1	93.4	97.1	92.1	91.4	97.3	-63.7	-63.0	-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	3.7
Q3	92.5	97.8	86.2	89.3	97.7	-54.0	-58.3	-56.3	2.0	1.3
Q4	95.0	99.6	90.9	94.4	98.7	-46.7	-49.7	-47.7	5.0	-1.7
2010 – Q1	97.3	99.6	94.5	96.4	101.4	-39.0	-41.3	-38.7	8.3	-3.3
Q2	99.1	99.3	98.7	99.4	99.1	-32.7	-29.0	-30.0	12.0	-2.7
Q3	100.3	100.0	101.8	99.5	97.2	-25.7	-24.0	-22.3	13.0	-1.3
Q4	101.3	98.6	102.1	102.4	101.9	-21.7	-15.0	-17.0	15.7	0.7
2011 – Q1	102.0	98.4	105.1	102.8	100.0	-20.3	-9.3	-14.3	15.0	0.3
Q2	102.0	99.7	105.3	102.4	97.8	-20.7	-12.0	-14.7	14.0	1.0
Q3	100.7	97.2	105.4	100.8	98.8	-26.7	-16.0	-22.3	7.3	4.0
Q4	98.6	96.0	102.2	98.2	95.5	-33.3	-23.0	-28.3	0.3	3.3
2012 – Q1	96.1	93.6	99.7	94.2	98.1	-38.7	-26.0	-33.0	-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	4.0
Q4	92.3	91.8	96.7	88.4	90.9	-45.3	-30.0	-40.3	-4.3	1.7
2013 – Q1	91.8	92.1	92.4	89.5	92.7	-46.3	-29.3	-39.3	-1.0	3.0
Q2	91.4	90.2	94.5	89.8	90.4	-49.0	-21.7	-39.3	-0.3	2.7
Q3	91.5	91.4	93.0	91.5	89.2	-43.3	-12.0	-28.7	7.7	0.7
Q4	92.0	91.3	93.4	92.3	88.6	-39.3	-10.7	-21.0	10.3	-0.3
2014 – Q1	91.7	91.5	94.5	91.9	85.0	-36.7	-12.7	-20.0	9.7	-0.7
Q2	91.3	91.3	93.2	91.0	87.9	-31.7	-13.7	-17.7	10.0	1.3
Q3	90.5	90.7	92.9	90.0	85.7	-33.3	-15.7	-19.7	7.7	4.3
Q4	90.9	90.8	95.0	89.3	83.6	-30.7	-19.0	-19.7	7.7	3.7
2015 – Q1	91.5	91.6	95.8	89.6	86.6	-26.7	-16.0	-15.7	10.7	3.3
Q2	92.3	91.3	98.2	89.7	88.4	-22.0	-12.3	-12.0	13.0	2.7
Q3	92.3	90.9	97.6	89.4	90.2	-20.3	-13.3	-12.3	13.0	3.0
Q4	91.9	90.6	97.6	90.0	84.6	-17.7	-10.3	-10.7	13.3	3.3
2016 – Q1	93.1	90.9	102.0	91.0	85.0	-19.0	-15.7	-14.0	9.7	3.7
Q2	92.9	90.5	99.3	91.6	84.5	-19.0	-17.0	-14.0	10.3	3.3
Q3	94.0	91.6	102.5	92.3	86.7	-20.3	-16.0	-15.0	10.7	3.0
Q4	94.9	91.6	102.1	92.8	92.2	-16.3	-13.7	-11.7	13.0	4.7
2017 – Q1	94.6	91.7	100.8	92.6	90.0	-13.3	-8.0	-7.0	15.3	3.3
Q2	….	….	….	….	….	-11.3	-6.0	-5.3	15.7	2.3

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

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
2017 – Q1	828	4,482	1,411	16,005	16,763	5,963	22,726	3,138	25,864	12.1	65.3

Source: Istat, labour force survey

Table A8

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

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
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	15,406	36,099	443	-3,035	-18,101	-369	-3,142	2,773
2014	30,482	47,407	-1,017	-46	-15,861	3,036	-942	3,978
2015	23,734	50,728	-2,750	-9,217	-15,028	2,609	-1,183	3,792
2016	42,755	59,931	-3,187	2,772	-16,761	-2,117	-1,776	-341
2016 – Q1	2,718	11,377	-2,794	131	-5,996	-289	-73	-216
Q2	11,624	16,469	538	-3,395	-1,988	-279	-103	-176
Q3	15,443	15,903	1,651	2,177	-4,289	-608	-766	157
Q4	12,970	16,183	-2,583	3,858	-4,488	-941	-834	-106
2017 – Q1	5,452	9,391	-2,430	2,544	-4,053	-394	-268	-126
2016 – Jan.	-1,831	701	-894	-123	-1,516	-10	39	-49
Feb.	1,647	4,632	-976	-52	-1,957	-26	39	-65
Mar.	2,903	6,043	-924	306	-2,523	-252	-151	-102
Apr.	4,608	5,354	-288	300	-758	-120	-64	-56
May	2,981	5,736	165	-2,579	-341	-116	-56	-60
June	4,035	5,379	661	-1,116	-889	-42	17	-59
July	8,639	8,312	1,033	747	-1,453	-171	-241	70
Aug.	3,145	3,280	540	714	-1,389	-154	-217	63
Sept.	3,658	4,311	79	716	-1,448	-284	-308	24
Oct.	4,706	4,947	-610	1,594	-1,224	-224	-213	-11
Nov.	3,470	4,867	-1,123	953	-1,227	-222	-203	-20
Dec.	4,795	6,369	-850	1,312	-2,037	-494	-419	-75
2017 – Jan.	-963	225	-687	463	-964	-89	-60	-29
Feb.	1,581	2,789	-854	975	-1,330	-97	-58	-39
Mar.	4,834	6,377	-889	1,105	-1,760	-209	-151	-58
Apr.	(3,432)	(3,992)	(36)	(219)	(-816)	(-186)	(-131)	(-56)

(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 –	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 –	Mar.	-2.2	-1.3	0.2	0.7	-1.8	-0.7	2.9	-2.6	0.4
	Apr.	-1.4	-3.1	0.2	0.6	-1.8	-0.5	2.8	-3.3	0.3
	May	-1.4	-1.6	0.3	0.7	-1.8	-0.3	2.9	-2.9	0.5
						South and Islands				
2014 –	Dec.	-4.0	-3.1	-1.6	-1.5	-1.8	-1.0	-0.6	-1.7	-1.4
2015 –	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 –	Mar.	-2.9	5.5	0.5	0.6	0.2	0.6	3.1	-2.0	1.4
	Apr.	-2.9	4.0	0.8	0.9	0.3	0.7	3.2	-2.0	1.6
	May	-2.6	5.0	0.4	0.6	0.0	0.6	3.3	-2.3	1.5
						Italy				
2014 –	Dec.	3.4	-0.5	-2.0	-1.9	-2.3	-1.4	-0.2	-1.6	-0.7
2015 –	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 –	Mar.	-2.3	-1.1	0.3	0.7	-1.4	-0.4	2.9	-2.5	0.5
	Apr.	-1.5	-2.9	0.3	0.6	-1.4	-0.2	2.9	-3.1	0.5
	May	-1.5	-1.4	0.3	0.7	-1.4	-0.1	3.0	-2.8	0.7

Source: Supervisory reports.
(1) The data for the last month are provisional. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. Net of reclassifications, value adjustments and other variations not due to transactions. – (2) Limited partnerships and general partnerships with fewer than 20 employees, informal associations, de facto companies and sole proprietorships with fewer than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

Net bond issues: Italy (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	0.9	-2.2	-68.2
2016 – Q1	-34.2	-5.1	-8.6	-47.9
Q2	-4.1	1.0	4.0	0.8
Q3	-12.3	2.5	2.5	-7.3
Q4	-16.3	2.5	-0.1	-13.9
2017 – Q1	-13.8	0.6	4.6	-8.6
		Euro area		
2015	-291.5	178.6	46.7	-66.1
2016	-151.9	-68.7	79.6	-141.0
2016 – Q1	-38.7	-126.9	-0.7	-166.3
Q2	-3.9	-32.9	30.1	-6.7
Q3	-54.2	52.1	23.3	21.3
Q4	-55.1	39.0	26.9	10.7
2017 – Q1	7.3	24.0	13.6	44.8

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.

Table A11

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
Mar.	2.4	0.2	-0.2	18.5	0.6	-0.1	21.3	2.2	-0.2	23.4	0.0
Apr.	1.1	0.0	0.5	7.8	0.1	0.1	9.7	-3.9	0.8	5.8	0.0
May	1.3	0.5	0.7	5.9	-0.4	0.0	7.4	-0.5	5.0	7.0	0.0

(1) For more information, see the Methodological Appendix in 'The Public Finances, borrowing requirement and debt' in S*upplements 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 A12

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	42.5	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
Mar.	176.3	15.5	114.3	1,796.6	130.1	43.1	33.9	2,260.3	54.6	36.2	32.6	58.2
Apr.	177.4	15.5	114.8	1,805.1	130.2	43.3	33.9	2,270.7	58.5	35.4	33.9	58.2
May	178.6	16.0	115.5	1,811.7	129.8	43.2	33.9	2,278.9	58.9	30.3	35.3	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.