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Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
https:\\www.bancaditalia.it

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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

OVERVIEW

The global economy consolidates

The outlook for short-term world economic growth remains favourable; international trade, which is reviving, looks set to again expand at a pace exceeding that of GDP. Risks to the global economy may arise from a sharp increase in financial market volatility, currently at all-time lows, and heightened geopolitical tensions. Uncertainty about inflation in the United States, which was lower than expected in the summer months, has increased.

The euro-area economy is strengthening, while inflation is not

In the euro area economic growth has intensified. Inflation, however, stayed at 1.5 per cent in September (1.1 per cent excluding the most volatile components). Underlying pressures are being curbed by continued sluggish wage growth in many euro-area economies along with ample margins of underutilization of labour. The Governing Council of the ECB believes that a very substantial degree of monetary accommodation is still needed. It will decide on the calibration of its policy instruments beyond the end of the year, taking into account the financial conditions needed for a sustained return to inflation rates that are below, but close to, 2 per cent.

Our estimates indicate that the Italian economy is still expanding ...

According to our estimates, based on positive developments in several indicators (such as industrial production, goods transport and electricity consumption) and on information drawn from surveys, during the summer the Italian economy grew at a faster pace than in the second quarter, in line with the underlying trend that emerged at the end of last year. The expansion appears to be widespread, benefiting from the growth in value added in the service sector and in non-construction industry.

... driven by domestic demand

The indicators suggest that the expansion in output continues to be buoyed by domestic demand. An increase in consumption in the third quarter, at a slightly faster pace than in the previous quarter, is indicated by improved consumer confidence and new vehicle registrations. Our surveys of firms, conducted in September, suggest that investment conditions are favourable and improving further and that spending on capital goods will pick up in the second half of 2017.

The current account surplus helps to reduce foreign debt

The current account surplus reached 2.7 per cent of GDP over the twelve months ending in August and is helping to quickly reduce Italy's net international debtor position. In the first eight months of the year foreign investors showed a renewed interest in Italian securities.

Employment continues to rise, but there is still ample underutilization of labour

On the basis of the latest short-term economic indicators, the increase in employment recorded in the second quarter continued through the summer. The number of persons employed almost regained pre-crisis levels, although the number of hours worked is still more than 5 per cent below what it was before the crisis, indicating continued ample labour market slack. In the first half of the year contractual and actual earnings in the non-farm private sector increased by a modest 0.5 and 0.7 per cent respectively, compared with the same period in 2016.

Consumer price inflation is expected to stay weak

Inflation in Italy has risen from the minimum levels recorded in previous years, *but is still low, reaching 1.3 per cent in September, with core inflation at 1.1 per cent. Our surveys indicate that households, firms and professional forecasters do not expect it to increase significantly over the next twelve months.*

Lending to households and non-construction firms increases

Lending increased to both households and industrial and service firms while that to firms in the construction sector, characterized by weak activity and higher risk, continued to contract. Overall, lending to the non-financial private sector rose by around 1 per cent on an annual basis in August. Surveys of banks and firms indicate that credit access conditions are accommodative.

Credit quality improves as the recovery gains strength

The improved macroeconomic conditions have had positive effects on the quality of Italian banks' credit. As economic growth has strengthened, the non-performing loan rate has returned to a level in line with that preceding the financial crisis. At the same time, the share of non-performing loans to total loans fell further (to 8.2 per cent, net of loan loss provisions, in the second quarter), in part owing to the liquidation of two banks in June. The sales transactions being finalized will lead to another large reduction in the stock of non-performing loans in the coming months.

Italian bank share prices recovered

Conditions on Italian financial markets have improved, thanks to favourable signs of economic growth, good corporate earnings, and the marked easing of tensions in the banking sector. Over the last twelve months Italian banks' share prices have gone up by 51 per cent, a greater increase than that recorded by the Italian stock market index and the shares of other European banks. In October, however, following the announcement by the ECB Supervisory Board of a consultation on a possible addendum to its guidance to banks on non-performing loans, Italian banks' share prices weakened.

The Government confirms the reduction in net borrowing for this year …

In the Update of the 2017 Economic and Financial Document, the Government estimates general government net borrowing at 2.1 per cent of GDP for the year under way, in line with the objective indicated in April, and a decline in the debt-to-GDP ratio of 0.4 percentage points compared with 2016 (to 131.6 per cent), greater than that forecast in the spring.

… and envisages a more gradual adjustment over the next three years

In the Government's programmes, the public accounts will be adjusted more slowly over the next three years than was forecast in April. The substantial balancing of the budget is expected to be achieved in 2020 and, in that same year, the debt-to-GDP ratio should fall to 123.9 per cent. Simulation exercises confirm that a reduction in the debt-to-GDP ratio is possible in the medium term, based on realistic assumptions about the future growth of the Italian economy and financial conditions, and provided that primary surpluses are adequate.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The recovery in economic activity under way in the main advanced and emerging economies is firming up. The outlook for short-term growth remains favourable, but significant risk factors continue to be at play in connection with ongoing uncertainty about economic policies and the rekindling of geopolitical tensions in some parts of the world. Uncertainty increased regarding inflation in the United States, which was less than expected in the summer months.

Global economic growth strengthens

In the second quarter economic activity quickened in the main advanced countries; cyclical conditions remained favourable in the following months (Table 1). For the United States, the latest data indicate vigorous growth, once again driven by consumption and investment. In the United Kingdom, where weak consumption continues to take its toll, the purchasing managers' indices (PMIs) and those of industrial production point to a rate of growth for the third quarter that is virtually unchanged compared with the previous one (Figure 1). In Japan, cyclical indicators signal that the moderate expansion in economic activity recorded at the beginning of the year is set to continue.

In the emerging countries as a whole, growth exceeded expectations in the first half of 2017. However, the latest data point to slower GDP growth in China owing to the deceleration of public investment in infrastructure.

Following the steep acceleration recorded at the beginning of the year, world trade has moderated somewhat, mainly owing to developments in Asian emerging economies.

Table 1

GDP growth and inflation
(percentage points)

	GDP growth			Inflation (1)
	2016	Q1 2017	Q2 2017	September 2017
Advanced countries (2)				
Japan (3)	1.0	1.2	2.5	0.7
UK	1.8	1.0	1.2	3.0
US	1.5	1.2	3.1	2.2
Emerging countries (4)				
Brazil	-3.6	-0.4	0.3	2.5
China	6.7	6.9	6.9	1.6
India	7.9	6.1	5.7	3.3
Russia	-0.2	0.5	2.5	3.0
Memorandum item:				
World trade (5)	**2.3**	**7.9**	**2.8**	

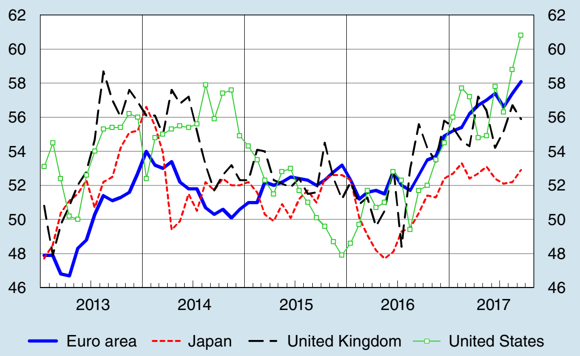
Sources: Thomson Reuters Datastream, Bank of Italy calculations on national trade data, and IMF, *World Economic Outlook,* October 2017.
(1) Consumer price index, monthly data. – (2) Seasonally adjusted data; annualized quarterly percentage changes. – (3) The figure for inflation refers to August 2017. – (4) Year-on-year percentage changes. – (5) For the annual figure the source is the IMF; the quarterly figures are based on Bank of Italy estimates of the annualized quarterly percentage changes.

Inflation is lower than expected

Consumer price inflation is struggling to pick up in the main advanced economies (Figure 2). In the United States it reached 2.2 per cent in September, driven by a sudden rise in fuel prices, though the core component is still below expectations; it remains modest in Japan. The exception is the United Kingdom, where prices have been affected by the depreciation of the pound (12 per cent in nominal effective terms since the referendum of June 2016). Inflation remains moderate in almost all the main emerging economies.

Figure 1

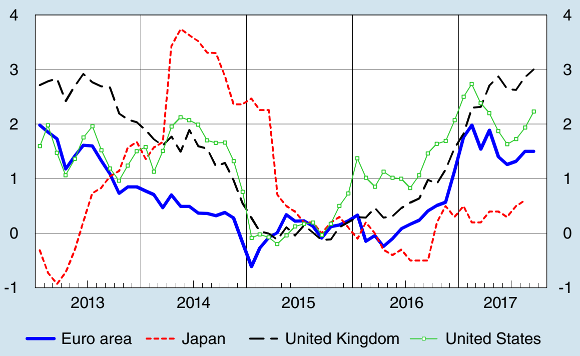
Manufacturing PMIs in the main advanced economies (1)
(monthly data)



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.

The outlook for the world economy improves further ...

According to the IMF's October projections, the world economy will grow by more than 3.5 per cent a year in 2017-18, marking an improvement of almost half a percentage point on 2016 (Table 2). The projections were revised slightly upwards (0.1 percentage points) compared with the July figures. Likely contributory factors include stronger domestic demand in the advanced countries and China, especially the investment component. The IMF has revised upwards its projections for international trade, which in 2017 looks set to expand at a pace exceeding that of GDP for the first time in two years.

... but risks persist

There is still the risk that renewed financial market volatility, triggered by uncertainty about economic policies and heightened geopolitical tensions, could affect consumer and business confidence and, as a consequence, households' spending decisions and firms' investment plans. Uncertainty about fiscal stimulus measures and financial regulatory reform put forward by the US administration remain high, as do those about the outcome of the Brexit negotiations.

Table 2

Macroeconomic projections
(changes and percentage points)

	2016	October 2017 forecasts		Difference October 2017/ July 2017	
		2017	2018	2017	2018
GDP					
World	**3.2**	**3.6**	**3.7**	**0.1**	**0.1**
Advanced countries					
of which: Euro area	1.8	2.1	1.9	0.2	0.2
Japan	1.0	1.8	0.7	0.5	0.1
UK	1.8	1.7	1.5	0.0	0.0
US	1.5	2.2	2.3	0.1	0.2
Emerging economies					
of which: Brazil	-3.6	0.7	1.5	0.4	0.2
China	6.7	6.8	6.5	0.1	0.1
India (1)	7.1	6.7	7.4	-0.5	-0.3
Russia	-0.2	1.8	1.6	0.4	0.2
World trade	**2.3**	**4.2**	**3.9**	**0.2**	**0.0**

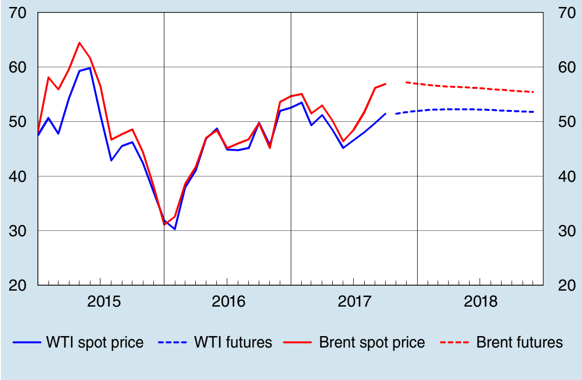
Sources: Thomson Reuters Datastream and IMF, *World Economic Outlook*, October 2017.
(1) The data refer to the fiscal year starting in April.

Futures point to stable oil prices

The latest futures contracts indicate that oil prices, which have recovered since end-June owing to the reduction in OECD countries' inventories and production cutbacks in some regions, are expected to remain at current levels (Figure 3). Oil

Figure 3

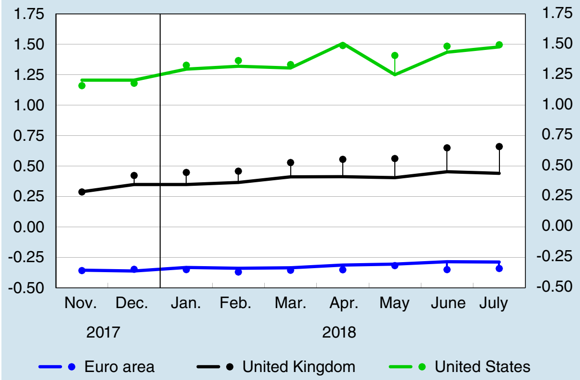
Oil prices (1)
(monthly data; dollars per barrel)



Source: Thomson Reuters Datastream.
(1) For the spot prices, monthly average data through September 2017; the latest data available refer to 13 October 2017.

Figure 4

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 July 2017, the dots show those forecast on 13 October 2017.

prices for the two main benchmarks have followed divergent paths in recent months: the Brent spot price rose to $57 a barrel, while the WTI spot price increased less rapidly to around $51 a barrel, pushing the spread between the two above the average for the last three years. The WTI price was affected by the US crude oil production hike and, at the end of August, Hurricane Harvey, which caused a temporary drop in demand owing to the shutdown of oil refineries in the Gulf of Mexico.

The Federal Reserve initiates its balance sheet normalization programme

At its meeting of 20 September the US Federal Reserve left the target range for the federal funds rate unchanged; it also announced the inception, in October, of the balance sheet normalization programme unveiled last June and intended to gradually reduce its securities holdings, including those of Treasury bonds and mortgage-backed securities (*Economic Bulletin*, 3, 2017). In line with the Federal Open Market Committee (FOMC) projections, the market continues to expect a further rate hike at the December meeting (Figure 4). The Bank of Japan did not modify its monetary policy stance. In China, the central bank maintained a moderately tight stance conducive to high interbank rates and bond yields.

1.2 THE EURO AREA

In the euro area economic growth has intensified, driven primarily by domestic demand. Inflation has remained weak and the underlying pressures are still low, restrained by persistent wage moderation in many euro-area economies. The ECB Governing Council continues to believe that a very substantial degree of monetary accommodation is still needed to secure a sustained return of inflation rates towards levels consistent with its price stability objective.

Euro-area GDP growth strengthens

In the second quarter euro-area GDP rose by 0.6 per cent compared with the previous quarter (Table 3), a slightly quicker pace than during the first three months of the year. Economic activity appears to have continued to expand at a similar rate in the third quarter. In September the Bank of Italy's €-coin indicator, which estimates the underlying GDP trend in the euro area, rose to 0.71 in September, from 0.67 in August (Figure 5). The purchasing managers' indices available up to September confirm that economic expansion remains robust in both manufacturing and services.

Table 3

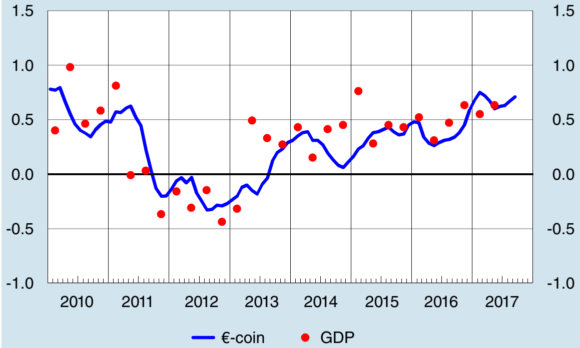
Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation
	2016	Q1 2017 (1)	Q2 2017 (1)	September 2017 (2)
France	1.2	0.5	0.5	1.1
Germany	1.9	0.7	0.6	1.8
Italy	0.9	0.5	0.3	1.3
Spain	3.3	0.8	0.9	1.8
Euro area (3)	1.8	0.5	0.6	1.5

Sources: 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) Change on the year earlier corresponding period. – (3) The euro-area aggregate based on a 19-country composition.

Figure 5

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



Sources: Bank of Italy and Eurostat.
(1) For the methodology used to construct 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 in the press release: '€-coin: September 2017'. For GDP, quarterly data; changes on the previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

Inflation remains weak ...

In September inflation stood at 1.5 per cent (Figure 6); it remained stable on average in the third quarter at 1.5 per cent, curtailed by a softening in energy prices.

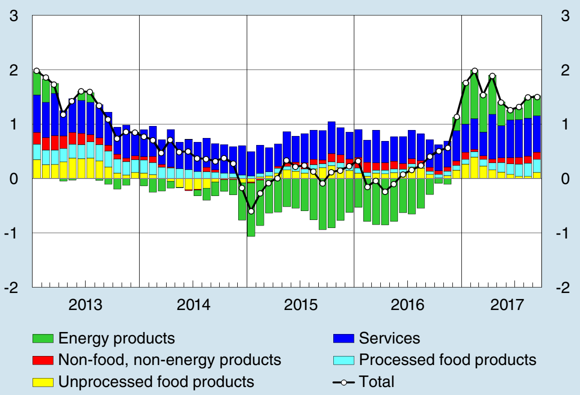
... and underlying pressures are still low

Underlying price growth continues to be low, in part reflecting the still sluggish wage growth in many euro-area economies (see the box 'Salaries and measures of labour market slack in the euro area'). Excluding the most volatile components, the inflation rate fell to 1.1 per cent in September, from 1.2 per cent a month earlier.

Inflation expectations as implied by inflation swap yields have risen to 1.3 per cent over the two-year horizon and remain essentially unchanged at 1.6 per cent over the five-year horizon five years forward (Figure 7).

Figure 6

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.

Figure 7

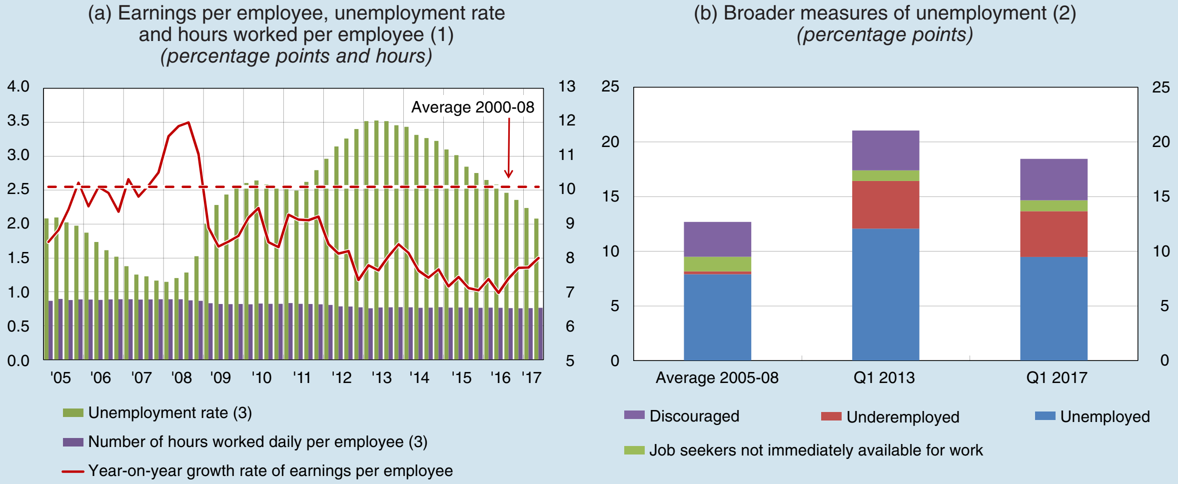
Inflation expectations implied by inflation swaps (1)
(daily data; per cent)

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

SALARIES AND MEASURES OF LABOUR MARKET SLACK IN THE EURO AREA

Since the beginning of the cyclical expansion in 2013, annual average growth in nominal wages per employee in the euro area has been a modest 1.3 per cent, far below the levels recorded prior to the crisis (see panel (a) of the figure). Growth adjusted for inflation, which affects decisions on consumption, savings and labour supply, has been virtually nil. Yet in the same period employment increased by around 5 per cent, the unemployment rate fell by around 3 percentage points, and in several euro-area countries qualitative indicators suggest that firms are struggling to implement planned employment increases.

Labour market indicators for the euro area



Source: Based on Eurostat data.
(1) Average daily hours worked per employee (level). – (2) Share of active labour force plus those available for work but no longer actively seeking employment, and those seeking employment but who are not immediately available. – (3) Right-hand scale.

Moderate wage growth at a time of improved labour market conditions may be mostly explained by two factors: (a) low current and expected inflationary pressures, which affect nominal wage growth through salary indexation; and (b) greater margins of underutilization of labour than those suggested by the unemployment rate. There is, in particular, evidence that the latter only partially captures the actual degree of labour market slack, which is in fact larger and therefore capable of accounting for the low wage growth observed to date.

While the rate of unemployment (which comprises those actively seeking work) is now at around 9 per cent, if estimates of labour market slack were to include the underemployed,[1] this rate would rise to almost 18 per cent in the euro area, only a little below the level recorded in 2013 at the end of the recession (20 per cent; see panel (b) of the figure).[2]

The idea that the actual degree of utilization of labour is lower than that suggested by the unemployment rate is further supported by the observation that the number of hours worked per employee remains 4 per cent below average pre-crisis levels and is struggling to turn upwards. Econometric analyses show that cyclical movements in hours worked per employee anticipate by about one year those of wage

[1] That is, not just job seekers but also part-time workers who are available to do more hours, those looking for work but not immediately available for employment, and discouraged workers.

[2] See the box 'Assessing labour market slack', in ECB, *Economic Bulletin*, 3, 2017.

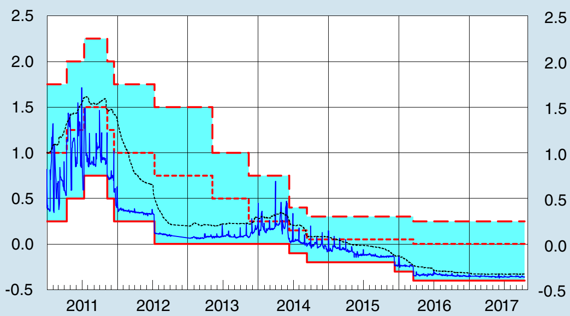
growth. Nor is the relationship between wage growth and the unemployment rate a linear one: when, as now, the number of hours worked is relatively low, changes in the unemployment rate have more limited effects on wage developments.

A very substantial degree of monetary accommodation is still needed

The Governing Council of the ECB continues to believe that a very substantial degree of monetary accommodation is still needed. It expects key ECB interest rates to remain at present levels for an extended period of time and well past the horizon of the net asset purchases (Figure 8). The Governing Council will decide in the autumn on the calibration of its policy instruments beyond the end of the year, taking into account the expected path of inflation and the financial conditions needed for a sustained return of inflation rates towards levels that are below, but close to, 2 per cent.

Figure 8

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



Sources: ECB and Thomson Reuters Datastream.

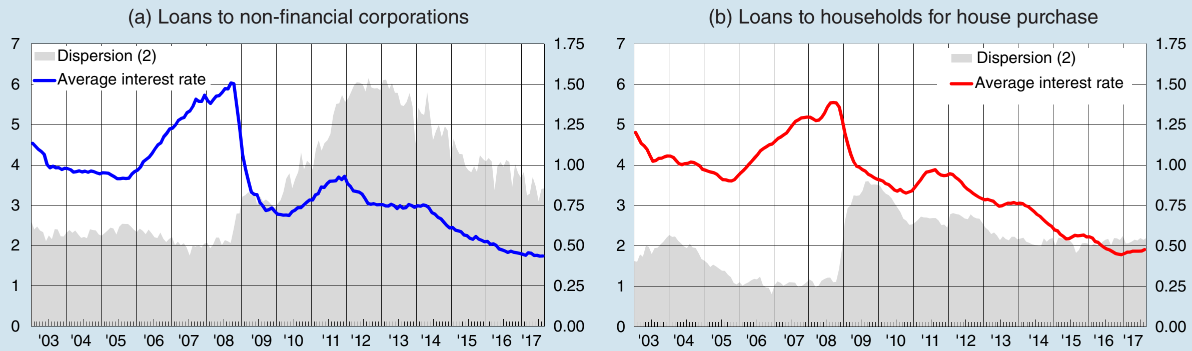
The Eurosystem's asset purchases continued regularly. At 13 October the book value of government securities was €1,774 billion, covered bank bonds €234 billion, asset-backed securities €25 billion and corporate bonds €118 billion. At the end of September the Eurosystem had bought €301 billion worth of Italian government securities, of which €271 billion by the Bank of Italy.

Lending conditions reflect monetary conditions

Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in August, lending to both non-financial firms and households increased (by 2.0 and 2.6 per cent, respectively, on an annual basis). Among the main countries, the expansion in France and Germany was robust, while lending in

Figure 9

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 corporates, includes overdrafts. – (2) Standard deviation of the average interest rates for 12 euro-area countries. Right-hand scale.

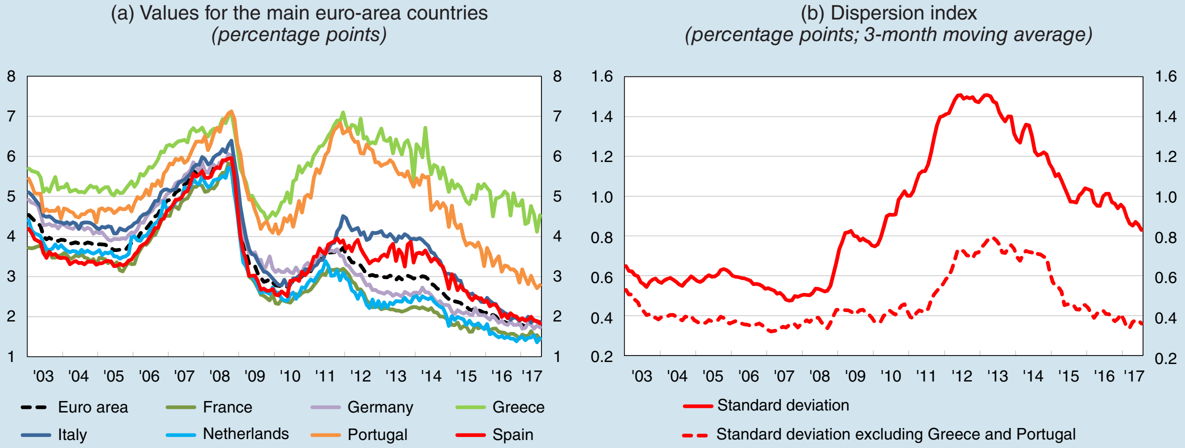
Spain contracted. The average cost of new loans to firms and of those to households for house purchase remain at the lowest levels observed since the inception of the Economic and Monetary Union (1.6 and 1.9 per cent in August, respectively). The dispersion of interest rates across countries stayed at contained levels (Figure 9). The reduction in the dispersion in the cost of lending to firms observed since the summer of 2014 mirrors the accommodative monetary policy and, since 2016, the improved macroeconomic outlook as well (see the box 'The dispersion of business lending rates in the euro area and its determinants').

THE DISPERSION OF BUSINESS LENDING RATES IN THE EURO AREA AND ITS DETERMINANTS

The cross-country dispersion of the interest rates on loans to firms in the euro area, which was basically stable in the five years before the global financial crisis, rose sharply between the end of 2008 and the first half of 2012, reflecting the fragmentation of financial markets along national lines (Figure A). Starting in mid-2013 it began to subside and, if the interest rates applied in Greece and Portugal – which are still significantly higher than the euro-area average – are excluded from the analysis, returned to pre-2008 levels.

Figure A

Composite indicator of the cost of business lending in the euro area (1)



Source: Based on data from the ECB Statistical Data Warehouse.
(1) The composite indicator of the cost of business lending is calculated, for each of the countries considered, as the weighted average of the interest rates applied on new loans and overdrafts, with weights equal to the 24-month moving average of the corresponding credit volumes. The dispersion index is calculated as the standard deviation of the composite indicators of the cost of business lending for the following countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

An econometric model was used to evaluate the factors underlying the dispersion. The model considers the main determinants of business lending rates in the various countries: (a) the euro overnight index average (Eonia), which mostly reflects changes in key policy rates; (b) a measure of the shadow rate,[1] which captures the effects of non-standard monetary policies on the term structure of yields; (c) the yield spread between ten-year government securities issued by the various countries and the ten-year

[1] The shadow rate is an indicator estimated on the basis of the term structure of interest rates and can be interpreted as an aggregate metric of the monetary policy stance when key policy rates have reached their effective lower bound. Several empirical studies have shown that changes in the indicator are closely connected with the announcement or implementation of non-standard monetary policies. See M. Pericoli and M. Taboga, 'Understanding policy rates at the zero lower bound: insights from a Bayesian shadow rate model', Banca d'Italia, Temi di Discussione (Working Papers), 1023, 2015, and J.C. Wu and F.D. Xia, 'Time-varying lower bound of interest rates in Europe', Chicago Booth Working Paper, 17-06, 2017.

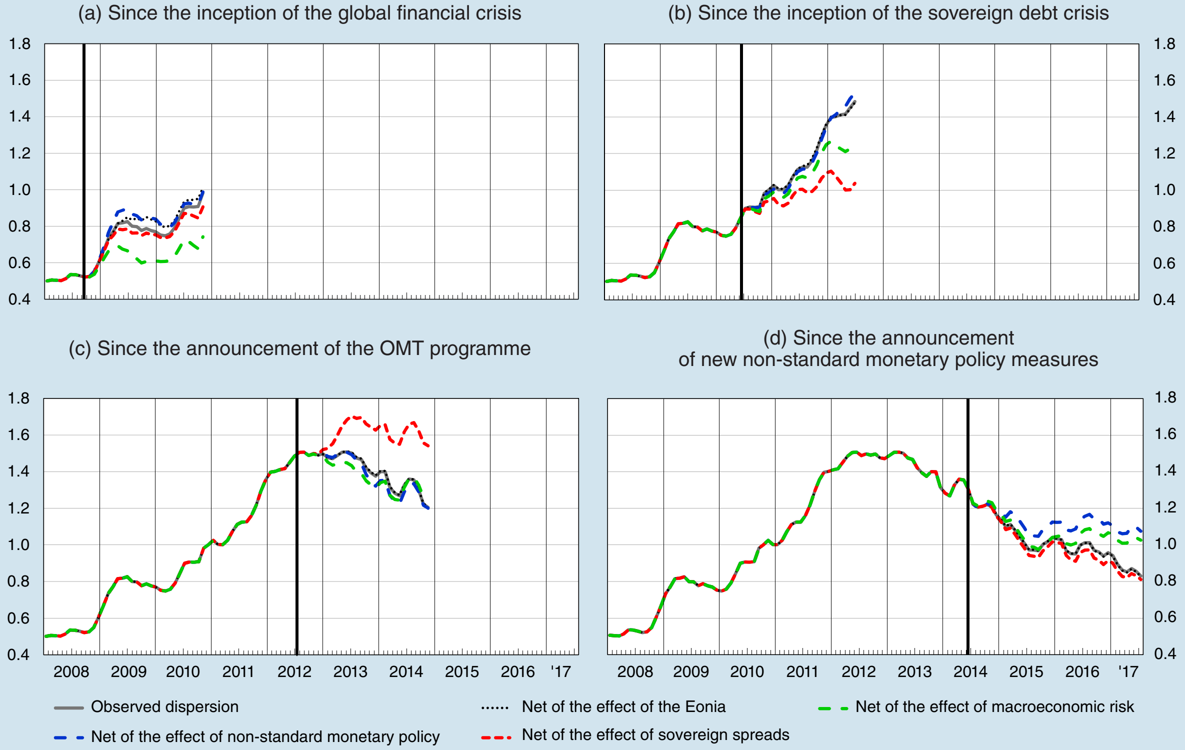
German Bund, which reflects the severe tensions in government bond markets during the sovereign debt crisis and their subsequent attenuation; and (d) two cyclical indicators for each country (the economic sentiment indicator[2] and the unemployment rate), which are assumed to be correlated with both credit demand and the riskiness of borrowers in the various economies.

The estimated model was then used to conduct exercises that compared the actual cost of lending over a given time horizon with what would have been the cost in a number of counterfactual scenarios in which the various determinants were alternately kept unchanged over the entire period of the analysis.[3]

The results suggest that the increase in the dispersion observed during the global financial crisis was mostly triggered by divergent cyclical conditions across countries (see panel (a) of Figure B), while that observed at the height of the sovereign debt crisis was mainly ascribable to the widening of government bond spreads (see panel (b) of Figure B).

Figure B

Dispersion of the cost of business lending: counterfactual dynamics (1)
(percentage points; 3-month moving averages)



(1) The dotted lines show the counterfactual values of the dispersion of lending costs, i.e. the costs that would have been observed if each of the determinants had remained unchanged over the reference period. The difference between the counterfactual dispersion and the actual dispersion is a measure of the importance of the factor considered in explaining the change in the dispersion itself. The econometric model uses monthly data and the sampling period is from January 2003 to July 2017.

[2] The economic sentiment indicator is a composite measure of confidence in the economy; it is calculated by the European Commission based on the findings of consumer and business surveys.

[3] The greater the difference between the dispersion indicator calculated based on the counterfactual bank rate values and the value actually observed, the greater the contribution of the variable that was kept unchanged.

From the summer of 2012 onwards, it is likely that the main contributory factor in its reduction was the sharp drop in the government bond spreads of the most vulnerable countries following the announcement of Outright Monetary Transactions (OMT) by the ECB Governing Council (see panel (c) of Figure B: without the reduction in sovereign spreads, the fragmentation would not have diminished). From mid-2014, the dispersion appeared to decrease further owing to the gradual loosening of monetary conditions, implemented both through changes to key policy rates and through new non-standard measures such as long-term refinancing operations and the asset purchase programme (see panel (d) of Figure B: the dispersion would not have diminished if the spread between the shadow rate and the Eonia had not narrowed). Since 2016 economic upturns in several countries, which have benefited from the highly expansionary monetary policy stance, appear to have contributed to the reduction in the dispersion.

Overall, our analysis indicates that a crucial role in narrowing the dispersion of the cost of business lending was played by the ECB's lowering of key policy rates and the adoption of non-standard measures to restore the correct functioning of the monetary policy transmission mechanism and to support aggregate demand and lending to the economy.

1.3 WORLD FINANCIAL MARKETS

Long-term interest rates on the international markets continued to be low, reflecting the widespread expectation that the normalization of monetary policy in the main advanced economies will be gradual. In the euro area, sovereign risk premiums decreased slightly. Against a backdrop of very low volatility, share indices rose. The euro strengthened against the main foreign currencies.

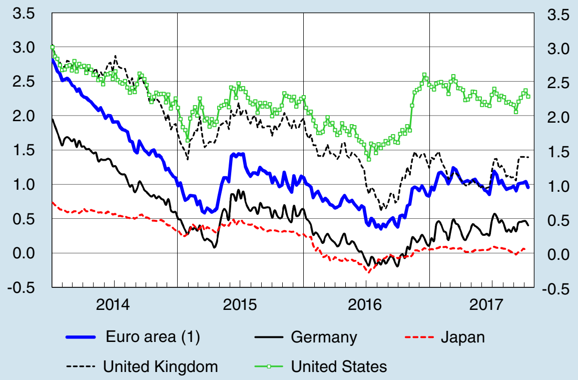
Long-term yields are still low in the United States

In the United States, yields on ten-year Treasury notes remained virtually unchanged at end-June levels (2.3 per cent; Figure 10). After declining in the summer due to lower than expected inflation, in recent weeks rates have increased, partly as a result of the government's tax reform proposals.

Figure 10

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, Luxembourg, Malta, Slovakia and Slovenia.

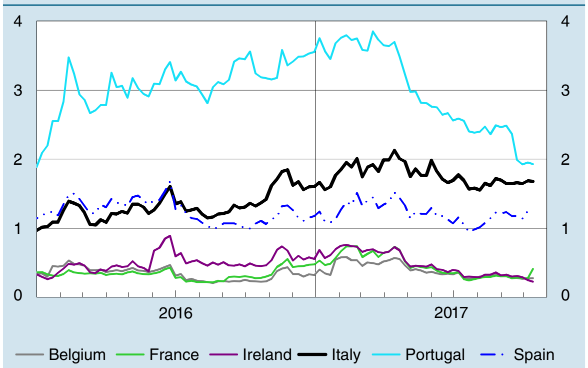
Sovereign spreads narrow in the euro area

Since the beginning of the second half of the year, the interest rates on German ten-year government bonds have fallen by 6 basis points, to 0.40 per cent. Sovereign risk premiums in the euro area have benefited from the positive performance of the economy. Since the end of June, yield spreads between ten-year government bonds and the corresponding German Bund have decreased in Portugal, Ireland, Belgium and Italy (by 63, 20, 6 and 1 basis points respectively; Figure 11). By contrast, yield spreads have risen by 14 basis points in Spain, where increases were recorded in connection with the terrorist attack in Barcelona in mid-August and with the political tensions in Catalonia at the beginning of October. The rise of 7 basis points in France reflects instead the change, in the second week of October, of the benchmark used by market participants to calculate the ten-year yield.

Figure 11

Yield spreads between 10-year government bonds and the corresponding German Bund

(end-of-week data; percentage points)

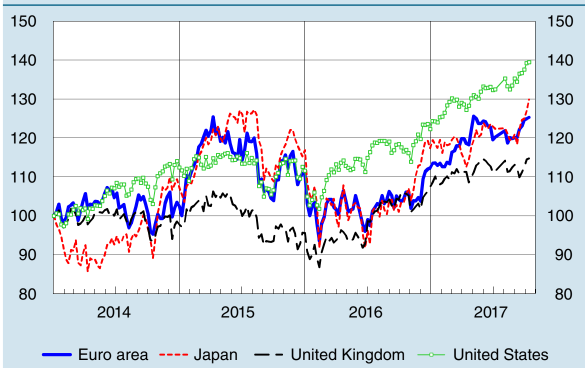


Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 12

Stock market indices (1)

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



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

Stock market volatility is very low

Share prices rose in the euro area and in the United States (Figure 12). In both of these markets, implied volatility continued to be very low, despite the re-emergence of international tensions linked to the situation in North Korea (Figure 13). Conditions in the financial markets of the emerging economies remained generally relaxed.

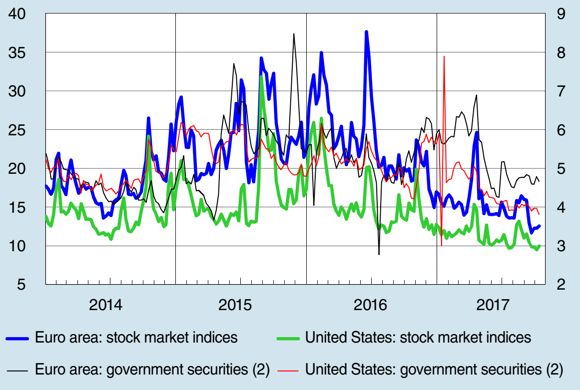
The euro appreciates

Since the end of June the euro has appreciated by 4.2 per cent against the dollar, 4.5 per cent against the yen and 1.6 per cent against the pound sterling. This reflects a more general shift on the part of market participants, as shown by the prevalence of positions signalling expectations of further rises in the euro. Explanatory factors included expectations of gradual monetary policy normalization in the United States and of a re-calibration of monetary policy instruments in the euro area, coupled with international tensions, which triggered flows into the area. In nominal effective terms the euro appreciated by 2.8 per cent (7.6 per cent since the start of the year; Figure 14).

Figure 13

Implied volatility of share and government securities prices (1)

(average weekly data; percentage points)

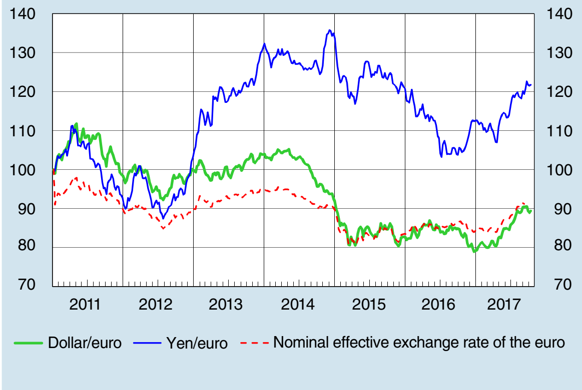


Source: Based on Thomson Reuters Datastream data.
(1) Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for the United States. – (2) Right-hand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

Figure 14

Exchange rates

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



Source: ECB.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

The most recent cyclical indicators suggest that Italy's GDP continued to grow robustly in the third quarter, increasing by about 0.5 per cent. On the supply side, activity expanded further in services and in industry excluding construction.

GDP is sustained by national demand in the second quarter

Based on Istat's latest revision to the national accounts, in the second quarter of 2017, GDP increased by 0.3 per cent on a quarterly basis, after the acceleration recorded in the first (Table 4). Economic activity was buoyed by domestic demand, driven by inventories, and, to a lesser extent, investment in capital goods; household consumption continued to grow, albeit at a slower pace. Net foreign demand had a braking effect on GDP growth, largely due to the lack of contribution made by exports. Value added increased in services and, in particular, in industry excluding construction; there was a moderate drop in activity in construction, though it remained above the levels recorded a year earlier.

Growth is estimated to have strengthened in the summer months

According to our estimates, GDP growth accelerated in the third quarter as compared with the second (see the box 'Economic activity in the third quarter based on cyclical indicators'). In September, the Bank of Italy's Ita-coin indicator rose sharply, returning to the levels recorded in the spring of 2011 (Figure 15). Business surveys point to a firming up of confidence at cyclically

Table 4

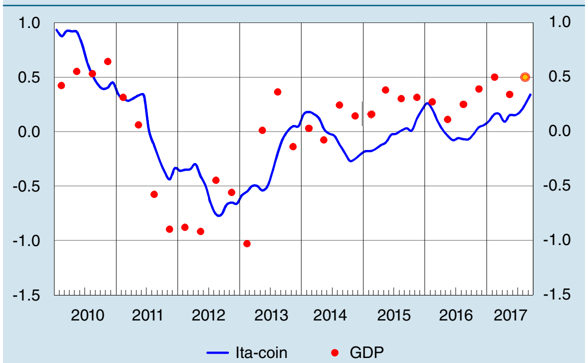
GDP and its main components (1)
(percentage change on previous period)

	2016		2017		2016
	Q3	Q4	Q1	Q2	
GDP	0.3	0.4	0.5	0.3	0.9
Total imports	1.3	2.5	0.8	1.2	3.1
National demand (2)	0.3	0.5	0.2	0.7	1.1
National consumption	0.2	0.3	0.6	0.2	1.3
household spending (3)	0.3	0.2	0.6	0.2	1.5
other spending (4)	-0.2	0.6	0.4	0.0	0.5
Gross fixed investment	2.4	2.5	-2.0	0.9	2.8
construction	0.5	0.4	0.7	-0.4	1.1
other investment goods	4.1	4.3	-4.3	2.0	4.4
Change in stocks (5) (6)	-0.3	-0.2	0.1	0.4	-0.4
Total exports	1.0	2.1	1.7	0.0	2.4
Net exports (6)	0.0	-0.1	0.3	-0.3	-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 15

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



Sources: Bank of Italy and Istat.
(1) For the methodology and construction of the indicator, see the box, 'Ita-coin: a coincident indicator of the Italian economic cycle', *Economic Bulletin*, 2, 2015. Further details are available on the Bank of Italy's website: 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 3rd quarter based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

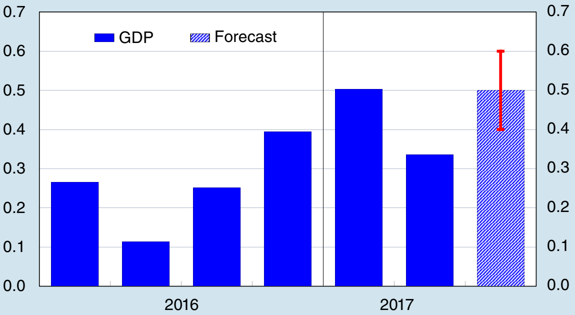
high levels; household surveys indicate a continuation in the recovery under way since May (see Section 2.2). Based on this data, GDP growth for the current year may be slightly higher than the 1.4 per cent estimated in the most recent projections (see *Economic Bulletin*, 3, 2017).

ECONOMIC ACTIVITY IN THE THIRD QUARTER BASED ON CYCLICAL INDICATORS

Based on the latest economic data, calculated using the Bank of Italy's statistical models,[1] in the third quarter of 2017 GDP continued to grow at a steady pace, gaining 0.5 per cent on the previous period, a slight acceleration with respect to the spring (Figure A). The uncertainty of the GDP estimate lies within a range of 0.1 percentage points on either side of the central projection.

Figure A

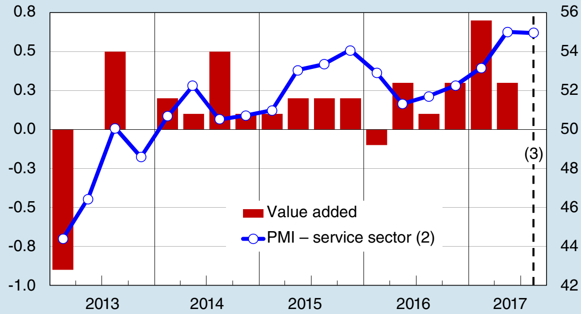
GDP estimates in the third quarter (1)
(percentage changes)



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 third quarter of 2017 is not yet available.

During the summer, output appears to have again benefited from the growth in value added in the service sector and in non-construction industry, which both showed an improvement on the second quarter.

In the service sector, positive signs come from the purchasing managers' index (PMI) which remains at high levels, both in the current component and, to a lesser extent, in the prospective one (Figure B). The slowdown deriving from changes in business demographics has also eased. Favourable indications emerge from a further increase in international tourism flows as well.

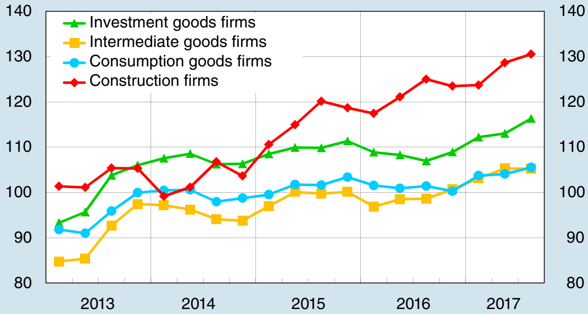
Our estimates, based on data for July and August and a broad range of cyclical data for September, suggest that industrial production rose sharply in the third quarter, by almost 2 percentage points. Business confidence continued to improve, according to Istat data, notably among investment goods firms (Figure C). Encouraging signs also come from an acceleration in new vehicle registrations and goods transport flows, while electricity consumption declined slightly (Figure D).

[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, which 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.

Figure C

Business confidence indices (1)

(levels)

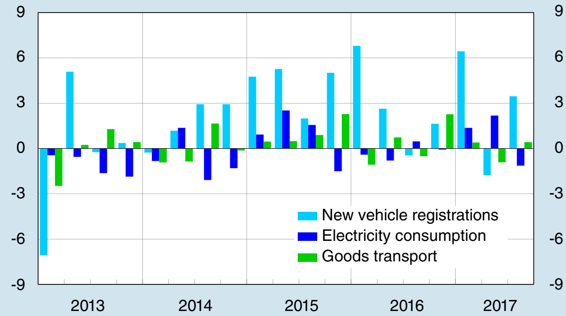


Source: Based on Istat data.
(1) Average level in the reference quarter.

Figure D

Cyclical indicators (1)

(seasonally adjusted 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.

The contribution to output growth coming from value added in the construction sector, which was slightly negative in the second quarter, appears to have stagnated in the third. Output generally appears to have stalled in the construction sector in the summer. However, the business confidence index for the sector shows encouraging signs, having regained the values recorded at the end of 2007, before the start of the crisis. According to the opinions of the firms interviewed for the Bank of Italy's business surveys, the outlook for demand in the sector is firming up and encouraging investment (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 October 2017).

2.2 FIRMS

Manufacturing activity is estimated to have accelerated in the third quarter compared with the second quarter. Cyclical conditions in the construction sector also appeared to improve, though they were still far off pre-crisis levels. Business confidence remains at historically high levels in almost all the main sectors of activity; according to our surveys, firms' assessments of the outlook for demand continue to be positive and those regarding investment conditions have improved further.

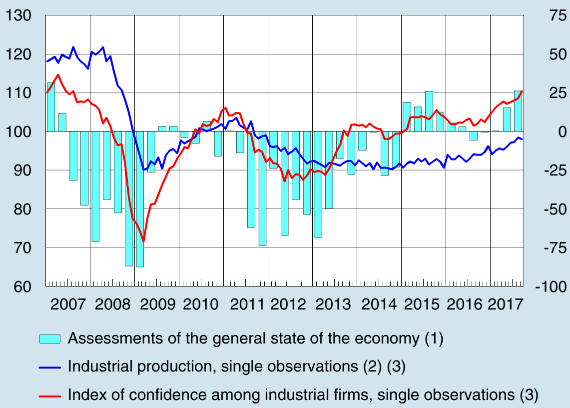
The pace of industrial output picks up during the summer

In August industrial output rose by 1.2 per cent compared with the previous month. Our estimates indicate that in the third quarter manufacturing activity also accelerated compared with the previous quarter (Figure 16; see the box 'Economic activity in the third quarter based on cyclical indicators').

Figure 16

Industrial production and business confidence indicators

(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Right-hand scale. Balance of the 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, 16 October 2017). – (2) Industrial production adjusted for seasonal and calendar effects; for September 2017, estimated data. – (3) Index: 2010=100.

Confidence indicators improve ...

During the summer months business confidence indicators recouped the high levels attained prior to the outbreak of the global crisis in the summer of 2007. The largest increases were in manufacturing, construction and, in the services sector, tourism, with the Bank of Italy's Survey on International Tourism providing further signs of an expansion in activity during the summer period. According to the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, assessments of general economic conditions improved further compared with the previous quarter, confirming a trend under way since the end of last year; demand expectations remained positive and assessments of investment conditions became more favourable, with a marked recovery among construction firms. Similar indications have emerged from the purchasing managers' index (PMI), which stabilized at high levels in both manufacturing and services.

... and firms expect to increase investment

Following the brief contraction recorded in the first three months of the year, in the second quarter investment turned upward again, driven by purchases of machinery, equipment and transport equipment. The earlier dip is likely attributable to the anticipation of purchases to the end of 2016, given the uncertainty surrounding the extension of tax incentives due to expire. The Bank of Italy-*Il Sole 24 Ore* survey points to a marked acceleration of investment expenditure in the second half of 2017, especially in industry excluding construction and for the largest firms. The Bank of Italy's autumn business outlook survey of a sample of firms with at least 20 employees in industry excluding construction and private non-financial services (see 'Business Outlook Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, forthcoming) also points to a further expansion of investment plans for 2017 as a whole (see the box 'The investment outlook according to business surveys').

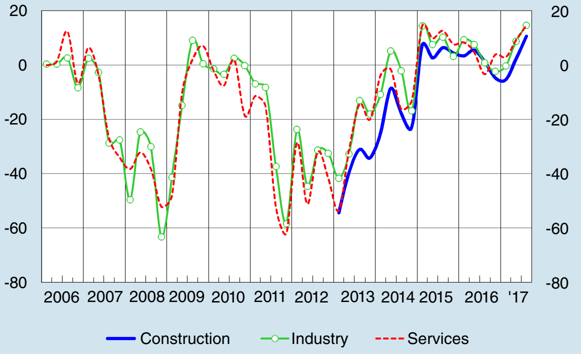
THE INVESTMENT OUTLOOK ACCORDING TO BUSINESS SURVEYS

In September 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, 16 October 2017). Firms again expressed a positive judgment on the current economic situation and on the outlook. Short-term expectations for their own activity firmed up, boosted above all by strengthening demand.

According to the firms surveyed, investment conditions have further improved: the balance between assessments of improvement and deterioration has continued to increase overall (moving to 14.4 percentage points from 8.6 in the June survey; see the figure). In construction, although assessments continue to be more prudent than in other sectors, the propensity to invest increased sharply and opinions on current conditions for access to credit and on expected liquidity conditions for the next quarter were less negative.

Planned investment for the whole of 2017 continues to increase, with positive signs coming from all the main sectors: the share of firms planning to increase investment continues to exceed the share of those expecting to reduce it (by 22.3 percentage points for the entirety

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, 16 October 2017).

Firms' investment plans (1)
(per cent)

RESPONSES	Industry excl. construction	Services	Construction	Total economy
	Planned investment expenditure for H2 2017 with respect to H1 2017			
Higher	31.5	28.0	26.3	29.6
About the same	54.7	58.0	64.4	56.8
Lower	13.8	14.0	9.3	13.7
	Planned investment expenditure for 2017 with respect to investment made in 2016			
Higher	42.0	34.7	29.9	37.9
About the same	44.1	48.2	53.3	46.5
Lower	13.9	17.1	16.7	15.6

(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, 16 October 2017). Rounding may cause discrepancies in totals.

of firms, compared with 21.0 points in June; see the table). The balance of positive assessments was particularly high in non-construction industry, amounting to 28.1 points; in construction, however, it remains very narrow, despite an increase of about 7 points (to 13.2).

The percentage of manufacturing and service firms that believe the worst of the economic crisis is over now amounts to almost two thirds of the total, compared with less than 50 per cent in the first half of 2016. The share of this group that plans to increase investment expenditure outstrips the share planning a reduction by 34.2 percentage points; however, the balance was positive by just 2.5 points among the remainder of firms.

In September and October of this year the Bank of Italy's branches conducted their customary autumn business outlook survey on a sample of firms with 20 or more workers in industry excluding construction and private non-financial services, and construction firms with 10 or more workers (see 'Business Outlook Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, forthcoming). The survey confirms the signs that the economic recovery is gaining momentum. For the first nine months of 2017 almost half of the non-construction and service firms report an increase in sales turnover compared with the year-earlier period, against 19.3 per cent reporting a decrease. While just over half of the firms expect demand for their products to be stable in the next six months (56.9 per cent in the 2016 survey), the percentage of those anticipating an improvement has risen to 40.3 per cent (from 33.2).

According to the survey, which provides detailed information on firms' investment plans, these are expected to expand in 2017 as a whole. Some 35.7 per cent of firms have already made use of the investment incentives linked to the National Industry Plan 4.0 (hyper-amortization) or intend to do so; of this group, 38.1 per cent report that more than a third of total planned investment for the current year benefits from these incentives. The steady recovery in investment is projected to continue in 2018, thanks to stronger demand and to tax incentives.

In the three years 2015-17, for 40.4 per cent of firms their investment strategy has prioritized the replacement of premises, machinery and equipment without changing their production capacity. An increase in production capacity is among the goals of 36.1 per cent of firms, a share that is expected to rise to 42.4 per cent in the next three years.

Business conditions in the construction industry have improved: the percentage of firms reporting an increase in activity in 2017 as a whole (37.3 per cent) is 9.0 points higher than the share reporting a drop; the balance between the two responses has turned positive (6.2 points) for the first time since 2007 (when the survey began) for firms specializing in public works. Assessments of the outlook for next year are more optimistic, although 43.8 of construction firms still expect output to remain stable.

Sales in the housing market are recovering slowly

In the second quarter the number of house sales rose by 1.7 per cent (Figure 17), continuing the trend under way since the beginning of 2014. Nonetheless, the numbers remain well below those recorded prior to the economic and financial crisis. Prices rose by a modest 0.3 per cent compared with the first quarter, after remaining unchanged since the start of last year. According to the Italian Housing Market Survey conducted in July, demand conditions are showing signs of stabilizing and assessments of short-term trends have improved compared with the previous quarter. For the construction firms interviewed in September as part of the Bank of Italy-*Il Sole 24 Ore* survey, both investment conditions and demand expectations have improved.

The nominal appreciation of the euro has been reflected in a decline of competitiveness

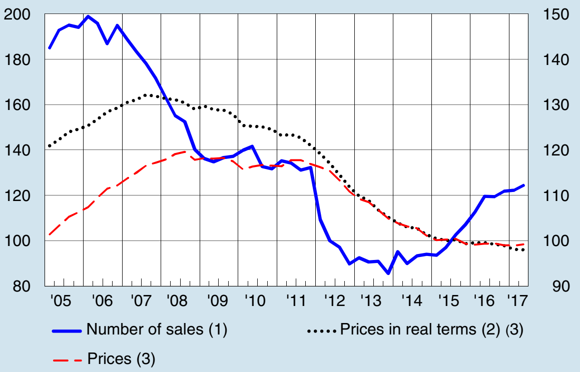
Our estimates suggest that since the end of 2016 the nominal appreciation of the euro against the other main currencies (see Section 1.3) has determined a loss of price competitiveness in Italy, valued on the basis of producer prices of manufactures and taking account of the country's commercial structure, of around two percentage points (Figure 18). Competitiveness appeared to decline slightly more markedly in Germany and less so in France.

Firms' profitability remains stable and their self-financing capacity improves

Based on Istat data and our own estimates, in the second quarter of 2017 the ratio of gross operating profit to value added was virtually unchanged compared with the previous quarter. Firms' self-financing capacity, calculated as the difference between the gross operating profit and total interest costs, improved, and

Figure 17

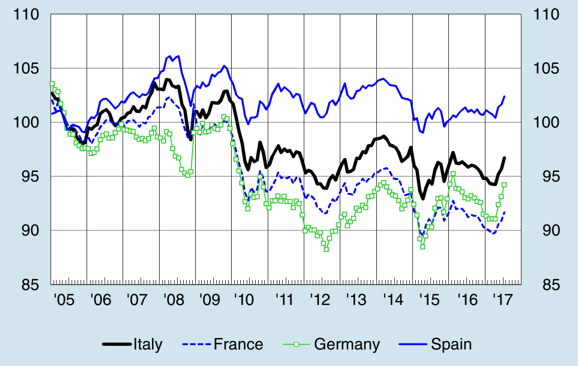
House prices and sales
(quarterly data; indices: 2015=100)



Sources: Based on data from Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index. – (3) Right-hand scale.

Figure 18

Indicators of competitiveness (1)
(monthly data; indices: 2005=100)



Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN and national statistics.
(1) Vis-à-vis 61 competitor countries; based on producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to July 2017. For the method of calculation see A. Felettigh, C. Giordano, G. Oddo and V. Romano, 'Reassessing price-competitiveness indicators of the four largest euro-area countries and of their main trading partners', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 280, 2015.

continued to benefit from the fall in net interest expenses. The ratio of investment expenditure to value added remained basically unchanged while firms' financing requirement declined.

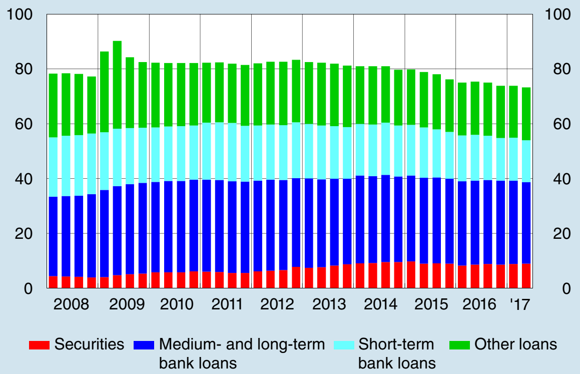
Trends in business lending remain uneven across the various sectors of activity

In the second quarter total corporate debt as a percentage of GDP declined slightly (to 73 per cent, from 74 per cent; Figure 19). Growth in bank lending continues to be uneven across sectors of economic activity and according to firm size (see Section 2.7).

Figure 19

Debt of non-financial coperations (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.

2.3 HOUSEHOLDS

Household spending continued to increase, especially purchases of services, while the propensity to save declined. The marked improvement in consumer confidence and the spike in purchases of motor vehicles in the summer months suggest that the expansion in consumption continued into the third quarter.

Household consumption continues to expand

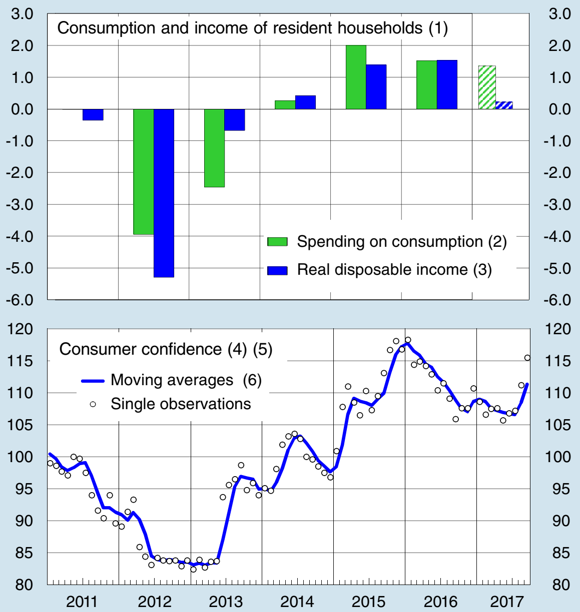
Though slowing slightly, household consumption continued to expand in the spring (0.2 per cent compared with the first quarter). Growth in expenditure on services more than offset the contraction in goods purchases, with those of durable and semi-durable goods hardest hit.

The latest cyclical indicators suggest that the expansion in consumption continued into the summer months, at a slightly faster pace than in the previous quarter. New car registrations turned upward again, reaching 3.5 per cent, following the decline of 1.8 per cent recorded during the spring. The consumer confidence indicator improved sharply over the third quarter as a whole, thanks above all to assessments of the general economic situation and future expectations.

Figure 20

Consumption, disposable income and Consumer confidence in Italy

(per cent changes and index numbers)

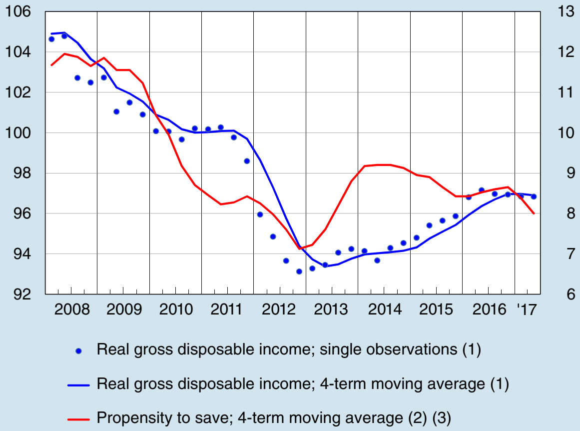


Source: Based on Istat data.
(1) Percentage changes on previous year. Until 2016, annual data; for 2017 percentage changes for the first 6 months compared to the corresponding year-earlier period. – (2) Chain-linked volumes. – (3) Obtained using the consumption deflator for resident households (chain-linked values, reference year 2010). – (4) Seasonally adjusted 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.

The positive trend in consumption, which in the revised national accounts statistics appears to have been more robust overall in the last three years than previously estimated, was more marked than the recovery in disposable income (Figure 20); in recent times the latter has benefited above all from the strong performance of the labour market (see Section 2.5). The saving rate fell by 0.4 percentage points in the second quarter, to 8 per cent (Figure 21).

Figure 21

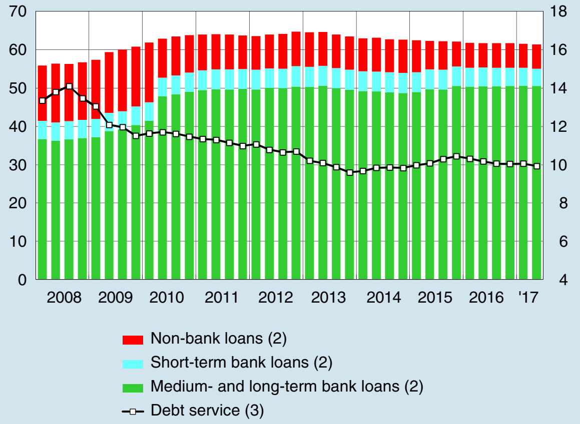
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



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 22

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. – (3) Right-hand scale. Estimated cost of debt service (interest plus repayment of capital) for consumer households only.

Household indebtedness declines

During the spring of 2017 the ratio of Italian household debt to disposable income declined to 61.3 per cent (from 61.5 per cent in March; Figure 22), still well below the euro-area average (94.3 per cent); as a share of GDP, it came to 41.4 per cent (58.2 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) amounted to around 10 per cent of disposable income. In the same period interest rates on new mortgage loans remained at historic lows (see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Following a period of steady growth, in the second quarter of 2017 exports were broadly stable though goods exports increased; the outlook based on cyclical indicators remains favourable overall. The large current account surplus is helping to reduce Italy's external debt position. Foreign investors are showing renewed interest in Italian securities.

Exports of goods rise …

In the second quarter export volumes stagnated compared with the previous quarter, held back by the decline in the service component. Exports of goods grew by 0.4 per cent, driven by trade with EU markets, especially the euro area, but declined in non-EU markets. All the main industrial sectors recorded an increase in exports except for transport equipment and refined petroleum products, which instead registered a contraction.

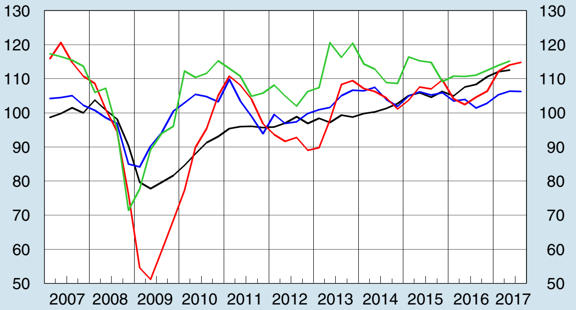
Imports also increased, especially in the goods component (up by 1.3 per cent in volume terms) and mostly thanks to purchases from EU markets.

… and expectations improve

The latest data show a high degree of volatility in the summer months: in July seasonally adjusted exports of goods at current prices contracted to both EU and

Figure 23

Export volumes and manufacturing firms' foreign orders and expectations
(seasonally adjusted quarterly data; index numbers)



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

Table 5

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

	2015	2016	Jan.-Aug. 2016	Jan.-Aug. 2017
Current account	**25.6**	**45.6**	**27.7**	**28.4**
Memorandum item: % of GDP	1.5	2.7	–	–
Goods	51.1	59.8	39.4	35.8
non-energy products (2)	83.4	84.8	55.4	57.0
energy products (2)	-32.2	-25.1	-16.0	-21.2
Services	-2.7	-2.8	-0.6	-0.6
Primary income	-8.2	5.0	-0.4	4.0
Secondary income	-14.7	-16.5	-10.6	-10.8
Capital account	**4.0**	**-2.6**	**-1.4**	**-1.2**
Financial account	**36.0**	**66.6**	**36.4**	**33.6**
Direct investment	2.4	-2.9	-3.0	-8.0
Portfolio investment	98.3	159.6	110.5	80.5
Derivatives	2.3	-3.0	1.1	-2.8
Other investment (3)	-67.6	-85.9	-70.5	-38.4
Change in official reserves	0.5	-1.2	-1.7	2.3
Errors and omissions	**6.5**	**23.6**	**10.1**	**6.3**

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

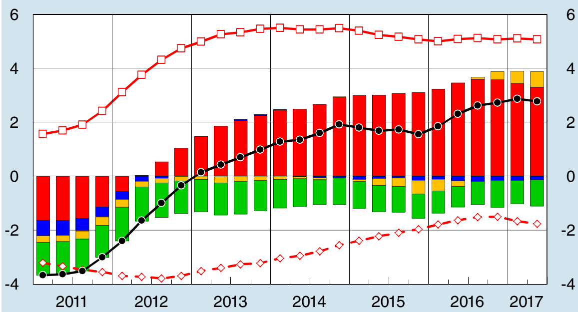
non-EU outlet markets, but in August they recorded growth of 4.2 per cent. Istat's indicators of foreign orders and sales expectations continued to improve, while the manufacturing purchasing managers' index regarding foreign orders remained above the threshold considered compatible with an expansion of sales (Figure 23).

The current account surplus widens

The current account surplus widened further in the first eight months of 2017. The primary income balance entered positive territory, more than offsetting the contraction in the merchandise trade surplus determined by increased spending on energy products. The services deficit was practically unchanged (despite positive developments in the travel component), as was the secondary income deficit (Table 5). The estimated current account balance for the twelve months ending in August came to 2.7 per cent of GDP (Figure 24).

Figure 24

Current account balance and its 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.

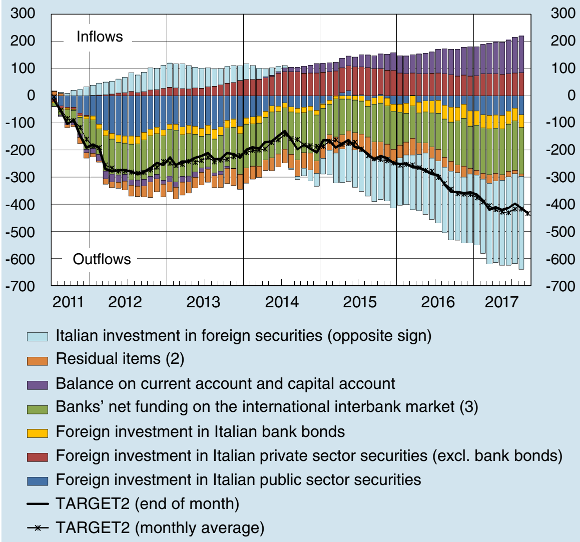
Foreign investors show renewed interest in Italian securities

From January through August 2017 foreign investors made net purchases of Italian portfolio securities worth €7.9 billion: a reduction in the stock of public sector securities, which followed seven months of positive purchases and is seasonally concentrated in August, was more than offset by purchases of equity and bank bonds. Residents' net investment in foreign portfolio securities came to €88.4 billion, mostly in the form of investment fund units and primarily by insurance companies, pension funds, other financial intermediaries and households, reflecting the rebalancing of Italian households' portfolios towards insurance products and managed assets, which display a higher degree of international diversification.

The Bank of Italy's debtor position in the TARGET2 payment system reached €432 billion at the end of September, compared with €357 billion at the end of 2016. The balance widened to €420 billion in the first quarter but changed little in the following months. The widening of the debtor position from January through August (the last month for which balance of payments data are available) reflected residents' net purchases of foreign securities and the decrease in Italian banks' funding on international markets, which were partially offset by the current account surplus and non-residents' purchases of Italian private sector securities (Figure 25).

Figure 25

TARGET2 balance and cumulative balance of payments flows (1)
(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's debit balance vis-à-vis the ECB in the TARGET2 payment system may reflect investments in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and capital account surplus. Cumulative capital flows since July 2011. – (2) 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.

Italy's net international investment position improves

At the end of the second quarter of 2017, Italy's net international debtor position stood at 8.5 per cent of GDP – almost 16 percentage points below the peak recorded in March 2014. About half of the reduction is ascribable to continued large current account surpluses.

The estimation of the time series of financial assets held by residents in foreign funds was recently revised for the share deposited abroad. This component, which the statistics commonly employed fail to capture and which is normally estimated on the basis of past regularities, was updated using new data collected on an ad hoc basis. The revision concerned the data from 2010 onwards and resulted in a marked improvement of Italy's net international investment position (4.0 percentage points of GDP at the end of 2016).[1]

2.5 THE LABOUR MARKET

Employment grew in the second quarter and, on the basis of the latest short-term economic indicators, also during the summer. The number of persons employed almost returned to pre-crisis levels, while the number of hours worked is still below that, indicating the general underutilization of the labour force. Contractual earnings continued to grow at historically low rates.

Number of persons employed and hours worked rises in the second quarter

In the second quarter of 2017 the number of persons employed increased by 0.3 per cent compared with the first (Figure 26 and Table 6). This growth involved all the main sectors except for construction. Total hours worked continued to rise, leading to an increase in total hours per worker, markedly in industry excluding construction.

[1] See the Bank of Italy's website, 'Revision of Italy's external statistics', September 2017.

The growth in employment in the second quarter is largely due to a 4.8 per cent rise in the number of fixed-term payroll contracts. The number of permanent contracts also increased (by 0.2 per cent, in line with the previous quarter). Overall, since the end of 2014, fixed-term payroll employment has grown by 366,000 jobs (15.8 per cent), permanent contracts by 437,000 (3.0 per cent).

Employment continues to expand in the summer ...

According to preliminary data from Istat's labour force survey, employment continued to expand in July-August (by 0.5 per cent compared with May-June). According to the findings of Istat's survey on firms' employment expectations, there should be a further small increase in employment in the autumn months. Similar signs also emerge from INPS real time administrative data, which are reflected with a lag in Istat's statistics (see the box 'Hirings: the effects of the labour market measures as reflected in the administrative data', *Economic Bulletin*, 4, 2015).

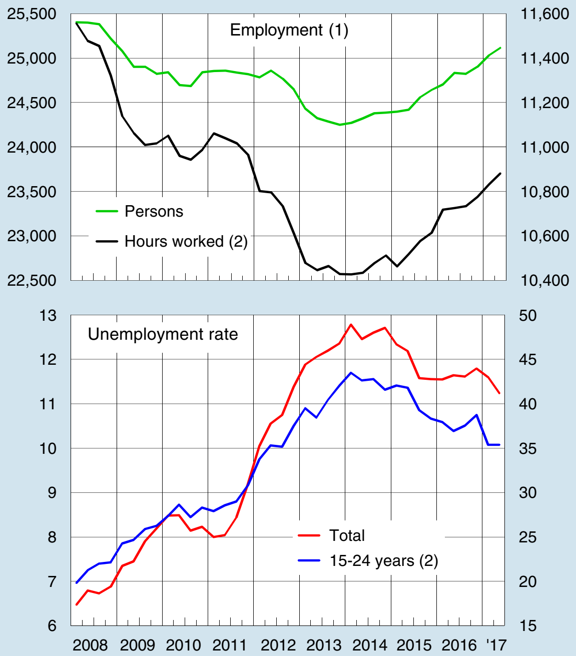
... but there are still ample margins of underutilization of the labour force

The number of persons employed is now close to pre-global crisis levels. However in Italy, as in the rest of the euro area, there are signs that the actual degree of labour market slack is still higher than that indicated just by the data on the number of employed persons: the total number of hours worked in the second quarter of 2017 (Figure 26 and Table 6) is still more than 5 per cent lower than 2007 levels, a value higher than that for the euro area as a whole (see the box 'Salaries and measures of labour market slack in the euro area' in Section 1).

Figure 26

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.

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			
	Q2 2007	Q2 2017	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Total number of persons employed	**25,250**	**25,115**	**0.0**	**0.3**	**0.5**	**0.3**
of which: industry excluding construction	4,911	4,201	0.2	0.1	0.2	0.3
private services (1)	10,386	10,951	0.0	0.4	0.4	0.2
Payroll employees	18,583	19,040	0.2	0.5	0.7	0.8
Self-employed	6,667	6,075	-0.8	-0.3	-0.1	-1.0
Hours worked	**11,464**	**10,870**	**0.1**	**0.4**	**0.6**	**0.5**
of which: industry excluding construction	2,271	1,876	0.2	0.5	0.7	1.1
private services (1)	4,968	4,951	0.0	0.4	0.1	0.5
Payroll employees	7,663	7,547	0.3	0.8	1.0	0.8
Self-employed	3,801	3,323	-0.2	-0.3	-0.3	-0.1

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

The unemployment rate falls

With the participation rate remaining basically unchanged, the growth in employment in the second quarter led to a fall in the unemployment rate of 0.4 percentage points, to 11.2 per cent (Figure 26); youth unemployment (15-24 year-olds) remained stable at 35.4 per cent (9.2 per cent as a share of the total population in this age group). According to preliminary data from Istat's labour force survey, on average in July-August, the overall unemployment rate remained unchanged, at 11.2 per cent, while the figure for youth unemployment fell to 35.2 per cent.

The growth in contractual earnings remains moderate

In the second quarter, hourly contractual earnings in the non-farm private sector increased by 0.5 per cent year on year; this trend, the same as that recorded in the previous quarter, appears to have continued virtually unchanged in the summer months (0.6 per cent on average in July-August). Growth in actual earnings in the non-farm private sector, in particular in manufacturing, stayed at a level slightly above that of contractual earnings, affected by the increase over at least the last two years in the number of hours worked per employee, which is nevertheless below pre-crisis levels (see the box 'Salaries and measures of labour market slack in the euro area' in Section 1).

Looking ahead, earnings growth is likely to be curbed by the tighter links between salary increases and realized inflation, introduced by some contracts signed in the last two years.

2.6 PRICE DEVELOPMENTS

Inflation, which reached 1.3 per cent in September, remains weak; households and firms do not expect it to strengthen significantly. Surveys to date suggest that firms have raised their sales prices by about 1 per cent and expect similar increases next year. They have revised their consumer price inflation expectations downward, though they are still above the lows recorded a year ago. About 60 percent of households expect prices to remain unchanged or to decline.

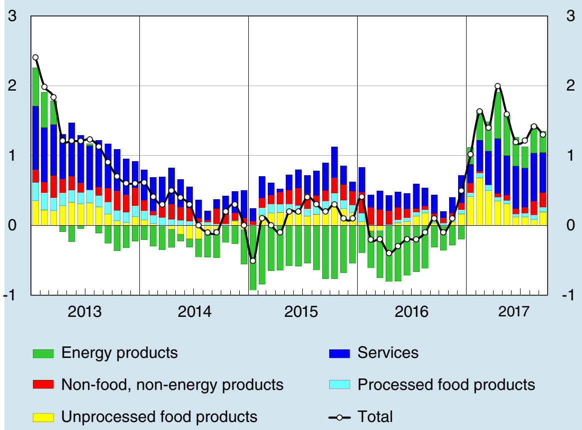
Consumer price inflation remains weak ...

In September consumer price inflation stood at 1.3 per cent, compared with 1.4 per cent a month earlier (Figure 27). Downward pressure was exerted by the slowdown in the prices of energy commodities and services.

Figure 27

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.

... as does core inflation

Core inflation, which fell slightly in September (to 1.1 per cent, from 1.2 per cent in August; Table 7), continues to be low, owing in part to persistently weak wage growth (see Section 2.5). In the same month the share of basic items with negative price variations declined to 20 per cent; for the core components, it instead fell slightly (to 25 per cent, from 29 per cent).

Producer prices turn upward again

Producer prices of industrial products sold on the domestic market accelerated in August, reaching a

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	at 1 month (5)	Excl. energy and food	Overall index	
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	0.9
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	1.6	1.6	0.5	0.6	3.7	–
Mar.	1.4	0.6	1.4	1.4	-0.1	0.7	3.3	–
Apr.	2.0	1.3	2.0	1.9	0.3	1.1	4.4	–
May	1.6	0.9	1.6	1.4	-0.3	0.8	3.2	–
June	1.2	1.0	1.2	1.2	-0.1	1.0	2.5	–
July	1.2	0.9	1.2	1.1	0.0	0.8	0.9	–
Aug.	1.4	1.2	1.4	1.2	0.1	0.9	1.6	–
Sept.	1.3	1.1	1.4	1.1	0.1	0.8	….	–

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.

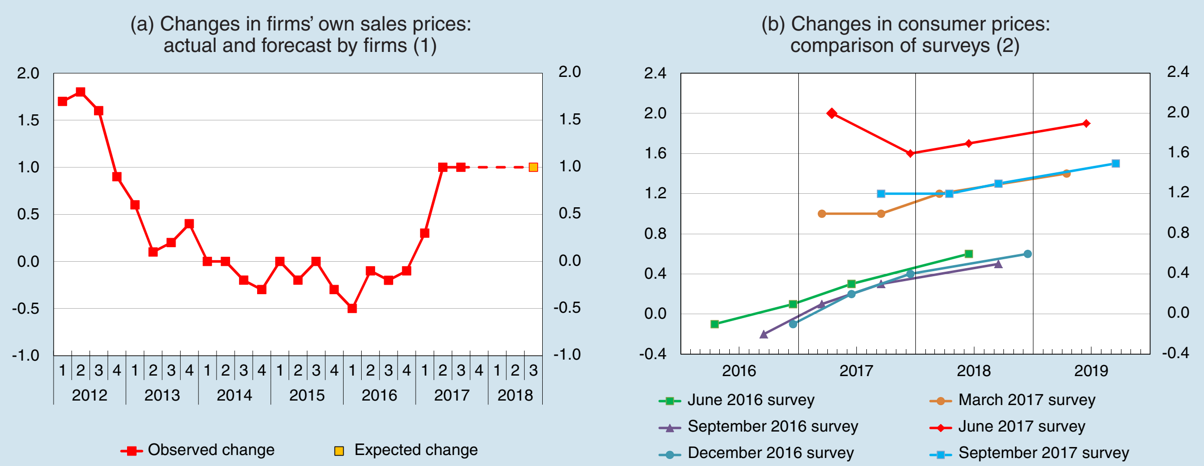
rate of 1.6 per cent year on year (from 0.9 per cent in July), mainly reflecting developments in the energy component. The prices of non-food final consumption goods recorded a modest increase, rising to 0.3 per cent from 0.1 per cent.

Inflation expectations are revised downward

The list prices of firms interviewed in the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore* rose by 1.0 per cent in the last twelve months; the respondent firms expect growth next year to remain stable. The firms revised their expectations of consumer price inflation slightly downward, though they are still well above the lows recorded at the end of 2016 (Figure 28). According to Istat surveys, in the summer months the balance between the share of manufacturing firms expecting to raise their prices and that of those planning to reduce them expanded 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 rose slightly (to 61.5 per cent, compared with 60.1 per cent in the second quarter). The inflation expectations of professional forecasters polled in October by Consensus Economics were revised downward, to 1.3 per cent on average in 2017, below the projections for the euro area as a whole (see Section 1.2).

Figure 28

Inflation expectations of industrial (excluding construction) and service firms
(12-month percentage changes)



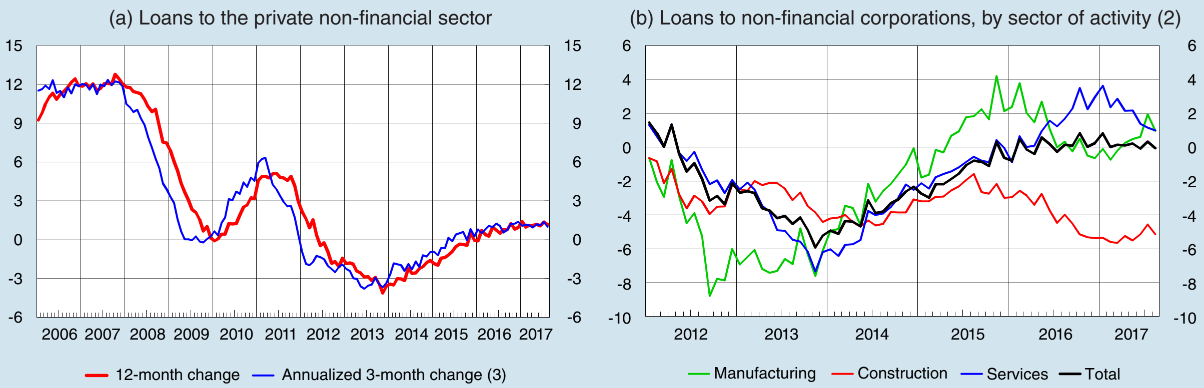
(1) Robust average of responses to questions concerning the observed percentage change in firms' own sales prices over the past 12 months and the change expected over the next 12 months in the Bank of Italy-*Il Sole 24 Ore* quarterly survey (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 October 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

Credit supply conditions remain accommodating. Loans to households and to industrial and service firms grew, while the contraction in lending to construction firms continued as the sector is still characterized by weak activity and higher risk. With the strengthening economic recovery, the new non-performing loan rate returned to pre-crisis levels; the reduction in the share of non-performing loans accelerated, also as a result of the liquidation of two banks in June.

Figure 29

Bank lending (1)
(monthly data; percentage changes)



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

Lending to households grows …

In the three months ending in August, loans to the private non-financial sector continued to grow at a moderate pace (1.0 per cent, adjusted for seasonal effects and on an annual basis; Figure 29.a), reflecting the expansion in lending to households (3.0 per cent). Mortgage loans for house purchase continued to benefit from low interest rates; consumer credit was buoyed by the favourable trend in household consumption.

… as well as to industrial and service firms

The rates of growth in lending to non-financial firms continued to vary according to sector of economic activity and firm size. Lending increased by 1.0 per cent for both industrial and service firms in the 12 months ending in August (Figure 29.b); in these sectors, the expansion mainly concerned large firms, while flows remained negative for smaller firms. Loans to construction firms instead continued to decrease (-5.1 per cent). In August, lending to non-financial firms as a whole remained substantially unchanged over the preceding 12 months, falling by 0.5 per cent on an annual basis as compared with the previous quarter (net of seasonal factors).

Deposits of residents grow

Between May and August, Italian banks' funding diminished slightly (Table 8), reflecting the drop in the wholesale component and in retail bonds. By contrast, deposits of residents accelerated to 4.1 per cent in the 12 months ending in August.

Surveys indicate favourable supply conditions

According to the banks that took part in the euro-area bank lending survey, credit supply standards continued to ease in the second quarter of 2017 (see the box 'Credit supply and demand'). Based on the business surveys carried out in September by Istat and by the Bank of Italy together with *Il Sole 24 Ore*, supply conditions remained favourable, especially for medium-sized and large manufacturing firms.

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		12-month percentage changes (3)	
	May 2017	August 2017	May 2017	August 2017
Assets				
Loans to Italian residents (4)	1,802	1,760	-0.3	-0.8
of which: firms(5)	773	735	0.2	-0.1
households (6)	631	626	2.4	2.7
Claims on central counterparties (7)	71	53	-26.6	-42.3
Debt securities excluding bonds of resident MFIs (8)	510	489	-2.3	-4.3
of which: securities of Italian general government entities	394	376	-4.2	-6.5
Claims on the Eurosystem (9)	94	127	396.0	296.7
External assets (10)	356	355	3.9	10.8
Other assets (11)	1,084	1,101	-1.8	-2.5
Total assets	**3,918**	**3,885**	**0.6**	**0.7**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,445	1,463	3.0	4.1
Deposits of non-residents (10)	298	298	-8.9	-1.6
Liabilities towards central counterparties (7)	129	104	-24.3	-32.7
Bonds (13)	315	304	-16.1	-14.7
Liabilities towards the Eurosystem (9)	255	255	69.6	46.1
Liabilities connected with transfers of claims	115	110	-3.5	-6.9
Capital and reserves	451	438	1.8	1.3
Other liabilities (14)	910	914	0.4	-0.2
Total liabilities	**3,918**	**3,885**	**0.6**	**0.7**

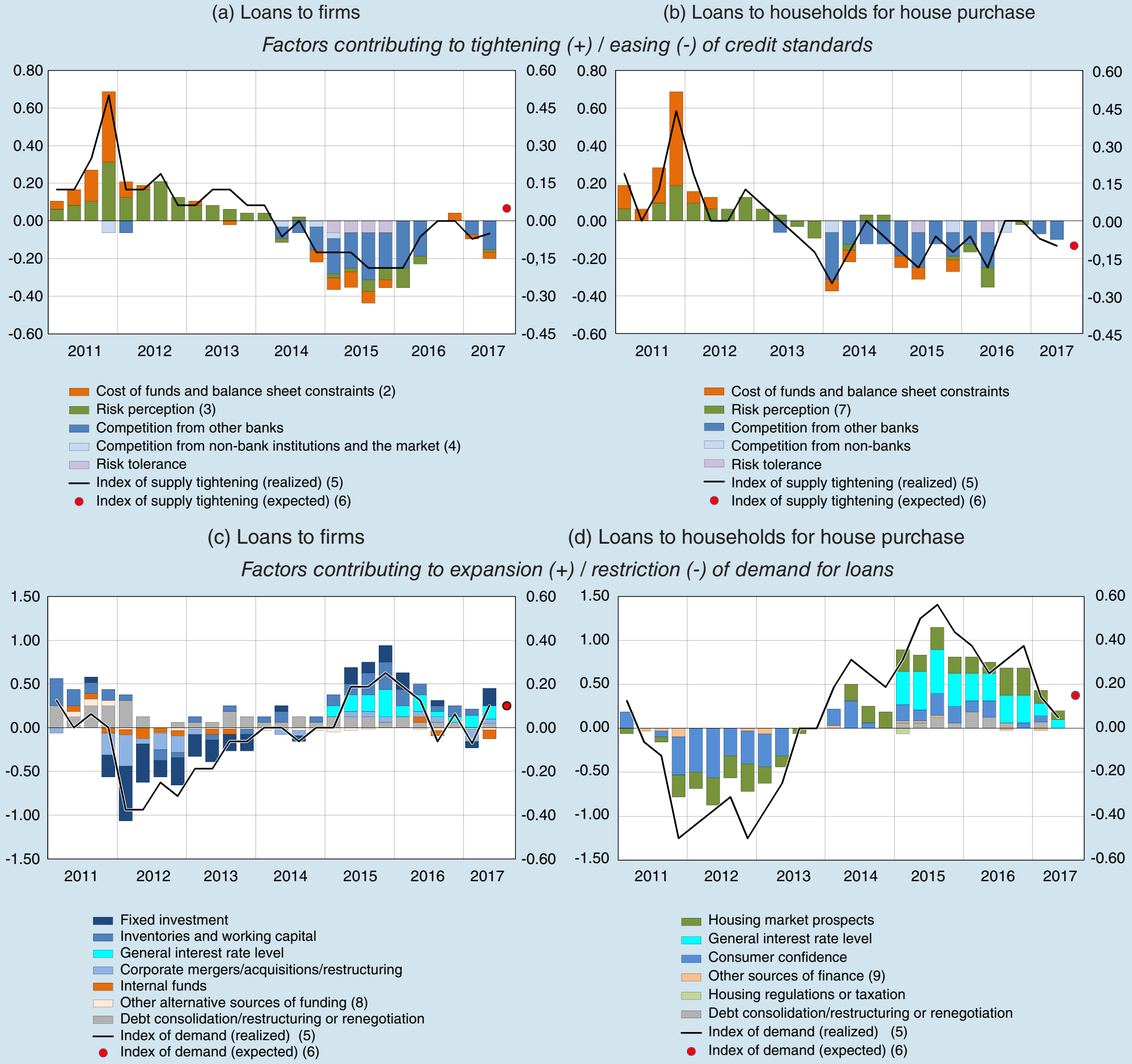
Source: Supervisory reports.
(1) The data for August 2017 are provisional. – (2) Billions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition, excludes producer households. – (6) Harmonized definition, includes producer households, non-profit institutions serving households and households 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 remained expansionary in the second quarter of the year. Indicators of credit standards pointed to a slight easing, which banks put down mainly to

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. The diffusion indices are 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) Average of the following factors: bank's capital position; bank's ability to access market financing; and bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from the market. – (5) For the quarter ending at the time of the survey; right-hand scale. – (6) Forecasts prepared in the previous quarter; right-hand scale. – (7) Average of the following factors: general economic situation and outlook; housing market prospects; and borrower's creditworthiness. – (8) Average of the following factors: loans granted by other banks; loans granted by non-banks; issues/redemptions of debt securities; and issues/redemptions of equity. – (9) Average of the following factors: self-financing of home purchase with savings; loans granted by other banks; and other sources of external funding.

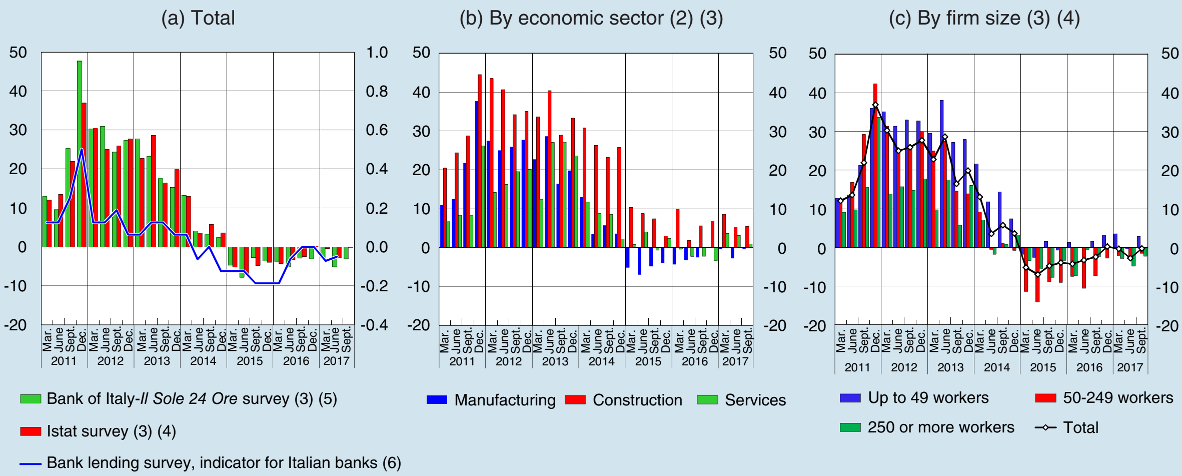
competitive pressure (Figure A).[1] The average margin on loans continued to narrow and the size of loans granted to firms increased.

According to the banks interviewed, the demand for business lending increased slightly, especially long-term loans, which was attributed to the stronger performance of fixed investment and to low interest rates. Instead, the ample availability of internal funds tends to reduce firms' demand for loans. The gradual improvement in the outlook for the housing market and the low cost of borrowing boosted households' demand.

The survey contained specific questions relating to the effect of Eurosystem targeted longer-term refinancing operations (TLTROs). Banks reported that they took part in the last operation, in March this year, mainly because of the extremely favourable cost conditions. The total liquidity provided was used to grant loans, mainly to firms, and to replace other forms of Eurosystem refinancing and maturing debt. The TLTROs had a positive effect on banks' liquidity position and on their market funding conditions; they also helped to improve profitability.

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 the Statistics Series. – (6) Right-hand scale.

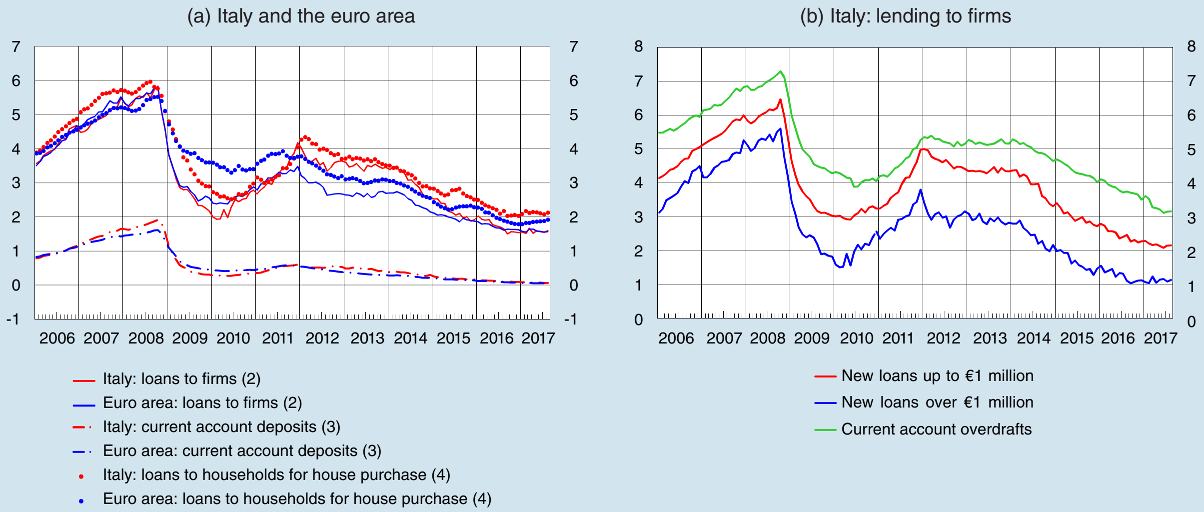
Firms are also of the opinion that credit supply standards have remained accommodating. According to Istat's business confidence survey, in the third quarter of the year credit access conditions for service and manufacturing firms were basically unchanged, although they worsened slightly for construction firms (Figure B). Access to credit continues to be easier for medium-sized and large firms.

[1] Ten of the main Italian banking groups took part in the survey (seven in the previous edition), which ended in late June. The results for Italy are available at www.bancaditalia.it, those for the euro area are available at www.ecb.int.

Figure 30

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 gathered and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current account deposits of households and firms. – (4) Rate on new loans to households for house purchase.

The cost of new loans remains at historically low levels

The average interest rates on new loans to firms and new mortgage loans to households remained unchanged at historically low levels (1.6 and 2.1 per cent, respectively; Figure 30). The cost of new loans to firms was in line with the euro-area average; it was 20 basis points higher for mortgage loans to households.

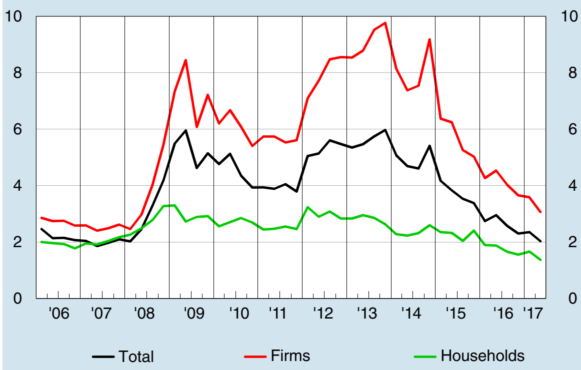
The non-performing loan rate falls ...

The improved macroeconomic conditions continued to have positive effects on the quality of Italian banks' credit. In the second quarter of 2017 the ratio of new non-performing loans to outstanding loans fell to 2.0 per cent on a seasonally-adjusted and annualized basis, in line with the average for the two years preceding the global financial crisis (Figure 31).

Figure 31

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.

... as does the share of non-performing loans

For the groups classified as significant for supervisory purposes, the share of non-performing loans to total loans fell further in the second quarter, both gross and net of loan loss provisions (respectively, to 16.5 per cent from 17.5 in the first quarter, and to 8.2 per cent from 9.2). The increase in the rate of reduction was largely attributable to the liquidation of Banca Popolare di Vicenza and Veneto Banca and the subsequent transfer of their non-performing assets to Società per la gestione di attività spa, an asset management company specialized in recovering non-performing loans and wholly controlled by the Ministry of the Economy and Finance (MEF). The sales transactions being finalized, which also involve some large banks, will lead to another large reduction in the stock of non-performing loans in the coming months. The coverage ratio for non-performing loans (the ratio of loan loss provisions to total non-performing loans) continued to grow (to 55.3 per cent from 52.8 per cent).

On 4 October 2017, the ECB launched a public consultation, lasting until the start of December, on a draft addendum to its 'Guidance to banks on non-performing loans', aimed at banks classified as significant for supervisory purposes, published in March 2017. The addendum proposes that, for prudential purposes, starting on 1 January 2018 banks be required to provide full coverage for the unsecured portion of new NPLs within 2 years and for the secured portion within 7 years. Following this announcement the share prices of Italian banks dropped a few percentage points, a trend that extended to other euro-area banking systems as well (see Section 2.8).

Operating profit increases

For groups classified as significant, in the first half of 2017, operating profits net of extraordinary components grew by 10.2 per cent compared with the same period last year, benefiting from both the increase in gross income (1.4 per cent), which was driven by the performance of net fee income, and the reduction in operating costs (-3.1 per cent). Loan loss provisions grew by 20 per cent, largely due to one bank's provisioning relating to its sale of bad loans. Including revenue from the extraordinary transactions carried out by certain banking groups (specifically, the partial sale of the assets of the banks liquidated in June with the support of the Italian government and three mergers and acquisitions which had purchase prices below the fair value of the assets and liabilities) and excluding the two banks placed under compulsory administrative liquidation in June, the annualized return on equity increased to 6.2 per cent, from 3.6 per cent in the first half of 2016; net of extraordinary income, ROE would have fallen to 1.5 per cent.

Capital ratios improve

Capital ratios continued to improve for the significant banks. At the end of June, common equity tier 1 (CET1) was 11.8 per cent of risk-weighted assets, 0.4 percentage points higher than at the end of March. The precautionary recapitalization of the Monte dei Paschi di Siena Group was completed in August; it had called for the application of burden sharing measures amounting to approximately €4.7 billion and the underwriting by the MEF of a capital injection of €3.9 billion. Considering these capital increases, which correspond to just under 1 per cent of risk-weighted assets as of the end of June, the CET1 ratio for the significant banks would increase to 12.6 per cent.

2.8 THE FINANCIAL MARKETS

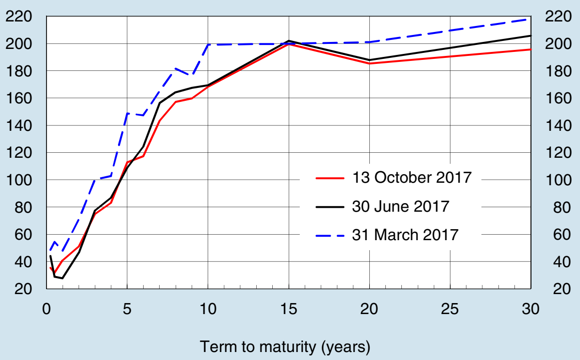
Since last July conditions on Italy's financial markets have improved, buoyed by favourable expectations for economic growth, positive corporate earnings, and the further easing of tensions in the banking sector.

Government security yields and sovereign spreads remain unchanged

The yields on Italian government securities have remained essentially unchanged since the start of the third quarter, showing a slightly downward trend. The yield on ten-year bonds fell by about 7 basis points to 2.08 per cent and the spread between them and the German ten-year Bund declined by 1 basis point to 168 basis points (Figure 32).

Figure 32

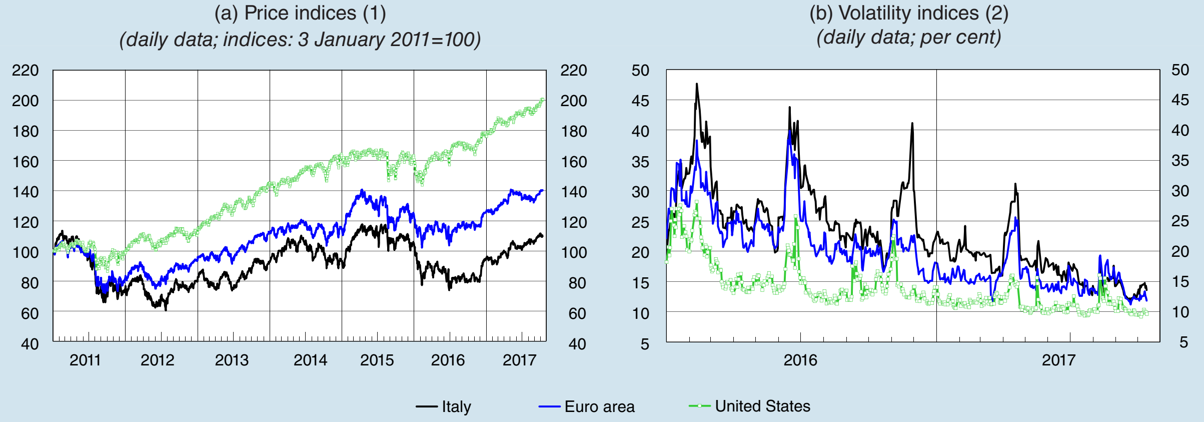
Term structure of the yield spreads between Italian and German government securities
(basis points)



Source: Based on Bloomberg data.

Figure 33

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.

Share prices continue to rise ...

The general index of the Italian stock market gained 8.9 per cent, compared with 4.9 per cent for that of the main euro-area companies (Figure 33). The better performance in the Italian index involved both the financial and non-financial sector, which registered sharp increases in the automotive segment. Good corporate earnings and the decline in risk premiums contributed to the price rally. After rising briefly in August as global geopolitical tensions intensified, the expected volatility implied by the prices of stock index options fell further, reaching a ten-year low around 20 September.

... including in the banking sector

Italian bank share prices have risen by 4.0 per cent and credit default swaps have fallen by an average of 39 basis points since late June. Since September 2016 Italian bank share prices have increased by 51 per cent, compared with 37 per cent for the Italian stock market and 45 per cent for euro-area banks as a whole, excluding Italian banks (Figure 34). These developments reflect the successful conclusion of a number of banking crises, the improvement in banks' credit quality, which has been bolstered by the brighter macroeconomic outlook, higher profitability, and the further strengthening of capital ratios for significant banks (see Section 2.7). However, in the days following the announcement by the ECB Supervisory Board of a consultation on an addendum to its guidance to banks on non-performing loans, Italian banks' share prices recorded a loss, equal to 4.9 per cent on average; this development extended to other euro-area banking systems.

Figure 34

Bank share prices: price indices

(daily data; indices: 30 September 2016=100)

Source: Thomson Reuters Datastream.
(1) FTSE Italia All-Share Banks. – (2) FTSE MIB. – (3) Euro STOXX Banks, excluding Italian banks.

Net corporate bond issues are positive

In the second quarter non-financial corporations continued to make net bond issues and banks net redemptions (See Selected Statistics, Table A10). According to preliminary data from Dealogic on gross issues only, in the third quarter the volume of placements by Italian banks fell to €5 billion, compared with €11 billion in the previous quarter.

Net inflows to investment funds rise

According to Assogestioni data, in the second quarter net inflows of savings to Italian and foreign open-ended investment funds continued to grow, reaching €28 billion, compared with €16 billion in the previous quarter. Investors largely preferred bond, flexible, balanced and equity funds. Money market funds reported more modest net inflows, while hedge funds saw small net outflows.

2.9 THE PUBLIC FINANCES

In September the Government updated its public finance projections for 2017 and its budgetary plans for the next three years. For the year under way, general government net borrowing is estimated at 2.1 per cent of GDP, in line with the forecast in April's 2017 Economic and Financial Document (EFD). The debt-to-GDP ratio is estimated to fall by 0.4 percentage points, a greater drop than that forecast in the spring.

The EFD Update confirms a reduction in net borrowing for 2017 ...

In the Update of the 2017 Economic and Financial Document, the Government estimates general government net borrowing of 2.1 per cent of GDP for the year under way, in line with the objective indicated in the EFD (Table 9). The Government's estimates take account of the effects – equal to 0.2 points of GDP – of the corrective measures finalized in April following discussions with the European authorities. Compared with 2016, the deficit is estimated to narrow by 0.4 percentage points (Table 10); the improvement is likely attributable to the increase in the primary surplus and the contraction in interest payments.

... and in the debt-to-GDP ratio

The ratio of general government debt to GDP is projected to fall to 131.6 per cent, down 0.4 percentage points compared with 2016. The drop would be larger than that forecast in the spring, mainly reflecting the revision to the borrowing requirement.

Table 9

Public finance objectives and estimates for 2017
(per cent of GDP)

	General government				Memorandum items:	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Objectives						
April 2016 (2)	1.8	1.1	2.0	-1.5	1.4	2.5
September 2016 (3)	2.0	1.2	1.7	-0.3	1.0	1.9
October 2016 (4)	2.3	1.6	1.4	-0.2	1.0	2.0
April 2017 (5)	2.1	1.5	1.7	-0.1	1.1	2.3
September 2017 (6)	2.1	1.3	1.7	-0.4	1.5	2.1
Estimates						
April 2017 (5)	2.3	1.6	1.5	0.1	1.1	2.2
September 2017 (6)	2.1	1.4	1.7	-0.4	1.5	2.1

(1) Change in the debt-to-GDP ratio compared with the previous year. – (2) *2016 Economic and Financial Document*. – (3) *Update of the 2016 Economic and Financial Document*. – (4) *Italy's 2017 Draft Budgetary Plan*. – (5) *2017 Economic and Financial Document*. – (6) *Update of the 2017 Economic and Financial Document*.

Table 10

Outturns and official objectives of the main general government indicators (1)
(per cent of GDP)

	2016	2017	2018	2019	2020
Net borrowing	2.5	2.1	1.6	0.9	0.2
Primary surplus	1.5	1.7	2.0	2.6	3.3
Interest payments	4.0	3.8	3.6	3.5	3.5
Structural net borrowing	0.9	1.3	1.0	0.6	0.2
Debt (2)	132.0	131.6	130.0	127.1	123.9

Source: *Update of the 2017 Economic and Financial Document*.
(1) Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to EMU countries.

The structural balance is expected to worsen

In contrast to net borrowing, in 2017 the structural deficit (i.e. net of the effects of the business cycle and temporary measures) is projected to grow by 0.4 percentage points of GDP, to 1.3 per cent in the policy scenario. The different dynamics of the two balances is largely attributable to the improvement in the economic outlook. Next spring the European Commission will assess Italy's position with regard to the European budgetary rules in the light of the outturn (including the dynamics of expenditure) and the margins of flexibility for the year under way.

The cash-basis figures are consistent with a reduction in net borrowing in 2017

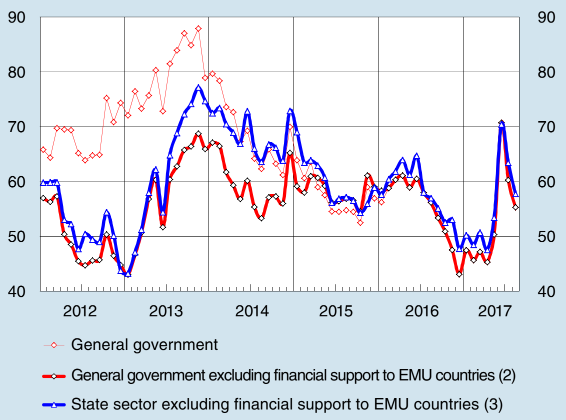
The data observed thus far on the borrowing requirement and on government receipts are consistent with a reduction in net borrowing for the current year. In the first eight months of the year, the general government borrowing requirement excluding privatization receipts was €40.2 billion, €12.2 billion higher than in the same period of 2016 (Figure 35); this difference is largely due to the extraordinary support measures for the banking sector, which resulted in an increase of €8.7 billion in disbursements. Excluding the impact of the other operations that do not affect net borrowing and taking account of temporal asymmetries, it is estimated that the cash balance for the first eight months of 2017 improved slightly. In the same period, general government debt grew by €60.8 billion (€52.4 billion in the first eight months of 2016). The increase reflects not only the borrowing requirement but also the expansion of the Treasury's liquid balance with the Bank of Italy (up by €20.3 billion, compared with an increase of €28.9 billion in the first eight months of 2016).

In the first nine months of 2017, tax revenue entered in the State budget, net of lottery and gaming receipts, increased by 1.6 per cent (€4.8 billion) compared with the same period of last year.

Based on Istat's estimates of the quarterly accounts, net borrowing came to 2.4 per cent of GDP in the first half of 2017, an improvement of about 0.2 percentage points on the same period of 2016.

Figure 35

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



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

The adjustment of the public accounts slows over the next three years

In the Update of the EFD, the Government revised its estimates and objectives for the next three years, taking account of the favourable macroeconomic outlook and the decision to slow the adjustment of the public accounts as compared with the April forecasts.[2] In the Government's programmes, net borrowing is expected to come to 1.6 per cent of GDP in 2018, compared with the 1.2 per cent forecast in April and the 1.0 per cent in the current legislation scenario. Interest payments should continue to diminish (0.2 percentage points of GDP).

The restrictive fiscal stance planned in the EFD is expected to be postponed: in 2018, the cyclically-adjusted primary surplus should decrease as compared with the increase of nearly 0.5 percentage-points of GDP forecast in April, and then rise in the following two-year period. As communicated in May in a letter to the European Commission, the Government is planning a reduction of 0.3 percentage points of GDP in the structural deficit for 2018 (the EFD had forecast an improvement of 0.8 points).

The debt-to-GDP ratio is expected to fall in 2018 as well

The debt-to-GDP ratio is expected to decrease by 1.6 percentage points in 2018, falling to 130.0 per cent in the policy scenario. Notwithstanding the larger deficit, this value would be substantially similar to the figure in the current legislation scenario largely on account of the more favourable trend in residual factors that influence the debt but not net borrowing.

The provisional budget for the next three years was recently approved. According to the Government's press release,[3] expansionary measures are planned for 2018 amounting to €20.4 billion, partially offset by resources of about €9.5 billion, mostly deriving from measures to combat tax evasion and reduce spending; accordingly, the deficit would increase by nearly €11 billion. The principal expansionary measure is the elimination of the increase in VAT rates and excise duties provided for in the safeguard clauses (€15.7 billion); other measures include contribution relief for the hiring of young workers, support measures for public and private investment, and supplementary funds for the renewal of public sector employment contracts and the fight against poverty.

According to official assessments, the goal of reaching a balanced budget is postponed to 2020

According to the Government's programmes for the two years 2019-20, the deficit is expected to diminish by 0.7 points of GDP per year, falling to 0.2 per cent of GDP in 2020. Structural net borrowing should fall by 0.4 percentage points of GDP per year. The substantial balancing of the budget in nominal and structural terms is expected to be achieved in 2020, one year later than in the objectives set out in the spring. The debt-to-GDP ratio is expected to contract at a faster pace, reaching 123.9 per cent at the end of the two-year period.

Based on the sensitivity analyses in the Update of the EFD, the ratio of debt to GDP should continue to narrow in the medium term even in the presence of adverse shocks to GDP and interest rates, although in this case the size of the reduction would be considerably smaller.

A significant reduction in the debt-to-GDP ratio is possible in the medium term

Given the current average residual life of the debt, interest rate increases – resulting from a gradual normalization of monetary and financial conditions – should slowly impact on its average cost. Our analyses suggest that, with GDP growth rates in line with the current forecasts, the differential between these and the average cost of the debt should be fairly low over the next few years. In this context, a large reduction in the debt-to-GDP ratio appears possible: by way of

2 'Preliminary Hearing on the 2017 Update of the Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, L.F. Signorini, at the Senate of the Republic, Rome, 3 October 2017.

3 Press release of the Council of Ministers, No 51, 16 October 2017.

example, a simulation exercise[4] demonstrates that to bring the debt-to-GDP ratio below 100 per cent in ten years – assuming average annual growth of around 1 per cent, inflation at 2 per cent (consistent with the ECB's objective), and the average cost of debt gradually regaining pre-crisis levels – it would be necessary to achieve a primary surplus of 4 per cent of GDP over the medium term. If the growth rate were 1 point higher, the 100 per cent threshold would be reached two years earlier; if the primary surplus were around 2 per cent of GDP, it would take about six years longer.

[4] 'Economic progress and financial stability: the constraint of public debt', speech by Ignazio Visco, Governor of the Bank of Italy, at the 63rd Conference on Government Studies, Varenna, 21 September 2017 (in Italian only).

SELECTED STATISTICS

Additional tables are contained in the Statistical Appendix of the *Economic Bulletin* available on the Internet at www.bancaditalia.it/pubblicazioni

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Table A1

Sources and uses of income: euro area (1)

(percentage changes on previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2013	-0.2	1.3	0.2	-3.5	-1.4	-2.5	-0.6	0.3	2.1
2014	1.3	4.7	2.3	-0.7	4.2	1.7	0.8	0.7	4.6
2015	2.0	6.8	3.4	0.7	5.5	3.1	1.7	1.3	6.6
2016	1.8	4.6	2.6	2.3	6.5	4.4	2.1	1.7	3.2
2014 – Q1	0.4	1.2	0.6	0.6	0.8	0.7	0.1	0.0	0.9
Q2	0.1	1.3	0.5	-1.5	0.3	-0.6	0.3	0.2	1.0
Q3	0.4	1.6	0.8	0.0	1.5	0.7	0.4	0.3	1.8
Q4	0.4	1.1	0.6	0.1	1.4	0.8	0.5	0.2	1.4
2015 – Q1	0.8	2.9	1.4	0.8	1.5	1.2	0.4	0.4	2.6
Q2	0.3	0.9	0.5	-0.7	0.8	0.0	0.4	0.2	1.2
Q3	0.4	1.2	0.7	0.2	1.8	1.0	0.4	0.5	0.6
Q4	0.4	1.6	0.8	1.7	1.3	1.5	0.5	0.4	0.9
2016 – Q1	0.5	0.4	0.5	0.6	-0.1	0.3	0.7	0.8	0.4
Q2	0.3	1.8	0.7	-0.3	5.5	2.7	0.3	0.2	1.3
Q3	0.5	0.5	0.5	0.5	-0.2	0.1	0.3	0.2	0.4
Q4	0.6	2.0	1.0	1.6	1.0	1.3	0.6	0.4	1.5
2017 – Q1	0.5	0.4	0.5	1.6	-1.9	-0.3	0.4	0.2	1.3
Q2	0.6	0.9	0.7	0.8	1.0	0.9	0.5	0.5	1.1
				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	1.3	-1.9	….	….	….	0.7	0.1	0.5	0.1
2016	0.8	-2.5	….	….	….	0.8	0.3	0.8	-1.4
2014 – Q1	0.3	-0.6	….	….	….	0.0	0.2	0.5	-0.4
Q2	0.1	-0.5	….	….	….	0.1	0.1	0.0	-0.2
Q3	0.2	0.2	….	….	….	0.4	0.1	0.4	0.3
Q4	0.4	-0.8	….	….	….	0.2	0.0	0.1	0.0
2015 – Q1	0.4	-1.3	….	….	….	0.0	-0.2	0.0	0.0
Q2	0.4	1.2	….	….	….	0.1	0.5	0.2	0.9
Q3	0.3	-1.2	….	….	….	0.3	0.0	0.3	-0.5
Q4	0.3	-1.1	….	….	….	0.2	0.0	0.2	-0.5
2016 – Q1	0.1	-2.3	….	….	….	0.1	-0.3	-0.1	-1.5
Q2	0.1	0.4	….	….	….	0.1	0.3	0.2	-0.1
Q3	0.1	0.7	….	….	….	0.4	0.2	0.3	0.6
Q4	0.3	1.3	….	….	….	0.4	0.5	0.2	1.0
2017 – Q1	0.1	2.1	….	….	….	0.3	0.6	0.4	1.2
Q2	0.4	-0.8	….	….	….	0.2	0.2	0.1	-0.3

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

Table A2

Sources and uses of income: Italy (1)

(percentage changes on previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
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	1.0	6.7	2.2	-0.6	4.5	1.9	2.0	-0.6	4.4
2016	0.9	3.1	1.4	1.1	4.4	2.8	1.5	0.5	2.4
2014 – Q1	0.0	0.3	0.1	-1.2	2.6	0.6	-0.2	-0.2	0.7
Q2	-0.1	1.7	0.3	-2.3	0.1	-1.1	0.2	-0.6	0.4
Q3	0.2	0.9	0.4	-1.4	0.8	-0.3	0.2	0.6	1.1
Q4	0.1	0.5	0.2	0.0	2.6	1.3	0.5	0.1	1.6
2015 – Q1	0.2	3.9	1.0	-0.2	0.8	0.4	0.4	-0.7	1.7
Q2	0.4	1.5	0.6	0.1	1.3	0.7	0.8	-0.1	1.1
Q3	0.3	-0.5	0.1	0.1	0.7	0.4	0.7	0.2	-1.2
Q4	0.3	1.7	0.6	1.1	-0.5	0.3	0.3	-0.3	1.9
2016 – Q1	0.3	-1.0	0.0	0.0	1.6	0.8	0.3	0.9	-0.9
Q2	0.1	2.3	0.6	0.2	-1.0	-0.4	0.2	-0.3	1.8
Q3	0.3	1.3	0.5	0.5	4.1	2.4	0.3	-0.2	1.0
Q4	0.4	2.5	0.9	0.4	4.3	2.5	0.2	0.6	2.1
2017 – Q1	0.5	0.8	0.6	0.7	-4.3	-2.0	0.6	0.4	1.7
Q2	0.3	1.2	0.5	-0.4	2.0	0.9	0.2	0.0	0.0
				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	0.9	-2.5	0.1	0.1	1.9	1.0	0.1	-0.1	-0.3
2016	0.8	-3.5	-0.1	-0.1	-0.2	-0.1	0.0	0.8	-1.1
2014 – Q1	0.7	-0.7	0.4	-0.2	0.0	-0.1	0.1	0.0	0.2
Q2	-0.3	-0.5	-0.3	0.0	0.4	0.2	0.0	0.0	-0.2
Q3	0.0	-0.2	-0.1	0.3	0.5	0.4	-0.1	0.0	0.3
Q4	0.6	-1.2	0.2	0.1	0.4	0.3	0.0	0.3	-0.1
2015 – Q1	0.3	-1.2	-0.1	-0.1	0.6	0.2	-0.1	-0.3	-0.2
Q2	0.1	1.4	0.3	-0.1	0.4	0.2	0.3	0.1	0.2
Q3	0.3	-1.7	-0.1	0.3	0.4	0.4	-0.1	0.1	-0.4
Q4	0.2	-1.5	-0.1	-0.2	0.2	0.0	0.1	-0.8	-0.5
2016 – Q1	0.5	-2.4	-0.1	-0.1	-0.6	-0.4	-0.3	1.2	-1.0
Q2	-0.3	0.0	-0.3	0.1	0.1	0.1	0.1	0.1	0.1
Q3	0.0	0.7	0.2	-0.2	0.0	-0.1	0.2	0.1	0.4
Q4	0.4	1.0	0.5	0.3	-0.3	0.0	0.3	0.1	0.5
2017 – Q1	-0.3	2.2	0.3	0.2	-0.2	0.0	0.6	0.0	1.0
Q2	0.3	-0.6	0.1	0.1	0.2	0.1	0.2	0.0	-0.1

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

Table A3

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
Total industry excluding construction					
2013	2.7	0.8	-0.7	-1.5	1.9
2014	1.6	2.7	2.7	0.0	-1.0
2015	1.2	3.6	4.2	0.6	-2.3
2016	1.3	1.2	1.8	0.5	0.0
2015 – Q1	1.6	3.6	3.8	0.2	-1.9
Q2	1.5	2.9	3.6	0.6	-1.4
Q3	1.3	3.7	4.1	0.4	-2.3
Q4	1.6	3.9	3.7	-0.2	-2.2
2016 – Q1	1.3	0.9	1.6	0.7	0.3
Q2	0.9	1.1	1.6	0.4	-0.2
Q3	1.5	1.1	1.4	0.3	0.4
Q4	1.5	1.8	2.5	0.7	-0.3
2017 – Q1	1.4	0.7	1.6	0.9	0.7
Q2	1.4	1.5	3.0	1.4	-0.1
Services					
2013	2.0	1.1	0.2	-0.9	0.9
2014	1.2	0.3	1.2	0.9	0.9
2015	1.1	0.0	1.4	1.3	1.1
2016	1.5	0.2	1.7	1.5	1.2
2015 – Q1	1.1	0.4	1.3	0.9	0.7
Q2	1.0	0.2	1.4	1.2	0.8
Q3	1.2	-0.1	1.3	1.3	1.3
Q4	1.4	0.0	1.2	1.3	1.4
2016 – Q1	1.4	-0.1	1.5	1.6	1.5
Q2	1.5	0.2	1.7	1.5	1.2
Q3	1.5	0.4	1.7	1.3	1.1
Q4	1.8	0.6	1.9	1.3	1.2
2017 – Q1	1.7	0.6	2.0	1.4	1.1
Q2	1.7	0.4	2.0	1.6	1.2
Total economy					
2013	2.2	1.2	-0.1	-1.3	1.0
2014	1.3	0.8	1.4	0.6	0.5
2015	1.1	0.8	1.9	1.1	0.3
2016	1.4	0.5	1.7	1.2	0.9
2015 – Q1	1.2	1.0	1.7	0.6	0.2
Q2	1.0	0.8	1.8	1.0	0.3
Q3	1.1	0.7	1.8	1.0	0.4
Q4	1.3	0.9	1.8	0.9	0.5
2016 – Q1	1.3	0.1	1.5	1.4	1.1
Q2	1.3	0.5	1.6	1.1	0.8
Q3	1.5	0.6	1.6	1.0	0.9
Q4	1.7	0.9	1.9	1.0	0.8
2017 – Q1	1.6	0.7	1.9	1.2	0.9
Q2	1.7	0.8	2.2	1.5	0.9

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

Table A4

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2013	2.6	0.6	-2.2	-2.8	2.0
2014	1.0	0.9	-0.3	-1.2	0.1
2015	1.9	1.5	1.5	0.0	0.4
2016	-0.8	-0.3	1.7	2.0	-0.5
2015 – Q1	2.7	1.0	-0.4	-1.3	1.7
Q2	2.6	1.3	1.2	-0.1	1.3
Q3	2.2	2.2	1.8	-0.3	0.0
Q4	1.7	1.2	1.3	0.0	0.5
2016 – Q1	-1.1	0.4	3.2	2.8	-1.5
Q2	-1.0	-1.0	1.3	2.3	0.0
Q3	-1.3	-0.4	1.7	2.1	-0.9
Q4	-0.7	0.6	2.8	2.2	-1.2
2017 – Q1	0.9	-0.7	0.4	1.1	1.6
Q2	0.6	-0.4	2.0	2.5	1.0
			Services		
2013	1.2	0.8	-1.1	-1.9	0.4
2014	-0.1	0.5	0.8	0.4	-0.5
2015	0.5	-0.2	0.8	1.0	0.7
2016	0.5	-1.4	0.6	2.0	1.9
2015 – Q1	0.3	0.3	0.8	0.5	0.0
Q2	0.5	0.2	0.9	0.6	0.3
Q3	0.6	-0.6	0.6	1.2	1.2
Q4	0.3	-0.5	0.7	1.2	0.8
2016 – Q1	0.1	-1.8	0.6	2.5	2.0
Q2	0.7	-1.7	0.7	2.4	2.4
Q3	0.6	-1.1	0.5	1.7	1.8
Q4	0.7	-1.2	0.6	1.8	1.9
2017 – Q1	0.0	0.1	1.4	1.3	0.0
Q2	-0.7	0.0	1.5	1.4	-0.7
			Total economy		
2013	1.6	1.2	-1.5	-2.6	0.5
2014	0.3	0.3	0.2	-0.1	0.0
2015	0.8	0.2	0.9	0.7	0.6
2016	0.2	-1.0	0.7	1.7	1.2
2015 – Q1	0.9	0.3	0.4	0.1	0.6
Q2	1.0	0.3	0.8	0.5	0.7
Q3	0.9	0.2	0.8	0.6	0.7
Q4	0.6	0.3	1.0	0.7	0.3
2016 – Q1	-0.3	-1.2	1.1	2.3	1.0
Q2	0.2	-1.1	0.8	1.9	1.4
Q3	0.2	-0.8	0.7	1.5	1.0
Q4	0.5	-0.8	0.8	1.6	1.3
2017 – Q1	0.2	-0.1	1.1	1.2	0.3
Q2	-0.2	-0.2	1.5	1.7	0.1

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

Table A5

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

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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
2017 – 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	0.6	1.5	1.5	1.2	1.0	1.6	1.4	1.3	1.1
July	0.8	0.6	1.5	1.5	1.2	0.9	1.7	1.7	1.3	1.2
Aug.	1.0	0.6	1.8	1.5	1.4	1.2	2.0	1.7	1.5	1.2
Sept.	1.1	0.6	1.8	1.5	1.3	1.1	1.8	1.3	1.5	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.

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	-59.2	-56.9	-6.0	2.6
2010	100.0	100.0	100.0	100.0	100.0	-29.7	-27.4	-27.1	12.1	-1.6
2011	100.4	97.7	104.1	100.5	97.9	-25.1	-14.9	-19.8	9.2	2.3
2012	94.4	93.5	98.0	91.7	95.4	-43.2	-27.5	-36.9	-3.0	3.3
2013	91.5	91.3	93.4	90.5	90.2	-44.4	-18.4	-32.0	4.1	1.5
2014	90.5	90.6	93.3	90.0	85.4	-33.0	-15.1	-19.3	8.8	2.0
2015	92.1	91.5	97.7	89.8	87.5	-21.6	-13.0	-12.7	12.4	3.1
2016	93.2	91.0	100.4	91.3	87.2	-18.5	-15.5	-13.7	10.9	3.7
2009 – Q1	93.4	97.1	92.1	91.4	97.3	-63.5	-62.9	-61.7	-23.8	6.9
Q2	91.4	95.8	86.6	88.1	96.9	-61.0	-66.1	-62.1	-7.3	3.7
Q3	92.5	97.8	86.3	89.4	97.7	-54.1	-58.1	-56.2	2.3	1.5
Q4	94.9	99.6	90.9	94.4	98.6	-46.7	-49.7	-47.6	5.1	-1.7
2010 – Q1	97.3	99.6	94.5	96.4	101.4	-39.0	-41.3	-38.8	8.1	-3.2
Q2	99.1	99.3	98.6	99.4	99.1	-32.7	-29.3	-29.8	11.9	-2.6
Q3	100.3	100.0	101.7	99.5	97.2	-25.4	-24.0	-22.5	13.1	-1.1
Q4	101.3	98.6	102.2	102.3	101.9	-21.6	-14.9	-17.2	15.4	0.7
2011 – Q1	102.0	98.4	105.1	102.8	100.0	-20.3	-9.4	-14.0	14.9	0.4
Q2	102.0	99.8	105.3	102.4	97.8	-20.4	-11.9	-14.6	14.0	1.1
Q3	100.7	97.1	105.3	100.8	98.8	-26.3	-15.8	-22.1	7.4	4.2
Q4	98.6	96.0	102.2	98.2	95.5	-33.4	-22.7	-28.2	0.3	3.4
2012 – Q1	96.1	93.7	99.8	94.2	98.1	-38.6	-25.7	-32.5	-1.0	3.1
Q2	94.9	93.9	97.7	92.9	95.4	-44.4	-27.6	-37.1	-2.6	4.8
Q3	94.9	94.3	99.1	91.7	96.8	-44.6	-26.6	-37.8	-4.1	3.8
Q4	92.3	91.8	96.7	88.4	90.8	-45.2	-30.1	-40.3	-4.2	1.6
2013 – Q1	91.9	92.2	92.4	89.5	92.8	-46.2	-29.4	-39.3	-1.4	2.9
Q2	91.5	90.2	94.6	89.8	90.4	-48.9	-21.7	-38.9	-0.2	2.7
Q3	91.5	91.4	93.0	91.4	89.2	-43.0	-11.7	-28.3	7.6	0.9
Q4	92.0	91.3	93.4	92.3	88.5	-39.3	-10.7	-21.4	10.3	-0.3
2014 – Q1	91.7	91.5	94.5	92.0	85.1	-36.4	-12.9	-19.8	9.7	-0.9
Q2	91.4	91.4	93.3	91.0	87.9	-31.7	-13.7	-17.7	10.2	1.1
Q3	90.5	90.6	92.8	89.9	85.7	-33.1	-15.4	-19.7	7.7	4.0
Q4	90.9	90.8	95.0	89.3	83.5	-31.0	-18.6	-19.9	7.6	3.6
2015 – Q1	91.5	91.7	95.8	89.7	86.7	-26.6	-16.1	-15.9	10.8	3.3
Q2	92.3	91.3	98.3	89.7	88.5	-22.0	-12.4	-12.1	12.9	2.6
Q3	92.2	90.7	97.4	89.3	90.0	-20.1	-13.0	-12.1	12.9	3.3
Q4	91.9	90.7	97.6	90.0	84.5	-17.8	-10.4	-10.7	13.0	3.1
2016 – Q1	93.2	91.1	102.1	91.1	85.3	-18.9	-15.7	-14.0	9.9	3.8
Q2	93	90.5	99.5	91.8	84.5	-18.8	-17.3	-14.1	10.3	3.2
Q3	93.6	91.3	102.0	91.9	86.4	-19.7	-15.3	-14.6	10.3	3.2
Q4	94.9	91.7	102.0	92.7	92.1	-16.5	-13.6	-12.0	12.9	4.7
2017 – Q1	94.9	92.0	101.0	92.9	90.3	-13.6	-8.0	-7.1	15.0	3.4
Q2	96.2	93.7	103.5	93.8	88.5	-11.4	-6.3	-5.1	15.9	2.4
Q3	....	....	....	....	....	-9.2	-5.6	-3.3	17.7	2.1

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 – 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
Q2	887	4,532	1,424	16,246	16,931	6,158	23,089	2,839	25,928	10.9	65.4

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	-49,061	-18,583	-6,173	-5,052	-19,253	1,032	-49	1,081
2012	-5,455	16,829	-123	-2,646	-19,516	3,959	1,835	2,124
2013	15,917	36,099	443	-2,481	-18,145	-750	-3,142	2,392
2014	31,081	47,407	-1,017	618	-15,926	2,663	-942	3,605
2015	25,562	51,146	-2,678	-8,184	-14,722	4,029	-1,183	5,212
2016	45,572	59,764	-2,760	5,028	-16,459	-2,565	-1,973	-592
2016 – Q1	3,243	11,376	-2,672	559	-6,021	-387	-73	-314
Q2	12,208	16,436	498	-2,892	-1,833	-576	-364	-212
Q3	16,107	15,861	1,605	2,817	-4,176	-813	-851	37
Q4	14,014	16,091	-2,190	4,543	-4,429	-788	-685	-104
2017 – Q1	5,796	9,391	-2,340	3,138	-4,393	-401	-257	-144
Q2	10,705	14,354	594	-935	-3,308	-460	-249	-212
2016 – Jan.	-1,719	701	-856	-6	-1,558	-38	39	-77
Feb.	1,823	4,633	-937	67	-1,940	-60	39	-99
Mar.	3,139	6,042	-879	498	-2,523	-289	-151	-138
Apr.	4,812	5,340	-297	490	-721	-190	-121	-69
May	3,222	5,730	147	-2,350	-304	-194	-120	-74
June	4,174	5,366	648	-1,032	-808	-192	-124	-68
July	8,854	8,294	1,016	952	-1,409	-240	-267	27
Aug.	3,397	3,266	524	995	-1,387	-220	-242	23
Sept.	3,856	4,301	64	871	-1,380	-354	-341	-13
Oct.	4,975	4,916	-483	1,716	-1,174	-176	-172	-4
Nov.	3,765	4,836	-1,002	1,124	-1,192	-179	-164	-16
Dec.	5,275	6,339	-705	1,703	-2,063	-433	-349	-84
2017 – Jan.	-820	225	-661	681	-1,065	-90	-55	-34
Feb.	1,725	2,789	-825	1,186	-1,426	-99	-54	-45
Mar.	4,891	6,377	-855	1,271	-1,903	-213	-148	-66
Apr.	3,416	4,293	-281	421	-1,017	-161	-91	-70
May	2,519	4,939	95	-1,742	-773	-159	-84	-75
June	4,770	5,122	780	386	-1,517	-140	-73	-67
July	(8.216)	(8.470)	(759)	(426)	(-1.438)	(-170)	(-181)	(11)
Aug.	(3.679)	(3.576)	(378)	(1.364)	(-1.640)	(-143)	(-156)	(12)

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

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 – 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	1.9	-4.4	-0.1
Sept.	-2.9	3.3	-0.1	0.5	-2.6	-1.5	2.1	-3.0	0.3
Dec.	-3.8	2.2	0.1	0.7	-2.6	-1.3	2.3	-4.0	0.2
2017 – Mar.	-2.2	-1.3	0.1	0.5	-1.9	-0.7	2.8	-2.6	0.3
June	1.5	1.6	-0.1	0.2	-1.8	-0.1	2.8	-2.0	1.0
July	1.1	1.6	0.4	0.5	-0.5	1.0	2.8	-0.9	1.2
Aug.	2.9	0.0	-0.1	0.2	-1.3	0.6	2.8	1.1	1.2
South and Islands									
2014 – Dec.	-4.0	-3.1	-1.6	-1.5	-1.8	-1.0	-0.6	-1.7	-1.4
2015 – 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	2.4	-3.2	0.9
Sept.	-1.8	2.8	0.6	0.8	0.0	0.6	2.7	-2.9	1.3
Dec.	-3.2	3.1	0.5	0.7	-0.3	0.0	3.0	-3.4	1.3
2017 – Mar.	-2.9	5.5	0.5	0.6	0.2	0.6	3.4	-2.0	1.5
June	-3.1	2.9	0.3	0.3	0.2	0.9	3.7	-1.9	1.5
July	-3.3	3.8	0.4	0.3	0.9	1.4	3.7	-0.5	1.6
Aug.	-3.2	3.2	0.4	0.3	0.8	1.3	3.7	0.1	1.6
Italy									
2014 – Dec.	3.4	-0.5	-2.0	-1.9	-2.3	-1.4	-0.2	-1.6	-0.7
2015 – Dec.	0.0	-2.8	-0.6	-0.2	-2.3	-1.3	1.2	-2.1	-0.2
Mar.	0.1	-0.1	-0.3	0.2	-2.2	-0.9	1.6	-2.8	0.3
2016 – 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	0.2	0.6	-1.4	-0.4	2.9	-2.5	0.5
June	1.1	1.6	-0.1	0.2	-1.3	0.2	3.0	-2.0	1.1
July	0.7	1.6	0.4	0.5	-0.2	1.1	3.0	-0.8	1.3
Aug.	2.4	0.1	0.0	0.2	-0.8	0.8	3.1	1.0	1.2

Source: Supervisory reports.
(1) The data for the last month are provisional. Loans include bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. Net of reclassifications, value adjustments and other variations not due to transactions. – (2) Limited partnerships and general partnerships with fewer than 20 employees, informal associations, de facto companies and sole proprietorships with more than 5 and 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	0.8	-2.2	-68.2
2016 – Q1	-34.2	-5.2	-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	0.0	-13.8
2017 – Q1	-13.8	0.6	4.6	-8.6
Q2	-12.5	-5.0	2.7	-14.8
		Euro area		
2015	-292.5	171.9	45.5	-75.1
2016	-147.4	-42.6	88.5	-101.5
2016 – Q1	-32.7	-124.3	0.7	-156.3
Q2	-3.1	-29.1	31.7	-0.5
Q3	-55.0	63.6	27.8	36.4
Q4	-56.6	47.2	28.3	18.9
2017 – Q1	5.6	-7.5	13.9	12.0
Q2	6.3	36.2	17.5	59.9

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	75.4	-8.8	-28.0	66.6	4.7
2015	5.1	-1.5	-9.5	43.5	1.7	-1.1	39.7	10.7	8.0	50.4	-2.1
2016	-4.9	0.1	-8.0	62.7	1.1	-1.3	49.6	-7.4	-3.0	42.2	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	1.3	-0.3	11.1	-4.2	6.2	6.9	0.0
May	1.7	-0.4	-0.1	20.1	0.6	-0.2	22.1	-17.8	1.2	4.2	0.0
June	4.3	0.1	-0.9	-16.4	-2.3	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	-45.6	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	0.6	-0.2	-14.3	3.0	0.1	-11.3	0.0
2017 – Jan.	2.3	-1.4	7.3	24.1	-1.3	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	0.8	-0.1	21.5	2.2	-0.2	23.7	0.0
Apr.	1.1	-0.0	0.5	7.8	0.1	0.2	9.7	-3.9	0.8	5.8	0.0
May	1.3	0.5	0.7	5.9	-0.3	-0.0	7.6	-0.5	5.0	7.1	0.0
June	2.5	-1.0	0.2	-0.3	-1.0	0.6	2.1	6.3	-5.8	8.4	0.0
July	-0.1	0.1	0.3	21.1	-1.9	0.2	19.6	-32.9	0.3	-13.3	0.0
Aug.	1.9	-0.0	-0.1	-23.4	0.0	-0.1	-21.7	22.2	-0.2	0.5	0.0

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

Table 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	1,908.0	24.3	0.0	35.4	13.1
2012	160.3	20.8	151.6	1,502.6	134.4	41.3	26.9	1,990.1	34.4	0.0	27.2	42.7
2013	158.5	18.6	140.6	1,593.9	131.1	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	2,137.3	46.4	38.0	25.7	60.3
2015	178.3	16.0	115.0	1,707.2	128.9	43.9	33.9	2,173.3	35.7	30.0	26.9	58.2
2016	173.4	16.2	107.0	1,765.3	130.1	42.6	33.9	2,218.5	43.1	33.0	29.9	58.2
2015 – Jan.	174.5	17.2	131.9	1,691.7	126.0	44.5	36.0	2,168.6	82.8	56.1	21.0	60.3
Feb.	171.2	16.4	131.7	1,696.5	130.4	42.1	33.9	2,171.9	79.1	67.0	20.2	58.2
Mar.	171.6	16.7	130.0	1,711.8	131.3	42.3	33.9	2,187.1	78.9	63.8	23.2	58.2
Apr.	170.7	16.6	129.0	1,723.4	132.6	42.0	33.9	2,197.7	83.1	57.6	23.6	58.2
May	172.4	16.2	128.9	1,744.8	133.1	41.9	33.9	2,221.1	100.9	56.4	25.2	58.2
June	176.7	16.3	128.0	1,728.5	130.9	42.5	33.9	2,206.5	100.9	57.0	25.5	58.2
July	173.6	16.0	128.0	1,729.6	129.0	42.1	33.9	2,202.1	96.2	57.2	26.6	58.2
Aug.	174.5	16.5	125.7	1,716.2	128.7	41.8	33.9	2,187.0	73.7	58.7	27.0	58.2
Sept.	173.2	16.8	123.6	1,726.2	128.6	42.4	33.9	2,194.0	64.0	53.8	27.3	58.2
Oct.	172.6	16.7	122.2	1,749.0	128.3	41.8	33.9	2,213.9	81.7	52.7	29.3	58.2
Nov.	171.9	15.9	121.8	1,749.4	132.7	42.0	33.9	2,217.8	74.4	51.0	30.2	58.2
Dec.	178.3	16.0	115.0	1,707.2	128.9	43.9	33.9	2,173.3	35.7	30.0	26.9	58.2
2016 – Jan.	179.8	16.7	119.6	1,724.0	128.8	43.4	33.9	2,195.6	63.5	52.1	26.5	58.2
Feb.	177.3	15.7	118.5	1,748.6	129.6	43.1	33.9	2,217.0	74.7	52.6	27.6	58.2
Mar.	176.6	15.9	118.7	1,762.0	130.9	43.4	33.9	2,231.7	70.0	54.6	27.4	58.2
Apr.	174.5	15.6	118.9	1,766.4	130.9	43.0	33.9	2,233.7	64.7	51.4	27.9	58.2
May	174.5	15.6	118.7	1,776.7	131.6	42.9	33.9	2,244.5	72.7	46.6	29.9	58.2
June	172.2	16.1	117.9	1,790.2	128.7	42.5	33.9	2,251.5	92.5	56.1	29.0	58.2
July	172.9	15.5	117.3	1,793.7	129.7	43.0	33.9	2,256.6	101.0	46.6	31.0	58.2
Aug.	172.4	15.6	117.0	1,764.6	129.2	42.5	33.9	2,225.7	64.6	46.0	32.1	58.2
Sept.	171.2	15.5	116.3	1,754.4	129.7	42.0	33.9	2,213.7	39.3	32.1	31.2	58.2
Oct.	172.3	15.5	114.9	1,766.8	128.3	42.5	33.9	2,224.8	47.7	35.6	31.7	58.2
Nov.	170.3	15.2	114.2	1,774.8	129.5	42.8	33.9	2,231.6	46.1	33.1	33.5	58.2
Dec.	173.4	16.2	107.0	1,765.3	130.1	42.6	33.9	2,218.5	43.1	33.0	29.9	58.2
2017 – Jan.	175.7	14.8	114.3	1,789.1	128.8	43.6	33.9	2,251.4	77.4	35.9	29.9	58.2
Feb.	173.8	15.2	114.5	1,779.2	129.9	43.3	33.9	2,240.7	56.8	36.0	31.4	58.2
Mar.	176.3	15.5	114.3	1,796.6	130.7	43.3	33.9	2,261.1	54.6	36.2	32.6	58.2
Apr.	177.4	15.5	114.8	1,805.1	130.9	43.4	33.9	2,271.5	58.5	35.4	33.9	58.2
May	178.6	16.0	115.5	1,811.7	130.6	43.4	33.9	2,279.8	58.9	30.3	35.3	58.2
June	181.1	15.0	115.7	1,811.5	129.6	44.0	33.9	2,282.0	52.6	36.2	35.3	58.2
July	181.0	15.1	116.0	1,831.6	127.7	44.2	33.9	2,300.5	85.6	35.9	37.0	58.2
Aug.	182.9	15.1	115.9	1,808.6	127.7	44.1	33.9	2,279.2	63.4	36.1	36.7	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.