BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

1 | 2018

January 2018

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For the paper-based version: registration with the Court of Rome No. 426, 19 September 1985
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

The English edition is translated from the Italian by the Language Services Division of the Secretariat to the Governing Board and Communications Directorate

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Website
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ISSN 0393-7704 (print)
ISSN 2280-7640 (online)

Based on data available on 12 January 2018, unless otherwise indicated

Designed and printed by the Printing and Publishing Division of the Bank of Italy

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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 remains strong

Global economic growth remains strong and widespread, however, inflation is still weak overall. The short-term outlook is favourable.

Euro-area growth strengthens; inflation is weak

In the euro area the outlook for growth improved further. Based on the December Eurosystem staff projections, euro-area GDP is expected to grow by 2.3 per cent this year. Deflation expectations have dissipated, but inflation remains low, standing at 1.4 percent in December; core inflation continues to be weak, curbed by still modest wage growth in many euro-area economies. The ECB Governing Council recalibrated its monetary policy instruments, however it expects monetary conditions to remain very accommodative into the future, as this is necessary to secure a sustained return of inflation rates towards levels that are below, but close to, 2 per cent.

The expansion of the Italian economy firms up

According to our estimates, in the fourth quarter of last year Italian GDP rose by around 0.4 per cent, confirming the positive trend of recent quarters, although it is still below the euro-area average. The increase was seen in both services and industry excluding construction. Business surveys confirm that confidence is returning to the levels recorded before the recession; conditions are also favourable for capital formation, confirmed by the acceleration in investment expenditure observed in the second half of the year.

Exports grew and the current account surplus remains large

Exports expanded in the third quarter of 2017; firms' assessments of foreign orders are favourable. The current account surplus remains large, equal to 2.8 per cent of GDP over the four quarters ending in September; the surplus contributes to the improvement in Italy's debtor position, which fell to 7.8 per cent of GDP.

Employment rises

Employment continued to rise in the third quarter and, according to the most recent economic indicators, in the final months of the year. The number of hours worked also increased, although it remains below pre-crisis levels. According to the labour force survey, the unemployment rate stood at 11 per cent in November. Wage growth remains moderate but, based on the labour contracts renewed in the second half of the year, shows some signs of a recovery.

Inflation is still moderate

Despite a recovery in producer prices, consumer price inflation in Italy remains weak, at 1.0 per cent in December; core inflation is particularly low, at 0.5 per cent. According to the surveys, firms' inflation expectations are subdued, but stand above the low levels recorded at the end of 2016. The firms interviewed expect to increase their list prices by just above 1 per cent this year.

Lending to the private sector continues to grow ...

The expansion in lending to households is strong; lending to firms, especially manufacturing firms, is also growing. Firms' demand for bank loans was limited by the ample availability of internal funds and greater recourse to bond issues.

... and credit quality improves further

Credit quality continued to improve, bolstered by the firming economic recovery. The ratio of new non-performing loans to outstanding loans fell to 1.7 per cent, below the levels recorded before the global crisis. The share of non-performing loans to total loans declined (for the groups classified as significant for *supervisory purposes, it fell from 8.2 per cent to 7.8 per cent net of loan loss provisions), largely on account of the completion of transactions for the sale of bad loans. Banks' capital ratios have strengthened.*

The projections indicate continued growth in Italy ...

This Economic Bulletin presents projections for the Italian economy for the three years 2018-20. It is estimated that GDP adjusted for calendar effects expanded by 1.5 per cent in 2017 (1.4 per cent excluding this adjustment); it is expected to increase by 1.4 per cent in the current year and by 1.2 per cent in 2019-20. Economic activity is expected to be mainly driven by domestic demand.

... and a modest recovery in inflation ...

Inflation is expected to dip temporarily this year, before gradually climbing back up again. The drop expected in 2018 (to 1.1 per cent on average for the year) is mostly attributable to the automatic waning of the effect of the increase in the prices of energy and food products registered in early 2017. Over the next two year prices are expected to increase by a yearly average of 1.5 per cent, reflecting stronger growth in wages.

... driven by economic policies

The forecasting scenario assumes that financial conditions continue to be accommodating, with a very gradual adjustment in short- and long-term interest rates, orderly conditions on the government securities markets, and relatively relaxed credit supply conditions. Overall, GDP performance is expected to continue to depend on the support provided by economic policies, albeit to a lesser extent than in the past.

The risks stem from the global economy

The main risks associated with these projections stem from global conditions and from the performance of the financial markets. An intensification of geopolitical tensions or greater uncertainty surrounding the future course of international economic policies could translate into higher volatility in the financial markets and in risk premiums, with adverse repercussions on the euro-area economy.

Among domestic risks, those connected with the weakness of the banking system and with the potential heightening of uncertainty on the part of households and firms over the strength of the recovery under way have abated compared with past quarters. This scenario, however, relies on the continuation of economic policies capable of fostering long-term economic growth by supporting investment and consumption choices, while also lending credibility to public debt reduction objectives by fully exploiting the upturn in the global economy.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Economic growth is strong across the main advanced and emerging economies. It is not, however, being accompanied by a recovery in inflation which remains weak. The short-term outlook remains favourable; there is still the risk that a downward adjustment of the prices of financial assets could slow economic activity.

Growth in the world economy is strong

In the third quarter of 2017 economic activity continued to expand in the main advanced economies, while cyclical conditions remained favourable in the final months of the year (Table 1). For the United States, the latest data point to strong growth. In the United Kingdom, private consumption shows signs of recovery and leading indicators suggest for the last quarter of 2017 a rate of growth in line with the average for the first three (Figure 1). For Japan, the latest cyclical data indicate an acceleration in economic activity in the fourth quarter of 2017.

In the emerging countries the recovery under way since the first half of 2017 is continuing. For China, growth was stable in the final months of the year after having exceeded expectations in the previous quarters. GDP growth accelerated during the summer months in India and Brazil.

In the third quarter of 2017, world trade grew by 3.5 per cent, with stronger imports in the euro area and in Asian emerging economies (excluding China).

Inflationary pressures remain moderate

Inflation remains moderate in the main advanced economies: it is just above 2 per cent in the United States where, however, the consumption deflator (currently at 1.8 per cent) remains 0.2 percentage points below the

Table 1

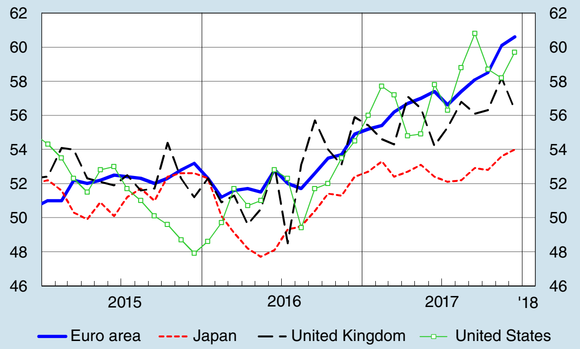
GDP growth and inflation
(percentage points)

	GDP growth 2016	GDP growth Q2 2017	GDP growth Q3 2017	Inflation (1) December 2017
Advanced countries (2)				
Japan (3)	1.0	2.9	2.5	0.5
United Kingdom	1.8	1.2	1.6	3.0
United States	1.5	3.1	3.2	2.1
Emerging countries (4)				
Brazil	-3.5	0.4	1.4	3.0
China	6.7	6.9	6.8	1.8
India	7.9	5.7	6.3	5.2
Russia	-0.2	2.5	1.8	2.5
Memorandum item:				
World trade (5)	**1.7**	**3.0**	**3.5**	

Sources: Thomson Reuters Datastream; OECD, *OECD Economic Outlook*, November 2017; and Bank of Italy for the data on world trade.
(1) Consumer price index, monthly data. – (2) Seasonally adjusted data, annualized quarterly percentage changes. – (3) November 2017 data. – (4) Year-on-year percentage changes. – (5) Based on national accounts and customs data. Seasonally adjusted quarterly data, annualized quarterly percentage changes.

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.

target set by the Federal Reserve; it is fluctuating around 0.5 per cent in Japan. The United Kingdom continues to be the exception, with prices growing by 3 per cent, partly as a consequence of the depreciation of the pound sterling (Figure 2). Inflation remains moderate in the main emerging economies.

The global outlook continues to be favourable ...

According to the projections released in November by the OECD, the world economy grew by around 3.6 per cent in 2017 and will accelerate slightly in the current year, to 3.7 per cent. The growth projections were practically unchanged compared with the September figures (Table 2). The advanced economies would appear to have contributed the most to the acceleration in world growth over the last two years.

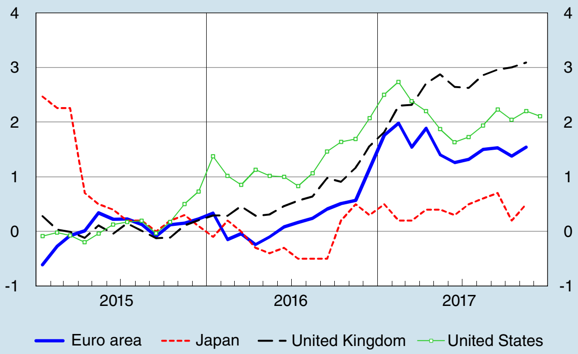
According to our estimates, in 2017 world trade grew by about 5.4 per cent, and the rate of growth will decrease to 4.6 per cent in the current year; it will nonetheless continue to outpace GDP growth over the last two years.

... but risks persist

The risks to the world economy continue to stem from a possible increase in volatility on the financial markets, connected to a sudden intensification of geopolitical tensions, especially with North Korea, and uncertainty about economic policies, which could negatively affect the confidence of households and businesses. Notwithstanding the agreement reached in the first phase of the negotiations on the United Kingdom's exit from the European Union, uncertainty about the future relations between the two economies remains high. The future of international trade agreements is made less predictable by the outcome of the latest meeting to revise the North American Free Trade Agreement (NAFTA), which brings together the United States, Canada and Mexico. The effects of the United States' Tax Cuts and Jobs Act[1] passed on 20 December 2017, which envisages reductions in the tax rates for households and firms, could also constitute a stimulus for world growth.

Figure 2

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



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

Table 2

Macroeconomic projections
(changes and percentage points)

	2016	Forecasts		Revisions (1)	
		2017	2018	2017	2018
GDP (2)					
World	**3.1**	**3.6**	**3.7**	**0.1**	**0.0**
Advanced countries					
of which: Euro area	1.8	2.4	2.1	0.3	0.2
Japan	1.0	1.5	1.2	-0.1	0.0
UK	1.8	1.5	1.2	-0.1	0.2
US	1.5	2.2	2.5	0.1	0.1
Emerging countries					
of which: Brazil	-3.6	0.7	1.9	0.1	0.3
China	6.7	6.8	6.6	0.0	0.0
India (3)	7.1	6.7	7.0	0.0	-0.2
Russia	-0.2	1.9	1.9	-0.1	-0.2
World trade (4)	**1.7**	**5.4**	**4.6**	**0.4**	**0.7**

Sources: OECD, *OECD Economic Outlook*, November 2017, and Bank of Italy for the data on world trade.
(1) Revisions compared with previous forecasting scenario. – (2) Forecasts taken from OECD, *OECD Economic Outlook*, November 2017; revisions compared with OECD, *OECD Interim Economic Outlook*, September 2017. (3) The data refer to the fiscal year starting in April. – (4) Based on national accounts and customs data; the forecasts refer to January 2018, the revisions to October 2017.

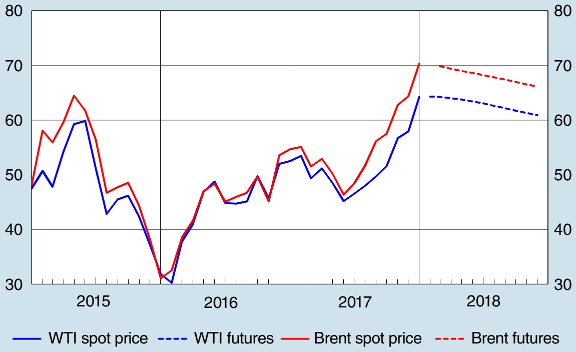
[1] For further details on the act and estimates of its effects, see the website of the Joint Committee on Taxation of the United States Congress.

Oil prices are expected to decrease slightly

Oil prices have been rising since the end of September 2017, driven by brisk world demand and the fact that the agreement held between oil producing countries to cut back supply; the gradual reduction in global inventories and the emergence of geopolitical tensions in the Middle East and Venezuela also contributed. At the end of November, OPEC and Russia announced a further extension of the agreement throughout 2018. The rise in oil prices recorded so far has led to a further increase in US production from unconventional sources, which climbed to historical highs in November. The prices of futures contracts point to a slight reduction in oil prices in the medium term (Figure 3).

Figure 3

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



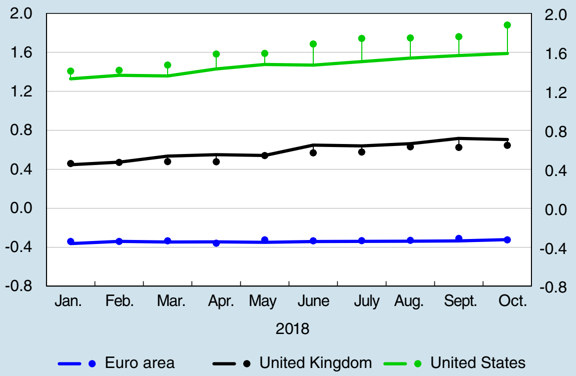
Source: Thomson Reuters Datastream.
(1) For the spot prices, monthly average data through December 2017; the latest data available refer to 12 January 2018.

The Federal Reserve raises its interest rates

As expected, in its meeting of 13 December 2017, the US Federal Reserve increased the target range for the federal funds rate by 25 basis points, bringing it to 1.25-1.50 per cent; in October, the balance sheet normalization programme began, in accordance with the guidelines set out last summer. Based on the prices of federal funds futures, the markets appear to expect that only two raises will occur in 2018 (Figure 4), whereas the Federal Open Market Committee predicts there will be three. The Bank of England tightened its monetary policy stance, bringing its bank rate back to 0.5 per cent after having lowered it following the outcome of the Brexit referendum. In China, the central bank gradually tightened monetary conditions further, promoting an additional rise in interbank rates, and introduced new prudential measures in the banking and managed assets sectors.

Figure 4

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



Source: Based on Thomson Reuters Datastream.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid lines indicate the interest rates forecast on 10 October 2017; the dots show those forecast on 12 January 2018.

1.2 THE EURO AREA

In the euro area the economy continued to grow at a fast pace, driven primarily by foreign demand. Inflation remains modest, reflecting weakness in the core component. The ECB Governing Council's decision to recalibrate its monetary policy instruments was taken to preserve the very favourable financing conditions that are still needed for a sustained return of inflation rates towards levels that are below, but close to, 2 per cent.

Euro-area growth continues

In the third quarter of 2017, euro-area GDP rose by 0.7 per cent compared with the previous period (Table 3), driven mainly by net foreign demand and, to a lesser extent, by consumer expenditure. Economic activity appears to have continued to expand rapidly in the fourth quarter. In December, the Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, stood at 0.91, from 0.84 in November (Figure 5), its highest level since spring 2006. According to the purchasing managers' indices (PMI), economic expansion was robust in both manufacturing and services.

Based on the December Eurosystem staff projections, euro-area GDP is expected to grow by 2.3 per cent in 2018 (from 2.4 per cent in 2017); the projections were revised upwards by 0.4 percentage points compared with those published in September.

Table 3

Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation
	2016	Q2 2017 (1)	Q3 2017 (1)	December 2017 (2)
France	1.2	0.6	0.6	1.2
Germany	1.9	0.6	0.8	1.6
Italy	0.9	0.3	0.4	1.0
Spain	3.3	0.9	0.8	1.2
Euro area (3)	1.8	0.7	0.7	1.4

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

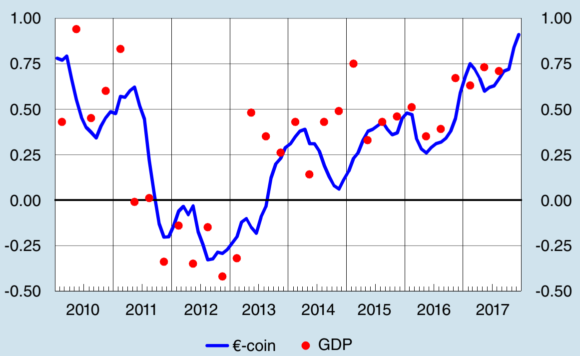
Inflation remains weak and underlying pressures are still low

In December, inflation stood at 1.4 per cent (Figure 6) and averaged 1.5 per cent in 2017 (0.2 per cent in 2016). Core inflation continues to be low, in part owing to the still sluggish wage growth in many euro-area economies. Excluding the most volatile components, the inflation rate stood at 0.9 per cent in December, just under the average for the year (1.0 per cent). The weakening that began in the autumn was observed across most of the euro area. In some of the main economies, including Italy, France and Spain, core inflation remained below 1 per cent.

Inflation expectations as implied by inflation swap yields have risen by around 0.1 percentage points over both the two-year horizon and the five-year horizon five years ahead (to 1.4 per cent and 1.7 per cent respectively; Figure 7). The probability of deflation over the next five years implied by the inflation options prices is still essentially nil.

Figure 5

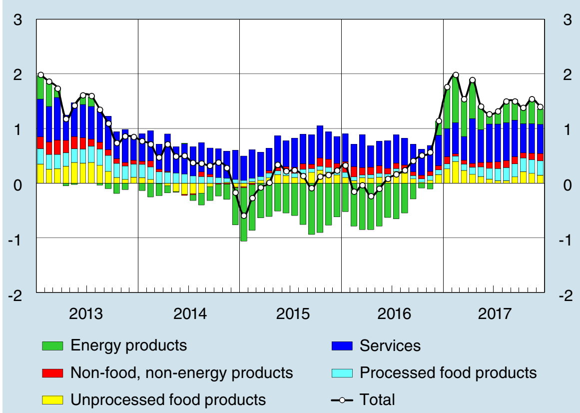
€-coin coincident cyclical indicator and euro-area GDP (1)
(percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', in Economic Bulletin, July, 2009. Further details are available on the Bank of Italy's website '€-coin: December 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.

Figure 6

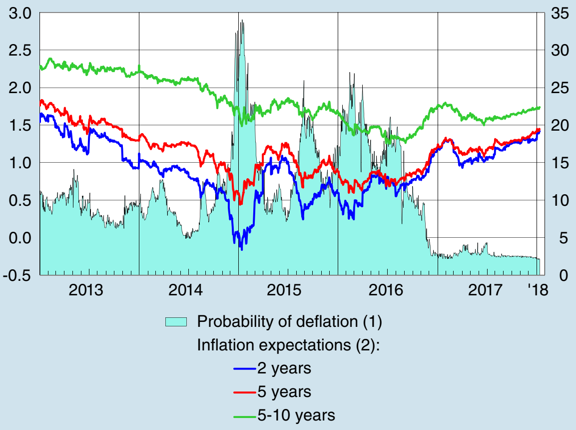
Euro-area inflation and contributions of its components (1)
(monthly data; 12-month percentage changes and percentage points)



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

Figure 7

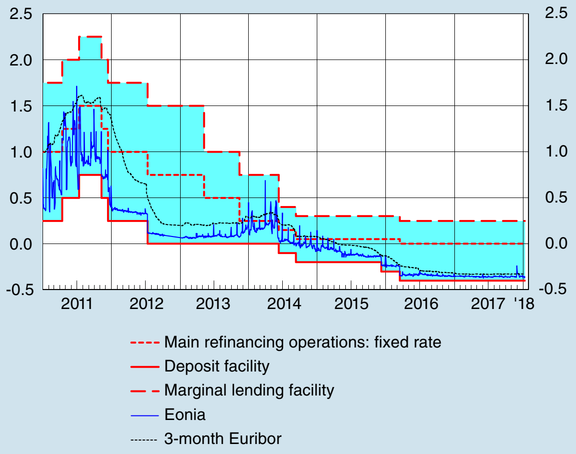
Inflation expectations and probability of deflation implied by derivatives
(daily data; per cent)



Source: Based on Bloomberg data.
(1) Right-hand scale. Risk-neutral probability that euro-area inflation is less than or equal to zero in the next 5 years, implied by inflation option prices (see S. Cecchetti, F. Natoli and L. Sigalotti, 'Tail comovement in option-implied inflation expectations as an indicator of anchoring', Banca d'Italia, Temi di Discussione (Working Papers), 1025, 2015). – (2) Expected inflation rates implied by 2-year, 5-year and 5-year forward 5 years ahead inflation swaps.

Figure 8

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



Sources: ECB and Thomson Reuters Datastream.

The ECB Governing Council recalibrates the Asset Purchase Programme

At its 26 October 2017 meeting the ECB Governing Council recalibrated its monetary policy instruments, but stressed that a high degree of monetary accommodation is necessary to secure a sustained return of inflation rates towards levels that are below, but close to, 2 per cent. The decisions had a positive effect on financial market conditions (see the box 'The monetary policy measures adopted in October 2017'). The Governing Council confirmed its stance at its meeting of 14 December. It continues to expect key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of its net asset purchases (Figure 8).

THE MONETARY POLICY MEASURES ADOPTED IN OCTOBER 2017

At its monetary policy meeting held last October, the ECB Governing Council kept the key interest rates unchanged; it also confirmed that it expects that they will remain at their present levels for an extended period of time, and well past the horizon of the net investments made under the expanded asset purchase programme (APP). The Council also adopted a series of decisions to recalibrate its package of non-standard monetary policy measures.

At the meeting, the Council decided that: (a) starting January 2018, net APP purchases will continue at a monthly pace of €30 billion (down from €60 billion) up to the end of September 2018, and beyond if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim (a rate below, but close to, 2 per cent); the Council stands ready to expand the scope and/or extend the duration of the APP if the outlook turns less favourable or financial conditions become incompatible with further progress towards the inflation aim; (b) the Eurosystem will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary; and (c) the main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs) will continue with a fixed-rate full allotment procedure for the time deemed necessary and at least until the last reserve maintenance period of 2019.

The reduction in the monthly amounts of asset purchases reflected growing confidence in a gradual convergence of inflation towards the aim, partly as an effect of an economic expansion that is more and more robust and widespread and capacity utilization that is getting closer and closer to its full level.

At the same time, inflationary pressures remain moderate on the whole; it is, therefore, opportune to maintain a very accommodative monetary policy stance in order to sustain the lasting return of inflation to levels below, but close, to 2 per cent. Our analyses indicate that since 2013, when the cyclical expansion phase began, low wage growth in some euro-area countries has been affected by the high levels of labour market slack, both in terms of the extensive margin (i.e. that referring to the number of hours of involuntary part-time work and to that of discouraged workers) and the intensive margin (i.e. that referring to the number of hours worked; see the box 'Salaries and measures of labour market slack in the euro area', *Economic Bulletin*, 4, 2017).

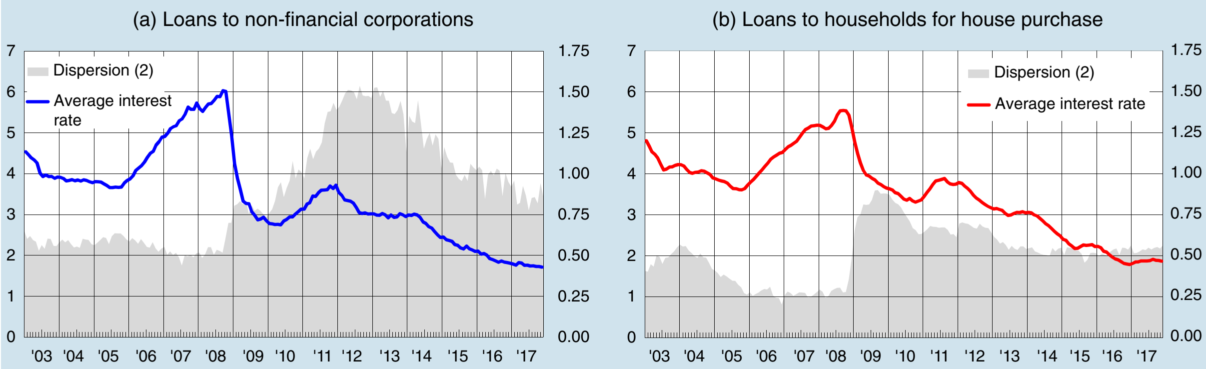
In the two days after the meeting, the EONIA swap rate curve flattened, signalling a postponement of the date on which the markets expect the first hike in the key rates; the euro depreciated by 1.5 per cent compared with the dollar and by about 1 per cent in nominal effective terms; yields on ten-year government securities fell by about 10 basis points in most euro-area countries.

No signs have emerged so far to suggest that the accommodative stance of monetary policy has generated unwanted effects or has led to an accumulation of imbalances in the euro area. These risks are carefully and constantly monitored by the Eurosystem.

On 12 January, the book value of government securities purchased under the Eurosystem's Asset Purchase Programme totalled €1,898 billion, of which the Covered Bond Purchase Programme amount to €242 billion, the Asset-Backed Securities Purchase Programme to €25 billion and the Corporate Sector Purchase Programme to €133 billion. At the end of December, purchases of Italian government securities amounted to €327 billion (of which €294 billion by the Bank of Italy). The

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

amount of assets held that will be redeemed in 2018 and reinvested by the Eurosystem totals €146 billion, of which government securities make up 80 per cent.

Lending to the private sector continues to expand

Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in November, lending to non-financial firms increased by an annualized rate of 5.2 per cent. The expansion in France and Germany continues to be particularly robust. Lending to households rose in all countries except Spain (2.7 per cent for the area as a whole). The cost of new loans to firms and of those to households for house purchase remain at low levels (1.7 per cent and 1.9 per cent in November respectively). The dispersion of interest rates across countries was practically unchanged, remaining very low (Figure 9).

1.3 GLOBAL FINANCIAL MARKETS

Conditions on the world financial markets remain relaxed. Long-term interest rates in the main advanced economies rose above the low levels recorded at the end of September and in the euro area, sovereign risk premiums decreased markedly. Share prices reached historically high levels. The euro appreciated against the leading currencies and expectations are of further gains in the short term.

Long-term yields are still low in the US

Yields on ten-year Treasury bonds rose by about 20 basis points from the end of September (to 2.6 per cent; Figure 10); much of the increase occurred in the wake of the Federal Reserve's December meeting.

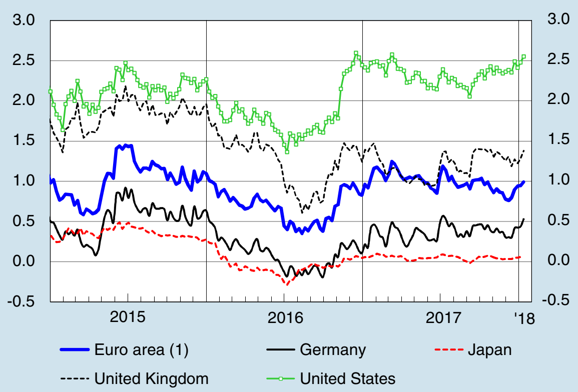
Sovereign spreads narrow significantly in the euro area

Interest rates on German ten-year government bonds have risen by 12 basis points since the beginning of the fourth quarter, to 0.58 per cent. Sovereign spreads in the euro area have benefited from stronger growth, as well as from the favourable response of market operators to the recasting of the Asset Purchase Programme announced by the ECB. Since the end of September, yield spreads between ten-year government bonds and the corresponding German Bund have decreased in Italy, Spain and Belgium (by 25, 22 and 12 basis points respectively; Figure 11) and even more sharply in Portugal (by 71 points), which benefited from the upgrade in its sovereign credit rating to investment grade by S&P in September,

Figure 10

Yields on 10-year government bonds

(end-of-week data; per cent)

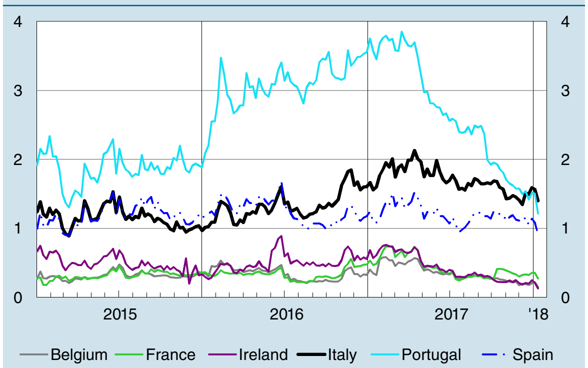


Source: Based on Thomson Reuters Datastream data.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

Figure 11

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

(end-of-week data; percentage points)

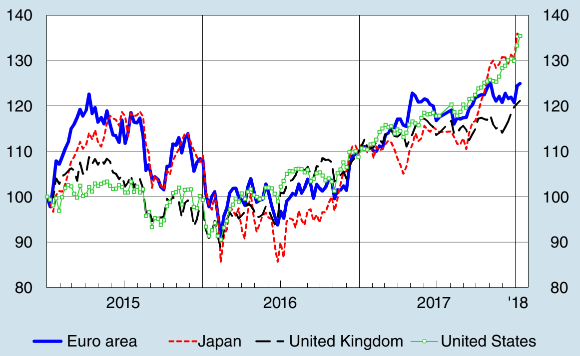


Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 12

Stock market indices (1)

(end-of-week data;
1st week of January 2015=100)

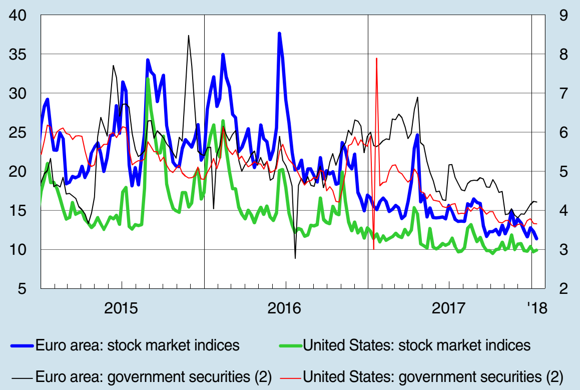


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 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.

followed by Fitch in December; yield spreads were virtually unchanged in France, but widened in Ireland by 14 basis points, partly on account of technical issues relating to the change in the benchmark bond.

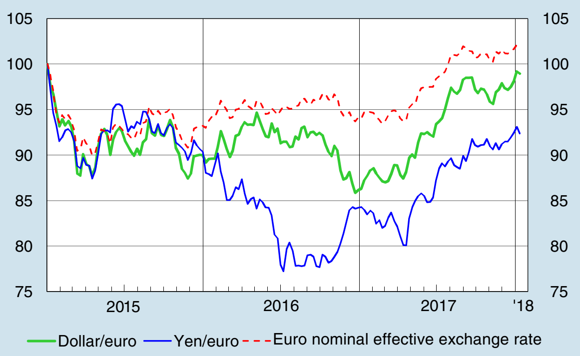
Stock market volatility is very low

Share prices rose further in the US and, less markedly, in the euro area (Figure 12). In both of these markets, implied volatility remained extremely low (Figure 13). The emerging countries' financial markets followed diverging patterns, with marked increases in India and Brazil, a moderate rise in China and a slight decline in Russia.

Figure 14

Exchange rates

(average weekly data;
1st week of January 2015=100)

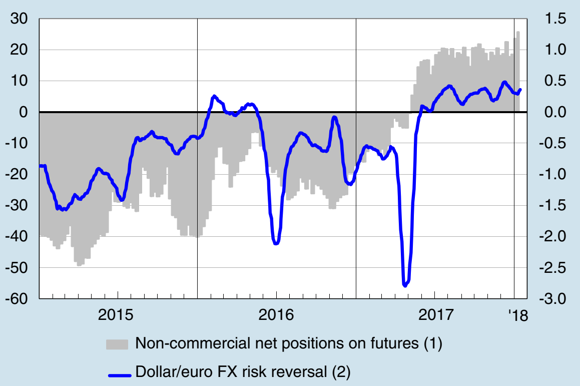


Sources: ECB, Bloomberg and Thomson Reuters Datastream.

Figure 15

Net positions in dollar/euro and risk reversal

(per cent)



Sources: ECB, Bloomberg and Thomson Reuters Datastream.
(1) Difference between non-commercial long and short positions on dollar/euro FX futures as a percentage of total outstanding positions (grey band, left-hand scale); 1-month risk reversal index (20-day moving average). – (2) Right-hand scale.

The euro is expected to appreciate

Since the end of September, the euro has appreciated by 3.6 per cent against the dollar, by 1.9 per cent against the yen and by 0.8 per cent against the pound sterling; in nominal effective terms the euro has gained 8.8 per cent since the end of 2016 (Figure 14). Non-commercial traders in euros hold mainly long positions in derivatives; positive values for the risk reversal indicator point to a demand for insurance against an appreciation of the euro. These trends continue to signal expectations of a short-term appreciation of the euro against the dollar (Figure 15).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

In the third quarter of 2017, domestic and foreign demand contributed to the acceleration in economic activity. The most recent cyclical indicators suggest that GDP continued to grow at around 0.4 per cent in the fourth quarter, buoyed by the increase in value added in industry and services.

Domestic and foreign demand boost GDP growth in the third quarter

In the summer months, GDP grew by 0.4 per cent on a quarterly basis, a slight acceleration compared with the previous period (Table 4). Contributing in equal measure to the growth in GDP were domestic demand, driven by investment in capital goods, and foreign trade, with exports increasing more markedly than imports; in contrast, the change in stocks shaved 0.5 percentage points off GDP growth. Value added rose in industry, thanks to the strong expansion in manufacturing and the recovery in construction. In services, output remained stable on the whole: it dropped in the financial and IT sectors but grew in wholesale and retail trade and in real estate.

GDP continues to expand in the autumn

According to our estimates, GDP growth in the fourth quarter mirrored that of the preceding quarter (see the box 'Economic activity in the fourth quarter of 2017 based on cyclical indicators'). In December, the Bank of Italy's Ita-coin indicator increased from 0.44 in November to 0.49, the highest level recorded since the summer of 2010 (Figure 16). Business surveys confirm that confidence is returning to the levels recorded before the double-dip recession, while household surveys indicate a continuation of the recovery under way since the spring (see Section 2.3). Accordingly, GDP, based

Table 4

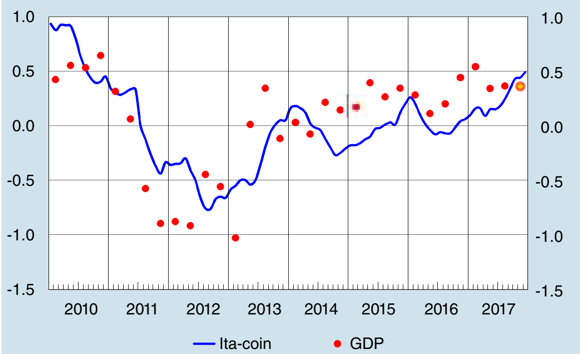
GDP and its main components (1)
(percentage change on previous period)

	2016	2017			2016
	Q4	Q1	Q2	Q3	
GDP	0.4	0.5	0.3	0.4	0.9
Total imports	2.5	0.7	1.6	1.2	3.1
National demand (2)	0.6	0.2	0.8	0.2	1.1
National consumption	0.3	0.6	0.2	0.3	1.3
household spending (3)	0.2	0.7	0.2	0.3	1.5
other spending (4)	0.5	0.4	0.2	0.1	0.5
Gross fixed investment	2.6	-2.2	1.1	3.0	2.8
construction	0.3	0.8	-0.3	0.3	1.1
other investment goods	4.7	-4.8	2.5	5.4	4.4
Change in stocks (5) (6)	-0.2	0.1	0.4	-0.5	-0.4
Total exports	1.9	1.8	0.1	1.6	2.4
Net exports (6)	-0.1	0.3	-0.4	0.2	-0.1

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

Figure 16

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



Sources: Bank of Italy and Istat.
(1) For the methodology and construction of the indicator, see the box '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 4th quarter based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic component.

on seasonal and working-day adjusted quarterly data, increased by 1.5 per cent in 2017 as a whole (1.4 per cent on unadjusted data).

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

Based on the latest economic data, calculated using the Bank of Italy's statistical models,[1] in the fourth quarter of 2017 GDP grew by 0.4 per cent quarter-on-quarter, as in the previous period (Figure A); this estimate presents a risk profile that is slightly tilted to the downside owing to the uncertain performance of the manufacturing sector.

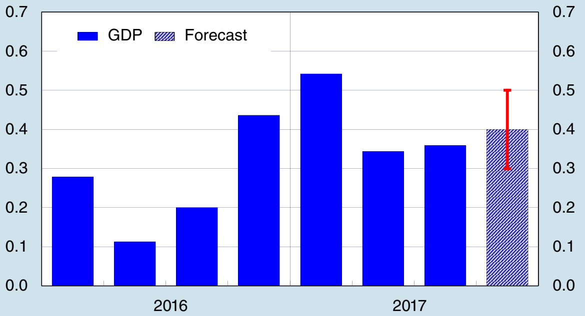
During the autumn, output appears to have benefited from growth, which accelerated in services and continued in non-construction industry, albeit at a slower pace than in the summer. Value added also increased in the construction sector.

In the service sector, the purchasing managers' index (PMI) remained broadly compatible with an expansion in activity (Figure B), despite the prospective component having declined slightly compared with the previous quarter. According to the available indicators, the contribution of start-ups to the expansion was essentially nil.

Based on our estimates, output in industry excluding construction rose by just under 0.5 percentage points on average in the fourth quarter, after posting strong growth in the summer (1.4 per cent). Istat's business confidence index pointed to a significant improvement in the investment goods and intermediate goods sectors, but a more limited gain in consumption goods (Figure C). The growth in goods transport and the increase in electricity consumption on average for the final quarter of the

Figure A

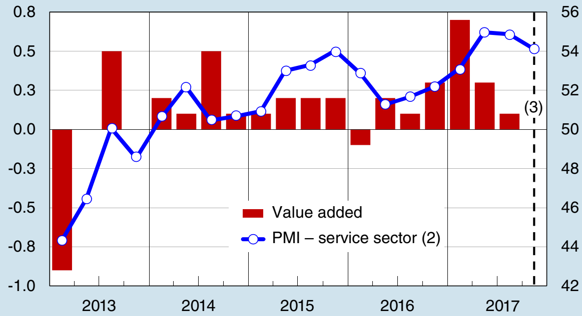
GDP estimates in the fourth quarter (1)
(percentage changes)



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 fourth quarter of 2017 is not yet available.

[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', in *Economic Bulletin*, 1, 2017. See also 'Macroeconomic Models' on the Bank of Italy website.

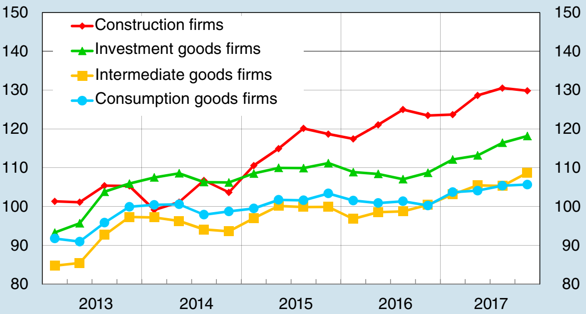
year provide other positive indications of an expansion in industrial activity. In contrast, new vehicle registrations fell compared with the previous quarter (Figure D).

Value added in the construction sector has been picking up since the end of 2016 and continued to contribute positively to the growth in output in the fourth quarter, albeit to a lesser extent than in the previous period. Signs of uncertainty concerning the sector's performance have come from the small drop in the confidence level of construction firms, which nonetheless remains high (Figure C), and from the Bank of Italy's business surveys, which point to more modest demand in the autumn quarter (See 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 January 2018).

Figure C

Business confidence indices (1)

(levels; indices: 2010=100)

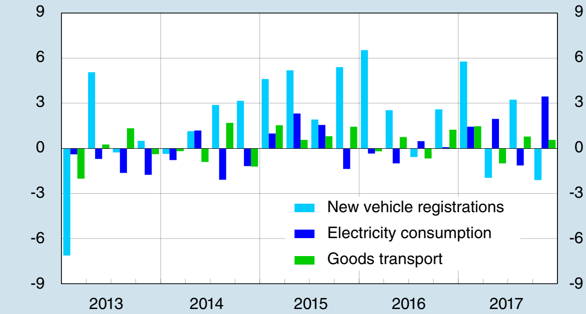


Source: Based on Istat data.
(1) Average level in the reference quarter.

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.

2.2 FIRMS

In the fourth quarter of 2017, manufacturing activity continued to expand, though to a lesser extent compared with the sharp increase recorded during the summer. Business confidence has remained at high levels in all the main sectors of activity; according to our surveys, firms' assessments of the outlook for demand have improved further in industry and services while those regarding investment conditions continue to be highly favourable.

Industrial production expands

In November, industrial output held stable compared with October. According to our estimates, in the fourth quarter as a whole output rose by a little under 0.5 percentage points compared with the previous quarter (from 1.4 per cent in the summer months; Figure 17), in part thanks to what is estimated as a significant recovery in December.

Business confidence remains at high levels

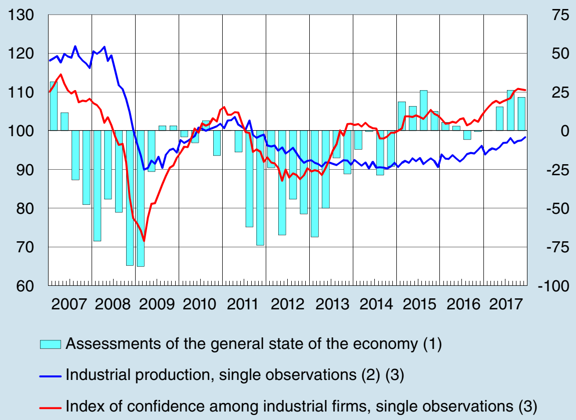
Business confidence indicators continued to improve in the autumn months, reaching the highest levels recorded since 2007. Significant increases were recorded in services (especially retail trade) and manufacturing, while confidence held basically stable in the construction sector. According to the quarterly survey conducted in December by the Bank of Italy and *Il Sole 24 Ore,* assessments of general economic conditions, though losing some ground, remain very positive: demand expectations improved further in industry excluding construction and in services, while the construction sector reported a deterioration in expectations. Assessments of investment conditions, though worsening in the construction sector, continue to be largely positive. Similar signs emerged from purchasing managers' indices (PMI), which confirmed an expansion in the services sector and a further improvement in manufacturing, which in the fourth quarter reached the highest levels recorded since 2011.

Investment in capital goods accelerates

During the summer investment accelerated considerably, driven by expenditure on machinery and equipment and, to a lesser extent, on transport equipment. Uncertainty over the renewal of tax incentives in 2018 for purchases of capital goods and advanced digital technologies (super and hyper amortization) may have induced firms to bring forward their investment plans. The Bank of Italy-*Il Sole 24 Ore* survey suggests, however, that investment could expand further both in the first half of 2018 and over the year as a whole, with a more marked improvement among construction firms operating mainly in the non-residential sector (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

Figure 17

Industrial production and business confidence indicators
(monthly data; percentage points)



Sources: Based on data from Istat, Terna and the 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 January 2018). – (2) Industrial production adjusted for seasonal and calendar effects; for December 2017, estimated data. – (3) Index: 2010=100.

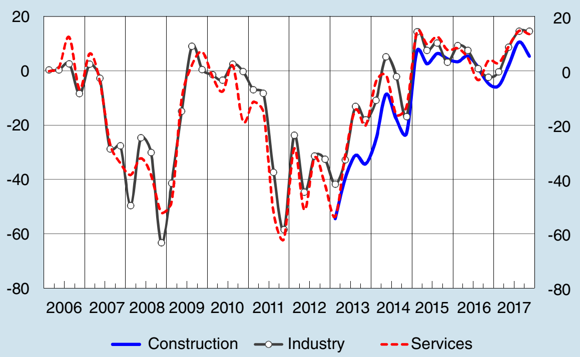
ITALIAN FIRMS' INVESTMENT ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

In December the Bank of Italy and *Il Sole 24 Ore* conducted their quarterly survey on a sample of about 1,000 industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 January 2018).

Assessments of the current general economic situation and expectations for the next three months continue to be very optimistic. In the firms' view, support for output will come from stronger demand and, to a smaller extent, from favourable credit conditions. Economic and political uncertainty is still regarded as the main obstacle to higher output.

Opinions on investment conditions remained optimistic: they held stable in industry excluding construction and services but deteriorated in construction (see the figure). Credit supply conditions improved on the whole, despite the worsening observed for construction firms, especially in the residential building segment.

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



(1) Balance between judgments of improvement and deterioration by comparison with the previous quarter reported in the quarterly survey conducted on a sample of firms with 50 or more workers by the Bank of Italy and *Il Sole 24 Ore* (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 January 2018).

In this issue of the survey, firms were asked whether, in their opinion, their investment over the last three years matched their business needs: less than 3 per cent of respondents considered it to be excessive and more than 20 per cent deemed their investment insufficient (the proportion increases among the smallest firms and those active in construction); the remaining three quarters reported that it met their needs.

The share of industrial and service firms planning to increase their investment expenditure over the course of 2018 was 28 percentage points higher than the share intending to cut it back (see the table). The balance improved compared with the expectations recorded in September for 2017 as a whole, mainly in the service sector, and remains wider in manufacturing.

Firms' investment expectations (1)
(per cent)

RESPONSES	Industry excl. construction	Services	Construction	Total economy
	Investment expenditure planned for H1 2018 compared with H2 2017			
Higher	42.2	30.1	27.6	35.7
About the same	41.4	58.2	57.8	50.2
Lower	16.4	11.7	14.6	14.1
	Investment expenditure planned for 2018 compared with investment in 2017			
Higher	44.9	37.7	34.4	40.9
About the same	39.5	52.3	51.1	46.2
Lower	15.5	10.0	14.6	12.9

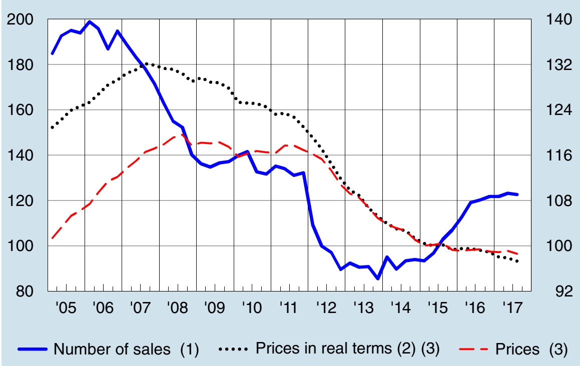
(1) Estimates weighted to take into account the ratio between the number of respondent firms and the number of firms in the reference universe in the quarterly survey of Italian firms with 50 or more workers conducted by the Bank of Italy with *Il Sole 24 Ore* (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 January 2018). Rounding may cause discrepancies.

House sales decline slightly

In the third quarter of 2017, the number of house sales declined slightly compared with the previous quarter (-0.5 per cent), though it is still above the level recorded in the same period of 2016 (Figure 18). Prices fell by 0.5 per cent compared with the second quarter, after they had remained virtually unchanged since the start of 2017. According to the Housing Market Survey conducted in October on a sample of real estate agents, assessments of the short-term trends in the market have improved and downward pressures on house sales prices have abated.

Figure 18

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



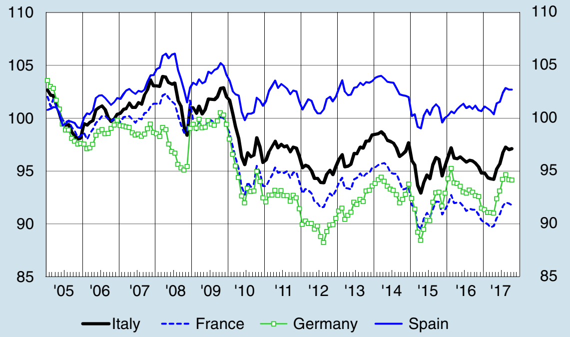
Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente immobiliare*.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index. – (3) Right-hand scale.

Price competitiveness deteriorates slightly

Our estimates suggest that in the fourth quarter Italian firms' competitiveness – as measured by the producer prices of manufactured goods and taking account of Italy's commercial trade structure – worsened slightly compared with the previous quarter, as did the competitiveness of French and Spanish firms, while that of German firms improved only very slightly (Figure 19). Compared with the previous year, in 2017 as a whole Italian firms' competitiveness was basically unchanged; in France and Germany it improved, while in Spain it deteriorated.

Figure 19

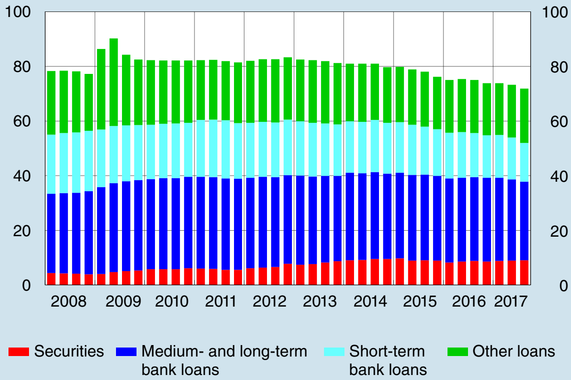
Indicators of competitiveness (1)
(monthly data; indices: 2005=100)



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

Figure 20

Debt of non-financial corporations (1)
(quarterly data; as a percentage of GDP)



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

Firms' profitability marginally declines

Based on Istat data and on our own estimates, in the third quarter of 2017 the ratio of gross operating profit to value added was slightly lower compared with the previous quarter. Firms' self-financing capability, calculated as the difference between the gross operating profit and total interest costs, remained stable and continued to benefit from the fall in net interest expenses. Both the ratio of investment expenditure to value added and firms' financing requirement were practically unchanged.

Firms' indebtedness falls

In the third quarter, total corporate debt as a percentage of GDP declined further, to 72 per cent from 73 per cent (Figure 20). Demand for bank credit continues to be held back by low external financing requirements, in part satisfied through recourse to corporate bond issues (see Section 2.7).

2.3 HOUSEHOLDS

During the summer months, household expenditure continued to increase, especially that on durables, while the propensity to save remained stable. The further improvement in consumer confidence suggests that the expansion in consumption continued into the autumn.

Household consumption expands in the summer ...

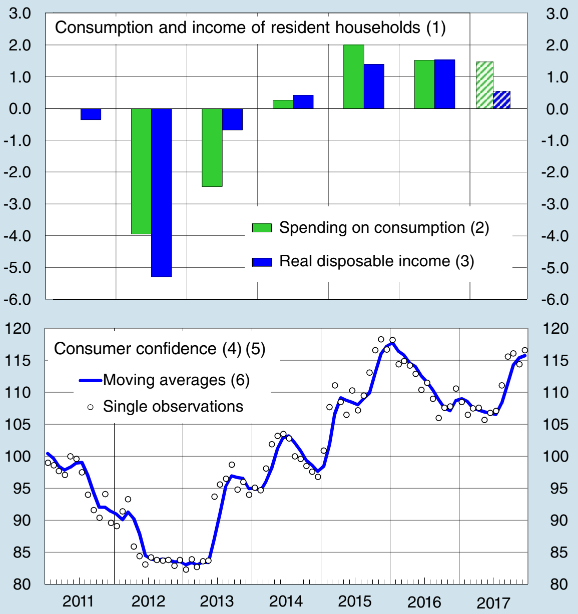
In the third quarter of 2017, household consumption continued to expand (by 0.3 per cent compared with the previous quarter; Figure 21). Purchases of goods, particularly durables, increased, as did those of services, which nonetheless slowed compared with the previous quarter.

... driven by rising disposable income

Over the summer greater consumption partly reflected the fresh increase in disposable income, which benefited from labour market conditions (see Section 2.5). The propensity to save remained substantially stable at 8.0 per cent in the third quarter (Figure 22).

Figure 21

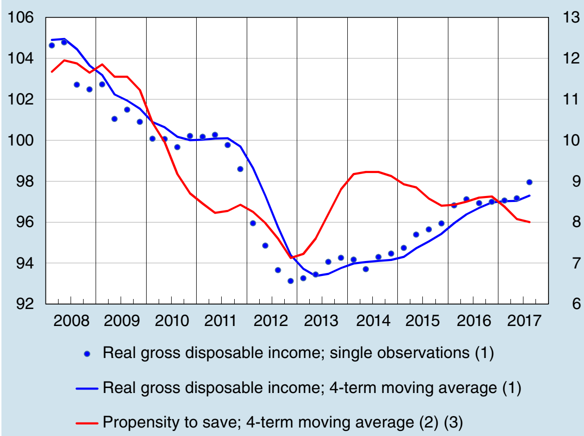
Consumption, disposable income and consumer confidence in Italy
(percentage changes and index numbers)



Source: Based on Istat data.
(1) Percentage changes on previous year. Until 2016, annual data; for 2017, percentage changes in the first 9 months compared with the corresponding year-earlier period. – (2) Chain-linked volumes. – (3) Obtained using the consumption expenditure deflator for households (chain-linked values, reference year 2010). – (4) Seasonally adjusted monthly data. Indices: 2010=100. – (5) In June 2013 methodological changes were introduced that make the data since then not directly comparable with the earlier data. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

Figure 22

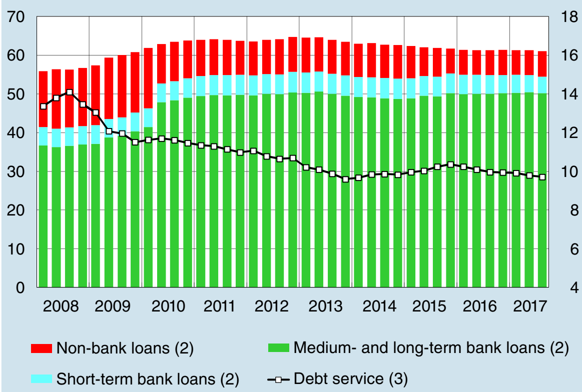
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



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

Figure 23

Household debt (1)
(quarterly data; as a percentage 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. Debt 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 expenditure appears to have increased in the autumn as well

The latest cyclical indicators suggest that consumption continued to expand in the last quarter of 2017. After the high levels reached during the summer, in the autumn new car registrations fell by 2.1 per cent; however, during the same period consumer confidence rose even further, above all regarding assessments of general economic conditions and future expectations. Labour market expectations are also improving.

Household indebtedness falls

During the summer months the ratio of Italian household debt to disposable income declined to 61 per cent (from 61.3 per cent in June; Figure 23), well below the euro-area average of 94.1 per cent recorded at the end of September. As a share of GDP, household debt declined to 41.3 per cent, from 41.4 per cent (57.9 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) amounted to around 10 per cent of disposable income. Interest rates on new mortgage loans remain at historically low levels (see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the third quarter of 2017, exports returned to strong growth, driven by the goods component; the outlook appears very favourable. In the first eleven months of 2017, non-residents increased their demand for Italian securities; the current account surplus remains large. The Bank of Italy's TARGET2 balance has held broadly stable since last spring.

Exports grow in the summer months ...

After stagnating in the second quarter, exports rebounded significantly in the summer months (up by 1.6 per cent in volume terms compared with the previous quarter), driven mainly by an acceleration in sales of goods (1.8 per cent). The latter performed particularly well in EU countries outside the euro area and in non-EU markets. At sectoral level, the main contribution came from the mechanical machinery and equipment and the metal products segments. Exports of services also grew (0.4 per cent), partially making up the decline of the previous quarter. The expansion only concerned EU markets.

Imports continued to grow (by 1.2 per cent in volume terms), particularly those of goods from European countries and those of services from all the main markets.

... and the outlook improves further

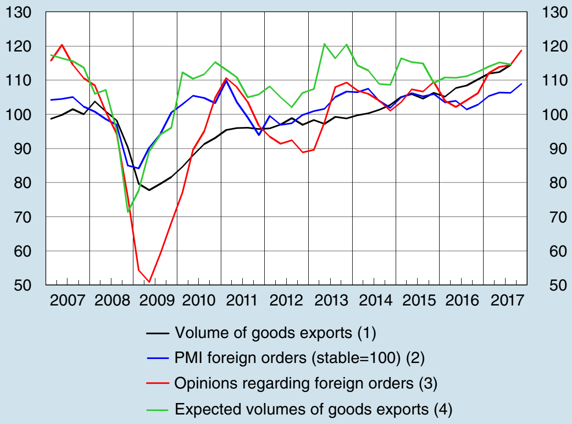
According to the latest data, exports of goods (at current prices and seasonally adjusted) grew in October and November, exceeding the average levels for the third quarter. On average, in the autumn months the manufacturing firms' assessments of foreign orders as recorded by Istat improved further; the corresponding PMI indicator also rose and stood well above the threshold compatible with an expansion in foreign sales (Figure 24).

The current account surplus remains large

Overall, in the first eleven months of 2017 the current account surplus widened slightly compared with the same period of the previous year (Table 5). The widening of the primary income balance, which has been positive since mid-2016, more than

Figure 24

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.-Nov. 2016	Jan.-Nov. 2017
Current account	**25.6**	**45.6**	**40.3**	**44.2**
Memorandum item: % of GDP	*1.5*	*2.7*	–	–
Goods	51.1	59.8	53.4	50.0
non-energy products (2)	83.4	85.0	76.2	78.5
energy products (2)	-32.2	-25.3	-22.8	-28.6
Services	-2.7	-2.8	-2.1	-0.8
Primary income	-8.2	5.0	3.3	9.2
Secondary income	-14.7	-16.5	-14.4	-14.1
Capital account	**4.0**	**-2.6**	**-2.1**	**0.1**
Financial account	**36.0**	**66.6**	**54.0**	**49.9**
Direct investment	2.4	-2.9	1.7	-3.7
Portfolio investment	98.3	159.6	117.3	92.0
Derivatives	2.3	-3.0	0.9	-7.3
Other investment (3)	-67.6	-85.9	-64.8	-33.6
Change in official reserves	0.5	-1.2	-1.0	2.5
Errors and omissions	**6.5**	**23.6**	**15.9**	**5.6**

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

offset the contraction in the merchandise trade surplus owing to increased spending on energy products.

The current account surplus held stable at 2.8 per cent of GDP over the four quarters ending in September 2017, the last period for which GDP data are available (Figure 25).

Non-residents step up their purchases of Italian securities

In the first eleven months of 2017, foreigners' net purchases of Italian portfolio securities reached €25.5 billion. Foreign investors showed interest in Italian public sector securities (€6.4 billion) as well as in those issued by the private sector. Among the latter, investment focused on bank shares and bonds, partly in connection with the recent recapitalizations of some Italian banks. The substantial investment in foreign securities by residents (€117.5 billion since the beginning of 2017) continues to consist largely of purchases of investment fund units by households, insurance companies, pension funds, and other financial intermediaries.

The TARGET2 debtor position holds broadly stable

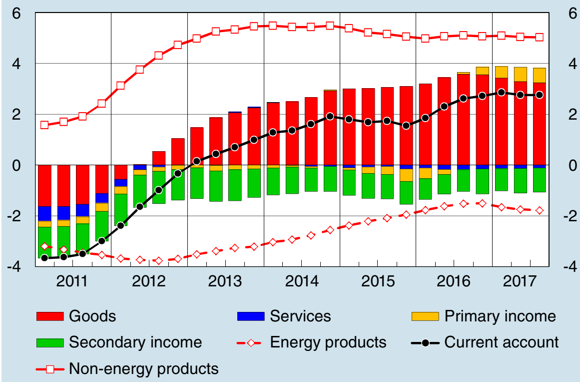
Since last May, the Bank of Italy's debtor position in the TARGET2 payment system has been largely stable, hovering at €428 billion; it stood at €439 billion at the end of the year. Up to November, the last month for which balance of payments data are available, the general stability of the TARGET2 balance reflected stronger foreign demand for Italian securities and the current account surplus, which offset the outflows stemming especially from Italian investors' purchases of foreign securities (Figure 26).

The stabilization of the TARGET2 balance halted the gradual widening that had been under way since the inception of the Eurosystem's Expanded Asset Purchase Programme (APP), not only in Italy but also in Spain and Portugal. Moreover, excess liquidity is also distributed more evenly between the banking systems of the various countries, having in the past been concentrated mainly in the German, French and Dutch systems. The excess reserves held by Italian banks, which had been practically nil since the inception of the APP,[1] amounted to almost €130 billion at the end of 2017.

Figure 25

Current account balance and its main components

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

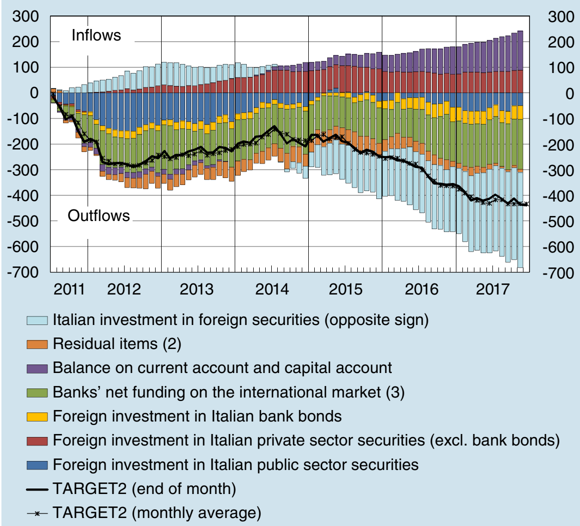


Sources: For GDP, Istat; for the breakdown between energy and non-energy products, based on Istat foreign trade data.

Figure 26

TARGET2 balance and cumulative balance of payments flows (1)

(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's 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.

[1] See Section 2.1, 'The money and financial markets' in *Financial Stability Report*, 2, 2017.

Among the various factors contributing to the increase were the fall in the market interest rates on overnight repos backed by Italian collateral, which, as in other countries, dropped below the rate on the deposit facility; this contraction significantly reduced the opportunity cost of holding excess liquidity for Italian banks as well. Such trends are taking place against the backdrop of improving conditions in the Italian banking system, which were reflected, among other things, in a widespread narrowing of Italian banks' CDS spreads.

The net international position continues to improve

At the end of September 2017 Italy's net international debtor position fell to 7.8 per cent of GDP. The reduction of over 0.5 percentage points on the previous quarter is mostly ascribable to the current account surplus; net valuation adjustments were negative.

2.5 THE LABOUR MARKET

The number of persons in employment continued to increase in the third quarter of 2017, mainly driven by fixed-term contracts. The number of hours worked per capita also rose, although remaining below pre-crisis levels. The latest short-term economic indicators point to a small growth in employment in the closing months of 2017 as well. Wages continued to increase slowly; the collective labour contracts renewed in the second half of the year indicate that the pace will accelerate in 2018.

The number of persons in employment and hours worked continue to rise

The number of persons in employment went up by 0.4 per cent in the summer months compared with the previous period (Figure 27 and Table 6) with all sectors except agriculture benefiting. The stronger growth in total hours worked (up by 0.7 per cent) was reflected in an increase in the number of hours per capita (0.3 per cent), which was nevertheless more than 4 per cent below the 2007 figure.

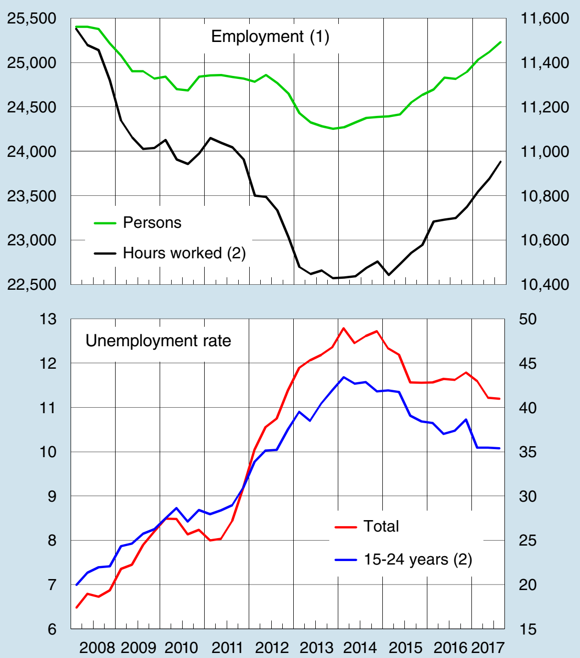
With the number of self-employed workers down slightly during the quarter, the growth in employment was confined to fixed-term payroll contracts, which rose by 3.9 per cent or 105,000 jobs. At the same time, the number of persons on permanent contracts remained unchanged. From the beginning of 2015, when the Jobs Act came into force and reductions in social security contributions for hirings up to the end of 2016 were introduced, the number of payroll jobs increased by about 900,000. The growth in the number of payroll employees (permanent contracts increased by 500,000, temporary contracts by 600,000) was met with a reduction in self-employment (by 200,000), largely on account of a decrease in collaboration contracts.

The reductions in social security contributions were partly responsible for the early growth in

Figure 27

Employment and unemployment

(seasonally adjusted quarterly data)



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

Table 6

Employment and hours worked

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

	Stocks		Changes			
	Q3 2007	Q3 2017	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Total number of persons employed	**25,336**	**25,230**	**0.3**	**0.5**	**0.4**	**0.4**
of which: industry excl. construction	4,912	4,231	0.1	0.3	0.3	0.6
private services (1)	10,428	11,087	0.4	0.5	0.2	1.1
Payroll employees	18,641	19,141	0.5	0.7	0.8	0.5
Self-employed	6,694	6,089	-0.4	0.0	-1.0	0.2
Hours worked	**11,517**	**10,952**	**0.5**	**0.6**	**0.5**	**0.7**
of which: industry excl. construction	2,275	1,896	0.6	0.8	1.2	0.9
private services (1)	5,024	5,020	0.5	0.2	0.2	1.2
Payroll employees	7,678	7,625	0.8	1.0	0.8	1.0
Self-employed	3,839	3,327	-0.3	-0.2	-0.1	0.1

Source: Istat's quarterly national accounts.
(1) Excludes services to households and individuals.

the number of permanent jobs in 2015-16, which then stabilized in 2017. Last year's rise in the number of unemployed workers with little work experience – which reflected the higher participation rate and the increase in the permanent hiring of more expert unemployed workers in the previous two years – probably encouraged firms to offer more fixed-term contracts when first recruiting labour. The trend in fixed-term employment is typically more sensitive to cyclical conditions, which improved significantly during the course of the year (see Section 2.1).

Employment increases moderately towards the end of the year

According to preliminary data from Istat's labour force survey, the number of persons employed rose slightly in October and November; real-time administrative data from INPS, which provide advance indications of the trend in employment (see the box 'Hirings: the effects of the labour market measures as reflected in the administrative data', *Economic Bulletin*, 4, 2015), suggest that the growth is still driven by a rise in fixed-term contracts. The performance of permanent employment in the last quarter of 2017 probably reflected firms' deciding to postpone hirings until 2018 in order to take advantage of new measures to reduce social security contributions for young workers. These measures differ in several respects from the 2015 incentives – their structural nature, the reduced financial advantage, the smaller number of potential beneficiaries and the stricter conditions of access – which could limit their impact in the short run.

The unemployment rate is unchanged

The unemployment rate was stable at 11.2 per cent over the summer months. The growth in employment was accompanied by an increase in the participation rate following the reduction in the number of discouraged workers: while still lower than in the other leading euro-area countries the activity rate and the employment rate rose by 0.3 and 0.2 percentage points, to 65.6 and 58.1 per cent respectively. Similar trends were observed among 15-24 year olds, with the unemployment rate virtually stable at 35.4 per cent (Figure 27). Preliminary data from Istat's labour force survey point to a further small improvement in October and November, particularly among younger individuals.

The growth in contractual earnings is very gradually gaining strength

Contractual earnings continued to grow at a slow pace although there were early signs of a progressive strengthening. Hourly contractual earnings in the non-farm private sector rose by 0.7 per cent in the third quarter of 2017 with respect to a year earlier; this was slightly more than in the previous period and the pace of growth is expected to have strengthened in October and November

(0.8 per cent on average). The labour contracts renewed in the third quarter (trade, telecommunication, goods transport and logistics, postal workers) incorporated substantial pay rises and, unlike some of the contracts signed in the previous two years (see the box 'Private sector contract renewals in 2016', *Economic Bulletin*, 1, 2017), they do not contain mechanisms automatically linking salary increases to realized inflation, which might have limited pay rises in a situation of low inflation.

2.6 PRICE DEVELOPMENTS

Despite a recovery in producer prices and some early signs of wage growth, consumer price inflation remains weak, at 1.0 per cent in December; households and firms expect it to increase slightly. Surveys to date suggest that firms have raised their sale prices by just under 1 per cent. They predict that consumer price inflation will remain low. The percentage of households expecting prices to remain unchanged or to decline over the next twelve months continued to rise.

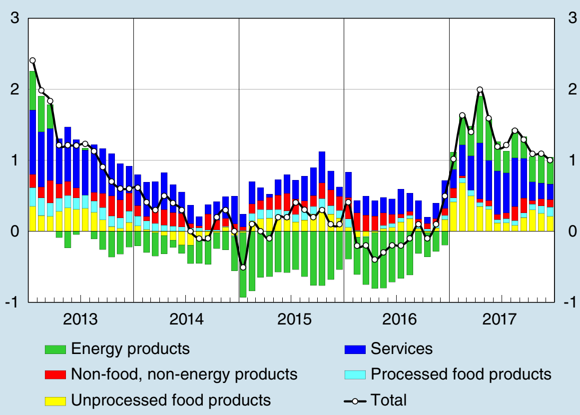
Consumer price inflation remains weak ...

In December consumer price inflation fell to 1.0 per cent, just under the level recorded in the fourth quarter (1.1 per cent; Figure 28). Downward pressure was exerted by the slowdown in the prices of unprocessed food products, which offset the increase in prices of processed food products and services. Inflation averaged 1.3 per cent in 2017 (-0.1 per cent in 2016).

Figure 28

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

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



Source: Based on Eurostat data.
(1) Harmonized Index of Consumer Prices.

... and core inflation is particularly low

Core inflation was particularly low at 0.5 per cent in December and on average for the fourth quarter (1.1 per cent in the third quarter; Table 7). The decline reflects to a significant extent the reduction in university fees in October under the 2017 Stability Law. In December the share of basic items with negative price variations remained stable at 18 per cent; for the core components, it fell slightly (to 23 per cent, from 24 per cent). Core inflation averaged 0.8 per cent for the year.

Producer price inflation continues to rise

Producer prices of industrial products sold on the domestic market accelerated in November to a rate of 2.8 per cent year-on-year (from 2.2 per cent in October), mainly reflecting developments in the energy component. The prices of non-food final consumption goods recorded a modest increase, rising from 0.1 per cent to 0.2 per cent. There were signs of a recovery in wage growth, which is still moderate (see Section 2.5).

Households and firms expect inflation to remain weak

The price lists of the firms interviewed in the quarterly survey conducted in December by the Bank of Italy and *Il Sole 24 Ore* were raised by 0.9 per cent in the last year; the increase is expected to be slightly higher over the next twelve months (1.1 per cent). The consumer price inflation expectations of the firms interviewed were the same as in the previous survey, above the lows recorded at the end of 2016 (Figure 29). According to Istat's surveys, in the autumn months the balance between the share of manufacturing firms expecting

Table 7

Indicators of inflation in Italy
(12-month percentage changes)

	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. food and energy	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. food and energy	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
2017	1.3	0.8	1.3	1.2	–	0.7	….	–
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	-0.3	-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	-0.4	-0.3	0.2	0.5	-4.1	–
June	-0.2	0.5	-0.3	-0.4	0.1	0.4	-3.4	–
July	-0.2	0.5	-0.2	-0.1	0.1	0.6	-1.4	–
Aug.	-0.1	0.4	-0.1	-0.1	0.0	0.5	-1.0	–
Sept.	0.1	0.4	0.0	0.1	0.1	0.4	-0.8	–
Oct.	-0.1	0.2	-0.2	-0.2	0.0	0.1	-0.6	–
Nov.	0.1	0.4	0.1	0.1	0.1	0.4	-0.3	–
Dec.	0.5	0.7	0.5	0.5	0.2	0.6	0.9	–
2017 – Jan.	1.0	0.5	1.0	1.0	0.3	0.5	2.9	–
Feb.	1.6	0.7	1.5	1.6	0.5	0.6	3.7	–
Mar.	1.4	0.6	1.4	1.4	-0.1	0.7	3.3	–
Apr.	2.0	1.3	1.9	1.9	0.3	1.1	4.4	–
May	1.6	0.9	1.6	1.4	-0.3	0.8	3.2	–
June	1.2	1.0	1.3	1.2	-0.1	1.0	2.5	–
July	1.2	0.9	1.1	1.1	0.0	0.8	0.9	–
Aug.	1.4	1.2	1.3	1.2	0.1	0.9	1.6	–
Sept.	1.3	1.1	1.3	1.1	0.1	0.8	1.7	–
Oct.	1.1	0.5	1.1	1.0	-0.1	0.4	2.2	–
Nov.	1.1	0.4	1.0	0.9	0.0	0.3	2.8	–
Dec.	1.0	0.5	0.9	0.9	0.2	0.4	….	–

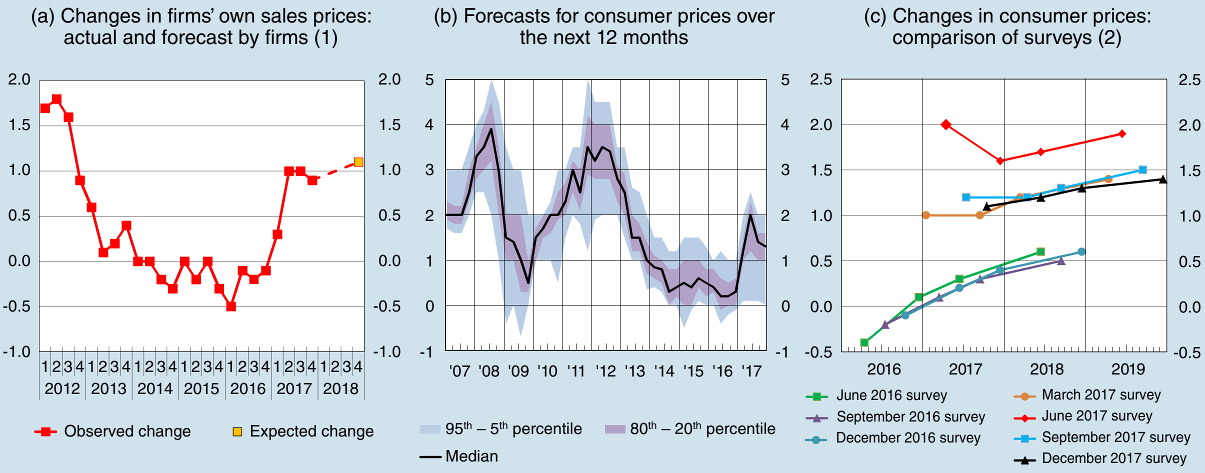
Sources: Based on Istat and Eurostat data.
(1) Harmonized Index of Consumer Prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (3) 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.

to raise their prices and the share of those planning to reduce them continued to widen, while the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months fell slightly to 59.4 per cent, compared with 61.5 per cent in the third quarter.

The inflation expectations of the professional forecasters polled in January by Consensus Economics remained unchanged at 1.1 per cent on average in 2018, just below the projections for the euro area as a whole (see Section 1.2).

Figure 29

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



(1) Robust average of responses to questions concerning the observed percentage change in firms' own sales prices over the past 12 months and the change expected over the next 12 months in the Bank of Italy-*Il Sole 24 Ore* quarterly survey (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 16 January 2018). – (2) The first point of each curve is the definitive figure available at the time of the survey that is provided to interviewees in the questionnaire to be used as the basis for formulating their expectations; the second point represents the average of the forecasts for the subsequent 6 months; the third point is the average of the forecasts for the subsequent 12 months; the fourth point is the average of the forecasts for the subsequent 24 months.

2.7 BANKS

The expansion in lending to the private sector has continued in recent months. Demand for business loans, buoyed by the recovery in investment, is still held down by the ample availability of internal resources and greater recourse to corporate bond issues. Credit quality continued to improve and the share of non-performing loans decreased further. Capital ratios strengthened significantly.

Lending to households grows ...

In the three months ending in November, loans to the non-financial private sector grew by 1.8 per cent (from 1.1 per cent in the three months ending in August, adjusted for seasonal effects and on an annual basis; Figure 30.a). The expansion in lending to households continued to be strong, in line with the rate recorded in recent months (2.8 per cent), with regard to both mortgage loans and consumer credit.

... as well as that to non-financial firms

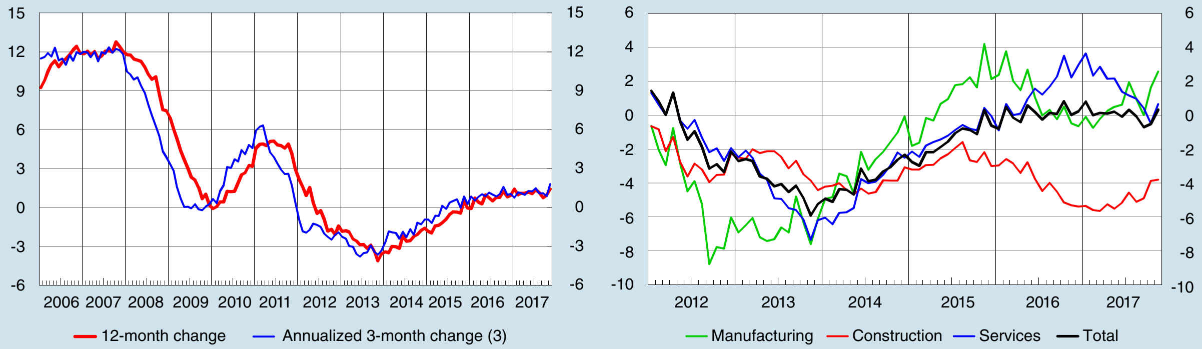
Lending to non-financial firms grew by 1.1 per cent in the three months ending in November (from -0.2 per cent in August; Figure 30.b). The heightened demand related to the recovery in investment continued to be offset by greater self-financing capacity, reducing the need for external resources; in recent months external financing needs were also met through bond issues (see Section 2.8). The growth in lending strengthened for manufacturing firms (2.6 per cent over the preceding twelve months) and remained positive for service firms (0.7 per cent); the contraction in lending to construction firms continued (-3.8 per cent).

Bank funding grows

Between August and November, Italian banks' funding increased by about €7 billion (Table 8), reflecting greater wholesale funding from non-residents and central counterparties. By contrast, bonds and resident deposits decreased, though they remained 3.2 per cent higher than in the previous twelve-month period.

Figure 30

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



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

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		12-month percentage changes (3)	
	August 2017	November 2017	August 2017	November 2017
Assets				
Loans to Italian residents (4)	1,760	1,771	-0.8	-0.3
of which: firms (5)	735	741	-0.1	0.3
households (6)	626	631	2.7	2.8
Claims on central counterparties (7)	53	110	-42.3	24.3
Debt securities excluding bonds of resident MFIs (8)	489	459	-4.3	-10.0
of which: securities of Italian general government entities	376	344	-6.5	-12.7
Claims on the Eurosystem (9)	127	136	296.7	186.9
External assets (10)	355	361	10.8	8.2
Other assets (11)	1,100	1,083	-2.5	-3.3
Total assets	**3,885**	**3,920**	**0.7**	**1.2**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,463	1,454	4.1	3.2
Deposits of non-residents (10)	298	302	-1.6	0.1
Liabilities towards central counterparties (7)	104	138	-32.7	-6.9
Bonds (13)	304	285	-14.7	-16.3
Liabilities towards the Eurosystem (9)	255	252	46.1	36.2
Liabilities connected with transfers of claims	110	110	-6.8	-6.5
Capital and reserves	438	441	1.2	1.4
Other liabilities (14)	914	939	-0.2	0.2
Total liabilities	**3,885**	**3,920**	**0.7**	**1.2**

Source: Supervisory reports.
(1) The data for November 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 borrowers 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.

Supply conditions remain favourable

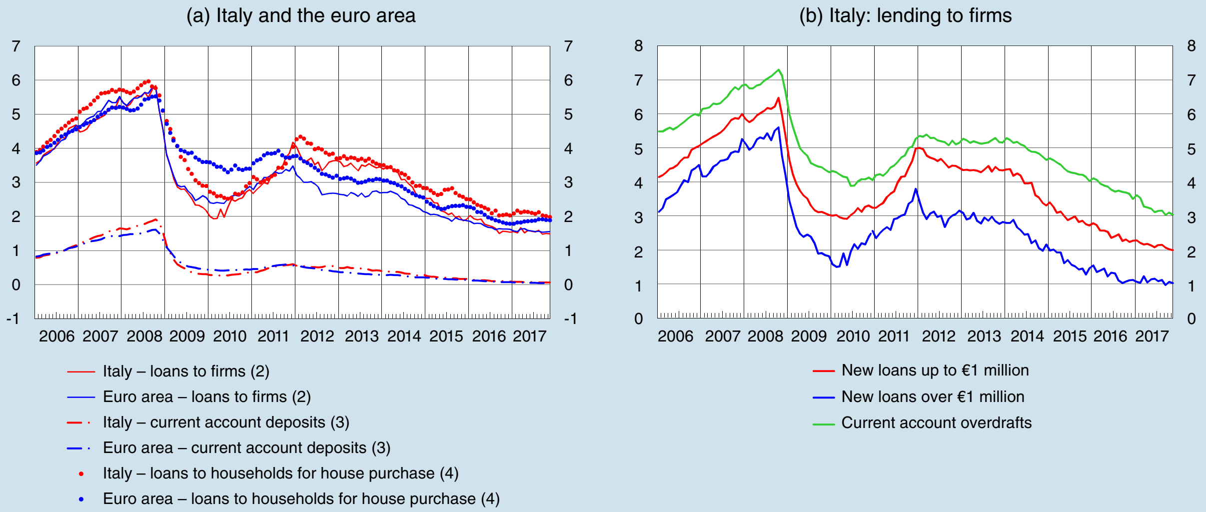
According to the banks that took part in the euro-area bank lending survey, in the third quarter of 2017 supply conditions were unchanged for corporate loans and were slightly more favourable for mortgage loans to households (see the box 'Credit supply and demand'). Based on business surveys carried out in December by Istat and the Bank of Italy together with *Il Sole 24 Ore*, supply conditions improved especially for medium-sized and large manufacturing firms.

The cost of new loans remains low

In November, the average interest rates on new mortgage loans to households and new loans to firms fell by 0.1 percentage points, to 2.0 and 1.5 per cent respectively (Figure 31). The difference between the interest rate applied to loans below €1 million and that applied to loans above €1 million, a measure of the gap between the cost of loans to small firms and larger firms, fell slightly to just under 1 percentage point.

Figure 31

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



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

CREDIT SUPPLY AND DEMAND

The Italian banks interviewed in the euro-area bank lending survey reported that, in the third quarter of 2017, credit supply policies remained unchanged for firms and eased slightly for households (Figure A). Competitive pressure and greater risk tolerance contributed to the further reduction in the average margin on loans and to the increase in the size of corporate loans.[1]

According to the banks interviewed, the demand for business lending remained substantially unchanged in the third quarter. The heightened demand for lending, attributed to low interest rates and the favourable performance of fixed investment, was offset by the negative contribution

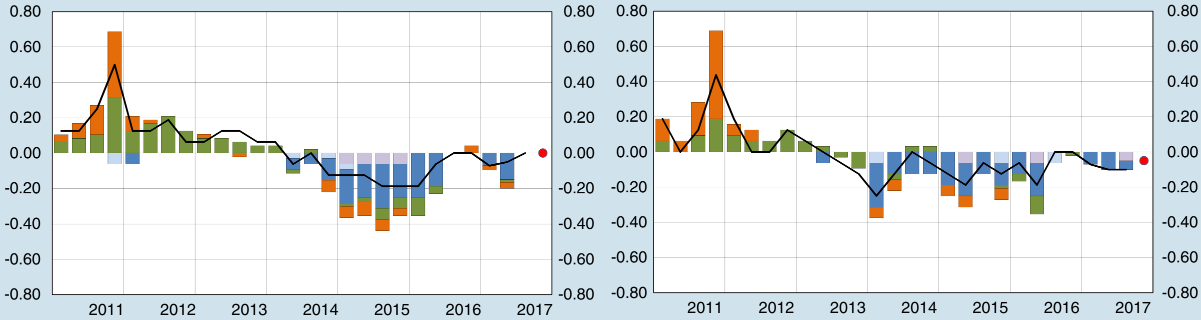
1 Ten of the main Italian banking groups took part in the survey, which ended in late September. The results for Italy are available at www.bancaditalia.it, those for the euro area are available at www.ecb.int.

Figure A

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

(a) Loans to firms | (b) Loans to households for house purchase

Factors contributing to tightening (+) / easing (-) of credit standards

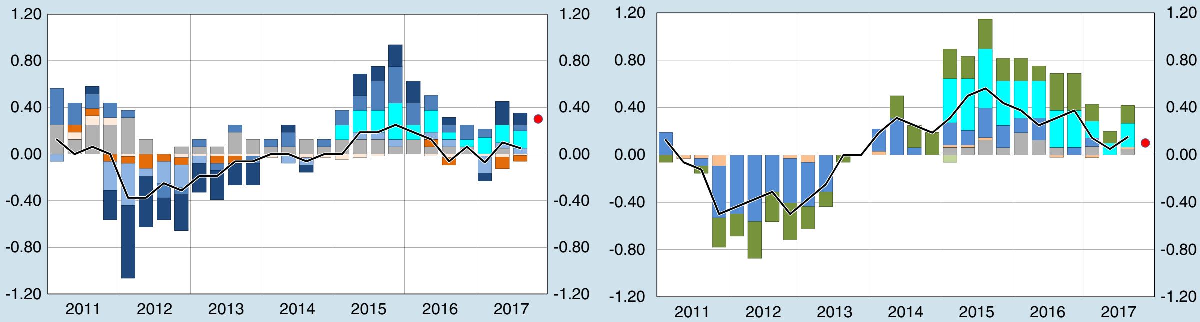


Cost of funds and balance sheet constraints (2)
Risk perception (3)
Competition from other banks
Competition from non-bank institutions and the market (4)
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)

Cost of funds and balance sheet constraints
Risk perception (7)
Competition from other banks
Competition from non-banks
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)

(c) Loans to firms | (d) Loans to households for house purchase

Factors contributing to expansion (+) / restriction (-) of demand for loans



Fixed investment
Inventories and working capital
General interest rate level
Corporate mergers/acquisitions/restructuring
Internal funds
Other alternative sources of funding (8)
Debt consolidation/restructuring or renegotiation
Index of demand (realized) (5)
Index of demand (expected) (6)

Housing market prospects
General interest rate level
Consumer confidence
Other sources of finance (9)
Housing regulations or taxation
Debt consolidation/restructuring or renegotiation
Index of demand (realized) (5)
Index of demand (expected) (6)

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 other financing sources. – (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; other sources of external funding.

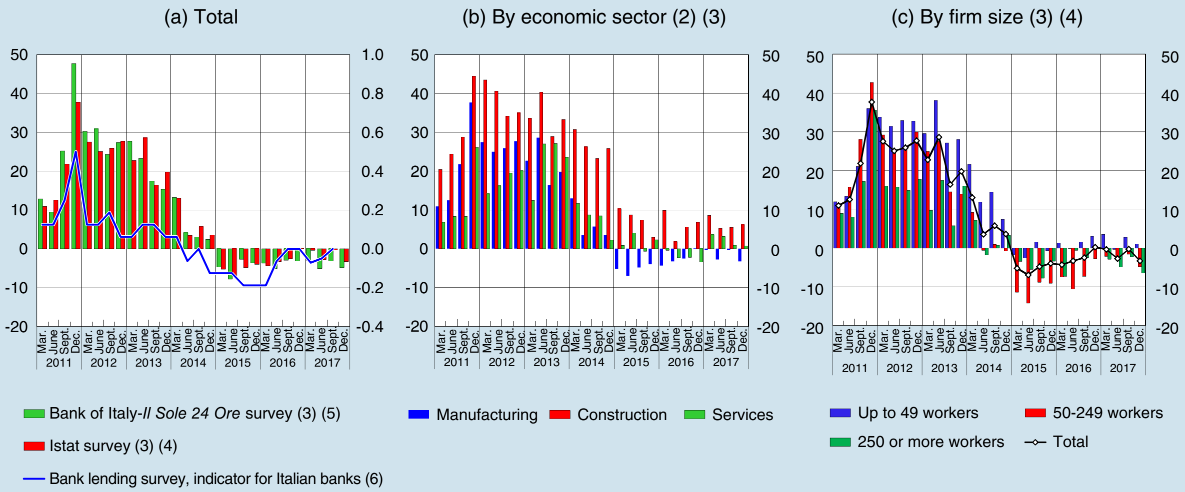
provided by the ample availability of internal funds. The gradual improvement in the housing market outlook and the low cost of mortgage loans boosted household demand.

The survey contained specific questions relating to the effect on credit conditions of some non-standard measures implemented by the ECB Governing Council. In the six months ending in September, banks reported that the Expanded Asset Purchase Programme (APP) enlarged their balance sheets and improved both their liquidity positions and their funding conditions; the funds provided by the Eurosystem were mostly used to support lending to firms and households. The negative rate applied to deposits held with the Eurosystem, while lowering net interest income, partly reduced the cost of bank lending for households and non-financial firms; the impact on volumes was almost nil.

Firms are also of the opinion that credit supply standards remained generally accommodative. According to Istat's business confidence survey carried out in December, in the fourth quarter of 2017 credit access conditions improved for medium-sized and large manufacturing firms and remained substantially unchanged for firms in the service sector (Figure B); in contrast, construction firms continued to report a worsening of conditions. The Survey on Inflation and Growth Expectations conducted by the Bank of Italy and *Il Sole 24 Ore* on a sample of medium-sized and large firms provided similar indications.

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.

Credit quality improves further ...

The improvement in the quality of credit continued, bolstered by the strengthening economic recovery. In the third quarter, the ratio of new non-performing loans to outstanding loans fell to 1.7 per cent, on a seasonally adjusted annualized basis (2.0 per cent in the previous quarter; Figure 32). The drop reflected the reduction of 0.5 percentage points for loans to firms (to 2.6 per cent) and 0.2 points for those to households (to 1.2 per cent).

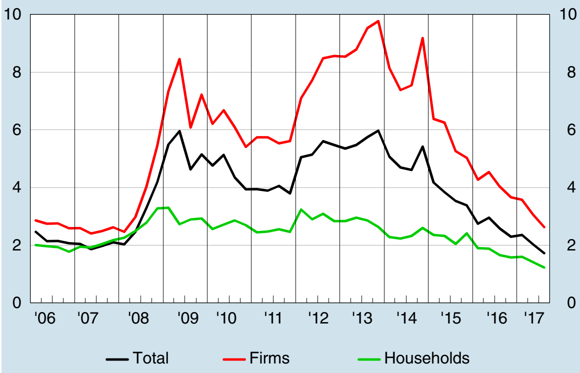
... and the share of non-performing loans continues to decline

For the groups classified as significant for supervisory purposes, the share of non-performing loans to total loans fell further in the third quarter, both gross and net of loan loss provisions (respectively to 15.3 from 16.5 per cent in the second quarter and to 7.8 from 8.2 per cent). This reduction was largely attributable to the completion of UniCredit's sale of its bad loans, which were already heavily written down. As a result of this sale, the coverage ratio for non-performing loans (the ratio of loan loss provisions to total non-performing loans) for the significant groups as a whole fell from 55.3 to 53.3 per cent.

Figure 32

New non-performing loan rate (1)

(per cent)



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

Profitability improves

In the first nine months of 2017, for groups classified as significant, operating profits net of extraordinary components grew by 5.9 per cent compared with the same period of the previous year. Gross income increased by 1.1 per cent: the positive performance of non-interest income (5.1 per cent), which includes net fees and trading profits, more than offset the fall in interest income (-3.1 per cent). The decline in personnel costs led to a reduction in operating costs (-1.2 per cent); the ratio of operating costs to gross income fell to 65.9 per cent from 68.3 per cent. Loan loss provisions fell by 11.6 per cent.

Annualized return on equity (ROE) rose to 9.0 per cent from 1.4 per cent in the first nine months of 2016, thanks in part to the extraordinary income associated with the mergers and acquisitions carried out by some groups in the first half of 2017. Net of this income, ROE would have stood at 4.4 per cent.

Capital ratios increase

At the end of September, common equity tier 1 (CET1) represented 13.2 per cent of risk-weighted assets for the significant groups, up from 11.8 per cent in June. This increase was partly due to the precautionary recapitalization of the Monte dei Paschi di Siena Group (contributing about 80 basis points) and the completion of the sale of one of UniCredit's business units.

2.8 THE FINANCIAL MARKETS

Since last October, the yield spreads between Italian and German government securities have narrowed. This is in part attributable to good economic performance and the favourable reaction of market participants to the ECB's announced recalibration of monetary policy instruments. The stock market rally continued, driven by the automotive sector.

Yields and sovereign spreads decline

The yields on Italian government securities have declined since the start of the fourth quarter of 2017. The yield on ten-year bonds fell by about 13 basis points to 1.98 per cent and the spread between the ten-year Italian and German government bonds narrowed by 25 basis points to 140 (Figure 33). This change is in part attributable to good economic performance and the favourable reaction of market participants to the ECB's announced recalibration of the Asset Purchase Programme.

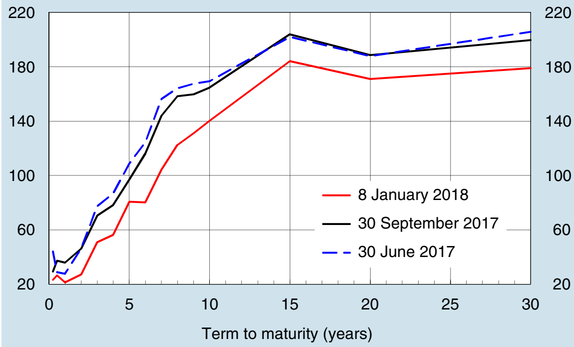
The stock market rally continues

Since the end of September the general index of the Italian stock market has risen by 3.2 per cent, compared with a 2.5 per cent increase in that for the main euro-area companies (Figure 34). Its favourable performance was largely attributable to the sharp increase in the index for the automotive sector. The expected volatility implied by the prices of stock index options fell marginally, remaining at very low levels.

Figure 33

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

(basis points)



Source: Based on Bloomberg data.

Banks' credit risk premiums decline

Italian bank share prices rose by 26.5 per cent overall in 2017, compared with 21.8 per cent for the general stock market index, despite a slight fall in the final quarter (1.5 per cent). Following strong growth in the first three quarters, the recent drop in share prices reflects a small decline in expected earnings. The premiums on bank credit default swaps fell by 28 basis points on average in the fourth quarter, in part owing to improved credit quality and capital ratios as well as a smaller ratio of non-performing loans (see Section 2.7).

Firms' bond issues are positive

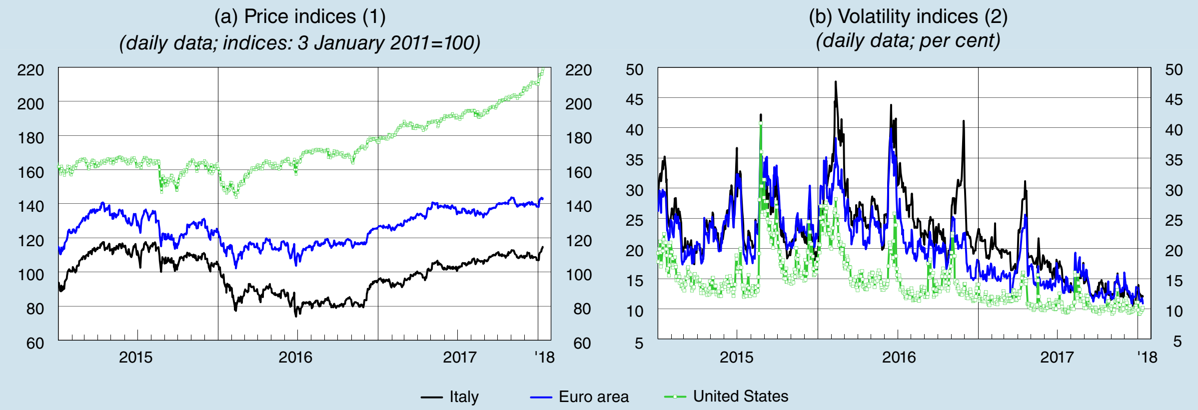
In the third quarter non-financial corporations continued to make substantial net bond issues. By contrast, banks again made net redemptions (See *Selected Statistics,* Table A10). According to preliminary data from Dealogic on gross issues only, in the fourth quarter the volume of placements by Italian banks rose slightly to around €6 billion, from €5 billion in the previous quarter, while corporate bond issues jumped to €20 billion, from €7 billion in the previous quarter.

Net inflows to investment funds fall

According to Assogestioni data, in the summer quarter net inflows of savings to Italian and foreign open-ended investment funds fell significantly to €14 billion, from €28 billion in the previous quarter. Investors mainly preferred flexible, bond, balanced and equity funds. Instead, money market funds and, to a somewhat lesser extent, hedge funds reported net outflows.

Figure 34

Share prices



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

2.9 THE PUBLIC FINANCES

In our assessments, the cash-basis figures and the available preliminary information are consistent with a reduction in net borrowing in 2017. The debt-to-GDP ratio is also estimated to have decreased. Official assessments indicate that, compared with the current legislation scenario, the budgetary provisions for the three years 2018-2020 will increase the deficit for 2018; however, net borrowing is still expected to decline with respect to the previous year.

Preliminary data point to a reduction in net borrowing for 2017 ...

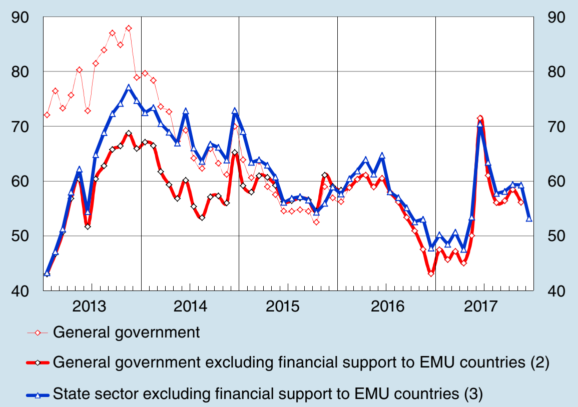
In the first eleven months of 2017, the general government borrowing requirement net of privatization receipts increased by €13 billion compared with the year-earlier period (Figure 35); this increase is largely attributable to the extraordinary support measures for the banking sector. Taking account of the preliminary data for December and the impact of the main connecting factors between the borrowing requirement and net borrowing (financial transactions and cash/accruals differences), it is estimated that the deficit declined in 2017 with respect to 2016.[2]

According to the quarterly account estimates released by Istat, in the first nine months of 2017, general government net borrowing came to 2.3 per cent of GDP, an improvement of about 0.2 percentage points with respect to the same period in 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.

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

At the end of November, general government debt stood at €2,275 billion, an increase of €56.6 billion compared with 2016. Based on preliminary data for December, it is estimated that in 2017 the debt-to-GDP ratio decreased slightly, benefiting from the reduction in the Treasury's liquid balance (0.8 per cent of GDP, against 0.7 estimated by the Government in September).[3]

Taking account of the continued easing in funding conditions overall and the high average residual maturity of the debt (7.4 years at the end of November 2017), the average cost of the debt in 2017 is estimated to have remained virtually stable at around 3 per cent, a level that remains higher than the current yields at issue (Figure 36).

[2] The assessments do not take account of the possible effects on net borrowing of the support measures for the banking sector; the classification of these measures is currently being considered by the statistical authorities.

[3] The debt-to-GDP ratio and the Treasury's liquid balance were assessed using the Government's September GDP estimates. Data on general government net borrowing and debt outturns for 2017 and on GDP will be transmitted to Eurostat in April as part of the excessive deficit procedure. Preliminary estimates will be published by the Bank of Italy on 15 February (for the stock of the debt) and by Istat on 1 March (for net borrowing and GDP).

The budgetary provisions for 2018-20 are expansionary

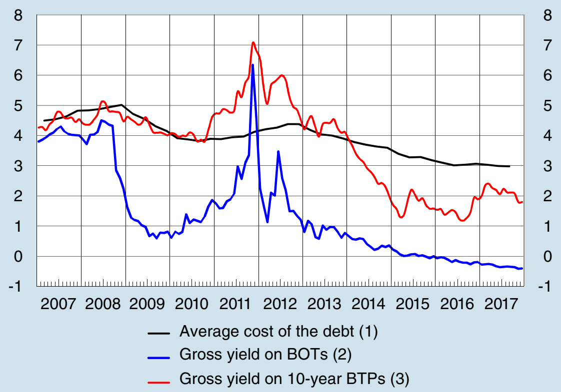
In December Parliament approved the budgetary provisions for 2018-20.[4] In the Government's programmes, the provi-sions increase net borrowing in 2018 by 0.6 percentage points with respect to the current legislation scenario, bringing it to 1.6 per cent of GDP; nevertheless, the deficit is estimated to fall by 0.5 percentage points compared with 2017 (Table 9). In some areas the provisions will prolong measures that have already been implemented. The provision with the greatest impact on the public accounts is the cancellation, in 2018, of the increase in the VAT rate and in the excise duties, which is expected to generate a loss of €15.7 billion in revenues compared with the current legislation scenario. The main sources of funding for 2018 include the delayed introduction of the optional tax for firms (corporate income tax, IRI) and heightened tax evasion measures.

In the official assessments, net borrowing is expected to continue to decrease in the two years 2019-20, largely on account of the increase in indirect taxes provided for in the safeguard clauses.

The fiscal stance laid out by the Government in the 2018 Draft Budgetary Plan continues to be expansionary for the current year and is expected to become restrictive in the coming two years: the cyclically-adjusted primary surplus is estimated to fall to 2.6 per cent of GDP in 2018 (from 2.9 per cent in 2017), then increase annually by an average of 0.3 percentage points. A substantially balanced budget, in both nominal and structural terms, is expected to be reached in 2020.

Figure 36

Average cost of the debt and the gross yield on BOTs and 10-year BTPs
(per cent)



Source: Istat, for interest expense.
(1) Ratio between interest expense in the preceding 4 quarters and the stock of the debt at the end of the year-earlier quarter. – (2) The yield at issue is the average, weighted by the issue amounts allotted, of the compound allotment rates at the auctions settled during the month. – (3) Average monthly yield at maturity of the benchmark traded on the online government securities market.

Table 9

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

	2015	2016	2017	2018
Net borrowing	2.6	2.5	2.1	1.6
Primary surplus	1.5	1.5	1.7	2.0
Interest payments	4.1	4.0	3.8	3.6
Debt	131.5	132.0	131.6	130.0

Sources: For the items of the general government national accounts for the years 2015-16, Istat; for the years 2017-18, Ministry of Economy and Finance, 2018 Draft Budgetary Plan, October 2017.
(1) Rounding of decimal points may cause discrepancies in totals.

The EU Commission advises of the risk of breaching the Stability and Growth Pact

Last November the European Commission advised Italy that its public accounts risked breaching the Stability and Growth Pact in 2018: the Commission estimates that structural net borrowing will improve by 0.1 per cent of GDP, below the reduction envisioned by the Pact's preventive arm. The Eurogroup confirmed this assessment. In the coming months, the Commission will re-assess whether Italy's public accounts comply with European budgetary rules.

[4] The structure of the budget has not changed significantly with respect to the draft budget law and Decree Law 148/2017 containing urgent measures on financial matters and non-deferrable needs that the Government presented in October. For more information on the budgetary provisions, see *Audizione preliminare all'esame della manovra economica per il triennio 2018-2020*, testimony by L.F. Signorini, Deputy Governor of the Bank of Italy, before the Senate of the Italian Republic, Rome, 7 November 2017 (in Italian only).

2.10 PROJECTIONS

The projections for the Italian economy presented in this *Economic Bulletin* update those prepared as part of the Eurosystem staff macroeconomic projections, which were based on information available up to 30 November,[5] and take subsequent developments into account. They incorporate the new national accounts data released by Istat on 1 December.

The 2018-20 scenario assumes favourable financial conditions

The technical assumptions underlying the forecasting scenario for the three years 2018-20 incorporate accommodative monetary and financial conditions. According to the expectations inferable from market prices, interest rates will rise gradually in the three years 2018-20: short-term rates, which are currently negative, will increase by around 60 basis points overall, the yields on ten-year government securities by around 110 basis points (see the box 'The assumptions underlying the macroeconomic scenario').

It is also assumed that credit supply conditions will remain relaxed: the difference between the interest rates applied to bank loans in Italy and in the rest of the euro area is expected to remain small over the entire forecasting horizon.

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published on the Bank's website at the start of June and December in concomitance with the euro-area projections.[1] The macroeconomic projections for Italy presented here update those released on 15 December[2] on the basis of information that has become available in the meantime, including the latest national accounts data published by Istat on 1 December. The technical assumptions have been revised in the light of changes in the exogenous variables to 12 January.

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

a) World trade expands by 5.4 per cent in 2017 and slows to a little more than 4 per cent on average in the three years 2018-20; foreign demand weighted by the outlet markets for Italian exports grows at a similar pace to world trade;

b) The euro/dollar exchange rate remains stable at 1.20 in the three years 2018-20;[3]

c) The price of a barrel of Brent crude oil, equal to $54 on average in 2017, rises to a little more than $66 in 2018 and drops slightly to around $60 in 2020;

[1] See the Bank of Italy's website: '*Macroeconomic projections for Italy*', containing the projections published to date as part of the Eurosystem coordinated exercise.

[2] The assumptions for global economic activity and the outlook for foreign demand are consistent with those underlying the forecasting scenario for the euro area agreed by the Eurosystem central banks and presented by the ECB in '*Eurosystem staff macroeconomic projections for the euro area, December 2017*'.

[3] The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days to 12 January.

[5] See the Bank of Italy's website: Macroeconomic projections for the Italian economy, 15 December 2017.

d) The three-month interest rates on the interbank market (Euribor), equal to -0.3 per cent in the two years 2017-18, gradually rise to 0.3 per cent on average in 2020;

e) The yield on ten-year BTPs, equal to 2.1 per cent in 2017, rises to 2.4 per cent in 2018, 2.8 per cent in 2019 and 3.2 per cent in 2020, in line with the values of forward rates implied by the term structure of interest rates on government bond yields;

f) The scenario takes account of the measures set out in the budgetary legislation for 2018. For 2019-20 it is assumed that the safeguard clauses relative to VAT and excise duty increases are not activated. In accordance with the guidelines underlying the Eurosystem forecasts, which do not incorporate measures that have yet to be defined in sufficient detail, the macroeconomic scenario excludes alternative measures for recouping revenue.

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

	2017	2018	2019	2020
World trade	5.4	4.6	4.3	3.8
Potential foreign demand	5.1	4.5	4.1	3.7
Dollar/euro (1)	1.13	1.20	1.20	1.20
Nominal effective exchange rate (2)	-0.6	-1.2	0.0	0.0
Crude oil prices (1) (3)	54.4	66.5	62.4	59.8
3-month Euribor (1)	-0.3	-0.3	0.0	0.3
1-year BOTs (1)	-0.3	-0.3	0.0	0.3
10-year BTPs (1)	2.1	2.4	2.8	3.2

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

Compared with the forecasting scenario published in December, oil prices increase by 6 per cent on average in the three years 2018-20, the euro/dollar exchange rate appreciates by about 2 per cent, the real effective exchange rate by 0.5 percentage points, and the forward interest rates on ten-year BTPs are up by around 20 basis points on average.

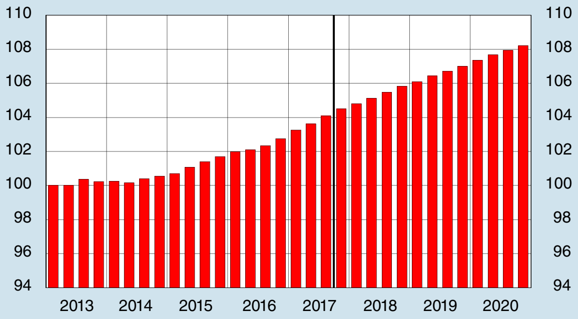
The scenario takes account of the budget measures for 2018; as in the previous exercises it excludes the effects of the increases in indirect taxes in 2019-20 envisaged under the safeguard clauses and does not incorporate possible alternative measures to adjust the public accounts.

In the scenario growth is being driven by domestic demand

Based on these assumptions and on the latest cyclical data, it is estimated that GDP adjusted for calendar effects expanded by 1.5 per cent in 2017 (1.4 per cent excluding this adjustment); it is expected to increase by 1.4 per cent in the current year, and by 1.2 per cent in 2019-20 (Figure 37 and Table 10).[6]

Figure 37

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



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to Q3 2017; projections thereafter.

Economic policies are supporting growth

Economic activity appears to have been mainly driven by domestic demand; the contribution of net foreign demand, which is slightly negative this year, is expected to turn positive again in the two years 2019-20

[6] Without any calendar adjustment, projected GDP growth is 1.5 per this year, 1.2 per cent in 2019 and 1.3 per cent in 2020.

(Figure 38). In 2020 GDP is projected to be about 1.5 per cent lower than it was in 2007, recouping around nine tenths of the drop recorded between 2008 and 2013.

Overall, our projections suggest that output continues to benefit from the support of expansionary economic policies, though to a relatively smaller degree than in the past. On the one hand, this reflects market expectations of a gradual withdrawal of monetary stimulus, on the other, the growing autonomous support to domestic demand originating from the brighter outlook for households' disposable income and firms' smaller margins of spare capacity. According to our estimates, monetary policy measures will help sustain growth of a little under 0.5 percentage points per year in the two years 2018-19; the performance of the public finances is expected to help boost output by around 0.2 percentage points both this year and the next.

Table 10

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

	2017	2018	2019	2020
GDP (1)	1.5	1.4	1.2	1.2
Household consumption	1.5	1.4	1.0	0.9
Government consumption	0.8	0.5	0.2	0.4
Gross fixed investment	3.4	4.3	2.2	1.2
of which: in machinery, equipment and transport equipment	5.2	6.5	2.7	1.4
Total exports	5.2	3.4	3.1	3.0
Total imports	5.6	4.2	2.9	2.3
Change in stocks (2)	-0.1	-0.1	0.0	0.0
Memorandum item: GDP (3)	*1.4*	*1.5*	*1.2*	*1.3*
HICP	1.3	1.1	1.5	1.6
HICP net of food and energy	0.8	0.7	1.5	1.6
Employment (standard units) (4)	1.3	1.3	0.9	0.9
Unemployment rate (5)	11.3	11.0	10.7	10.5
Export competitiveness (6)	1.2	-1.3	0.1	0.1
Current account balance (7)	2.8	2.3	2.4	2.7

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Includes valuables. Contributions to GDP growth in percentage points. – (3) Not calendar adjusted. – (4) Standard labour units. – (5) Annual averages; per cent. – (6) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products); a positive value indicates a gain in competitiveness. – (7) Per cent of GDP.

Consumption is expected to be sustained by rising employment ...

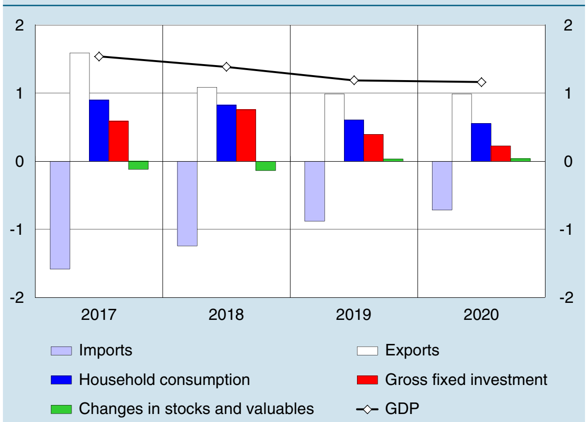
Household consumption has grown by a little less than output and real disposable income and is expected to continue to benefit from the improvement in the labour market and low interest rates. The rise in employment should increase at a relatively fast pace (by approximately 1.0 per cent on average per year), mainly reflecting the favourable performance of economic activity. The increase in the participation rate, attributable to the improved economic situation and to the gradual rise in the retirement age, means that unemployment will decline only gradually, to 10.5 per cent in 2020 (from 11.3 per cent in 2017).

... and investment by the demand outlook

In this scenario, strengthening demand prospects and enduringly accommodative financial conditions are the main contributory factors in capital formation. Investment in machinery, equipment and advanced technologies, which is estimated to have risen by more than 6 per cent this year, continues to benefit from the extension of tax incentives contained in the budget law; the bringing forward of expenditure that these measures have induced is expected to translate into a slowdown in investment in the subsequent two years. The recovery in the construction sector is also expected to continue, though at a slower pace, thanks to

Figure 38

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



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

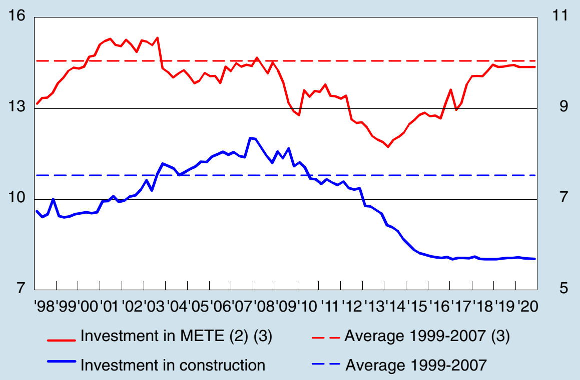
the consolidation of the real estate market and to public investment policies.

Over the forecasting horizon, investment in machinery, equipment and transport equipment should fully recoup the drop of almost 25 percentage points recorded between 2008 and 2013. The ratio of investment in capital goods to GDP is expected to regain the levels recorded prior to the double-dip recession; for the construction sector, instead, this ratio is still expected to be 4 percentage points below pre-crisis levels in 2020 (Figure 39), reflecting the slower pace of the recovery in the real estate market.

Figure 39

Investment as a percentage of GDP (1)

(quarterly data)



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

The surplus on the foreign accounts remains ample

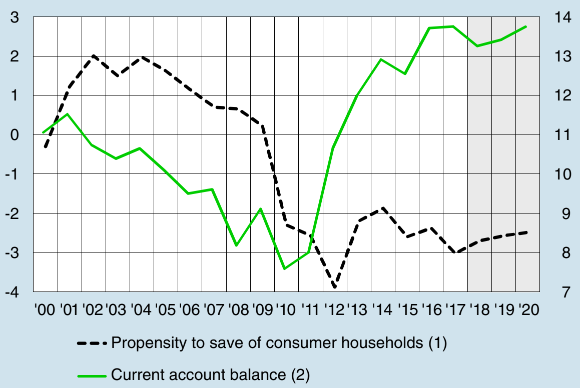
In each of the three years 2018-20 exports are forecast to expand by more than 3 per cent on average, reflecting both the assumptions regarding the favourable performance of international trade and the effects of the appreciation of the euro in recent quarters. The growth of imports, which was especially strong in 2017 before gradually slowing, is expected to mirror developments in productive investment and exports, the two components of demand with the highest imported goods content.

The surplus on the current account of the balance of payments remains wide: on average in the three forecasting years, it is estimated at around 2.5 per cent, virtually the same as in the period 2015-17 (Figure 40).

Figure 40

Propensity to save of consumer households and current account balance

(percentage points)



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

Inflation is expected to rise gradually ...

Inflation is expected to dip temporarily this year, before gradually climbing back up again (Figure 41). The drop expected in 2018 (to 1.1 per cent on average for the year) is mostly attributable to the automatic waning of the effect of the increase in the prices of energy and food products registered in early 2017. The recovery in 2019-20, when inflation is expected to reach 1.5 per cent or slightly more in each of the two years, will presumably mostly reflect higher core inflation. As measured by the GDP deflator, it is estimated that prices will rise more rapidly, by 1.6 per cent in both 2018 and 2019, and by 1.9 per cent in 2020 (on average by around 1 percentage point more than in the period 2015-17).

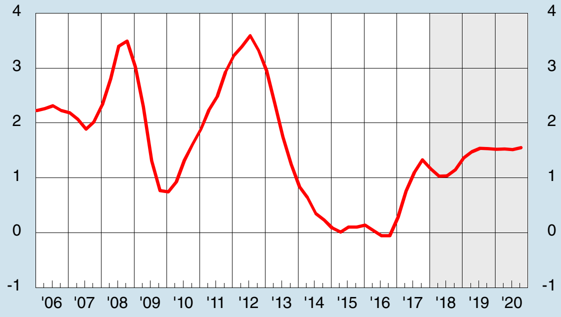
... in part thanks to stronger wage growth

A gradual increase in wages, including public sector wages, should contribute to the recovery in inflation, as should the gradual phasing out of the tax breaks for open-ended hires made starting in 2015; these developments should have an immediate effect on the GDP deflator and a more gradual one on consumer prices. It is estimated that private-sector earnings will expand by just under 1.5 per cent this year, then accelerate on average to around 2 per cent in the two years 2019-20: the new contracts are expected to gradually incorporate progressively higher inflation expectations and the improvement in cyclical conditions. The effect on unit labour costs should be mitigated by the cyclical turnaround in productivity. Profit margins in the private sector are expected to expand by a little under 1 percentage point over the three-year forecasting horizon, driven by strengthening demand; at the end of that period, they will have recovered around half of the drop recorded between 2008 and 2012.

Figure 41

Consumer price inflation

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



Sources: Based on Bank of Italy and Istat data.

The growth projections are revised upwards with respect to July

GDP growth projections are slightly higher than those contained in last July's *Economic Bulletin*. The upward revision was mainly influenced by the more favourable assumptions regarding foreign demand and interest rate developments, only partly offset by the appreciation of the exchange rate and higher crude oil prices; the largely pro-growth stance of the 2018 budget was also a contributory factor. Inflation estimates have been revised downwards by around one tenth of a percentage point for 2019, above all owing to the appreciation of the euro observed to date and price developments in services, which proved weaker in the second half of 2017 compared with the July forecasts. With respect to the estimates published in mid-December[7] as part of the Eurosystem coordinated exercise, growth is marginally lower, in line with slightly less favourable assumptions on interest rates, exchange rates and oil prices; consumer price inflation is projected to be around 0.2 percentage points higher in 2018.

The overall outlook is slightly more favourable than that of the other forecasters

The growth projections formulated here are broadly in line with those of the OECD published at the end of November and with the projections of the analysts polled by Consensus Economics in January; they are slightly more positive than those of the European Commission and much more favourable than those published by the International Monetary Fund (IMF) in October (Table 11). The inflation projections presented in this *Economic Bulletin* are around 0.1 percentage points below those of the main institutional forecasters for the current year, in line with the persistently weak core inflation observed in recent months; however, they are broadly consistent with the projections of these forecasters for 2019.

Table 11

Other organizations' forecasts for Italy

(percentage changes on previous period)

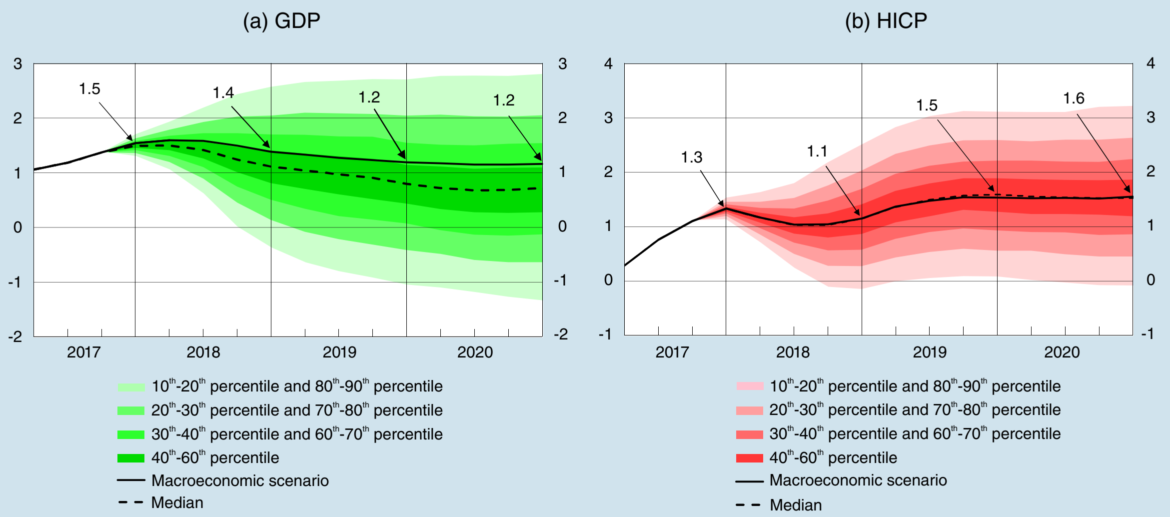
	GDP (1)			Inflation (2)		
	2018	2019	2020	2018	2019	2020
IMF (October)	1.1	0.9	1.0	1.2	1.4	1.4
OECD (November)	1.5	1.3	–	1.2	1.4	–
European Commission (November)	1.3	1.0	–	1.2	1.5	–
Consensus Economics (January)	1.4	1.1	–	1.1	1.4	–

Sources: IMF, *World Economic Outlook*, October 2017; OECD, OECD Economic Outlook, *November 2017; European Commission*, European Economic Forecast – Autumn 2017, November 2017; Consensus Economics, *Consensus Forecasts*, January 2018.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP.

7 See the Bank of Italy's website: Macroeconomic projections for the Italian economy, 15 December 2017.

Figure 42

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



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

Overall, it is estimated that the risks, which can be summed up in the probability distributions (Figure 42), are mainly on the downside for growth and balanced for inflation.

The risks to growth stem from the global situation and financial markets

The forecasting scenario described assumes the continuation of the current phase of strong business confidence and low volatility on share markets. The main risks to growth stem from global conditions and financial markets. The global economic recovery could be affected by any intensification of geopolitical tensions and by the uncertainty surrounding the future course of international economic policies, with adverse repercussions on the expansion of world trade. Furthermore, a deterioration in the international outlook or unexpected changes in the economic policies adopted in the main economic areas could lead to increases in financial market volatility and risk premiums, affecting financial conditions and consumption and investment decisions.

Among domestic risks, those connected with the weakness of the banking system and with the uncertainty over the strength of the recovery under way have abated compared with past quarters. This scenario, however, relies on the continuation of economic policies capable of fostering long-term economic growth, by supporting investment and consumption choices, while also lending credibility to public debt reduction objectives, by fully exploiting the upturn in the global economy.

Downward risks to inflation are still associated with the effects of a possible weakening of output and the possibility that the first signs of renewed wage growth observed to date fail to take hold (see Section 2.5); upward pressures could instead derive from fresh increases in the prices of energy commodities.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: euro area (1)

(percentage changes on previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Chain-linked volumes					
2013	-0.2	1.3	0.2	-3.5	-1.4	-2.5	-0.6	0.3	2.1
2014	1.3	4.9	2.3	-0.4	4.3	1.9	0.8	0.7	4.7
2015	2.1	6.7	3.4	0.5	6.1	3.3	1.8	1.3	6.4
2016	1.8	4.7	2.7	2.5	6.5	4.5	2.0	1.8	3.3
2014 – Q1	0.4	1.2	0.7	0.8	1.1	1.0	0.1	0.0	0.9
Q2	0.1	1.4	0.5	-1.4	0.1	-0.6	0.3	0.2	1.0
Q3	0.4	1.6	0.8	0.0	1.4	0.7	0.4	0.4	1.8
Q4	0.5	1.1	0.7	-0.1	1.6	0.8	0.5	0.2	1.3
2015 – Q1	0.8	2.8	1.4	0.6	1.9	1.2	0.4	0.4	2.5
Q2	0.3	0.9	0.5	-0.6	0.8	0.1	0.5	0.2	1.3
Q3	0.4	1.1	0.6	0.3	1.7	1.0	0.5	0.5	0.3
Q4	0.5	1.8	0.8	1.3	1.5	1.4	0.4	0.4	1.1
2016 – Q1	0.5	0.4	0.5	0.5	0.3	0.4	0.7	0.8	0.4
Q2	0.4	2.0	0.8	-0.2	4.9	2.4	0.3	0.3	1.3
Q3	0.4	0.6	0.5	1.6	-0.1	0.7	0.3	0.2	0.4
Q4	0.7	1.8	1.0	0.6	1.1	0.9	0.5	0.3	1.6
2017 – Q1	0.6	0.3	0.5	1.5	-1.1	0.2	0.5	0.2	1.3
Q2	0.7	1.6	1.0	0.4	3.0	1.7	0.6	0.3	1.1
Q3	0.7	0.5	0.6	0.7	-1.2	-0.3	0.4	0.3	1.5
				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	0.4	-0.6	….	….	….	0.1	0.2	0.5	-0.4
Q2	0.1	-0.4	….	….	….	0.1	0.1	0.1	-0.2
Q3	0.3	0.1	….	….	….	0.4	0.1	0.3	0.2
Q4	0.3	-0.7	….	….	….	0.2	0.0	0.1	0.0
2015 – Q1	0.5	-1.3	….	….	….	0.2	-0.2	-0.1	0.0
Q2	0.3	1.2	….	….	….	0.1	0.5	0.2	0.8
Q3	0.3	-1.2	….	….	….	0.2	0.1	0.2	-0.4
Q4	0.3	-1.2	….	….	….	0.2	0.0	0.1	-0.6
2016 – Q1	0.1	-2.2	….	….	….	0.1	-0.3	0.0	-1.4
Q2	0.1	0.4	….	….	….	0.2	0.3	0.2	-0.1
Q3	0.1	0.8	….	….	….	0.3	0.2	0.2	0.5
Q4	0.3	1.3	….	….	….	0.3	0.5	0.3	0.8
2017 – Q1	0.2	2.0	….	….	….	0.4	0.5	0.3	1.2
Q2	0.4	-0.9	….	….	….	0.2	0.2	0.2	-0.3
Q3	0.3	-0.4	….	….	….	0.3	0.1	0.2	-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	0.1	0.1	-1.2	2.6	0.7	-0.2	-0.2	0.6
Q2	-0.1	1.7	0.3	-2.3	0.1	-1.1	0.2	-0.6	0.5
Q3	0.2	0.9	0.4	-1.3	0.8	-0.3	0.2	0.6	1.0
Q4	0.1	0.7	0.2	-0.1	2.6	1.3	0.5	0.0	1.6
2015 – Q1	0.2	3.8	0.9	-0.1	0.8	0.4	0.4	-0.7	1.6
Q2	0.4	1.5	0.6	0.1	1.4	0.8	0.8	-0.1	1.1
Q3	0.3	-0.5	0.1	0.1	0.7	0.4	0.8	0.2	-1.3
Q4	0.3	1.7	0.6	1.0	-0.5	0.3	0.3	-0.3	1.9
2016 – Q1	0.3	-0.5	0.1	0.1	1.7	0.9	0.3	0.9	-0.7
Q2	0.1	1.8	0.5	0.3		-0.4	0.2	-0.3	1.7
Q3	0.2	0.8	0.3	0.4	3.6	2.1	0.3	-0.2	0.9
Q4	0.4	2.5	0.9	0.3	4.7	2.6	0.2	0.5	1.9
2017 – Q1	0.5	0.7	0.6	0.8	-4.8	-2.2	0.7	0.4	1.8
Q2	0.3	1.6	0.6	-0.3	2.5	1.1	0.2	0.2	0.1
Q3	0.4	1.2	0.5	0.3	5.4	3.0	0.3	0.1	1.6
				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	-0.2
2015 – Q1	0.3	-1.2	0.0	-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	-1.8	-0.2	0.3	0.4	0.4	-0.1	0.1	-0.4
Q4	0.3	-1.5	-0.1	-0.2	0.2	0.0	0.1	-0.8	-0.5
2016 – Q1	0.5	-2.5	-0.1	-0.1	-0.6	-0.4	-0.3	1.2	-0.9
Q2	-0.3	0.0	-0.2	0.1	0.1	0.1	0.1	0.1	0.1
Q3	0.0	0.8	0.2	-0.2	0.0	-0.1	0.1	0.1	0.4
Q4	0.4	1.0	0.5	0.4	-0.3	0.0	0.3	0.1	0.5
2017 – Q1	-0.2	2.1	0.3	0.2	-0.1	0.0	0.7	0.0	1.1
Q2	0.3	-0.6	0.1	0.1	0.2	0.1	0.2	0.0	0.0
Q3	0.2	-0.6	0.0	0.1	0.0	0.0	-0.1	-0.2	0.0

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	1.7	2.8	2.7	-0.1	-1.1
2015	1.5	3.4	4.0	0.6	-1.8
2016	1.3	1.3	2.0	0.7	0.0
2015 – Q1	1.9	3.5	3.6	0.1	-1.5
Q2	1.9	2.9	3.5	0.5	-1.0
Q3	1.7	3.7	4.0	0.3	-1.9
Q4	1.7	3.6	3.5	0.0	-1.8
2016 – Q1	1.4	1.1	1.9	0.8	0.3
Q2	0.9	1.2	1.8	0.7	-0.3
Q3	1.4	1.0	1.6	0.6	0.4
Q4	1.4	1.8	2.6	0.8	-0.3
2017 – Q1	1.4	0.8	1.8	1.0	0.6
Q2	1.4	1.6	3.0	1.4	-0.2
Q3	1.3	1.8	3.9	1.7	-0.8
			Services		
2013	2.0	1.2	0.2	-0.9	0.9
2014	1.2	0.2	1.1	0.9	1.0
2015	1.4	0.2	1.5	1.3	1.2
2016	1.3	0.1	1.7	1.6	1.2
2015 – Q1	1.3	0.5	1.4	0.8	0.8
Q2	1.3	0.4	1.5	1.2	0.9
Q3	1.4	0.0	1.3	1.3	1.4
Q4	1.6	0.0	1.3	1.3	1.6
2016 – Q1	1.3	-0.3	1.5	1.7	1.6
Q2	1.3	0.1	1.7	1.5	1.2
Q3	1.4	0.3	1.6	1.4	1.1
Q4	1.7	0.5	1.8	1.3	1.2
2017 – Q1	1.7	0.6	2.0	1.5	1.1
Q2	1.8	0.5	2.2	1.6	1.2
Q3	1.6	0.5	2.5	1.9	1.0
			Total economy		
2013	2.2	1.2	-0.1	-1.3	1.0
2014	1.3	0.8	1.3	0.6	0.5
2015	1.3	0.9	1.9	1.1	0.5
2016	1.3	0.4	1.7	1.2	0.9
2015 – Q1	1.4	1.1	1.7	0.6	0.3
Q2	1.3	0.9	1.9	1.0	0.4
Q3	1.4	0.8	1.8	1.0	0.6
Q4	1.5	0.9	1.8	0.9	0.7
2016 – Q1	1.3	0.1	1.5	1.4	1.2
Q2	1.2	0.4	1.6	1.2	0.8
Q3	1.4	0.5	1.6	1.1	0.9
Q4	1.6	0.8	1.9	1.0	0.8
2017 – Q1	1.6	0.7	2.0	1.3	0.9
Q2	1.7	0.8	2.4	1.5	0.8
Q3	1.5	0.8	2.8	1.8	0.5

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

Table A4

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2013	2.6	0.6	-2.2	-2.8	2.0
2014	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	2.1	1.8	-0.4	0.0
Q4	1.7	1.2	1.3	0.0	0.5
2016 – Q1	-1.0	0.4	3.3	2.8	-1.5
Q2	-1.0	-1.0	1.3	2.3	0.0
Q3	-1.3	-0.4	1.6	2.1	-0.9
Q4	-0.6	0.6	2.8	2.2	-1.2
2017 – Q1	0.9	-0.8	0.4	1.2	1.7
Q2	0.6	-0.3	2.2	2.6	1.0
Q3	1.3	-0.3	3.2	3.6	1.6
			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	0.6	0.2	0.9	0.6	0.3
Q3	0.6	-0.6	0.6	1.2	1.2
Q4	0.3	-0.4	0.7	1.2	0.7
2016 – Q1	0.1	-1.9	0.6	2.5	2.0
Q2	0.7	-1.7	0.6	2.4	2.5
Q3	0.6	-1.1	0.5	1.6	1.7
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	1.5	-0.7
Q3	-0.9	-0.7	1.5	2.3	-0.1
			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	0.2
2016 – Q1	-0.2	-1.2	1.1	2.3	1.0
Q2	0.3	-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	1.2	1.3	0.3
Q2	-0.2	-0.2	1.5	1.7	0.1
Q3	-0.2	-0.7	1.7	2.4	0.4

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

Table A5

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

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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
2017	1.2	0.6	1.7	1.3	1.3	0.8	2.0	1.2	1.5	1.0
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
Oct.	1.2	0.6	1.5	1.1	1.1	0.5	1.7	1.1	1.4	0.9
Nov.	1.2	0.6	1.8	1.3	1.1	0.4	1.8	0.9	1.5	0.9
Dec.	1.2	0.6	1.6	1.4	1.0	0.5	1.2	0.9	1.4	0.9

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

Table A6

Industrial production and business opinion indicators: Italy (1)

(seasonally adjusted data)

	Industrial production (2)					Business opinion indicators (3)				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	Level of orders			Expected demand in 3 months	Stocks of finished goods vis-à-vis normal
						domestic	foreign	total		
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	-18.3	-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	3.8
2017	….	….	….	….	….	-9.8	-5.4	-3.5	16.7	2.6
2009 – Q1	93.4	97.1	92.0	91.4	97.4	-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	89.3	97.7	-54.1	-58.2	-56.2	2.3	1.5
Q4	94.9	99.6	90.9	94.4	98.6	-46.7	-49.6	-47.7	5.1	-1.7
2010 – Q1	97.3	99.6	94.5	96.4	101.4	-39.1	-41.2	-38.8	8.1	-3.3
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	-24.1	-22.5	13.1	-1.1
Q4	101.3	98.6	102.2	102.3	101.9	-21.6	-14.8	-17.1	15.4	0.7
2011 – Q1	102.0	98.4	105.1	102.8	100.0	-20.3	-9.3	-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	105.2	100.8	98.8	-26.3	-16.0	-22.1	7.4	4.2
Q4	98.6	96.0	102.3	98.3	95.5	-33.4	-22.6	-28.3	0.4	3.4
2012 – Q1	96.1	93.7	99.8	94.2	98.1	-38.6	-25.6	-32.5	-1.0	3.1
Q2	94.9	93.9	97.6	92.9	95.3	-44.4	-27.6	-37.0	-2.6	4.8
Q3	94.9	94.3	99.1	91.7	96.8	-44.6	-26.6	-37.8	-4.2	3.8
Q4	92.3	91.8	96.7	88.4	90.9	-45.2	-30.0	-40.3	-4.2	1.6
2013 – Q1	91.9	92.2	92.4	89.5	92.8	-46.2	-29.3	-39.2	-1.4	2.8
Q2	91.5	90.2	94.5	89.8	90.4	-48.9	-21.6	-38.9	-0.2	2.7
Q3	91.5	91.4	92.9	91.5	89.2	-43.0	-11.8	-28.3	7.6	0.9
Q4	92.0	91.3	93.4	92.3	88.6	-39.3	-10.6	-21.5	10.3	-0.3
2014 – Q1	91.7	91.5	94.5	91.9	85.1	-36.5	-12.8	-19.9	9.7	-0.9
Q2	91.3	91.3	93.3	91.0	87.9	-31.7	-13.7	-17.7	10.2	1.1
Q3	90.5	90.6	92.7	89.9	85.7	-33.1	-15.5	-19.6	7.7	4.0
Q4	90.9	90.9	95.1	89.4	83.6	-31.0	-18.5	-19.9	7.6	3.6
2015 – Q1	91.5	91.7	95.8	89.7	86.7	-26.6	-16.0	-15.8	10.8	3.3
Q2	92.3	91.3	98.3	89.7	88.3	-22.0	-12.4	-12.1	12.9	2.6
Q3	92.2	90.7	97.3	89.3	90.1	-20.1	-13.1	-12.1	12.8	3.3
Q4	91.9	90.7	97.8	90.1	84.5	-17.8	-10.4	-10.8	13.1	3.2
2016 – Q1	93.2	91.1	102.1	91.1	85.2	-18.9	-15.6	-13.9	10.0	3.8
Q2	92.9	90.5	99.4	91.7	84.4	-18.8	-17.3	-14.1	10.3	3.2
Q3	93.7	91.2	101.9	91.9	86.6	-19.7	-15.5	-14.6	10.2	3.2
Q4	95.1	91.8	102.3	93.0	92.1	-16.5	-13.5	-12.0	13.0	4.8
2017 – Q1	94.9	91.9	101.0	92.8	90.1	-13.7	-7.9	-7.1	15.0	3.4
Q2	95.9	93.6	103.3	93.5	88.3	-11.4	-6.2	-5.1	15.9	2.4
Q3	97.2	95.2	106.0	95.0	88.8	-9.2	-5.7	-3.3	17.5	2.1
Q4	….	….	….	….	….	-4.8	-1.7	1.3	18.4	2.3

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

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 – 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
Q3	865	4,633	1,412	16,276	16,953	6,234	23,187	2,737	25,924	10.6	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
Q3	16,420	15,306	1,952	3,221	-4,059	-482	-249	-233
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	7,548	7,155	850	935	-1,391	-156	-81	-75
Aug.	4,399	3,529	703	1,554	-1,386	-142	-68	-74
Sept.	4,473	4,622	400	733	-1,282	-183	-99	-84
Oct.	(6,415)	(5,626)	(-268)	(2,192)	(-1,134)	(774)	(-30)	(804)
Nov.	(4,881)	(5,277)	(-785)	(1,549)	(-1,160)	(681)	(-26)	(708)

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

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

(12-month percentage changes)

	General government	Finance and insurance companies	Firms				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					
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
Sept.	3.9	0.2	-0.7	-0.4	-2.2	0.0	2.9	-1.8	1.0
Oct.	3.4	1.2	-0.6	-0.4	-1.5	0.2	3.0	-1.8	1.1
Nov.	3.9	0.4	0.3	0.7	-1.5	0.3	3.0	0.0	1.6
				South and Islands					
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
Sept.	-3.4	1.4	-0.1	-0.4	0.5	1.0	3.8	0.2	1.3
Oct.	-3.2	7.3	0.2	0.0	0.8	1.3	3.8	2.3	1.6
Nov.	-2.8	8.1	0.0	-0.2	0.8	1.3	3.8	7.2	1.6
				Italy					
2015 – Dec.	0.0	-2.8	-0.6	-0.2	-2.3	-1.3	1.2	-2.1	-0.2
2016 – Mar.	0.1	-0.1	-0.3	0.2	-2.2	-0.9	1.6	-2.8	0.3
June	-4.0	0.3	0.1	0.6	-1.9	-0.9	2.0	-4.2	0.0
Sept.	-2.8	3.3	0.0	0.5	-2.1	-1.0	2.3	-3.0	0.5
Dec.	-3.7	2.2	0.2	0.7	-2.1	-1.0	2.5	-3.9	0.4
2017 – Mar.	-2.3	-1.1	0.2	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
Sept.	3.3	0.2	-0.6	-0.4	-1.6	0.3	3.1	-1.6	1.1
Oct.	2.8	1.4	-0.4	-0.3	-1.0	0.5	3.2	-1.3	1.2
Nov.	3.3	0.6	0.3	0.6	-1.0	0.5	3.2	0.8	1.6

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 and euro area (1)

(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2015	-105.7	-16.0	-3.8	-125.5
2016	-66.9	0.8	-2.1	-68.3
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	2.4	0.0	-13.9
2017 – Q1	-13.8	0.6	4.6	-8.6
Q2	-12.5	-5.1	2.7	-14.8
Q3	-15.2	2.0	3.6	-9.6
		Euro area		
2015	-292.5	177.8	46.9	-67.8
2016	-145.9	-39.6	86.9	-98.6
2016 – Q1	-32.7	-124.8	0.7	-156.9
Q2	-3.1	-29.1	31.6	-0.6
Q3	-55.0	68.9	27.9	41.8
Q4	-55.1	45.4	26.8	17.1
2017 – Q1	5.7	-3.8	14.1	16.0
Q2	6.4	42.3	18.0	66.7
Q3	-35.3	-10.5	21.0	-24.8

Sources: Bank of Italy and ECB.
(1) Bonds with an original maturity of more than one year, at face value, issued by companies resident in Italy (top panel) or the euro area (bottom panel) and belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed.

Table A11

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transac-tions in debt instru-ments	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	7.5	0.1	0.2	9.4	-3.9	0.8	5.5	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	3.5	-1.0	0.2	-0.3	-1.0	0.6	3.2	6.3	-5.8	9.5	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
Sept.	2.1	-0.4	-0.8	3.3	0.8	-1.2	4.3	11.3	0.0	15.6	0.0
Oct.	-0.9	0.4	-0.9	9.5	-1.7	0.2	6.2	-1.3	0.8	4.9	0.0
Nov.	-0.4	-0.5	-1.0	-13.4	0.7	-0.1	-14.2	20.2	17.4	6.0	0.0

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

Table 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	182.2	15.0	115.7	1,811.5	129.6	44.0	33.9	2,283.1	52.6	36.2	35.3	58.2
July	182.1	15.1	116.0	1,831.6	127.7	44.2	33.9	2,301.6	85.6	35.9	37.0	58.2
Aug.	184.0	15.1	115.9	1,808.6	127.7	44.1	33.9	2,280.3	63.4	36.1	36.7	58.2
Sept.	186.1	14.6	115.2	1,811.2	128.5	42.9	33.9	2,283.9	52.1	36.1	35.2	58.2
Oct.	185.2	15.0	114.3	1,820.3	126.8	43.2	33.9	2,289.7	53.3	35.3	34.7	58.2
Nov.	184.8	14.5	113.3	1,806.4	127.5	43.1	33.9	2,275.0	33.1	17.9	35.3	58.2

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