BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

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July 2018

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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 outlook remains favourable but the risk of protectionist policies increases

After the slowdown observed in the first quarter, the short-term outlook for the global economy remains positive overall. While continuing to expand, world trade decelerated: there is an increasing risk that global trade and the activities of firms operating on the international markets could be held back by an exacerbation of commercial tensions between the United States and its main trading partners.

The ECB will end its net asset purchases but will maintain expansionary conditions for an extended period of time

Growth continues in the euro area despite the slowdown recorded in recent months. The Governing Council of the ECB concluded that progress towards a sustained adjustment in inflation to levels below, but close to, 2 per cent has been substantial so far but that uncertainty has not been fully dispelled. Consequently, it expects to wind down its net asset purchases at the end of the year but will maintain an ample degree of monetary accommodation by keeping interest rates at their current low levels at least through the summer of 2019, reinvesting the principal payments from maturing securities, and continuing to consider the asset purchase programme as one of its available instruments.

Italy's economy continues to expand, though more slowly in the second quarter

According to our estimates, the Italian economy continued to grow despite the signs of a slowdown that emerged in the spring. The available indicators suggest that industrial production was stationary in the second quarter, while activity in the service sector continued to increase. Overall, GDP appears to have risen by around 0.2 per cent on the previous period, with downward risks connected to the weakness of manufacturing.

Slowing world trade affects exports

Exports in all the main euro-area economies have been affected by the slowdown in world trade at the beginning of the year. In Italy, after the marked upswing observed in 2017, sales abroad fell in the first quarter of 2018.

Youth unemployment declines gradually

Employment has reached levels close to the highs of early 2008. In the spring it grew in both the fixed-term and permanent components. Total unemployment has remained stable while youth unemployment is decreasing gradually. The upward trend in wages has continued, but their pace of growth is still modest.

Energy prices drive up inflation

Inflation has risen, reaching 1.5 per cent in June, driven in part by the increase in energy prices. Core inflation has also recovered after falling sharply in April, but remained at 0.7 per cent in June. Households and firms expect price growth to remain moderate on average for the rest of the year and to be less marked compared with the expectations prevailing last March.

Business lending remains positive

Business loans continue to expand, driven by relaxed supply conditions and low borrowing costs, and by the positive performance of investment. Lending to households has remained strong for both home purchase and consumer credit. The ratio of the stock of NPLs to total outstanding loans continued to diminish.

Financial market volatility increases

Between late May and early June, volatility was very high in Italy's financial *markets, in connection with the uncertainty around the formation of the new government. The yields on Italian government securities rose, including for shorter maturities, and share prices fell, especially in the banking sector. The tensions have been partially reabsorbed starting in the second week of June: short-term yields have fallen markedly, while Italy's sovereign spreads measured by the yields on ten-year bonds have narrowed by 48 basis points since the peak in tensions, but remain 111 points higher than in mid-May.*

The projections for Italy assume continued growth in 2018-20

The macroeconomic projections presented in this Economic Bulletin indicate that economic growth will continue in the next three years, though its pace will be affected by higher crude oil prices. Based on annual data (not calendar-adjusted), GDP will increase by 1.3 per cent this year, 1.0 per cent next year, and 1.2 per cent in 2020. While remaining slightly below the euro-area average, inflation will gradually rise over the next three years, including in the core component, which should reach 1.5 per cent under the assumption that expectations will continue to improve and that this will translate into a gradual upturn in nominal wages.

This scenario presupposes a favourable global economic environment, relaxed credit supply conditions and a broadly expansionary monetary policy stance that incorporates the monetary policy decisions adopted by the ECB Governing Council. It takes account of previously approved budgetary measures but not of measures that are not yet sufficiently detailed or included in current legislation. The resulting scenario is compatible with a gradual reduction of the debt-to-GDP ratio.

The risks are mostly connected with developments in world trade

The risks to economic activity mostly stem from an accentuation of the protectionist stance in the main economic areas. Repercussions on global demand could arise not only from the direct effect on trade, but also via confidence and firms' investment plans. Sudden surges in financial market volatility, connected to a rekindling of uncertainty about economic policies, could affect the cost of borrowing for households and firms. In the Italian market, continued favourable financial conditions rely on a credible process for consolidating the public finances and on action to support long-term growth potential. Regarding inflation, downward risks could derive from weaker economic activity, while upward risks could come from fresh increases in the prices of energy commodities, which at the beginning of July reached their highest levels since the end of 2014.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The short-term outlook for the global economy remains positive overall, though world trade slowed. Significant risk factors stem from the intensification of trade tensions connected to the protectionist stance of the US government which, in addition to having a direct effect on commerce, could dent business confidence and affect the investment plans of firms operating on international markets.

The outlook for world growth continues to be favourable in the short term

In the first quarter of 2018, economic activity slowed in the main advanced economies, especially in Japan (Table 1), but the short-term outlook remains favourable overall. Cyclical data for the second quarter indicate strong growth in the United States, driven by the continued expansion in employment and in households' disposable income. In Japan and in the United Kingdom the leading indicators, while down from the highest levels reached at the end of last year, remain compatible with an expansion in GDP (Figure 1).

Among the emerging economies, China and India continued to record robust growth in the first quarter of 2018, though the latest data point to a moderate slowdown in the second quarter. The economic outlook continues to improve gradually in Russia but remains fragile in Brazil.

However, world trade has decelerated ...

Though still expanding at a solid pace, in the first quarter the pace of world trade slowed compared with the very fast growth recorded in the previous period. While the imports of the emerging economies accelerated, those of the advanced countries slowed noticeably. Based on preliminary data on the spring months, trade is expected to decelerate further.

Table 1

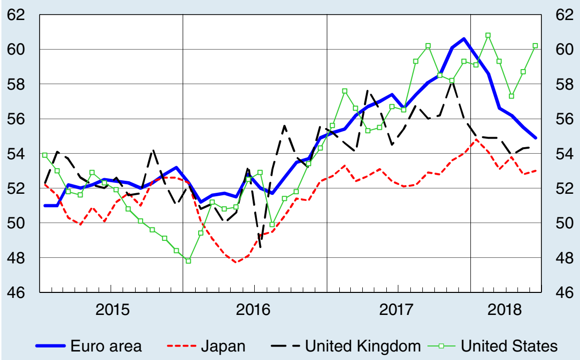
GDP growth and inflation
(percentage points)

	GDP growth 2017	GDP growth 2017 Q4	GDP growth 2018 Q1	Inflation (1) May 2018
Advanced economies (2)				
Japan	1.7	1.0	-0.6	0.6
United Kingdom	1.7	1.4	0.9	2.4
United States	2.3	2.9	2.0	2.8
Emerging economies (3)				
Brazil	1.0	2.1	1.2	2.9
China	6.9	6.8	6.8	1.8
India	6.3	7.0	7.7	4.9
Russia	1.6	0.9	1.3	2.4
Memorandum item:				
World trade (4)	**5.5**	**7.3**	**5.0**	

Sources: Thomson Reuters Datastream; OECD, *OECD Economic Outlook*, May 2018; and Bank of Italy for the data on world trade.
(1) Consumer price index, monthly data. – (2) Seasonally adjusted data; annualized percentage change. – (3) Year-on-year percentage change. – (4) 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 (PMI).

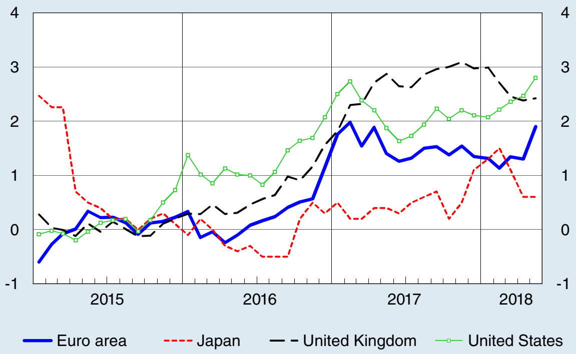
… and trade relations are deteriorating

Effective on 6 July 2018, the United States government raised tariffs on Chinese products worth around $34 billion by 25 per cent. The Chinese authorities immediately adopted equivalent countermeasures, to which the United States responded by announcing its intention to impose a 10 per cent increase in tariffs targeting Chinese imports worth an additional $200 billion. At the beginning of June, new US tariffs on steel and aluminium imports from the European Union, Canada and Mexico also came into effect, countries which had previously been granted temporary exemptions (see Chapter 1, *Annual Report for 2017*, 2018). These measures have hit European goods worth approximately $8.5 billion (around 2 per cent of the EU's total exports). The EU, in turn, raised its tariffs on the imports of some US goods worth $3.3 billion. The US administration threatened to retaliate by targeting EU automotive imports.

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.

Inflation remains moderate overall

Inflation in the main advanced economies remains moderate. In May it rose to 2.8 per cent year on year in the United States, while it was stable in the United Kingdom (2.4 per cent) and in Japan (0.6 per cent; Table 1 and Figure 2). Prices in the main emerging economies continue to show no signs of significant acceleration.

The forecasts for global economic activity and trade have worsened slightly …

According to the projections released in May by the OECD, the world economy will grow by 3.8 per cent in 2018 and 3.9 per cent in 2019, just short of the March projections for the current year (Table 2). Based on our own estimates, international trade will grow by 4.7 per cent this year (in line with the OECD's forecast), slowing compared with 2017.

Table 2

Macroeconomic projections

(changes and percentage points)

	2017	Forecasts 2018	Forecasts 2019	Revisions (1) 2018	Revisions (1) 2019
GDP (2)					
World	**3.7**	**3.8**	**3.9**	**-0.1**	**0.0**
Advanced economies					
of which: Euro area	2.6	2.2	2.1	-0.1	0.0
Japan	1.7	1.2	1.2	-0.3	0.1
United Kingdom	1.8	1.4	1.3	0.1	0.2
United States	2.3	2.9	2.8	0.0	0.0
Emerging economies					
of which: Brazil	1.0	2.0	2.8	-0.2	0.4
China	6.9	6.7	6.4	0.0	0.0
India (3)	6.5	7.4	7.5	0.2	0.0
Russia	1.5	1.8	1.5	0.0	0.0
World trade (4)	**5.5**	**4.7**	**–**	**-0.2**	**–**

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

… and protectionist measures are increasing uncertainty

At world level, the risks of a possible intensification of economic and political uncertainty have increased. The tensions triggered by the protectionist measures announced and introduced by the United States and the resulting threats of retaliation made by its trading partners could impair business confidence. Geopolitical risks have also been rekindled, in part following the announcement by the United States of its decision to withdraw from the Iran nuclear deal. Future economic relations between the United Kingdom and the European Union remain shrouded in uncertainty, in light of the limited progress made in the Brexit negotiations. Additional risks stem from the possibility that the end of monetary stimulus in the United States will translate into a sharp reduction in capital flows to the emerging economies.

Oil prices hover around their 2014 highs

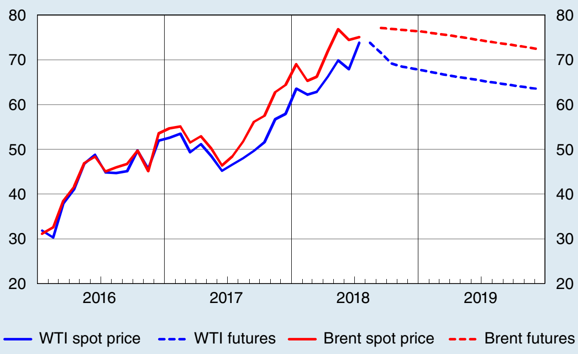
Following the slight decline recorded in June, crude oil prices started to rise again; in the first week of July they reached their highest levels since the end of 2014 (Figure 3). This was mainly due to vigorous global demand, which was accompanied by a significant reduction in inventories, notwithstanding the increase in US production and OPEC's decision to review the agreement on production cuts to offset supply shortfalls from Iran and Venezuela. Futures prices suggest that in the medium term prices will fall compared with the current levels; the reduction is expected to be more moderate for Brent prices.

The Federal Reserve raises its benchmark interest rates

As expected, at its meeting on 13 June 2018, the Federal Reserve increased the target range for the federal funds rate by 25 basis points to 1.75-2.00 per cent. The prices for federal funds futures contracts and the expectations of the Federal Open Market Committee continue to suggest that there will be two more rate hikes this year (Figure 4). The Bank of Japan and the Bank of England did not modify their monetary policy stance. In China, while maintaining a tight stance overall, the central bank eased monetary conditions slightly by cutting the required reserve ratio by 150 basis points.

Figure 3

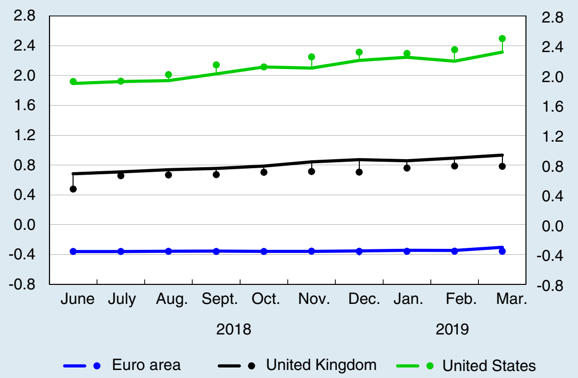
Oil prices (1)
(monthly data; dollars per barrel)



Source: Thomson Reuters Datastream.
(1) For the spot prices, monthly average data through June 2018; the latest data available refer to 6 July 2018.

Figure 4

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



Source: Based on Thomson Reuters Datastream data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices. The solid lines indicate the interest rates forecast on 13 April 2018, the dots show those forecast on 6 July 2018.

1.2 THE EURO AREA

Growth slowed in the euro area at the start of 2018 compared with last year's brisk pace; in the second quarter growth was still moderate. Inflation is on the rise, but the core component is still low. The Governing Council of the ECB assesses that the progress towards a sustained adjustment of inflation has been substantial but that uncertainty is still high, and it expects to wind down its net asset purchases but to maintain an ample degree of monetary accommodation in the long term.

Growth is expected to proceed at a moderate pace

In the first quarter of 2018, euro-area GDP expanded by 0.4 per cent on the previous period (Table 3), clearly slowing down in comparison with the strong performance seen in 2017. Economic activity was driven by domestic demand, mainly by private consumption, while net exports made a negative contribution to GDP. The latest economic indicators suggest that GDP will continue to expand at a subdued pace in the second quarter as well. The deceleration in France and Germany in the first quarter was particularly marked.

In June the Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, declined further from 0.55 in May to 0.48 (Figure 5). The latest business and consumer surveys show that households and firms are feeling more cautious than at the start of the year: consumer and business confidence has declined. The PMI fell further in manufacturing but increased in services.

Eurosystem central bank projections published in June indicate that for 2018 as a whole GDP should grow by 2.1 per cent, a slight downward revision of March's estimate.

Table 3

Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation
	2017	2017 Q4. (1)	2018 Q1 (1)	June 2018 (2)
France	2.2	0.7	0.2	2.3
Germany	2.2	0.6	0.3	2.1
Italy	1.5	0.4	0.3	(1.5)
Spain	3.1	0.7	0.7	(2.3)
Euro area (3)	2.4	0.7	0.4	(2.0)

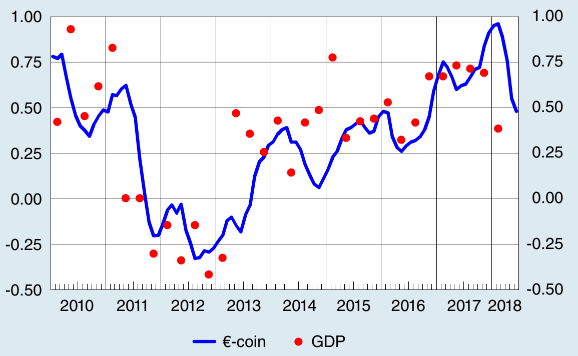
Sources: Based on national statistics and on Eurostat data. The figures in brackets indicate preliminary estimates.
(1) Quarterly series adjusted for seasonal and calendar effects; percentage changes on previous quarter, not annualized. – (2) Change on the corresponding period. – (3) The euro-area aggregate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

Inflation is on the rise, although the core component is still low

In the second quarter, the twelve-month inflation rate strengthened, reaching 2.0 per cent in June according to preliminary estimates (Figure 6), buoyed by an increase in the price of energy and food products. Core inflation was still low, standing at 1.0 per cent. The Eurosystem projections released in June suggest that inflation will increase to 1.7 per cent on average this year (1.1 per cent net of the most volatile components), revised upwards compared with March.

Figure 5

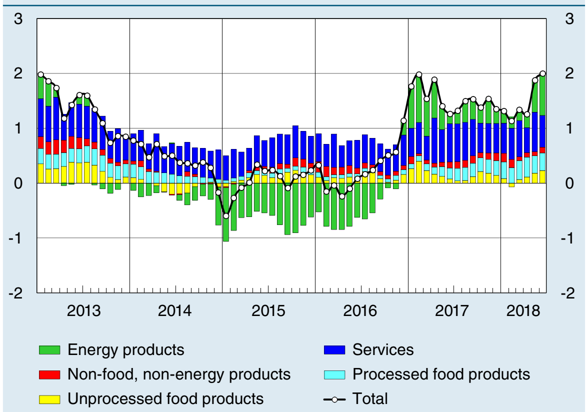
€-coin coincident cyclical indicator and euro-area GDP (1)
(percentage changes)



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*, 53, 2009. Further details are available on the Bank of Italy's website '€-coin: June 2018'. 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

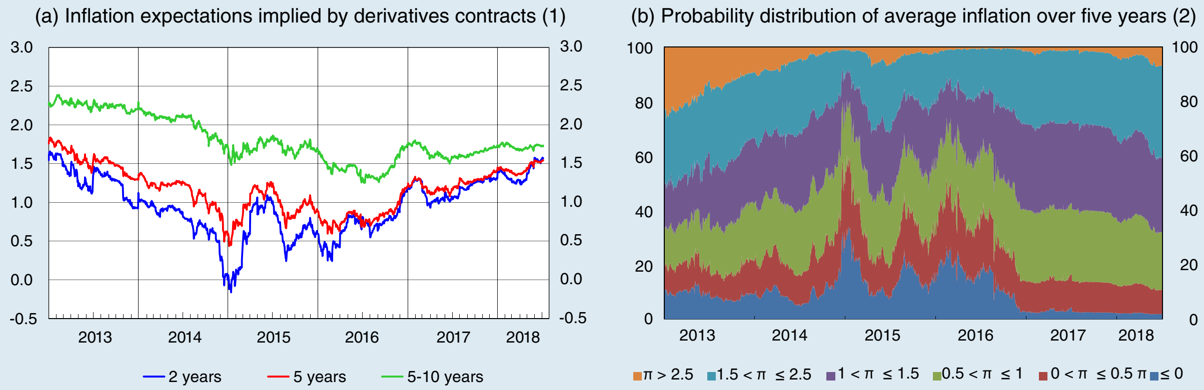
Euro-area inflation and contributions of its components (1)
(monthly data; 12-month percentage changes and percentage points)



Sources: Based on Eurostat and ECB data.
(1) Harmonized Index of Consumer Prices; provisional data for 2018.

Figure 7

Inflation expectations
(daily data; per cent)



Source: Bloomberg.
(1) Expected inflation rates implied by 2-year, 5-year and 5-year forward 5 years ahead inflation swaps. – (2) Risk-neutral probability distribution for euro-area inflation in the next 5 years, implied by inflation rate 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). The risk-neutral probabilities reflect both expected inflation rates and risk premiums. The figure shows the probability, in the next five years, of inflation falling into the various value intervals.

Between February and early July, inflation expectations as implied by inflation swap yields rose by around 0.3 percentage points over the two-year horizon and by about 0.1 point over the five-year horizon five years ahead (to 1.6 per cent and 1.7 per cent respectively; Figure 7). The probability of deflation over the next five years implied by the prices of inflation options has remained essentially nil (Figure 7.b).

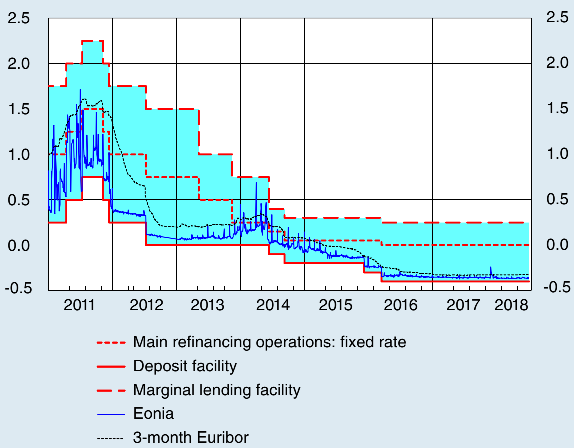
An ample degree of monetary accommodation is still necessary

At its meeting of 14 June the ECB Governing Council concluded that substantial progress had been made to secure a sustained adjustment of inflation rates to below, but close to, 2 per cent over the medium term, even if uncertainty had not entirely receded. Therefore, it expects to end its net asset purchases in December 2018, while maintaining an ample degree of monetary accommodation (Figure 8), which is still considered necessary to achieve the inflation objective in the medium term (see the box 'The monetary policy measures adopted in June 2018').

On 6 July, the book value of government securities purchased under the Eurosystem's expanded asset purchase programme (APP) totalled €2,014 billion, that of the covered bond purchase programme amounted to €255 billion, the asset-backed securities purchase programme to €27 billion and the corporate sector purchase programme to €163 billion. At the end of June, purchases of Italian government securities amounted to €349 billion (of which €314 billion by the Bank of Italy).

Figure 8

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



Sources: ECB and Thomson Reuters Datastream.

THE MONETARY POLICY MEASURES ADOPTED IN JUNE 2018

At its 14 June meeting the ECB Governing Council stated that substantial progress has been made so far towards a sustained adjustment in the path of inflation to levels below, but close to, 2 per cent in the medium term, though there are still ample margins of uncertainty. Among other things, this assessment is based on the latest Eurosystem staff macroeconomic projections, which indicate a gradual strengthening of wage-price dynamics and less uncertainty about their future developments. Considering that the attainment of these objectives was the goal of the expanded asset purchase programme (APP), the Council accordingly moved to recalibrate its package of non-standard monetary policy measures, whilst maintaining an ample degree of monetary accommodation.

It also announced that, starting in October and subject to incoming data confirming its medium-term inflation outlook, it will reduce the monthly pace of its net asset purchases to €15 billion (from the current €30 billion) until the end of December 2018, and then end net purchases. It also said it intended to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council kept the key ECB interest rates unchanged and expected them to remain at their present low levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path.

It added that significant monetary policy stimulus was still required to support the further build-up of domestic price pressures and headline inflation developments, confirming the need to maintain the current ample degree of monetary accommodation. The Council reiterated that it stood ready to adjust all of its instruments as appropriate to ensure that inflation continued to move towards its inflation aim in a sustained manner.

The gradual winding-down of the monetary policy measures, thanks to the slow pace and careful communication of the process, has not triggered any adverse reactions in stock markets or sharp rises in long-term yields.

Following the June meeting, the EONIA swap curve flattened out, signalling the postponement of the date on which markets anticipate the first increase in key interest rates; the euro depreciated by 1.0 per cent against the dollar and yen, and by 0.8 per cent against the pound sterling; yields on ten-year government bonds fell by around 5 basis points in most euro-area countries.

Assets held that will be redeemed at maturity in the next twelve months and reinvested by the Eurosystem amount to €193 billion, 81 per cent of which is made up of government securities.

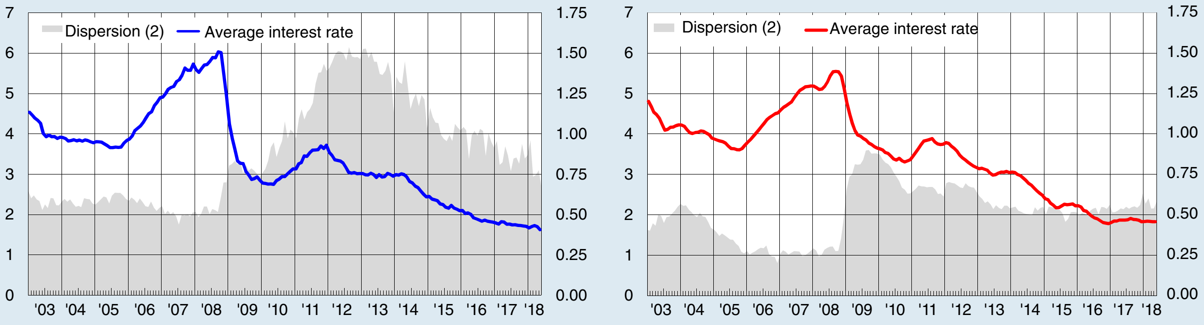
Lending continues to expand

Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in May lending to non-financial firms in the euro area grew by an annualized rate of 4.7 per cent; growth in lending on a twelve-month basis continues at a brisk pace in France, Germany, Ireland, Italy and Portugal, but is still negative in Greece, the Netherlands and Spain (see Section 2.7). Lending to households increased by 3.2 per cent in this period, reflecting the expansion of loans in France, Germany and Italy whereas in the other euro-area countries growth is still virtually nil or negative. The cost of new loans to firms

Figure 9

The cost of borrowing in the euro area (1)
(per cent)

(a) Loans to non-financial corporations | (b) Loans to households for house purchase



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.

and mortgages to households remained at historically low levels (1.4 and 1.8 per cent in May respectively); the dispersion of interest rates across countries remained low (Figure 9).

1.3 GLOBAL FINANCIAL MARKETS

Since the end of April, long-term yields have fallen in the United States and in Germany; in the second half of May there was a marked increase in sovereign risk premiums in the euro area as a whole, accompanied by a temporary rise in volatility. The single currency weakened slightly against the main currencies.

Long-term yields display diverging trends

In the second quarter, the yield trends on ten-year government bonds were not the same: compared with the downturn recorded in Germany and in the United States since the end of April, they rose in some euro-area countries (Figure 10).

Volatility increases temporarily

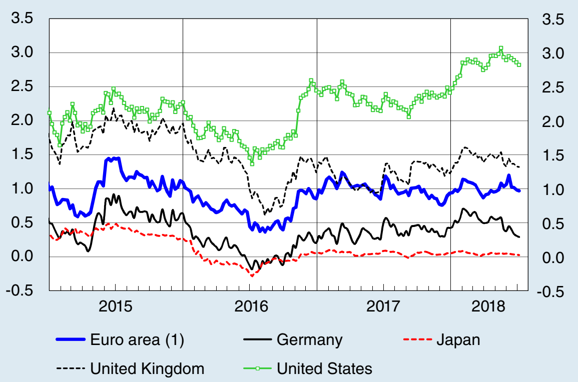
Until mid-May, share prices had continued to rise in the main advanced economies, though this rise subsequently tailed off, partly due to fears stemming from the escalation of trade tensions at global level (Figure 11). Implied volatility became temporarily more marked, above all in the euro area and in the government securities sector (Figure 12). Share prices in the emerging countries declined overall, especially in Brazil, Mexico and Turkey.

Euro-area sovereign spreads widen

The renewed financial tensions have led to a rebalancing of investor portfolios

Figure 10

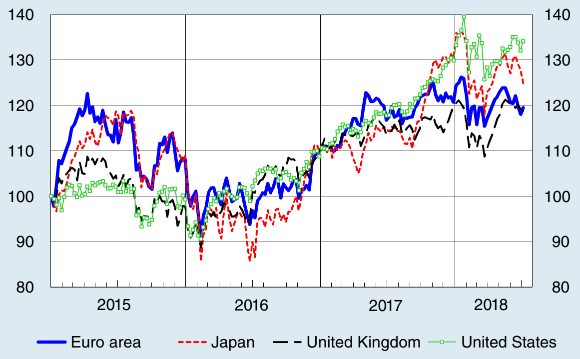
Yields on 10-year government bonds
(end-of-week data; per cent)



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

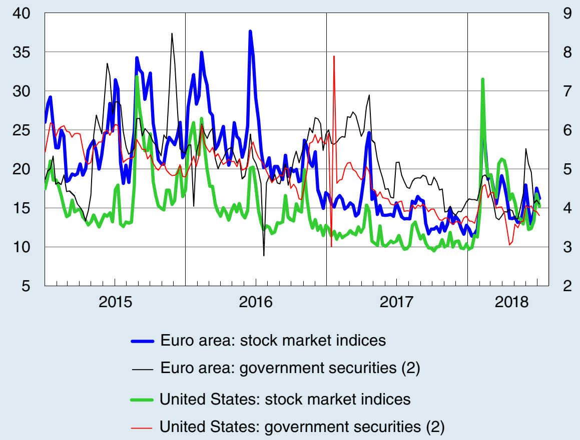
Stock market indices (1)
(end-of-week data;
1st week of January 2015=100)



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 12

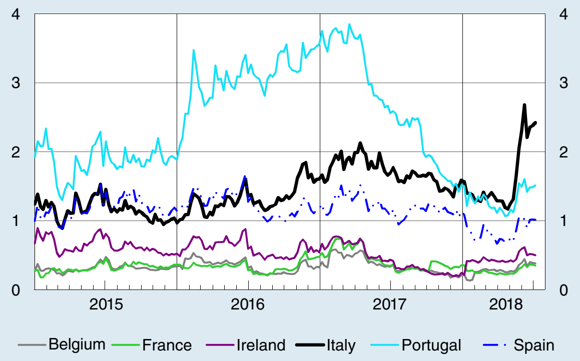
Implied volatility of equity and government securities prices (1)
(average weekly data; percentage points)



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

Figure 13

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



Source: Based on Thomson Reuters Datastream data.

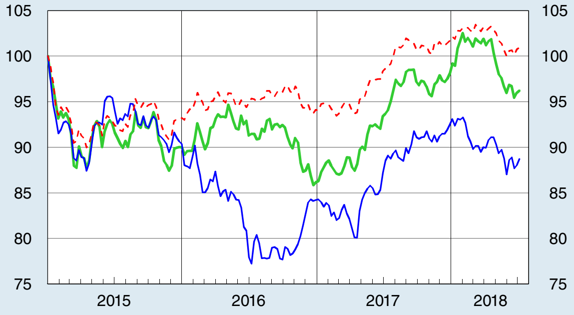
towards assets considered to be safer, producing a widening of sovereign spreads in the countries considered to be most vulnerable (see Section 2.8). In the second quarter, interest rates on German ten-year government securities fell by 21 basis points to 0.3 per cent, partly reflecting the Eurosystem's still accommodative monetary policy; also in connection with the uncertainty around the formation of the government in Italy between the end of May and the beginning of June, in the quarter as a whole, the yield spreads between ten-year government bonds and the corresponding German Bund widened in Italy, Portugal and Spain (by 113, 40, and 35 basis points respectively; Figure 13), and to a lesser extent in France, Belgium and Ireland (by 13, 12 and 9 basis points respectively). Following a significant increase starting in mid-May, the spread on Greece's ten-year government securities has narrowed considerably as a result of the successful conclusion of the financial assistance programme by the European Stability Mechanism (ESM); it fell by 15 basis points overall in the first quarter.

The euro begins to depreciate again

Since mid-April, the single currency has depreciated by 5.0 per cent against the dollar and by 1.0 per cent against the yen, while it has appreciated against the pound sterling by 1.0 per cent. In nominal effective terms, the single currency has depreciated by 2.0 per cent (Figure 14). The outlook for the euro/dollar exchange rate has become more uncertain. On the one hand, on the derivatives markets, long (buying) positions of non-commercial operators on the single currency against the dollar have decreased, though they continue to indicate expectations of a bilateral appreciation of the euro. On the other hand, given

Figure 14

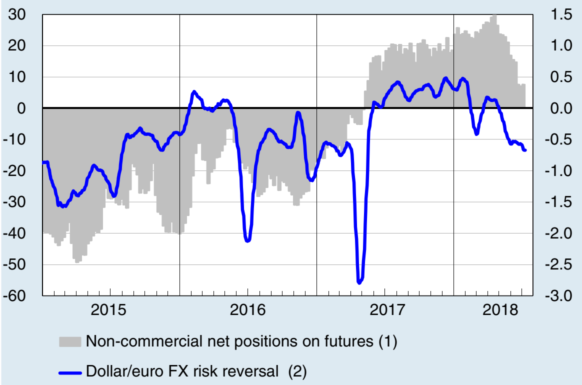
Exchange rates
(average weekly data; 1st week of January 2015=100)



Sources: ECB and Thomson Reuters Datastream.

Figure 15

Net positions in dollar/euro exchange rate 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); 1-month risk reversal index (20-day moving average). – (2) Right-hand scale.

the recent turbulence in euro-area financial markets, the one-month risk reversal index, which measures the asymmetry of short-term expectations for the euro/dollar exchange rate, has turned negative, signalling that the cost of insuring against a significant bilateral appreciation of the dollar has exceeded that of insuring against its significant depreciation (Figure 15).

Financial market conditions worsen in the emerging countries

Conditions in the financial markets of the emerging economies have deteriorated since mid-April, though to different extents across countries. Depreciation against the dollar has been particularly marked for the Argentinian peso and the Turkish lira, despite repeated support measures and significant interest rate hikes. At the end of June, the International Monetary Fund approved the granting of a three-year, $50 billion credit line to Argentina.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

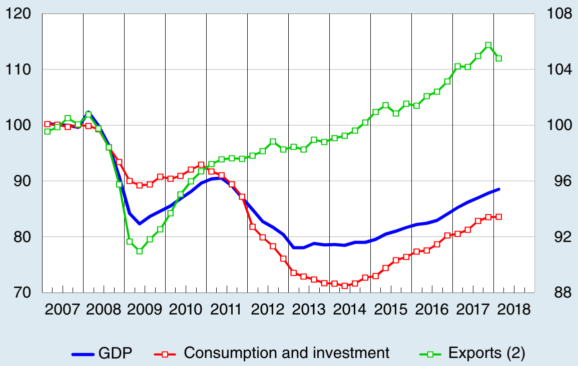
Economic activity continued to expand in the first quarter of 2018, although at a slower pace. GDP growth also continued in the second quarter, around 0.2 per cent, with mainly downside risks in relation to manufacturing.

GDP rises in the first quarter

In the first three months of this year GDP rose by 0.3 per cent, slowing slightly compared with the final quarter of 2017 (Figure 16). Economic activity was buoyed by the change in inventories, which returned to growth following the reduction registered in the previous two quarters. Net of this component, domestic demand contributed virtually nothing: higher spending by households was offset by lower investment. The decline in investment, apart from that in construction, may only be

Figure 16

GDP and its main demand components (1)
(quarterly data; indices: 2007=100)



Source: Based on Istat data.
(1) Chain-linked values; the quarterly data are adjusted for seasonal and calendar effects. – (2) Right-hand scale.

Table 4

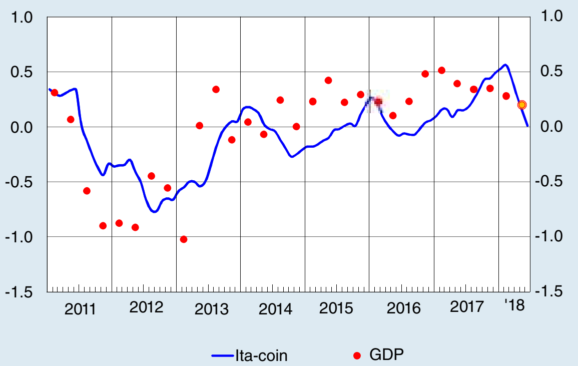
GDP and its main components (1)
(percentage change on previous period)

	2017			2018	2017
	Q2	Q3	Q4	Q1	
GDP	0.4	0.3	0.4	0.3	1.5
Total imports	1.6	1.4	0.5	-0.9	5.3
National demand (2)	0.9	0.2	0.0	0.7	1.3
National consumption	0.1	0.2	0.0	0.3	1.1
household spending (3)	0.1	0.3	0.0	0.4	1.4
other spending (4)	0.1	-0.1	0.0	0.0	0.1
Gross fixed investment	1.4	2.9	1.5	-1.4	3.8
construction	-0.1	0.8	0.8	0.0	1.1
other investment goods	2.7	4.7	2.1	-2.4	6.1
Change in inventories (5) (6)	0.6	-0.5	-0.3	0.7	-0.2
Total exports	-0.1	1.8	1.8	-2.1	5.4
Net exports (6)	-0.5	0.2	0.4	-0.4	0.2

Sources: Istat.
(1) Chain-linked values; the quarterly data are adjusted for seasonal and calendar effects. – (2) Includes the change in inventories 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 17

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



Sources: Bank of Italy and Istat.
(1) For the construction methodology 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 coincident cyclical indicator*'. For GDP, quarterly data; changes on the previous quarter. The shaded circle shows the forecast for GDP growth based on bridge models. For Ita-coin, monthly estimates of the change in GDP on the previous quarter net of the most erratic components.

temporary, reflecting the anticipation of some planned investments to the last quarter of 2017, owing to the then widespread uncertainty as to whether the tax incentives due to expire at the end of that year would be renewed; they were subsequently extended to 2018. As for construction, investment stalled (see Section 2.2). In foreign trade, exports dropped much more than did imports, subtracting 0.4 percentage points from GDP growth (Table 4). Value added continued to climb at a moderate pace in services (0.3 per cent), while in construction and industry excluding construction it was practically unchanged.

Growth appears to slacken in the spring

According to our estimates, in the second quarter GDP continued to grow at a slightly more moderate pace than in the previous quarter (see the box 'The economic activity in the second quarter based on cyclical indicators'). The Bank of Italy Ita-coin indicator fell again in June, to 0.01 from 0.15 in May (Figure 17), capturing the slowdown in industrial activity and in the euro-area's economic cycle. The purchasing managers' index (PMI) provides slightly more favourable signs, especially in the service sector.

THE ECONOMIC ACTIVITY IN THE SECOND QUARTER BASED ON CYCLICAL INDICATORS

Based on the latest data calculated using the Bank of Italy's statistical models,[1] in the second quarter of 2018 GDP increased by around 0.2 per cent quarter on quarter, from 0.3 per cent in the previous quarter (Figure A). Uncertainty is quantifiable within a range of 0.1 percentage points above or below the central projection, with mainly downside risks in relation to manufacturing. On average in the second quarter, economic activity increased again in services, although at a more moderate pace, while it continued to be weak in industry excluding construction, where it had fallen marginally in the preceding three months. Value added in construction appeared to return to growth after stalling in the first three months of the year.

The purchasing managers' index (PMI) for the service sector continues to point to an expansion, even though the index fell in the second quarter (Figure B) after having reached its highest point since the start of the financial crisis in the previous period. As for the other indicators incorporated in the forecasting models for services, the contribution of start-ups was essentially nil.

According to our estimates, in the second quarter of 2018 industrial production stagnated. The recovery in goods transport flows has been offset by less favourable signs from electricity consumption and new vehicle registrations (Figure D). During the same period, the confidence of manufacturing firms continued to decline (Figure C), especially regarding the general performance of the Italian economy. The firms also expressed less optimistic assessments of the trend for foreign orders.

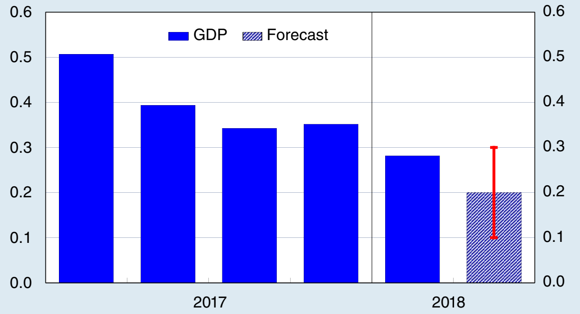
Our projections of moderate growth for the construction sector are supported by the consistently favourable signs coming from Istat's surveys of construction industry confidence (Figure C). The Bank of Italy's business surveys revealed positive assessments of demand trends for the second quarter; expectations regarding investment plans for the current year have improved and the outlook for employment in the residential construction sector remains optimistic (see '*Survey on Inflation and Growth Expectations*', Banca d'Italia, Statistics Series, 9 July 2018).

[1] The evaluation of GDP performance, in advance of the official figure, which will be released by Istat on 31 July (about 30 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), and on business surveys and other qualitative assessments, which can then be combined using 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's website.

Figure A

GDP growth estimates in the second quarter (1)

(percentage changes on the previous period)

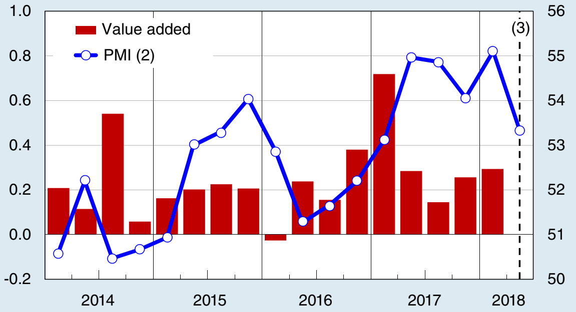


Source: Based on Istat data.
(1) The red line indicates the uncertainty of the estimates within a range of the central projection plus or minus 0.1 percentage points and equal in width to twice the forecast root mean square error over the last 3 years.

Figure B

PMI and value added in services (1)

(levels and percentage changes)

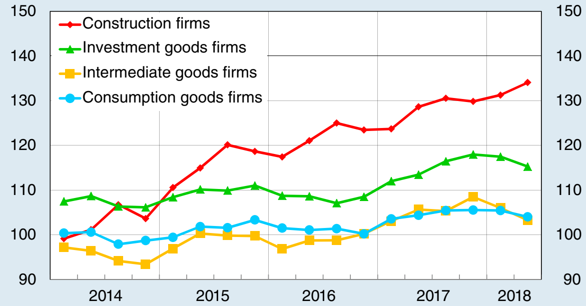


Sources: Based on Istat and Markit data.
(1) For the PMI index, average level in the reference quarter. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) Right-hand scale. – (3) The figure for value added in the second quarter of 2018 is not yet available.

Figure C

Business confidence indices (1)

(levels; indices: 2010=100)

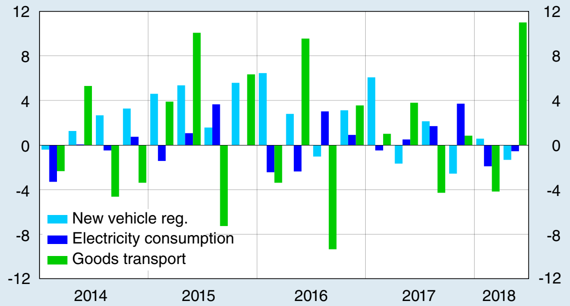


Source: Based on Istat data.
(1) Average level in the reference quarter.

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

Industrial production remained weak in the second quarter. Although business confidence diminished, it was still compatible with a moderate expansion in activity in the short term. According to our surveys, investment picked up in the spring, after decreasing in the first quarter of 2018.

Industrial production struggles to strengthen

Industrial production increased by 0.7 per cent in May, only partly offsetting the drop in April (Figure 18). According to our estimates, manufacturing activity, which had declined slightly in the winter months, stagnated overall in the second quarter.

Business confidence diminishes but remains high

Business confidence indicators have been declining since February, driven down by weak exports; nevertheless, their levels are still higher than in the past. According to the quarterly survey conducted in June by the Bank of Italy and

Il Sole 24 Ore, firms' assessments of general economic conditions have worsened with respect to the previous quarter. Short-term expectations regarding demand became less favourable. Slightly more positive indications emerged from the PMI in June when the negative trend of previous months was reversed; values remain compatible with an expansion of activity.

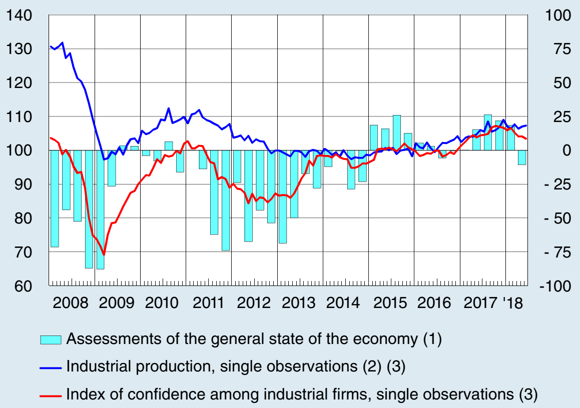
The decline in investment in the first quarter reflects temporary factors

Investment contracted sharply in the first three months of 2018 (-1.4 per cent) owing to the decline in purchases of plant and machinery (-2.9 per cent): uncertainty regarding the renewal of tax incentives prompted firms to bring their expenditure on capital goods forward to the end of 2017. Intangible investment also diminished (-1.3 per cent), while investment in construction stagnated after rising in the two previous quarters. According to the Survey of Industrial and Service Firms conducted each year from March to May (see the box 'The Bank of Italy's survey of industrial and service firms'), investment this year will be greater than in 2017, presumably benefiting from the extension of the tax relief offered by the 2018 Budget Law (Law 205/2017). The more recent Bank of Italy-*Il Sole 24 Ore* survey, which only covers larger firms, also forecasts an expansion in investment this year, although firms reported a deterioration in the conditions for investing (see the box 'Italian firms' investment according to the survey on inflation and growth expectations').

Figure 18

Industrial production and business confidence indicators

(monthly data)



Sources: Based on data from Istat, Terna and Bank of Italy.
(1) Right-hand scale. Balance, in percentage points, 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, 9 July 2018). – (2) Industrial production adjusted for seasonal and calendar effects; for June, estimated data. – (3) Index 2015=100.

THE BANK OF ITALY'S SURVEY OF INDUSTRIAL AND SERVICE FIRMS

Every year the Bank of Italy carries out a survey of firms with 20 or more employees in industry excluding construction and non-financial private services. The results of the survey, in which some 4,400 firms took part this year between March and May, confirm that the recovery was widespread in 2017 and that the outlook for the current year is favourable (see 'Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, 2 July, 2018).

The growth in sales volumes accelerated sharply in 2017 (from 0.3 to 2.3 per cent; see the table). The domestic and foreign components both contributed, driven by strengthening global demand. In all the main segments the increase was equal to or higher than the forecasts recorded in the previous survey. In manufacturing and services, growth in employment and hours worked firmed up. Hours worked per capita, which are an indicator of labour input utilization, increased in half of the service firms and in more than 60 per cent of manufacturing companies.

Manufacturing and service firms forecast that sales will increase in the current year as well, though at a slower pace, further spurring employment.

Selling prices rose by 1.7 per cent, outpacing the rate recorded in the previous four years, when they never grew by more than 1.0 per cent a year. According to the firms interviewed, the increase was

Main trends in 2017 and expectations for 2018
(percentage changes)

	Sales turnover (1)		Investment (1)		Employment	
	2017	2018	2017	2018	2017	2018
Sector						
Manufacturing	2.7	2.4	3.1	2.7	0.6	0.5
Energy and extractive industries	0.2	-2.7	2.9	18.7	-0.8	-1.2
Non-financial services	2.6	1.5	2.3	4.6	0.9	0.4
Size class						
20-49	2.4	1.6	6.9	-4.4	-0.2	0.5
50-199	2.0	1.6	3.1	5.4	1.2	0.2
200-499	1.3	0.4	4.7	10.6	0.7	0.1
500 and over	3.2	1.4	0.4	8.5	1.0	0.5
Total	**2.3**	**1.3**	**2.7**	**5.3**	**0.7**	**0.4**

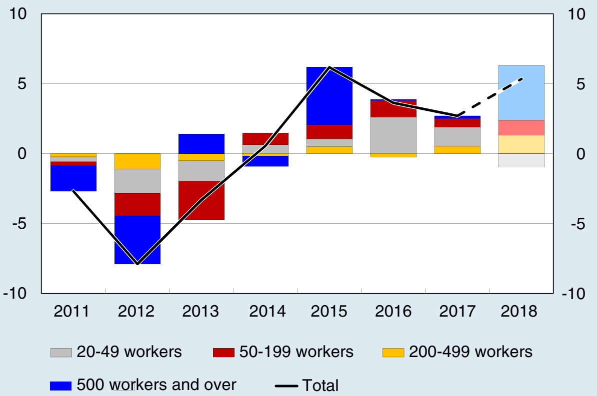
(1) Values at constant prices calculated based on the average deflators used in the survey. Averages weighted by the number of firms in the population. Estimates based on winsorized data.

partly due to the pressures of commodity prices and to the favourable trend in demand. For the first time since 2012 more than half of the firms reported increasing their selling prices; expectations for the current year are for a further 1.5 per cent rise.

According to the survey, investment expenditure grew by 2.7 per cent in 2017. Investment plans were implemented differently in the various sectors: in industry, realized investment was basically in line with the amount planned, while in services it was higher than forecast. As in the previous year, most of the increase in expenditure was by small firms (from 20 to 49 employees), predominantly in manufacturing (see the figure).

More than half of the firms, accounting for about 70 per cent of total investment expenditure in 2017, reported that they had taken advantage of at least one of the main support measures available.[1] Almost a third of these firms, whose investments in 2017 represented 12 per cent of the total, reported that at least part of their expenditure would not have been made without the available incentives.

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



(1) Values at constant prices calculated with the deflators used in the survey. Statistics weighted by the number of firms in the population and the expenditure on investment. The dashed line and the lightest areas indicate firms' projections for 2018.

[1] These are the measures envisaged by the 2016-18 budgetary provisions: (a) the 'new Sabatini' measure, a financial subsidy for purchases or leasing of machinery, equipment, plant, capital goods for use in production and hardware, as well as software and digital technologies; (b) a tax credit for firms located in less developed regions that invest in producer goods; (c) 'super-amortization' which, for tax purposes only, raises by 40 per cent the value of investments in producer goods for which orders were accepted by the seller by 31 December 2018 and at least 20 per cent paid by that date; and (d) 'hyper-amortization' which, for tax purposes only, raises by 150 per cent the value of investments in advanced technologies that were ordered by 31 December 2018 and at least 20 per cent paid by that date.

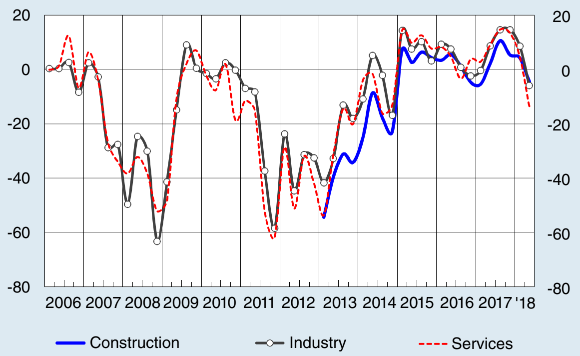
Overall, firms expect investment spending to increase in 2018, led by companies with 500 or more employees, which had not kept to their initial plans in the previous two years (see the figure). Small firms, which had bolstered total investment in that period, expect to reduce their expenditure. The latest indications regarding investment expenditure provided by the June '*Survey on Inflation and Growth Expectations*' confirm that there will be a general improvement in 2018, albeit slightly less marked than projected in the March survey.

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

From 28 May to 15 June, the Bank of Italy and *Il Sole 24 Ore* carried out their quarterly survey of inflation and growth expectations on a sample of about 1,000 industrial, service and constructions firms with 50 or more employees (see '*Survey on Inflation and Growth Expectations*', Banca d'Italia, Statistics Series, 9 July 2018).

Firms' assessments of the present economic situation have worsened compared with the March survey. The deterioration may be temporary in nature and due in part to a sharpening of financial tensions in the first days of the survey, which then eased (see Section 2.8). This interpretation is borne out by the recovery of business confidence recorded in Istat's surveys later in June. Assessments of the business context have become less favourable

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, 9 July 2018).

Firms' expectations regarding investment (1)
(per cent)

	Non-construction industry	Services	Construction	Total economy
	Investment expenditure planned for H2 2018 compared with H1			
Higher	38.8	30.8	26.2	34.3
About the same	50.8	56.9	57.2	54.0
Lower	10.5	12.3	16.7	11.7
	Investment expenditure planned for 2018 compared with actual investment in 2017			
Higher	45.2	34.2	29.1	39.1
About the same	39.6	50.6	57.2	45.8
Lower	15.2	15.1	13.7	15.1

(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 employees conducted by the Bank of Italy with *Il Sole 24 Ore* (see '*Survey on Inflation and Growth Expectations*', Banca d'Italia, Statistics Series, 9 July 2018). Rounding may cause discrepancies.

as well, although the deterioration was not as marked. Expectations regarding both domestic and foreign demand are less optimistic.

Assessments regarding planned investment expenditure during the year were only slightly less positive than in the previous quarter. They are still consistent with forecasts of strong growth this year (see the box 'The Bank of Italy's survey of industrial and service firms'). The small deterioration with respect to the previous survey was partly due to poorer assessments of the conditions for investing (see the figure), despite the perception that credit access conditions were stationary.

Expectations regarding changes in nominal investment spending in the year as a whole were more prudent both in industry excluding construction and in services. The balance between the percentage of firms expecting to increase their spending and the percentage of those expecting to reduce it now stands at 30.0 points in industry and 19.1 points in services, compared with 32.5 and 24.4 points respectively three months earlier. By contrast, expectations improved in the construction industry, partially offsetting the decrease recorded in the previous survey.

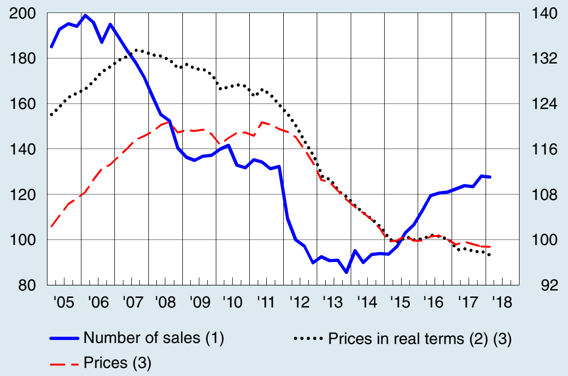
The real estate market recovery remains weak

After rising sharply in the autumn, the number of house sales fell back slightly in the first quarter (-0.3 per cent), while remaining close to the levels recorded at the end of 2011 (Figure 19); in the same period, the decline in prices with respect to last year slowed. Opinion surveys of the sector present a more favourable outlook: real estate agents interviewed for the *Housing Market Survey* in April indicated that demand was firming up, with an increase in potential purchasers and a fall in the stock of mandates to sell. Their assessments of both the short-term and the medium-term trends in the market remain positive. Residential construction companies, which were interviewed in June for the Bank of Italy-*Il Sole 24 Ore* survey, were similarly more optimistic about the outlook for employment and demand than in the previous period.

Figure 19

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.

Firms' price competitiveness improves

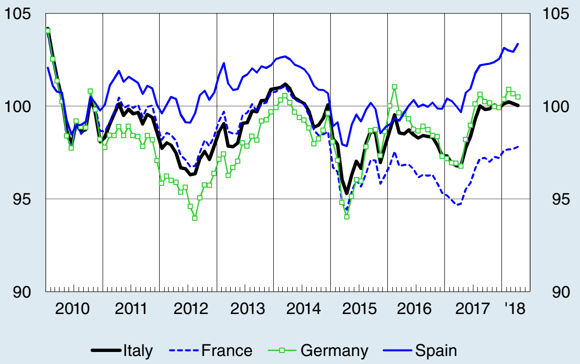
Our estimates indicate that firms' price competitiveness, measured by the producer prices of manufactured goods and taking account of the structure of Italy's trade, improved in the spring both within and outside euro-area markets (Figure 20). Among the main EU economies, Germany recorded a similar gain while competitiveness remained virtually unchanged in France. In the first quarter, as a result of growth in productivity in Italy, unit labour costs also fell (see Section 2.5).

Firms' profitability is unchanged and their indebtedness decreases

Based on Istat data and our own estimates, in the first quarter of 2018 the ratio of gross operating profit to value added was generally unchanged with respect to the previous period. Firms' self-financing capability (calculated as the difference between gross operating profit and total interest costs) increased slightly as they continued to benefit from the decrease in net interest expense. The ratio of investment expenditure to value added as well as firms' borrowing requirement increased. Total corporate debt fell to 72.3 of GDP in the first quarter (compared with 72.6 per cent at the end of December; Figure 21).

Figure 20

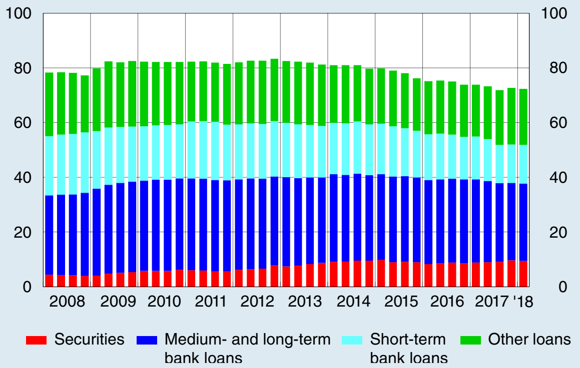
Indicators of competitiveness (1)
(monthly data; indices: 2010=100)



Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN, and national statistics.
(1) Vis-à-vis 60 competitor countries; based on the producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data relate to April 2018. 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 and 'Balance of Payments and International Investment Position', Statistics Series, Methods and Sources: Methodological Notes, Banca d'Italia, 18 May 2018.

Figure 21

Debt of non-financial corporations
(quarterly data; per cent of GDP)



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

2.3 HOUSEHOLDS

After stagnating in the previous quarter, household consumption returned to growth during the winter months, notwithstanding the deceleration in disposable income. The latest data indicate a slowdown in the second quarter.

Consumption increases in the first few months of the year ...

Household consumption increased by 0.4 per cent in the first quarter of 2018 on the previous period (it was virtually unchanged at the end of 2017; Figure 22), driven by the sharp increase in expenditure on semi-durable goods.

... despite less support from disposable income

Real disposable income provided less support to household expenditure, partly as a result of the low wage dynamics (see Section 2.5). The propensity to save averaged 7.9 per cent over the last four quarters (Figure 23).

Consumption slows in the spring

The latest cyclical indicators suggest that

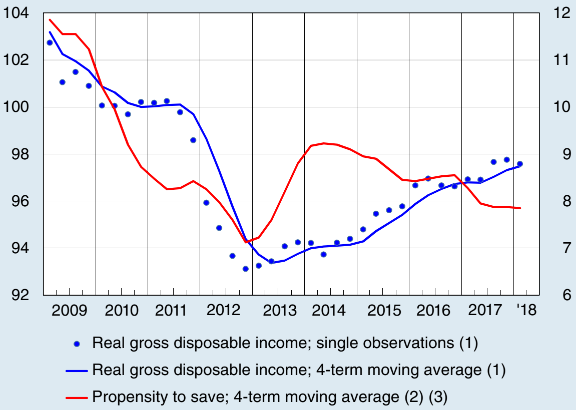
Figure 22

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 2017, annual data; for 2018, percentage changes in the first 3 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 23

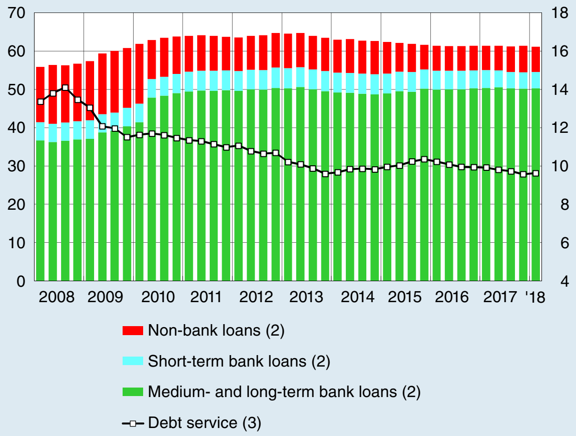
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



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 24

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', *Supplements to the Statistical Bulletin*, 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (interest plus repayment of principal) for consumer households only.

household consumption expanded at a slower pace in the second quarter. In the same period, new car registrations declined compared with the first quarter. Consumer confidence indicators began to rise again in June, partially recouping the fall registered in May, buoyed by more favourable expectations on the general state of the economy and on unemployment. However, respondents' assessments of their own situations became more cautious.

Household indebtedness falls

In the first few months of the year, the ratio of Italian household debt to disposable income fell to 61.1 per cent (from 61.3 per cent in December; Figure 24), well below the Eurozone average of 94.8 per cent at the end of 2017. As a share of GDP, household debt fell from 41.3 to 41.1 per cent (58.1 per cent in the Eurozone at the end of 2017). Debt servicing costs (interest plus repayment of principal) were unchanged at 9.6 per cent. Interest rates on new mortgage loans remain at historically low levels (see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Following an uptick in 2017, Italian exports declined in the first quarter of 2018. The contraction occurred in the three main euro-area economies, under the effects of the slowdown in world trade and the appreciation of the euro observed between the second quarter of 2017 and April 2018. According to business surveys, sales abroad remained weak in the second quarter. Italy's net international debtor position increased.

Exports decline in the first quarter

Exports of goods and services, which had increased sharply during 2017, fell by 2.1 per cent in volume in the first quarter of this year compared with the previous quarter. There was a marked decline of 2.4 per cent in the goods component, recorded by all the leading euro-area countries and affecting almost all sectors, above all pharmaceuticals, transport equipment, and mechanical machinery and equipment. Sales were down in all the main markets both within the European Union (chiefly in France and Germany) and outside its borders (particularly in the OPEC countries and the United States).

Total imports also fell by 0.9 per cent in volume. Goods imports declined mainly in commodities, mechanical machinery and equipment, and metal products. In the latter two sectors, this decline reflected shrinking investment in machinery, equipment and transport equipment (see Section 2.1).

Foreign orders show signs of weakness

The latest data show that goods exports, valued at current prices and seasonally adjusted, grew slightly in April in respect of the first quarter average, while in May exports to non-EU markets declined. The manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI indicator, worsened on average in the second quarter (Figure 25).

The current account is still in surplus

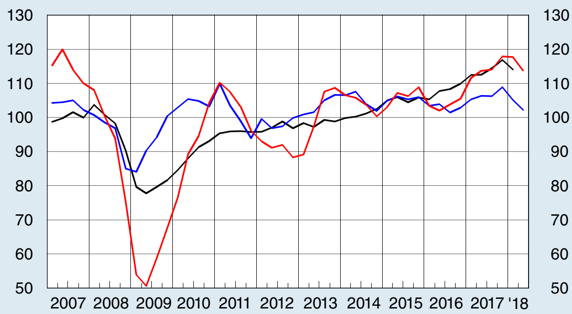
There was a current account surplus of €7.8 billion in the first four months of 2018, a little lower than in the same period a year earlier (€8.3 billion). This lower figure was mainly the result of the smaller surplus in merchandise trade, affected by higher energy costs (Table 5). The current account balance stood at 2.7 per cent of GDP, calculated on the basis of the moving averages of the four quarters ending in March (Figure 26).

Data for the financial account of the balance of payments, updated only to the end of April, show that in the first four months of the year foreign investors made net purchases of Italian portfolio securities for a total of €38.1 billion, mainly in public sector securities (€40.1 billion). On the asset side, residents continued to invest in foreign portfolio securities (€40.6 billion since the start of the year), about 60 per cent of which in foreign investment fund units and the remainder in foreign debt instruments. In the main, households, insurance companies, pension funds and other kinds of financial intermediaries invested in foreign fund units, while banking groups

Figure 25

Manufacturing firms' assessments of foreign orders

(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 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.

Table 5

Italy's balance of payments (1)

(billions of euros)

	2016	2017	Jan.-Apr. 2017	Jan.-Apr. 2018
Current account	**43.5**	**47.8**	**8.3**	**7.8**
Memorandum item: % of GDP	2.6	2.8	–	–
Goods	57.7	56.0	13.9	13.3
non-energy products (2)	83.1	87.8	24.6	25.4
energy products (2)	-25.5	-31.8	-10.7	-12.1
Services	-2.7	-3.7	-3.1	-3.1
Primary income	5.2	10.3	3.2	3.5
Secondary income	-16.7	-14.7	-5.7	-5.9
Capital account	-3.1	-0.9	-0.5	-0.9
Financial account	**65.4**	**47.0**	**3.7**	**9.6**
Direct investment	-4.1	-11.2	1.7	0.3
Portfolio investment	159.5	98.3	45.9	2.6
Derivatives	-3.0	-5.7	-2.7	-0.1
Other investment (3)	-85.9	-36.9	-43.6	6.9
Changes in official reserves	-1.2	2.7	2.3	-0.1
Errors and omissions	**25.0**	**0.1**	**-4.0**	**2.7**

(1) Based on the international standards set out in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6), 2009. For April 2018, provisional data. – (2) Based on Istat foreign trade data. – (3) Includes change in TARGET2 balance.

preferred foreign debt instruments. In addition, direct investment abroad amounted to €6.2 billion.

The negative balance in TARGET2 widens from May onwards

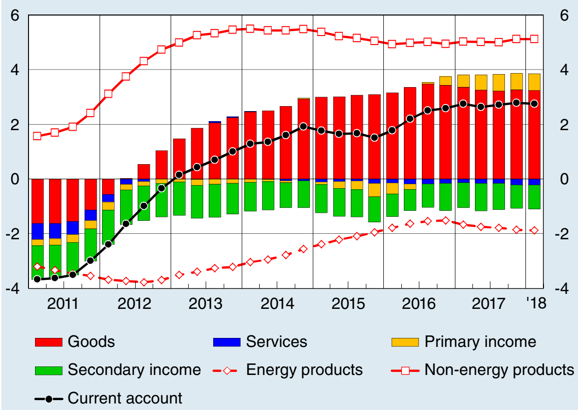
The Bank of Italy's debtor position in the TARGET2 European payment system remained fairly stable between January and April (about €445 billion on average), widened over the following two months and reached €481 billion at the end of June (Figure 27). As regards the creation of the monetary base, the expansion was matched by a reduction in the excess liquidity held by Italian banks, which mainly occurred on the days of greater volatility in the government securities market (see Section 2.8). In June it was boosted by the seasonal concentration of government securities reaching maturity and involving large amounts. The balance held stable from mid-June onwards.

At the end of March 2018, Italy's net international debtor position stood at 8.5 per cent of GDP, almost 2 points higher than at the end of 2017. The increase mainly reflected negative valuation adjustments on the asset side (about €30 billion worth, equal to 1.1 per cent of the value of assets at the end of last year). These adjustments, about half of which were on foreign investment funds, reflected the poor performance of the equity markets of the leading European economies and the appreciation of the euro against the dollar, more than offsetting the part played in narrowing the gap made by the current and capital account surpluses (€4.2 billion).

Figure 26

Current account balance and main components

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

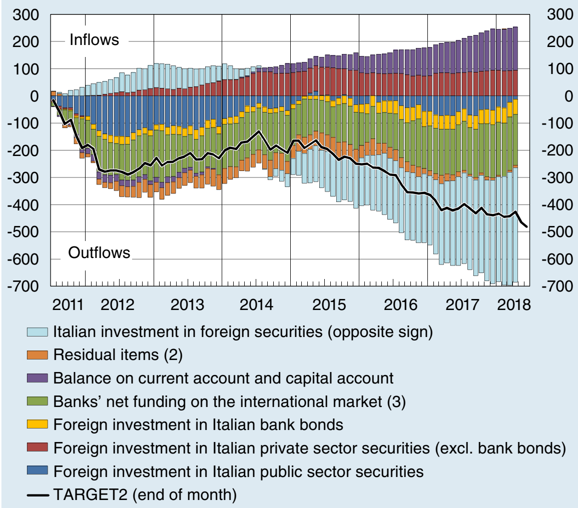


Sources: For GDP, Istat; for the breakdown between energy and non-energy products, based on Istat foreign trade data.

Figure 27

TARGET2 balance and cumulative balance of payments flows (1)

(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's negative 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 those intermediated by resident central counterparties.

2.5 THE LABOUR MARKET

Having remained stable in the first quarter, employment turned upwards again during the spring, including for permanent contracts; youth unemployment fell while contractual earnings accelerated.

Employment is stable and the number of hours worked falls slightly

In the first three months of 2018, employment was basically stable, with increases of 0.5 and 0.3 per cent in private services and industry excluding construction; following the recovery in 2017, construction employment instead declined by 2.0 per cent. The total number of hours worked, which had increased without interruption since the fourth quarter of 2016, fell by 0.2 per cent in the first quarter of 2018 (Figure 28 and Table 6) as did the number of hours worked per capita.

Only the number of fixed-term employees increases in the first quarter ...

Confirming the trend of 2017, the rise in employment was confined to fixed-term employees (up by 2.9 per cent in the first quarter of 2018 compared with the previous quarter, equal to an additional 83,000 jobs); this increase was offset by a 0.7 per cent drop in the number of persons in self-employment (37,000 fewer workers) and by a much smaller decline in open-ended contracts (down by 0.1 per cent or by 18,000 workers).

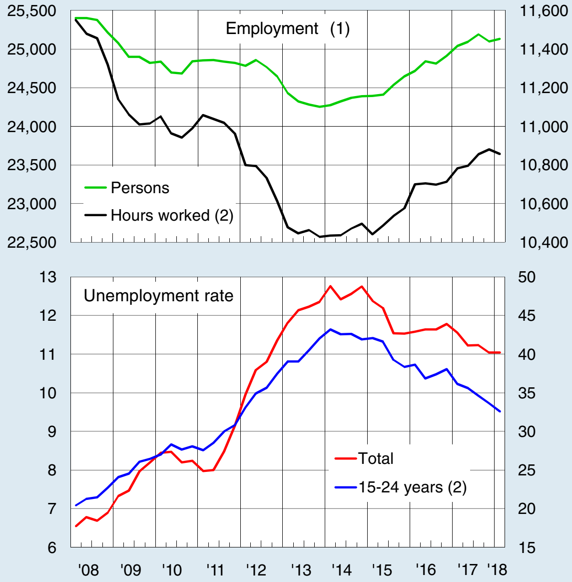
... but in spring permanent contracts also return to growth

According to provisional data from Istat's labour force survey, the number of those in employment turned upwards again in April-May (rising by 0.8 per cent compared with the previous two-month period) in both the fixed-term and open-ended components. The latter fully recouped the fall recorded in the previous months.

Figure 28

Employment and unemployment

(seasonally adjusted quarterly data)



Sources: 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 the previous quarter)

	Stocks	Changes			
	Q1 2018	Q2 2017	Q3 2017	Q4 2017	Q1 2018
Total number of persons employed	**25,133**	**0.2**	**0.4**	**-0.4**	**0.1**
of which: industry excl. construction	4,220	0.2	0.6	-0.4	0.3
private services (1)	11,138	0.3	0.6	0.2	0.5
Employees	19,170	0.8	0.5	-0.3	0.4
Self-employed	5,963	-1.5	0.0	-0.5	-0.7
Hours worked	**10,858**	**0.1**	**0.6**	**0.2**	**-0.2**
of which: industry excl. construction	1,869	0.7	0.8	0.6	-0.4
private services (1)	5,034	0.5	0.8	0.5	0.2
Employees	7,602	0.5	0.8	0.2	0.3
Self-employed	3,256	-0.8	-0.1	0.2	-1.4

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

Administrative data from INPS published in June, which provide advance indications of the trend in payroll employment (see the box 'Hirings: the effects of the labour market measures as reflected in the administrative data', in *Economic Bulletin*, 4, 2015), point to continued growth in the next few months.

Youth unemployment declines

The participation rate continued to increase during the winter months, reaching 65.6 per cent, one tenth of a percentage point higher than in the last quarter of 2017. The unemployment rate was largely unchanged. That among young people aged between 15 and 24 instead declined to 32.6 per cent, more than ten percentage points below the highest level reached in the first three months of 2014 (Figure 28). According to preliminary data from Istat's labour force survey, in April-May both total unemployment and youth unemployment fell by two tenths of a percentage point, to 10.8 and 32.3 per cent respectively.

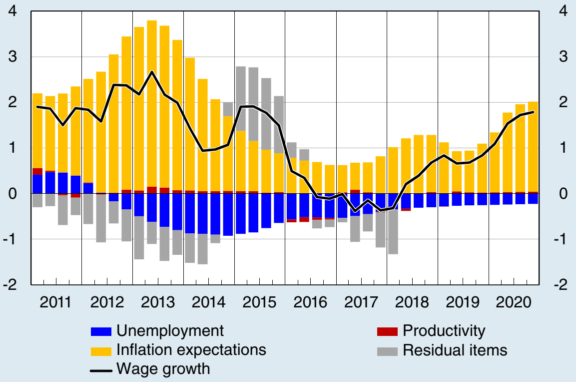
Contractual earnings continue to accelerate but actual wages stagnate

In the first quarter of 2018, hourly contractual earnings in the non-farm private sector increased by 1.0 per cent on the year-earlier period, continuing the upward trend under way since the second half of last year. Preliminary national accounts data published by Istat instead suggest that actual earnings remained stable in the economy as a whole but declined by 0.3 per cent in the non-farm private sector on the year-earlier period (see the box 'Inflation expectations and wage dynamics'). A number of factors affect the growth gap between contractual and actual earnings, including the latter's greater dependence on cyclical conditions in the labour market. Owing to the positive effect on productivity, hourly unit labour costs also fell in the private sector (-0.3 per cent compared with the first quarter of 2017).

INFLATION EXPECTATIONS AND WAGE DYNAMICS

Notwithstanding the gradual improvement in labour market conditions under way since the second half of 2014, wage growth still remains relatively low. According to preliminary estimates of the national accounts data released by Istat in June, earnings in the non-farm private sector remained largely stable in 2017 and fell by 0.3 per cent in the first quarter of 2018 compared with the year-earlier quarter.

Wage growth and its determinants (1)
(per cent)



Source: Calculations based on Istat data.
(1) Model based on a Phillips curve. Contributions to quarterly wage growth for the period 2018-20 derived from: forecasts of the harmonized index of consumer prices net of imported energy products (HICP); unemployment gap; labour productivity. The projections for the next 3 years are in line with those presented in this Economic Bulletin.

The figure illustrates the determinants of wage growth over the past few years, obtained using a standard Phillips curve model which relates nominal wage changes (on the previous quarter on an annualized basis) to: (a) the level of unutilized labour capacity; specifically, an estimate of the unemployment rate's deviation from the level consistent with a constant rate of inflation (unemployment gap); (b) the inflation expectations incorporated in employment contracts, which in Italy are directly observable in Istat's forecasts of the harmonized index of consumer prices net of imported energy products (in line with the wage-setting model introduced in the 2009 Framework Agreement on the Collective

Bargaining System and confirmed by social partners in March 2018; these forecasts serve as the key reference parameter for the wage increments established in the main collective bargaining agreements for the next three years); and (c) changes in hourly productivity. This model is well-suited to explaining wage developments.

The decomposition indicates that the recent slowdown in wage dynamics is largely due to the ample margins of underutilized labour, but especially to the fall in the inflation expectations incorporated in labour contracts between 2013 and 2016.

According to the projections for wage dynamics in the period 2018-20 – based on productivity and unemployment developments that coincide with those in the updated projections for the Italian economy presented in this Economic Bulletin, and on inflation expectations that are consistent with that outlook – wage growth should return to around 2 per cent at the end of 2020, near its long-term average rate.

In these projections, the acceleration in labour costs will mainly be due to the continued improvement in inflation expectations, which will offset the still positive unemployment gap, assuming monetary policy continues to guarantee the stable return of inflation expectations to levels consistent with the definition of price stability.

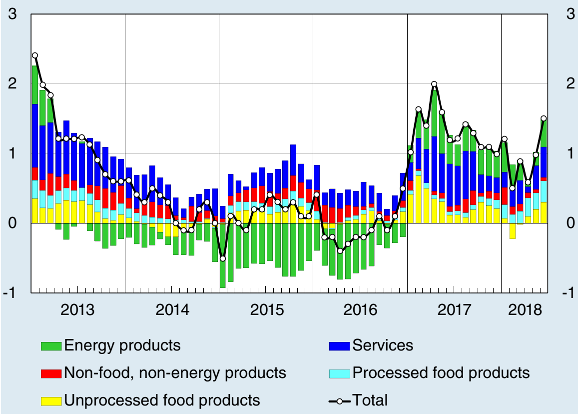
2.6 PRICE DEVELOPMENTS

Inflation has risen over the last few months, reaching 1.5 per cent in June, driven by the prices of the most volatile components such as energy and food; core inflation remains lower, but has also recovered since its downturn in April. However, households and firms expect price growth to remain moderate on average for the rest of the year.

Figure 29

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; provisional data for June 2018.

Consumer price inflation is driven by the volatile components

After the temporary dip recorded in April, inflation rose in the following two months and, according to a preliminary estimate, in June it reached 1.5 per cent year on year (Figure 29 and Table 7). The consolidated growth in the prices of food and energy products contributed to its recovery, despite the effect of the cut in gas and electricity tariffs decided in April by the regulatory authority for energy, networks and the environment. Upward pressure was exerted by the acceleration in the prices of services, which had been negatively affected in April by Easter being earlier than in the previous year. The seasonally adjusted annualized three-month inflation rate reached 2 per cent in June (Figure 30).

In June core inflation, which had been curbed by the net deceleration of the prices of services in April, rose to 0.7 per cent year on year.

Table 7

Indicators of inflation in Italy

(12-month percentage changes)

	HICP			CPI (1)			PPI (2)	GDP deflator
	Overall index	Excl. food and energy	Overall index at constant taxation (3)	Overall index		Excl. food and energy	Overall index	
					at 1 month (4)			
2013	1.2	1.2	1.1	1.2	–	1.1	-1.2	1.2
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	1.0
2015	0.1	0.7	0.0	0.0	–	0.5	-3.4	0.9
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	2.6	0.6
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	-0.2	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	-0.3	0.5	-4.5	–
May	-0.3	0.6	-0.4	-0.3	0.3	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	-1.3	–
Aug	-0.1	0.4	-0.1	-0.1	-0.1	0.5	-1.0	–
Sept.	0.1	0.4	0.0	0.1	0.2	0.4	-0.7	–
Oct.	-0.1	0.2	-0.2	-0.2	0.1	0.1	-0.7	–
Nov.	0.1	0.4	0.1	0.1	0.1	0.4	-0.3	–
Dic.	0.5	0.7	0.5	0.5	0.2	0.6	0.8	–
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	0.3	0.6	3.7	–
Mar.	1.4	0.6	1.4	1.4	0.0	0.7	3.3	–
Apr.	2.0	1.3	1.9	1.9	0.1	1.1	4.3	–
May	1.6	0.9	1.6	1.4	-0.1	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	0.8	–
Aug	1.4	1.2	1.3	1.2	0.1	0.9	1.6	–
Sept.	1.3	1.1	1.3	1.1	0.0	0.8	1.6	–
Oct.	1.1	0.5	1.1	1.0	0.0	0.4	2.2	–
Nov.	1.1	0.4	1.0	0.9	0.1	0.3	2.7	–
Dic.	1.0	0.5	0.9	0.9	0.1	0.4	2.2	–
2018 – Jan.	1.2	0.7	1.1	0.9	0.3	0.4	1.8	–
Feb.	0.5	0.5	0.6	0.5	-0.1	0.5	1.8	–
Mar.	0.9	0.7	0.9	0.8	0.3	0.5	2.2	–
Apr.	0.6	0.2	0.5	0.5	-0.2	0.2	1.4	–
May	1.0	0.6	1.0	1.0	0.4	0.5	2.7	–
June	(1.5)	(0.7)	….	(1.4)	(0.3)	(0.6)	….	–

Sources: Based on Istat and Eurostat data. The figures in brackets indicate preliminary estimates.
(1) Consumer price index for the entire resident population; this differs from the HICP principally owing to the different method of recording the prices of pharmaceutical products and promotional sales. – (2) Index of producer prices of industrial products sold on the domestic market. – (3) 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. – (4) Seasonally adjusted.

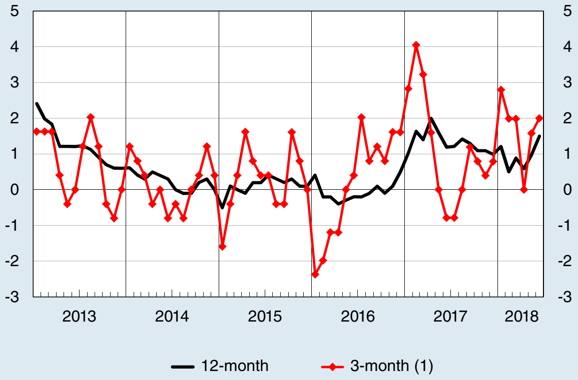
Producer price pressures struggle to gain ground

In May, producer price inflation increased to 2.7 per cent year on year, from 1.4 per cent in April, reflecting the trend in energy prices; inflation in the prices of non-food final consumption products, which tends to precede growth in the corresponding component of the consumer price index, remained modest at 0.2 per cent. Wage growth remained limited (see Section 2.5).

Figure 30

Consumer price inflation

(monthly data; percentage changes)



Source: Based on Eurostat data.
(1) Annualized and seasonally adjusted; provisional data for June 2018.

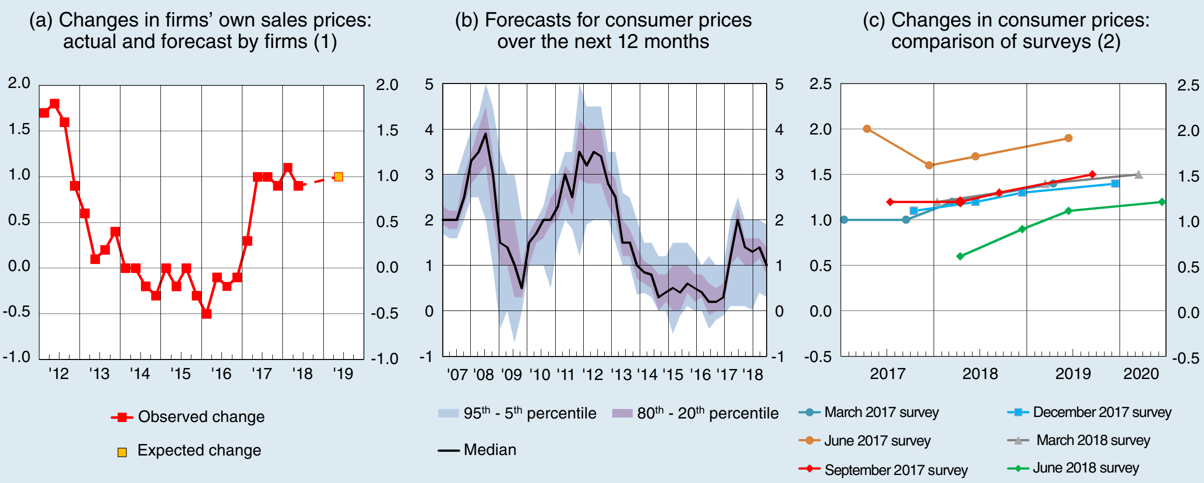
Households and firms expect a modest increase in prices ...

The firms interviewed in the quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* reported an increase of 0.9 per cent in their list prices compared with the year-earlier period; they expect a slightly greater increase of 1.0 per cent in their prices over the next twelve months. Their consumer price inflation expectations were lower across all time horizons compared with the previous survey (Figure 31); this revision might be due to the temporary slowdown in prices in April (the latest figure provided to firms at the time of the survey). Istat's surveys show similar indications: in the spring months, the balance between the share of manufacturing firms expecting to raise their prices and that of those planning to reduce them narrowed. The percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months grew compared with the first quarter of 2018 from 57.3 per cent to 63.8 per cent.

Figure 31

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, 9 July 2018). – (2) The first point of each curve is the definitive figure available at the time of the survey that is provided to respondents to use as the basis for formulating their expectations; the second point represents the average of the forecasts for the next 6 months; the third point is the average of the forecasts for the next 12 months; the fourth point is the average of the forecasts for the next 24 months.

... as do professional analysts

The analysts polled in June by Consensus Economics expected an average inflation rate of 1.2 per cent in 2018, which continues to be below that forecast for the euro area as a whole (see Section 1.2).

2.7 BANKS

Business loans continue to expand, while the pace of lending to households has remained solid. The cost of borrowing is still at very low levels. Credit quality continues to improve, especially as regards firms operating in the construction sector.

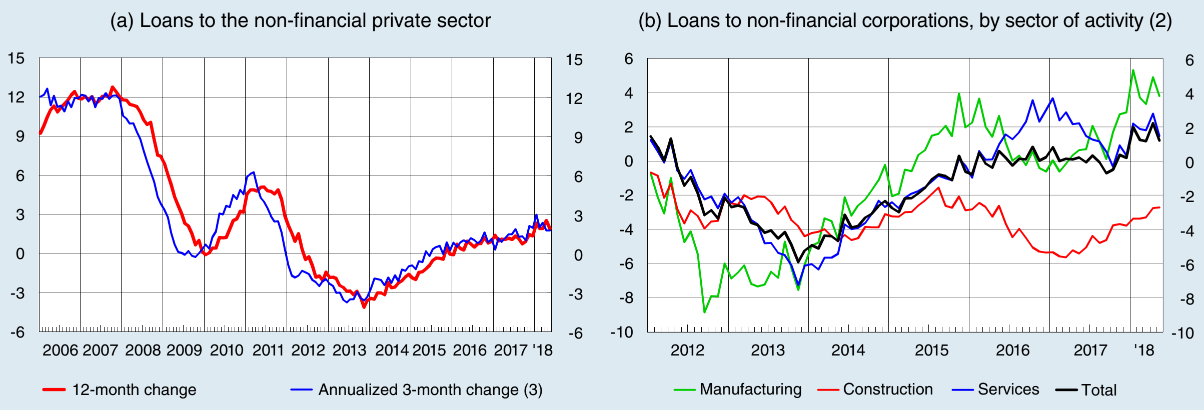
Lending continues to expand

In the three months ending in May, lending to the non-financial sector grew by 1.8 per cent on a seasonally adjusted, annualized basis (Figure 32). Lending to households, both for home purchase and consumer credit, continued to be robust.

Lending to non-financial firms increased by 1.2 per cent in the twelve months ending in May (the same as in February). There was an expansion in loans to both manufacturing firms (3.8 per cent, as against 3.7 per cent in February; Figure 32.b) and to firms operating in the services sector (1.5 per cent, as against 1.9 per cent). Lending to construction firms instead continued to decrease, albeit more slowly (-2.7 per cent, from -3.4 per cent). Loans to small firms also declined, though at a slower pace compared with the previous periods; in May the drop was equal to 2.1 per cent, against 3.0 per cent at the end of last year.

Figure 32

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



Source: Supervisory reports.
(1) Includes bad loans, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage change is net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Twelve-month changes; the data for each sector are not adjusted for exchange rate variations and, until December 2013, for value adjustments. – (3) Seasonally adjusted. In accordance 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 the series presented in previous issues of the Economic Bulletin may not be possible.

Funding increases

Between February and May, Italian banks' total funding increased by around €28 billion (Table 8). Deposits of residents and net wholesale funding through central counterparties expanded, while recourse to bond funding fell further.

Supply conditions improve, demand strengthens

Supply conditions remain favourable. According to the banks that took part in the euro-area bank lending survey, in the first quarter of 2018, supply conditions eased for both corporate and household loans, while demand continued to

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		Twelve-month percentage changes (3)	
	February 2018	May 2018	February 2018	May 2018
Assets				
Loans to Italian residents (4)	1,766	1,769	-0.4	-0.3
of which: firms (5)	733	732	1.2	1.2
households (6)	629	634	2.8	2.8
Claims on central counterparties (7)	68	80	-4.2	12.0
Debt securities excluding bonds of resident MFIs (8)	469	479	-7.5	-2.8
of which: securities of Italian general government entities	345	361	-11.9	-4.8
Claims on the Eurosystem (9)	119	89	117.0	-5.2
External assets (10)	372	401	8.1	14.9
Other assets (11)	897	946	-4.3	2.7
Total assets	**3,691**	**3,764**	**-0.1**	**1.6**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,480	1,499	4.0	3.9
Deposits of non-residents (10)	299	313	0.3	5.9
Liabilities towards central counterparties (7)	104	122	-25.1	-5.8
Bonds (13)	267	259	-19.2	-17.6
Liabilities towards the Eurosystem (9)	251	248	25.9	-2.6
Liabilities connected with transfers of claims	120	116	2.2	0.5
Capital and reserves	441	433	-2.8	-2.4
Other liabilities (14)	729	774	0.1	9.1
Total liabilities	**3,691**	**3,764**	**-0.1**	**1.6**

Source: Supervisory reports.
(1) The data for May 2018 are provisional. – (2) Billions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition, excludes producer households. – (6) Harmonized definition, includes producer households, non-profit institutions serving households and households not classified elsewhere. – (7) Only repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (9) Includes the accounts with the Eurosystem for monetary policy operations; see Tables 3.3a and 3.3b in '*Banks and Money: National Data*', Banca d'Italia, 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.

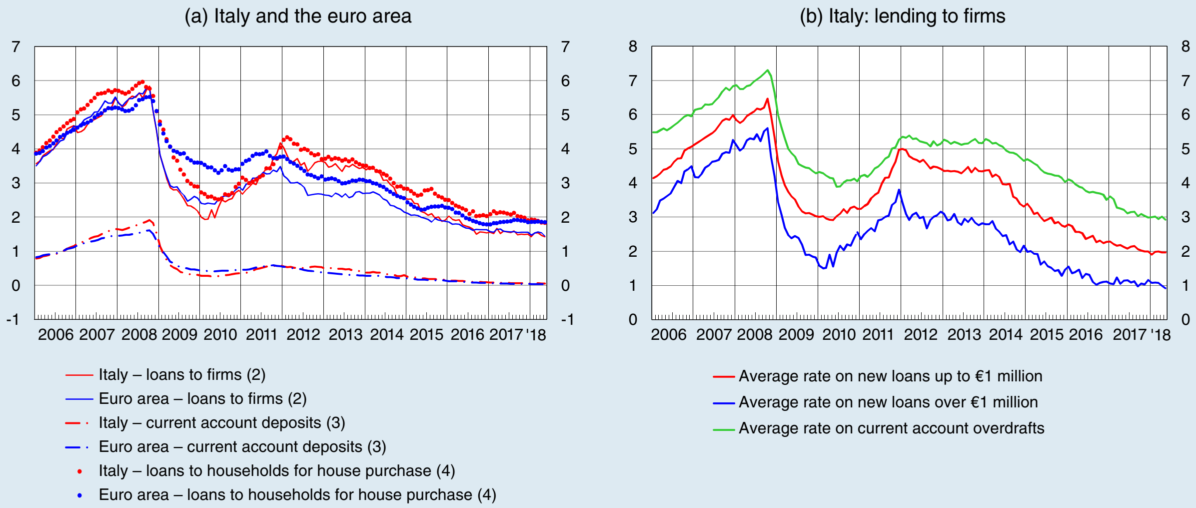
strengthen (see the box 'Credit supply and demand'). Based on the latest data from business surveys carried out in June by the Bank of Italy together with *Il Sole 24 Ore*, supply conditions improved overall.

The cost of new loans remains low

Compared with February, the average interest rate on new loans to firms declined slightly (1.4 per cent in May; Figure 33). 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

Figure 33

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 home purchase.

larger firms, rose marginally to just above 1 percentage point. The cost of new mortgage loans to households fell by one tenth of a percentage point to 1.8 per cent, reflecting the decline in the fixed-rate component (see the box 'Credit supply and demand').

CREDIT DEMAND AND SUPPLY

According to the Italian banks interviewed in the euro-area bank lending survey, credit supply conditions for new loans eased slightly for both firms and households in the first quarter of 2018, reflecting the effects of competitive pressures from other banks and lower risk perception (Figure A).[1] The average margin on loans continued to decline and there was a further increase in the average size of corporate loans.

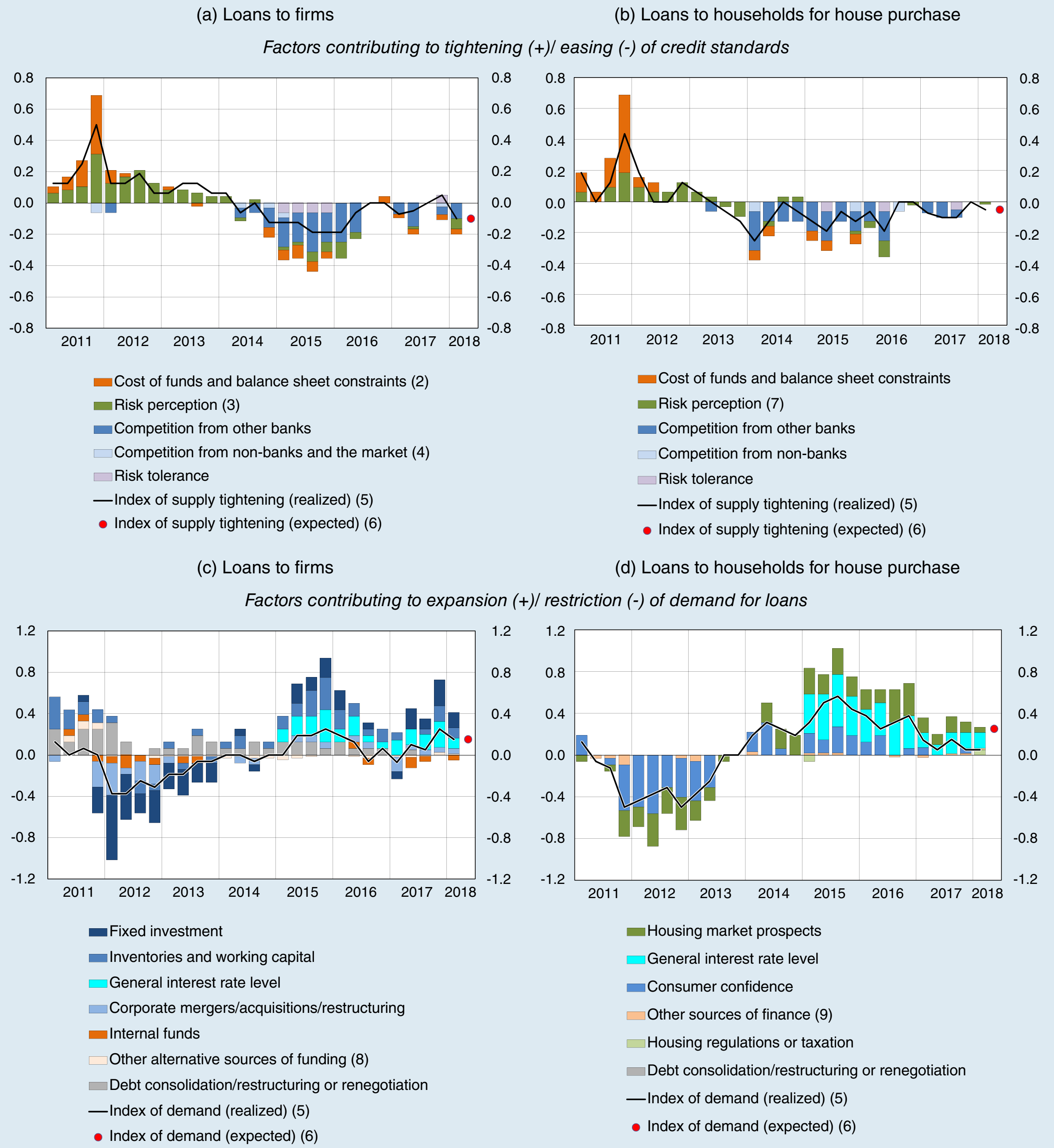
The banks interviewed reported further expansion in the demand for business lending, which was still driven by low interest rates and spending on fixed investment. The low cost of credit has also contributed to household demand for loans.

The survey included specific questions relating to the effect on credit conditions of some measures implemented by the ECB Governing Council. In the six months ending in March 2018, banks reported that the Eurosystem's expanded asset purchase programme (APP) helped to increase their balance sheets and to improve lending conditions; the funds provided were used to support loan disbursements, especially to firms. The negative rate applied to deposits held with the Eurosystem helped to reduce the cost of bank lending for households and firms.

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

Figure A

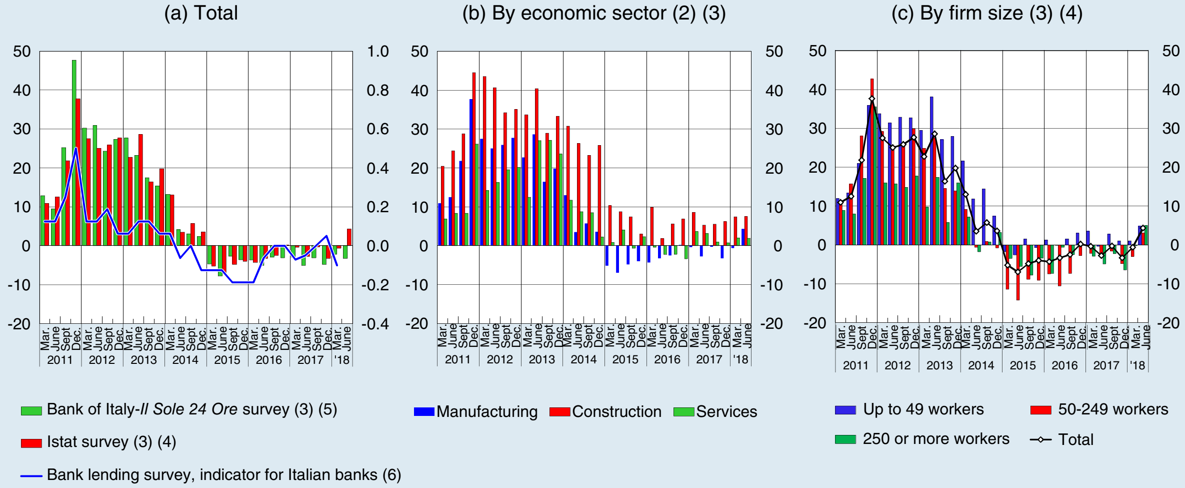
Supply conditions and trends in credit demand in Italy (1)



Source: Euro-area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. 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=decreased somewhat, -1=decreased 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) Refers to 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 borrowers' 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 house purchase with savings; loans granted by other banks; and other sources of external funding.

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* and published in the Statistics Series. – (6) Right-hand scale.

According to 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, credit access conditions improved overall in the second quarter of 2018 (Figure B). In contrast, Istat's business confidence survey indicated a slight worsening in supply conditions.

The flow of new non-performing loans diminishes

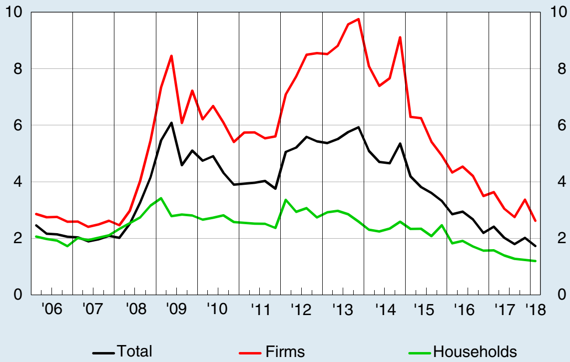
In the first three months of 2018, the ratio of new non-performing loans to outstanding loans fell to 1.7 per cent, on a seasonally adjusted annualized basis (from 2.0 per cent in the previous quarter; Figure 34). The fall was related to business lending (which declined to 2.6 per cent, from 3.4 per cent), especially in the construction sector. The new non-performing loan rate for loans to households instead held stable at a very low level (1.2 per cent).

The share of non-performing loans continues to decline

For the banking groups classified as significant for supervisory purposes, in the first quarter of 2018 the ratio of the stock of NPLs to total outstanding loans continued to fall, both gross and net of loan loss provisions (to 10.8 and 5.1

Figure 34

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



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

per cent respectively, from 11.1 and 5.9 per cent at the end of 2017).[1] The trend is compatible with banks' NPL reduction plans. The adoption of the new IFRS 9 as of 1 January 2018, which substitutes IAS 39, has led to a marked increase in the coverage ratio for non-performing loans (see the box 'The impact of the new IRFS 9 accounting standard', in *Financial Stability Report,* 2, 2017), which rose to 55.4 per cent in the first quarter, from 50.6 per cent at the end of 2017.

Profitability improves

In the first three months of 2018, operating profits for groups classified as significant grew by 18.9 per cent compared with the same period of the previous year. Gross income rose by 2.9 per cent owing both to the increase of 2.0 per cent in interest income and in other fees, which benefited from the positive trend in net fee income (3.9 per cent), and to lower staff expenditure, which led to a contraction of 4.1 per cent in operating costs. Loan loss provisions fell by almost one fourth. Net of extraordinary components, the annualized return on equity rose to 8.4 per cent (from 5.1 per cent in the first three months of 2017).

Capital ratios hold practically stable

The capital ratios of Italy's significant banks were practically unchanged in the first quarter: in March 2018, common equity tier 1 (CET1) averaged 13.2 per cent of risk-weighted assets. On an annual basis, the CET1 ratio was up by about 170 basis points on average.

2.8 THE FINANCIAL MARKETS

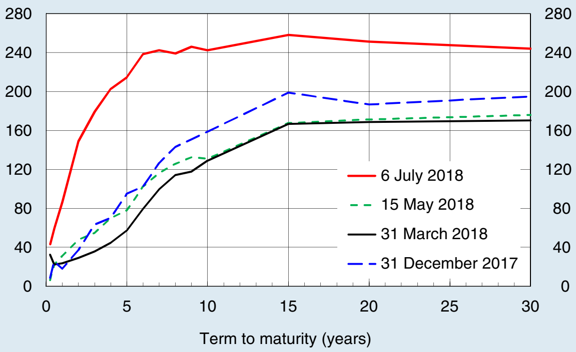
There was a sharp increase in volatility on the Italian financial markets in the second quarter of 2018, especially in the last two weeks of May and in early June when the yield spreads between Italian and German government securities rapidly rose to the highest levels recorded since 2013 and share prices fell, above all in the banking sector. The tensions were partly reabsorbed from the second week of June onwards.

Sovereign spreads increase ...

The yields on Italian government securities were virtually stable between the end of March and mid-May but then increased significantly. Between the end of May and the start of June, coinciding with uncertainty around the formation of the new government, tensions on the Italian government securities market heightened, driving up yields on securities maturing within the next one to three years due to investors' concerns regarding the Italian economy's short-term outlook. In addition, liquidity in the government securities market declined as documented by the increase in bid-ask spreads.

Figure 35

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



Source: Based on Bloomberg data.

... though tensions have partly abated

Tensions have eased somewhat after the formation of the government: short-term yields have fallen and the slope of the

[1] To align the methodology for calculating the ratio of NPLs to total outstanding loans with that utilized by the European Central Bank, unlike in previous publications by the Bank of Italy, interbank exposures and exposures to central banks are included while non-current assets and disposal groups held for sale are excluded.

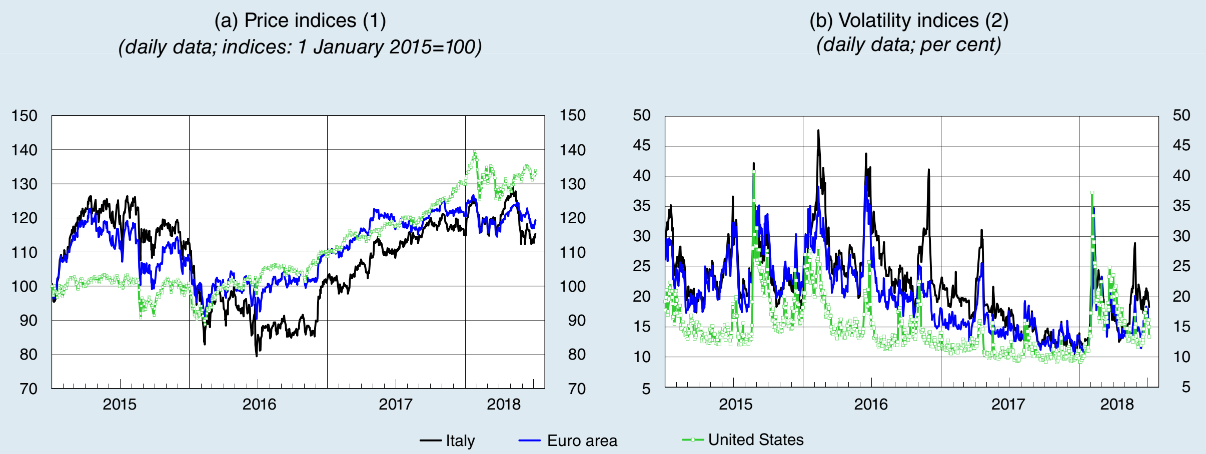
term structure of interest rates has returned positive, as is typical in periods without turbulence; the spread between Italian and German ten-year bonds has fallen by 48 basis points since the peak in tensions. However, volatility remains high. The yield on ten-year bonds has increased by a total of about 93 basis points (76 points since mid-May), reaching 2.72 per cent; the yield spread with the corresponding German bond has widened by 113 basis points (111 since mid-May) to 242 points (Figure 35).

Share prices fall, especially in the banking sector

The general index of the Italian stock market fell by 2.2 per cent in the second quarter, while the index of leading euro-area stocks increased by 2.1 per cent (Figure 36). The decline was due to the tensions that emerged on the government securities market in mid-May, which were then carried over to share prices. The drop in the index was coupled with higher uncertainty as measured by the expected volatility implied by options prices on the stock index (see the box 'Increased volatility in the financial markets', *Economic Bulletin*, 2, 2018). The slump in share prices mostly affected banks, whose prices fell by 12 per cent, notwithstanding net improvements in their current and expected earnings and capital conditions. The premiums on bank credit default swaps increased by an average of 56 basis points.

Figure 36

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.

Bond issuance by banks fall …

Italian non-financial corporations made net bond redemptions in the first quarter of 2018 following the substantial net issues made in previous quarters. Banks continued to make net redemptions (See Selected Statistics, Table A10). According to preliminary data from Dealogic on gross issues only, in the spring months the volume of issuance by Italian banks fell from €12 billion to €9.7 billion, while corporate bond issues increased slightly, from €3.5 to €5.3 billion.

… as do net inflows to investment funds

According to Assogestioni data, net inflows of savings to Italian and foreign open-end investment funds fell significantly in the first quarter compared with the previous period, to €8.6 billion from €19.5 billion. Savers mainly preferred flexible, balanced and equity funds; hedge funds reported more modest net inflows while money market and bond funds reported sizeable net outflows.

2.9 PROJECTIONS

The 2018-20 scenario assumes still favourable external conditions ...

The macroeconomic projections for the Italian economy are based on the assumption that foreign demand will continue to grow in the three years 2018-20, in keeping with the projections of the main forecasters.[2] The assumptions regarding interest rates, inferred from the expectations incorporated in recent financial market prices, include a gradual upturn in long-term yields: the three-month Euribor is projected to reach 0.1 per cent in 2020, up from -0.3 on average in 2017, and the yields on ten-year Italian government securities should rise to 3.5 per cent, from 2.1 per cent (see the box 'The assumptions underlying the macroeconomic scenario').

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 at the same time as the euro-area projections.[1] The macroeconomic projections for Italy presented here update those published on 15 June[2] on the basis of the most recent data, including the latest national quarterly accounts released by Istat on 1 June, which became available after the closing date of the previous forecasting exercise. The technical assumptions have also been revised in the light of changes in the exogenous variables at 6 July.

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

	2017	2018	2019	2020
Potential foreign demand	4.1	4.3	4.5	3.9
Dollar/euro (1)	1.13	1.19	1.17	1.17
Nominal effective exchange rate (2)	-1.3	-0.4	0.4	0.0
Crude oil prices (1) (3)	54.3	73.7	73.5	69.4
3-month Euribor (1)	-0.3	-0.3	-0.2	0.1
1-year BOT yields (1)	-0.3	0.0	0.4	0.7
10-year BTP yields (1)	2.1	2.6	3.3	3.5

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

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

a) Foreign demand weighted by the outlet markets for Italian exports grows by just over 4 per cent on average in the three years 2018-20;

b) The euro/dollar exchange rate, equal on average to 1.19 in 2018, holds stable at 1.17 in the two years 2019-20;[3]

c) The price of a barrel of Brent crude oil, fixed on the basis of the prices of futures contracts, is about $74 in 2018-19 ($54 in 2017), and falls to just over $69 in 2020;

1 See on the Bank of Italy's website '*Macroeconomic projections for Italy*', which include those published to date as part of the Eurosystem exercise.

2 The assumptions for global economic activity and potential foreign demand are consistent with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented by the ECB in '*Eurosystem staff macroeconomic projections for the euro area, June 2018*'.

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 6 July.

2 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 22 May, by taking subsequent developments into account. See the Bank of Italy's website: '*Macroeconomic projections for the Italian economy*', 15 June 2018.

d) Three-month interest rates on the interbank market (Euribor), equal to -0.3 per cent in the two years 2017-18, gradually rise to 0.1 per cent on average in 2020;

e) The yield on ten-year BTPs is 2.6 per cent in 2018, and goes up to 3.3 per cent in 2019 and to 3.5 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) As in the current legislation scenario presented in April's 2018 Economic and Financial Document (DEF), the scenario incorporates the provisions set out in previous budgetary measures, including that for the three years 2018-20. However, in contrast with the DEF, for the two years 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's projections, the macroeconomic scenario does not incorporate any measures for recouping missing revenue. It does not take account of measures which, though already announced, are not yet sufficiently detailed or included in the legislation.

... relaxed credit conditions ...

The scenario presupposes that credit supply conditions will remain relaxed. Interest rates on bank loans are not expected to diverge significantly from those prevailing in the euro-area over the entire projection horizon. Firms' demand for loans, which picked up in the second half of 2017 following a long period of stagnation, is set to continue expanding.

... and an accommodative monetary policy

The scenario takes account of the monetary policy measures adopted by the ECB Governing Council at its meeting on 14 June 2018 (see the box 'The monetary policy measures adopted in June 2018' in Chapter 1). Monetary conditions remain broadly expansionary. According to our estimates, while the contribution to GDP growth of the monetary policy measures implemented since 2014 is decreasing, it remains significant and equal to about half a percentage point per year on average in 2018-19 (i.e. slightly less than half of the contribution estimated for the previous two-year period; see the box 'The determinants of economic activity in 2017 according to the Bank of Italy's model' in Chapter 4, *Annual Report for 2017*, 2018). As in the current legislation scenario presented in April's 2018 Economic and Financial Document (DEF), this scenario takes account of previously approved budgetary measures. In accordance

Table 9

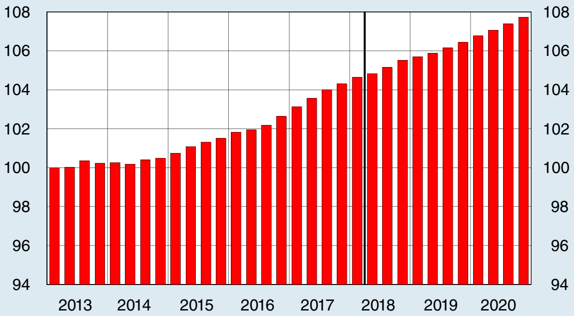
The macroeconomic scenario
(percentage changes on previous year unless otherwise indicated)

	2017	2018	2019	2020
GDP (1)	1.5	1.3	1.0	1.2
GDP (2)	1.6	1.2	1.0	1.1
Household consumption	1.4	1.1	0.8	0.8
Government consumption	0.1	0.2	0.0	0.2
Gross fixed investment	3.9	3.4	1.5	0.9
of which: in machinery, equipment and transport equipment	6.1	4.8	1.5	0.7
Total exports	6.0	1.9	4.1	3.7
Total imports	5.7	2.6	3.8	2.6
Change in stocks (3)	-0.1	0.1	0.0	0.0
HICP	1.3	1.3	1.5	1.5
HICP net of food and energy	0.8	0.8	1.3	1.5
Employment (standard units) (4)	0.9	0.9	0.8	0.7
Unemployment rate (5)	11.2	10.9	10.6	10.4
Export competitiveness (6)	0.1	0.5	0.4	0.4
Current account balance (7)	2.7	2.1	2.1	2.3

Sources: Based on Bank of Italy and Istat data.
(1) Not calendar adjusted; definition in line with Istat's annual national accounts. – (2) For GDP and its components: chain-linked volumes; changes resulting from the sum of quarterly data adjusted for seasonal and calendar effects. – (3) Includes valuables. Contributions to GDP growth; per cent. – (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.

Figure 37

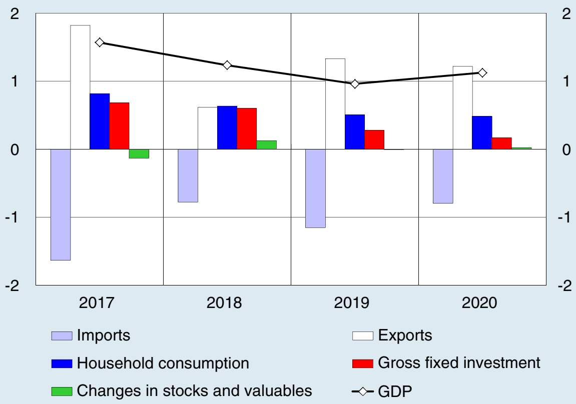
GDP projections: quarterly profile (1)
(Index: 2013 Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to 2018 Q1; projections thereafter.

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.

with the guidelines underpinning the Eurosystem projections, it is based, as in the past, on the technical assumption for abolishing the safeguard clauses without including alternative measures for recouping any missing revenue. It does not take account of measures that are not yet sufficiently detailed or included in the legislation. This scenario is compatible with a gradual reduction of the public debt to GDP ratio.

GDP continues to grow

Based on these assumptions and on the latest cyclical data, it is estimated that GDP, not adjusted for calendar effects, will grow by 1.3 per cent this year, 1.0 per cent in 2019 and 1.2 per cent in 2020 (Table 9 and Figure 37).[3] In the short run, the projections reflect the economy's performance in the second quarter, which available data indicate was less favourable than expected (see the box 'Economic activity in the second quarter based on cyclical indicators'). From next year, the gradual slowdown in domestic demand should be offset by a growing, positive contribution from net exports (Figure 38). The existing margin of spare production capacity is unlikely to be reabsorbed within the forecasting horizon (see the box 'Italian output gap estimates').

ITALIAN OUTPUT GAP ESTIMATES

According to our estimates, the gap between the actual level of output and its potential level, i.e. the output gap, is still broadly negative in Italy[1] (the confidence bands shown in the figure gauge the uncertainty surrounding the estimates). The output gap for this year is estimated

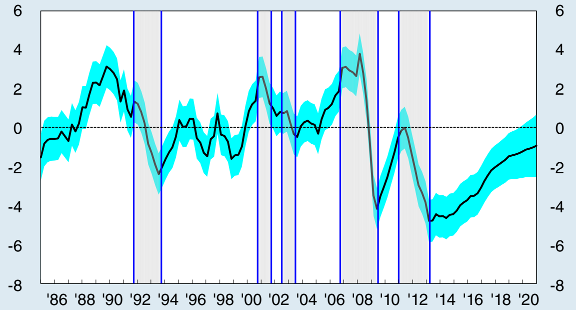
[1] The Bank of Italy's estimates are made by combining: (a) a production function approach; (b) a structural VAR; (c) an unobserved components model; and (d) a time-varying autoregressive model. The methodology is described in A. Bassanetti, M. Caivano and A. Locarno, '*Modelling Italian potential output and the output gap*', Banca d'Italia, Temi di Discussione (Working Papers), 771, 2010.

[3] If the quarterly, calendar-adjusted data are summed, projected GDP growth comes to 1.2 per cent this year, 1.0 per cent in 2019 and 1.1 per cent in 2020.

to average between -2.8 and -0.5 per cent, with a central value of -1.7 per cent. Based on the macroeconomic projections set out in this Economic Bulletin, we expect that continuing GDP growth will lead to a gradual closing of the output gap, although its central estimate for the end of 2020 is still negative.

The existence of an output gap, which remains negative, contributes to the persistent weakness in core inflation. The IMF's assessments forecast that the output gap will be closed starting from 2020, while those of the European Commission and the OECD predict that this will occur as early as next year.

Output gap (1)
(percentage points)



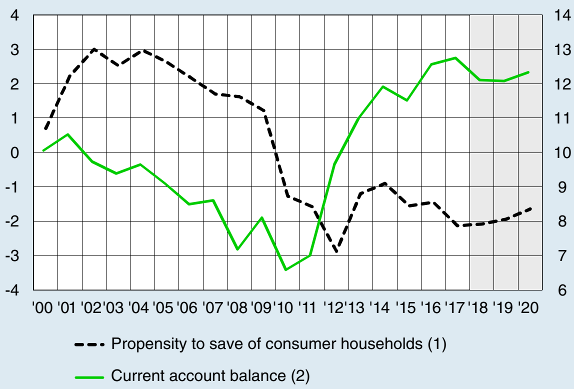
Sources: Based on Istat data through 2017 and our estimates for 2018-20.
(1) The output gap is measured as a percentage of potential output. The grey area represents recession periods as identified by Istat. The blue areas show the 90 per cent confidence bands calculated using the uncertainty intervals derived from the unobserved components model.

Consumption and employment expand further ...

Consumption is expected to continue to grow over the three-year forecasting horizon, but at a slower pace than in 2017. The continuation of the positive cyclical phase will probably be accompanied by a gradual rise in households' propensity to save, which should return close to 8.5 per cent (Figure 39). The number of persons in employment, which in May surpassed its pre-crisis highs, is projected to expand further, by an average of 0.8 per cent per year. The unemployment rate will decline slightly, to 10.4 per cent in 2020 (from 11.2 per cent in 2017), owing to the increase in the participation rate, which is in part the result of brighter employment prospects.

Figure 39

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.

... as does investment

Notwithstanding the setback in the first quarter of this year (presumably relating to uncertainty about the renewal of the tax incentives, which probably prompted firms to bring forward expenditure to the end of 2017; see Section 2.2), capital formation is expected to return to growth over the course of 2018, buoyed by a continuation of the expansionary cyclical phase and accommodative borrowing conditions. As the tax incentives for investment in machinery, equipment and advanced technologies are due to expire at the end of 2018, the scenario factors in a slowdown in productive investment in the two years 2019-20. The residential component should continue to expand at a moderate pace following the cyclical recovery of the real estate market.

The ratio of nominal investment in METE (machinery, equipment, transport equipment) to GDP is expected to settle at the average levels recorded prior to the double-dip recession. In the construction sector, in 2020 the ratio is expected to still be almost 4 percentage points below the pre-crisis level (Figure 40).

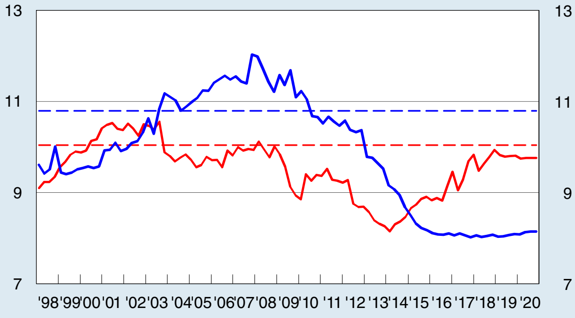
The external accounts continue to post a surplus

Exports, which decreased in the first quarter after rising sharply in the second half of 2017, are expected to slow on average in 2018, but should start to grow again in 2019-20 at much the same pace as foreign demand weighted by outlet market, i.e. 4 per cent per year on average. Imports are projected to increase at a less rapid pace overall, partly as an effect of the deceleration in domestic demand. In the two years 2019-20 the contribution of net exports should be positive and equal on average to almost 0.3 percentage points per year.

Figure 40

Investment as a percentage of GDP (1)

(quarterly data)



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

The current account of the balance of payments as a percentage of GDP is expected to remain firmly positive. It should diminish in 2018 as a consequence of the deterioration in the terms of trade induced by rising commodity prices, but should then rebound. The ratio is projected to stay above 2 per cent for the whole three-year period 2018-20 (Figure 39).

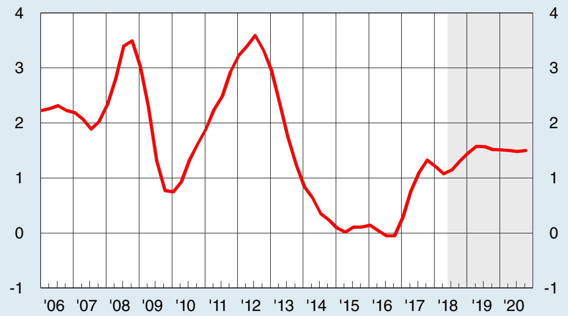
Inflation gradually picks up ...

Consumer prices are set to increase by 1.3 per cent on average this year and by 1.5 per cent in 2019-20, mainly driven by rising crude oil prices (Figure 41). Core inflation is projected to remain low in 2018 (0.8 per cent), primarily owing to the sharp slowdown in the service component recorded at the end of 2017 (see *Economic Bulletin*, 1, 2018), whose effect on annual growth rates will be reabsorbed at the end of the summer. Core inflation is projected to rise to 1.4 per cent on average in 2019-20, reflecting the gradual acceleration in private sector wages. Domestic inflation, measured by the GDP deflator, should hold stable around 1.5 per cent on average over the forecasting horizon; this year's developments are also, in part, a reflection of the increase in public sector wages.

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.

... following a slow improvement in the expectations incorporated in wages

Private sector wages are projected to increase only marginally in the three years 2018-20 following the progressive rise in the inflation expectations incorporated in collective bargaining agreements. These expectations are mainly measured by Istat's recent forecasts of the performance of the consumer price index net of imported energy products (see the box 'Inflation expectations and wage developments'). Unit labour costs should increase more moderately owing to the cyclical turnaround in productivity. In the three-year forecasting period, profit margins in the private sector should expand by just over 1.5 percentage points; in 2020 they will have recovered around two thirds of the drop recorded from 2008 to 2012.

Growth projections are marginally lower than in January

The GDP growth projections are slightly lower than those presented in last January's *Economic Bulletin*: by 0.2 percentage points per year in 2018-19 and by 0.1 percentage points in 2020. The adjustment mainly reflects rising crude oil prices and, for the current year, the slowing of economic activity in the second quarter projected by the main cyclical indicators. The impact of higher interest rates will instead be offset by a weakening of the euro and a more favourable performance of foreign trade in the next two years.[4]

Inflation forecasts have been revised upwards by about 0.2 percentage points for 2018 and downwards by 0.1 percentage points for 2020. These adjustments are mainly due to commodity prices being higher this year, the effects of which should be offset in 2020 by more moderate wage growth.

Table 10

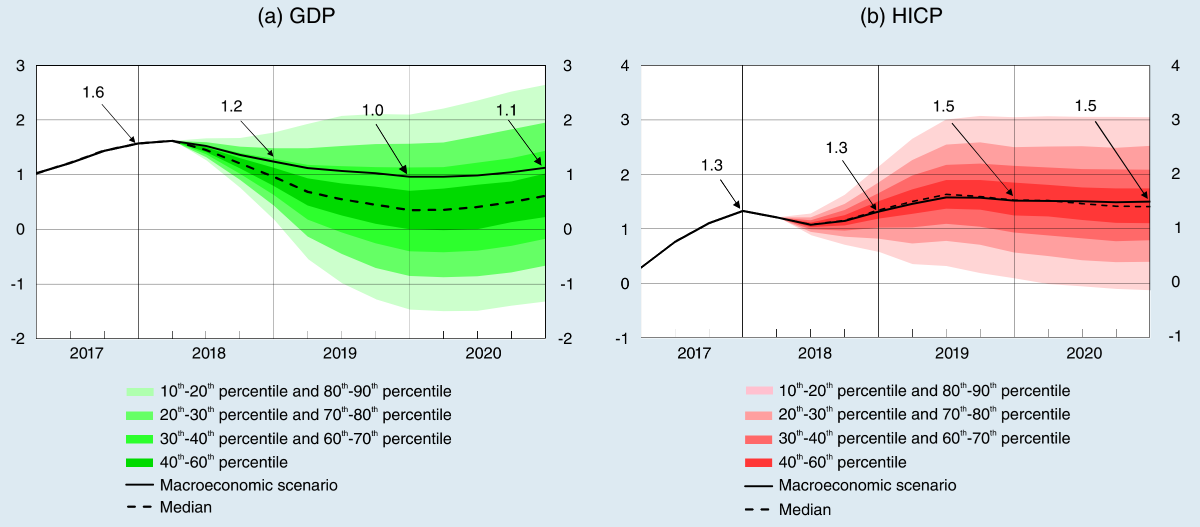
Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2018	2019	2018	2019
IMF (April)	1.5	1.1	1.1	1.3
OECD (May)	1.4	1.1	1.2	1.7
European Commission (July)	1.3	1.1	1.4	1.6
Consensus Economics (June)	1.3	1.2	1.2	1.4

Sources: IMF, *World Economic Outlook*, April 2018; OECD, *OECD Economic Outlook*, May 2018; European Commission, European Economic Forecast – Summer 2018, July 2018; Consensus Economics, *Consensus Forecasts*, June 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.

Figure 42

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



(1) Quarterly data, calendar-adjusted. 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.

[4] These projections diverge slightly from those published in mid-June as part of the Eurosystem's coordinated exercise (see the Bank of Italy's website: '*Macroeconomic projections for Italy*', 15 June 2018) as a result of information that has become available in the meantime concerning economic activity in the second quarter and the updating of technical assumptions.

Our growth projections for 2018-19 are slightly less favourable than those of the IMF and the OECD, which have not been updated as recently and do not take account of data for the second quarter; they are instead basically in line with those published by the European Commission in July (Table 10). Our inflation projections are slightly lower than those of the European Commission and higher on average than those of the main institutional forecasters.

We estimate that most of the risks associated with the scenario described here are downside risks for growth and a generally balanced outlook for inflation (Figure 42).

The downside risks for growth stem mainly from protectionist tensions ...

Substantial risks overshadow the global economic recovery. They could stem from a more protectionist bias in trade policies, with repercussions on business confidence, on the expansion of world trade, and on global demand. Moreover, surges in financial market volatility cannot be ruled out in connection with a flare-up of uncertainty about economic policies, which could negatively affect borrowing conditions and the confidence of households and firms and, hence, economic activity.

... while the risks for inflation are more balanced

The downward risks to inflation are mostly related to those weighing on economic activity, which could translate into weaker wage growth than suggested here (see the box 'Inflation expectations and wage developments'). 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			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2014	1.3	4.9	2.4	-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	4.8	2.7	2.5	6.6	4.6	2.0	1.8	3.4
2017	2.4	4.3	2.9	3.3	2.6	2.9	1.7	1.2	5.1
2014 – Q1	0.4	1.3	0.7	0.8	1.1	0.9	0.1	0.1	0.9
Q2	0.1	1.3	0.5	-1.4	0.2	-0.6	0.3	0.2	1.0
Q3	0.4	1.6	0.8	0.0	1.4	0.7	0.4	0.3	1.8
Q4	0.5	1.1	0.7	-0.1	1.7	0.8	0.5	0.2	1.3
2015 – Q1	0.8	2.9	1.4	0.6	1.9	1.3	0.4	0.4	2.5
Q2	0.3	0.8	0.5	-0.4	0.7	0.1	0.5	0.2	1.4
Q3	0.4	1.1	0.6	0.0	2.1	1.1	0.5	0.5	0.3
Q4	0.4	1.7	0.8	1.5	1.3	1.4	0.5	0.4	1.0
2016 – Q1	0.5	0.4	0.5	0.5	0.2	0.3	0.6	0.8	0.5
Q2	0.3	1.9	0.8	0.3	4.8	2.6	0.3	0.3	1.3
Q3	0.4	0.5	0.5	0.7	0.5	0.6	0.4	0.2	0.4
Q4	0.7	1.6	1.0	0.8	0.9	0.9	0.6	0.3	1.5
2017 – Q1	0.7	0.6	0.7	1.6	-1.3	0.1	0.4	0.1	1.6
Q2	0.7	1.6	1.0	1.1	2.8	2.0	0.5	0.5	1.1
Q3	0.7	0.5	0.6	0.3	-0.8	-0.3	0.4	0.5	1.5
Q4	0.7	1.5	0.9	1.0	1.6	1.3	0.2	0.3	2.2
2018 – Q1	0.4	-0.1	0.2	1.1	0.0	0.5	0.5	0.0	-0.4
				Implicit prices					
2014	0.9	-1.5	….	….	….	0.7	0.5	0.9	-0.7
2015	1.4	-2.0	….	….	….	0.8	0.3	0.5	0.3
2016	0.8	-2.4	….	….	….	0.8	0.4	0.6	-1.5
2017	1.1	2.8	….	….	….	1.4	1.4	1.1	1.9
2014 – Q1	0.3	-0.6	….	….	….	0.0	0.1	0.4	-0.4
Q2	0.1	-0.4	….	….	….	0.1	0.1	0.1	-0.2
Q3	0.3	0.1	….	….	….	0.4	0.1	0.4	0.3
Q4	0.4	-0.8	….	….	….	0.2	0.0	0.2	0.0
2015 – Q1	0.5	-1.3	….	….	….	0.1	-0.2	-0.1	0.0
Q2	0.3	1.2	….	….	….	0.1	0.5	0.3	0.8
Q3	0.3	-1.2	….	….	….	0.3	0.1	0.2	-0.4
Q4	0.3	-1.2	….	….	….	0.2	0.0	0.1	-0.6
2016 – Q1	0.0	-2.3	….	….	….	0.0	-0.3	-0.1	-1.4
Q2	0.1	0.4	….	….	….	0.3	0.3	0.2	0.0
Q3	0.1	0.8	….	….	….	0.3	0.2	0.3	0.6
Q4	0.3	1.2	….	….	….	0.4	0.5	0.4	0.8
2017 – Q1	0.1	1.9	….	….	….	0.4	0.5	0.3	1.2
Q2	0.5	-0.8	….	….	….	0.3	0.2	0.2	-0.3
Q3	0.3	-0.2	….	….	….	0.4	0.1	0.3	-0.3
Q4	0.2	0.9	….	….	….	0.4	0.5	0.5	0.5
2018 – Q1	0.3	0.6	….	….	….	0.6	0.5	0.3	0.4

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									
2014	0.1	3.2	0.8	-6.6	2.4	-2.3	0.3	-0.7	2.7
2015	1.0	6.8	2.2	-0.7	4.8	2.1	1.9	-0.6	4.4
2016	0.9	3.5	1.4	1.2	5.0	3.2	1.4	0.6	2.4
2017	1,5	5,3	2,3	1,1	6,1	3,8	1,4	0,1	5,4
2014 – Q1	0.0	0.1	0.0	-1.2	2.5	0.6	-0.2	-0.2	0.7
Q2	-0.1	1.8	0.3	-2.3	0.3	-1.0	0.2	-0.6	0.4
Q3	0.2	0.9	0.4	-1.4	0.7	-0.3	0.2	0.6	0.9
Q4	0.0	0.5	0.1	-0.1	2.5	1.2	0.4	0.0	1.5
2015 – Q1	0.2	3.7	1.0	-0.1	1.0	0.4	0.3	-0.7	1.9
Q2	0.4	1.7	0.7	0.1	1.2	0.7	0.9	0.0	1.2
Q3	0.2	-0.5	0.1	0.1	1.5	0.8	0.7	0.2	-1.5
Q4	0.3	2.1	0.7	1.2	-0.5	0.3	0.4	-0.2	1.7
2016 – Q1	0.2	-0.3	0.1	0.3	1.4	0.9	0.2	0.9	-0.3
Q2	0.1	1.9	0.5	0.3	-0.4	-0.1	0.2	-0.2	1.7
Q3	0.2	0.8	0.4	0.0	3.8	2.0	0.3	-0.3	0.7
Q4	0.5	1.8	0.8	0.1	4.9	2.6	0.3	0.2	1.7
2017 – Q1	0.5	1.3	0.7	0.8	-4.1	-1.9	0.7	0.1	2.5
Q2	0.4	1.6	0.7	-0.1	2.7	1.4	0.1	0.1	-0.1
Q3	0.3	1.4	0.6	0.8	4.7	2.9	0.3	-0.1	1.8
Q4	0.4	0.5	0.4	0.8	2.1	1.5	0.0	0.0	1.8
2018 – Q1	0.3	-0.9	0.0	0.0	-2.4	-1.4	0.4	0.0	-2.1
Implicit prices									
2014	1.0	-2.7	0.2	0.1	0.7	0.4	0.3	0.0	-0.1
2015	0.9	-2.6	0.2	0.3	1.5	0.9	0.2	0.1	-0.4
2016	0.8	-3.4	-0.1	-0.1	-0.3	-0.2	0.1	1.0	-1.1
2017	0,6	3,1	1,2	0,6	0,5	0,6	1,2	0,8	1,7
2014 – Q1	0.7	-0.8	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	0.0	0.4	0.5	0.4	-0.1	0.0	0.3
Q4	0.6	-1.2	0.2	0.2	0.4	0.3	0.1	0.3	-0.2
2015 – Q1	0.2	-1.1	-0.1	-0.1	0.5	0.2	-0.1	-0.1	-0.2
Q2	0.1	1.2	0.3	-0.1	0.4	0.2	0.4	0.1	0.2
Q3	0.4	-1.8	-0.1	0.3	0.2	0.3	0.0	0.1	-0.4
Q4	0.4	-1.6	-0.1	-0.2	0.0	-0.1	0.2	-0.7	-0.5
2016 – Q1	0.3	-2.3	-0.2	-0.2	-0.5	-0.3	-0.3	1.1	-0.9
Q2	-0.2	0.0	-0.1	0.1	0.0	0.1	0.1	0.1	0.0
Q3	0.1	0.7	0.2	-0.1	0.1	0.0	0.2	0.3	0.4
Q4	0.4	1.3	0.6	0.3	-0.2	0.0	0.4	0.3	0.4
2017 – Q1	-0.1	2.0	0.4	0.2	0.3	0.3	0.6	0.0	1.0
Q2	0.2	-0.5	0.0	0.1	0.4	0.3	0.2	0.3	0.0
Q3	0.4	-0.4	0.2	0.2	0.0	0.1	-0.1	0.3	0.0
Q4	0.4	1.5	0.6	0.4	0.0	0.1	0.4	0.2	0.6
2018 – Q1	0.0	0.5	0.1	0.3	-0.1	0.1	0.4	0.4	0.4

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

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2014	1.7	2.8	2.7	-0.1	-1.1
2015	1.6	3.4	3.9	0.5	-1.8
2016	1.2	1.2	1.9	0.7	0.0
2017	1.5	1.9	3.0	1.1	-0.4
2016 – Q1	1.4	0.9	1.7	0.8	0.5
Q2	0.8	0.9	1.7	0.7	-0.1
Q3	1.3	0.9	1.5	0.6	0.4
Q4	1.3	1.8	2.5	0.7	-0.4
2017 – Q1	1.4	1.0	1.8	0.8	0.4
Q2	1.3	1.9	3.1	1.2	-0.5
Q3	1.1	2.2	4.0	1.7	-1.1
Q4	1.1	2.6	4.6	2.0	-1.4
2018 – Q1	1.6	2.4	3.9	1.5	-0.8
			Services		
2014	1.2	0.2	1.1	0.9	1.0
2015	1.4	0.1	1.5	1.3	1.2
2016	1.1	-0.1	1.7	1.8	1.2
2017	1.9	0.7	2.2	1.5	1.2
2016 – Q1	1.0	-0.4	1.6	1.9	1.4
Q2	1.0	-0.1	1.7	1.8	1.1
Q3	1.1	0.1	1.7	1.6	1.0
Q4	1.5	0.4	1.9	1.5	1.1
2017 – Q1	1.6	0.6	2.1	1.5	1.0
Q2	1.8	0.7	2.3	1.6	1.1
Q3	1.6	0.7	2.5	1.9	0.9
Q4	1.7	0.8	2.4	1.6	0.9
2018 – Q1	2.0	0.8	2.2	1.3	1.1
			Total economy		
2014	1.3	0.8	1.3	0.6	0.5
2015	1.3	0.8	1.9	1.1	0.5
2016	1.1	0.3	1.7	1.4	0.8
2017	1.7	1.0	2.3	1.3	0.7
2016 – Q1	1.1	-0.1	1.5	1.6	1.1
Q2	1.0	0.2	1.6	1.4	0.7
Q3	1.1	0.4	1.6	1.3	0.8
Q4	1.5	0.8	1.9	1.1	0.7
2017 – Q1	1.5	0.8	2.1	1.3	0.7
Q2	1.7	1.1	2.5	1.4	0.6
Q3	1.4	1.1	2.8	1.7	0.3
Q4	1.5	1.2	2.9	1.7	0.3
2018 – Q1	1.9	1.3	2.6	1.3	0.6

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	2.0	1.2	1.1	0.0	0.8
2016	-0.7	-0.2	1.4	1.7	-0.5
2017	0.4	0.6	2.1	1.5	-0.2
2015 – Q1	2.6	0.5	-0.8	-1.3	2.1
Q2	2.6	0.9	0.7	-0.1	1.7
Q3	2.2	1.6	1.3	-0.3	0.6
Q4	1.8	1.1	1.1	0.0	0.8
2016 – Q1	-0.8	0.2	2.9	2.7	-1.0
Q2	-0.8	-1.2	0.9	2.2	0.4
Q3	-1.3	-0.4	1.3	1.7	-0.9
Q4	-0.8	1.3	2.7	1.3	-2.1
2017 – Q1	0.3	0.5	0.8	0.2	-0.2
Q2	-0.1	1.3	2.6	1.3	-1.4
Q3	0.6	1.0	3.3	2.3	-0.3
Q4	0.4	0.1	2.9	2.8	0.3
2018 – Q1	0.5	1.2	2.9	1.6	-0.7
			Services		
2013	1.2	0.8	-1.1	-1.9	0.4
2014	-0.1	0.5	0.8	0.4	-0.5
2015	0.4	-0.1	0.8	1.0	0.5
2016	0.3	-1.4	0.6	2.0	1.7
2017	0.1	0.4	1.5	1.1	-0.3
2015 – Q1	0.4	0.4	0.9	0.5	0.0
Q2	0.5	0.4	1.0	0.6	0.2
Q3	0.5	-0.5	0.6	1.2	1.0
Q4	0.1	-0.4	0.8	1.2	0.5
2016 – Q1	-0.3	-1.9	0.6	2.6	1.7
Q2	0.3	-1.8	0.6	2.5	2.2
Q3	0.4	-1.1	0.6	1.7	1.5
Q4	1.0	-0.8	0.7	1.6	1.8
2017 – Q1	0.5	0.6	1.5	0.9	-0.1
Q2	0.0	0.7	1.5	0.9	-0.6
Q3	-0.2	-0.1	1.5	1.7	-0.1
Q4	-0.1	0.2	1.4	1.2	-0.3
2018 – Q1	0.0	0.0	1.0	1.0	0.0
			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	0.0	-0.9	0.7	1.7	1.0
2017	0.1	0.4	1.4	1.0	-0.3
2015 – Q1	1.0	0.3	0.4	0.1	0.7
Q2	1.0	0.3	0.8	0.5	0.7
Q3	0.9	0.1	0.8	0.6	0.7
Q4	0.5	0.3	1.1	0.8	0.2
2016 – Q1	-0.5	-1.3	1.1	2.5	0.9
Q2	0.0	-1.3	0.7	2.1	1.3
Q3	0.0	-0.8	0.7	1.5	0.8
Q4	0.5	-0.3	0.9	1.3	0.9
2017 – Q1	0.3	0.4	1.2	0.8	-0.1
Q2	0.0	0.7	1.6	0.9	-0.7
Q3	-0.1	0.2	1.7	1.5	-0.3
Q4	-0.1	0.0	1.6	1.6	-0.1
2018 – Q1	0.2	0.6	1.4	0.7	-0.5

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

Table A5

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

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

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	0.7	1.6	1.2	1.2	1.2	1.5	1.3	1.4	1.1
2014	0.6	1.0	0.8	1.1	0.2	0.7	-0.2	-0.1	0.4	0.8
2015	0.1	0.6	0.1	1.1	0.1	0.7	-0.6	0.3	0.0	0.8
2016	0.3	0.6	0.4	1.1	-0.1	0.5	-0.3	0.7	0.2	0.9
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
2018 – Jan.	1.5	1.0	1.4	1.3	1.2	0.7	0.7	1.0	1.3	1.0
Feb.	1.3	0.8	1.2	1.4	0.5	0.5	1.2	1.3	1.1	1.0
Mar.	1.7	1.0	1.5	1.3	0.9	0.7	1.3	1.2	1.3	1.0
Apr.	1.8	0.9	1.4	1.0	0.6	0.2	1.1	0.8	1.3	0.8
May	2.3	1.1	2.2	1.5	1.0	0.6	2.1	1.2	1.9	1.1
June	2.0	….	2.1	….	(1.5)	(0.7)	(2.3)	….	(2.3)	(1.0)

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	108.6	109.3	102.4	111.4	114.3	-29.7	-27.4	-27.1	12.1	-1.6
2011	109.0	106.7	106.5	112.0	111.9	-25.1	-14.9	-19.8	9.2	2.3
2012	102.5	102.2	100.3	102.1	109.1	-43.2	-27.5	-36.9	-3.0	3.3
2013	99.4	99.8	95.6	100.8	103.1	-44.4	-18.4	-32.0	4.1	1.5
2014	98.3	99.0	95.5	100.2	97.6	-33.0	-15.1	-19.3	8.8	2.0
2015	100.0	100.0	100.0	100.0	100.0	-21.7	-13.0	-12.7	12.4	3.1
2016	101.4	100.2	102.7	101.9	99.4	-18.5	-15.5	-13.7	10.9	3.7
2017	104.5	102.3	107.7	104.7	101.6	-9.8	-5.4	-3.5	16.7	2.6
2010 – Q1	105.2	108.8	96.7	107.3	115.8	-39.1	-41.2	-38.9	8.1	-3.3
Q2	107.3	108.6	100.8	110.6	113.3	-32.6	-29.3	-29.7	11.9	-2.6
Q3	109.7	109.9	104.1	110.8	111.1	-25.4	-24.1	-22.4	13.1	-1.1
Q4	109.1	107.7	104.6	113.9	116.5	-21.6	-15.0	-17.2	15.4	0.7
2011 – Q1	109.8	107.4	107.5	114.5	114.2	-20.4	-9.3	-14.1	14.9	0.4
Q2	110.2	109.1	107.7	113.8	111.8	-20.3	-11.8	-14.5	14.0	1.1
Q3	107.9	106.0	107.6	112.1	113.0	-26.2	-15.9	-22.0	7.4	4.3
Q4	106.9	104.9	104.6	109.3	109.1	-33.5	-22.7	-28.3	0.3	3.4
2012 – Q1	104.0	102.4	102.2	105.0	112.9	-38.7	-25.7	-32.6	-1.0	3.1
Q2	103.1	102.9	100.0	103.3	109.0	-44.3	-27.5	-36.9	-2.6	4.8
Q3	102.8	103.1	101.3	101.8	110.7	-44.6	-26.7	-37.7	-4.1	3.9
Q4	99.8	100.3	98.8	98.5	103.8	-45.3	-30.1	-40.4	-4.3	1.6
2013 – Q1	99.4	100.9	94.7	99.7	105.9	-46.3	-29.3	-39.4	-1.4	2.8
Q2	99.3	98.8	96.8	100.1	103.4	-48.7	-21.5	-38.8	-0.2	2.7
Q3	99.0	100.1	95.1	101.6	101.9	-43.0	-11.8	-28.2	7.6	1.0
Q4	99.5	99.5	95.5	102.6	101.1	-39.4	-10.7	-21.5	10.3	-0.3
2014 – Q1	99.6	100.3	96.7	102.3	97.1	-36.6	-12.8	-20.0	9.6	-0.9
Q2	99.2	99.9	95.6	101.4	100.5	-31.4	-13.5	-17.5	10.3	1.1
Q3	97.9	99.3	95.0	100.1	97.9	-33.0	-15.5	-19.6	7.7	4.1
Q4	98.1	98.9	97.2	99.3	95.4	-31.1	-18.7	-20.1	7.5	3.6
2015 – Q1	99.1	99.4	98.5	99.5	98.9	-26.8	-16.1	-16.0	10.8	3.3
Q2	100.1	99.9	100.0	100.0	101.2	-21.8	-12.2	-11.9	13.1	2.6
Q3	99.8	99.1	100.2	99.5	103.2	-20.1	-13.1	-12.1	12.8	3.3
Q4	99.6	100.1	99.7	100.6	96.3	-18.0	-10.6	-11.0	12.9	3.2
2016 – Q1	101.2	100.5	103.5	102.0	97.8	-19.0	-15.7	-14.1	9.9	3.7
Q2	100.7	99.4	102.0	102.3	96.0	-18.4	-17.1	-13.8	10.6	3.2
Q3	101.7	100.4	104.2	102.7	98.7	-19.7	-15.4	-14.6	10.3	3.3
Q4	103.3	101.0	105.2	103.4	105.0	-16.7	-13.8	-12.3	12.7	4.8
2017 – Q1	103.4	100.8	105.8	104.0	102.8	-13.9	-8.0	-7.2	14.9	3.3
Q2	104.8	103.0	108.1	105.5	100.4	-10.9	-6.0	-4.7	16.3	2.4
Q3	106.5	104.0	110.7	107.2	101.0	-9.2	-5.6	-3.2	17.7	2.2
Q4	107.2	104.6	111.7	107.8	101.8	-5.1	-1.9	1.1	18.0	2.4
2018 – Q1	107.0	105.5	111.3	107.2	100.6	-4.9	-2.1	0.6	16.5	3.7
Q2	….	….	….	….	….	-8.2	-5.9	-2.9	13.9	3.8

Source: Based on Istat data.
(1) Annual industrial production data are not calendar adjusted. – (2) Indices: 2015=100. – (3) Average balances of the responses to the survey of business confidence in the manufacturing sector.

Table A7

Labour force, employment and unemployment: Italy

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

	In employment							Job-seekers	Labour force	Unem-ployment rate	Participa-tion rate ages 15-64
	Agricul-ture	Industry excluding construc-tion	Construc-tion	Services	Centre and North	South and Islands	Total				
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
2017	871	4,571	1,416	16,165	16,901	6,122	23,023	2,907	25,930	11.2	65.4
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
Q4	905	4,635	1,416	16,134	16,958	6,132	23,090	2,914	26,003	11.2	65.7
2018 – Q1	814	4,585	1,363	16,112	16,849	6,025	22,874	3,003	25,877	11.6	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
2012	-5,455	16,829	-123	-2,646	-19,516	3,959	1,835	2,124
2013	16,037	36,099	443	-2,433	-18,072	-744	-3,142	2,398
2014	31,102	47,407	-1,017	618	-15,905	2,682	-942	3,624
2015	25,009	51,106	-2,618	-8,184	-15,295	3,901	-1,183	5,085
2016	43,493	57,657	-2,672	5,227	-16,719	-3,111	-1,973	-1,138
2017	47,850	56,016	-3,713	10,267	-14,720	-869	-1,208	339
2017 – Q1	5,164	9,668	-2,665	2,843	-4,682	-281	-262	-20
Q2	9,703	14,311	-40	-1,162	-3,406	-738	-276	-462
Q3	17,400	15,230	1,967	4,078	-3,875	-284	-248	-36
Q4	15,582	16,807	-2,975	4,509	-2,758	434	-422	856
2018 – Q1	4,767	9,613	-2,639	2,995	-5,202	-574	-478	-96
2017 – Jan.	-1,076	353	-895	580	-1,114	-48	-57	9
Feb.	1,740	2,912	-738	1,094	-1,528	-55	-56	1
Mar.	4,500	6,403	-1,032	1,169	-2,040	-178	-149	-29
Apr.	3,097	4,272	-448	318	-1,045	-243	-99	-144
May	2,173	4,924	-92	-1,860	-799	-248	-93	-155
June	4,433	5,115	500	380	-1,561	-247	-84	-162
July	7,864	7,132	773	1,261	-1,302	-81	-81	..
Aug.	4,798	3,496	749	1,879	-1,326	-71	-68	-3
Sept.	4,738	4,602	446	938	-1,247	-131	-99	-33
Oct.	5,911	5,582	-649	1,727	-748	301	-79	380
Nov.	4,459	5,419	-1,372	1,172	-760	246	-75	321
Dec.	5,213	5,807	-955	1,611	-1,250	-113	-268	156
2018 – Jan.	-1,030	519	-739	521	-1,332	-130	-112	-17
Feb.	2,592	3,764	-850	1,222	-1,544	-126	-102	-24
Mar.	3,204	5,329	-1,050	1,252	-2,326	-318	-264	-55
Apr.	(3.009)	(3.688)	(-460)	(491)	(-709)	(-297)	(-154)	(-143)

(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: Total	Firms: Medium and large	Firms: Small (2)	Firms: Small – *of which:* producer households (3)	Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
						Centre and North				
2015 –	Dec.	0.5	-2.9	-0.9	-0.4	-2.7	-1.6	1.2	-1.9	-0.4
2016 –	Sept.	-2.9	3.2	-0.1	0.5	-2.6	-1.5	2.1	-3.0	0.3
	Dec.	-3.8	2.1	0.1	0.7	-2.7	-1.3	2.3	-4.0	0.2
2017 –	Mar.	-2.3	-1.4	0.1	0.5	-1.9	-0.7	2.8	-2.6	0.3
	June	1.5	1.7	-0.1	0.3	-1.7	-0.1	2.8	-2.0	1.1
	Sept.	3.9	0.3	-0.6	-0.3	-2.2	0.0	2.9	-1.8	1.1
	Dec.	-0.4	6.5	0.3	0.6	-1.3	0.7	3.0	-0.5	1.4
2018 –	Mar.	0.2	7.3	1.2	1.7	-1.3	0.7	3.0	-2.6	2.0
	Apr.	-0.8	8.3	2.4	2.8	0.0	1.3	3.1	-2.9	2.5
	May	-1.0	8.4	1.3	1.6	-0.5	1.4	3.0	-4.3	1.9
						South and Islands				
2015 –	Dec.	-4.4	-2.2	0.1	0.4	-0.8	-0.3	1.2	-3.1	0.1
2016 –	Sept.	-1.8	2.8	0.6	0.8	0.0	0.6	2.7	-2.9	1.3
	Dec.	-3.2	3.2	0.5	0.8	-0.2	0.0	3.0	-3.3	1.3
2017 –	Mar.	-2.9	5.5	0.5	0.6	0.2	0.7	3.4	-1.9	1.5
	June	-3.1	2.9	0.5	0.6	0.3	0.9	3.7	-1.8	1.6
	Sept.	-3.4	1.4	0.1	0.0	0.5	1.1	3.8	0.3	1.4
	Dec.	-7.6	9.6	0.3	0.2	0.6	1.4	3.8	3.9	1.3
2018 –	Mar.	-5.7	3.2	0.7	0.7	0.7	1.1	4.0	-0.2	1.6
	Apr.	-5.9	2.1	1.0	0.9	1.4	1.8	3.7	-2.8	1.7
	May	-7.4	2.4	1.1	0.9	1.6	2.4	3.5	-3.1	1.5
						Italy				
2015 –	Dec.	0.0	-2.9	-0.7	-0.3	-2.3	-1.3	1.2	-2.1	-0.3
2016 –	Sept.	-2.8	3.2	0.0	0.5	-2.1	-1.0	2.2	-3.0	0.5
	Dec.	-3.7	2.2	0.1	0.7	-2.1	-1.0	2.5	-3.9	0.4
2017 –	Mar.	-2.3	-1.2	0.1	0.5	-1.4	-0.4	2.9	-2.5	0.5
	June	1.1	1.7	0.0	0.3	-1.3	0.2	3.0	-1.9	1.1
	Sept.	3.3	0.4	-0.5	-0.3	-1.6	0.3	3.1	-1.5	1.1
	Dec.	-1.0	6.6	0.3	0.6	-0.9	0.9	3.2	0.0	1.4
2018 –	Mar.	-0.3	7.2	1.1	1.6	-0.9	0.8	3.3	-2.3	2.0
	Apr.	-1.2	8.1	2.1	2.6	0.3	1.5	3.3	-2.9	2.4
	May	-1.6	8.2	1.2	1.5	-0.1	1.6	3.1	-4.2	1.9

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. The percentage changes are net of reclassifications, value adjustments, exchange rate 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		
2016	-66.9	1.9	19.3	-45.7
2017	-64.9	15.7	21.4	-27.9
2017 – Q1	-13.8	0.6	4.6	-8.5
Q2	-12.5	-5.0	2.7	-14.8
Q3	-15.2	2.0	3.4	-9.7
Q4	-23.5	18.0	10.6	5.2
2018 – Q1	-15.8	-5.6	-2.9	-24.3
		Euro area		
2016	-146.4	-38.9	88.7	-96.5
2017	-46.9	11.9	66.9	31.9
2017 – Q1	6.7	-3.7	13.7	16.7
Q2	5.0	42.4	18.0	65.4
Q3	-36.3	-15.3	20.4	-31.2
Q4	-22.3	-11.5	14.8	-19.0
2018 – Q1	31.3	55.3	17.7	104.3

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.

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

(billions of euro)

	Currency and deposits		Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)		Borrowing requirement	
		of which: PO funds							*of which*: investments of liquidity		*of which*: in connection with financial support to EMU countries (3)
2012	7.0	-1.3	20.4	24.1	1.3	23.8	76.6	-10.1	0.0	66.5	29.5
2013	-1.8	-2.2	-11.0	91.7	-3.6	4.9	80.3	-3.2	-10.0	77.0	13.0
2014	14.7	-1.1	-16.0	82.1	-4.3	-1.2	75.3	-8.8	-28.0	66.5	4.7
2015	5.1	-1.5	-9.5	43.4	1.7	-1.0	39.7	10.7	8.0	50.4	-2.1
2016	-4.9	0.1	-8.0	62.7	1.1	-0.3	50.6	-7.4	-3.0	43.2	0.0
2017	-0.0	-1.9	-0.5	40.8	3.7	0.6	44.6	13.8	10.5	58.4	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	0.5	8.7	-19.8	-9.5	-11.0	0.0
July	0.7	-0.6	-0.6	3.3	1.0	-0.4	3.9	-8.5	9.5	-4.6	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	-9.1	25.3	13.9	16.2	0.0
Oct.	1.1	-0.0	-1.4	12.5	-1.4	-0.4	10.3	-8.4	-3.5	1.9	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	0.8	-13.3	3.0	0.1	-10.3	0.0
2017 – Jan.	2.3	-1.4	7.3	24.1	-1.3	-0.1	32.3	-34.3	-2.9	-2.1	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	-0.0	21.6	2.2	-0.2	23.7	0.0
Apr.	1.1	-0.0	0.5	7.5	0.1	0.1	9.4	-3.9	0.8	5.5	0.0
May	1.3	0.5	0.7	5.8	-0.3	-0.0	7.4	-0.5	5.0	6.9	0.0
June	3.5	-1.0	0.2	-0.3	5.4	0.6	9.6	6.3	-5.8	15.9	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	-0.2	5.2	11.3	0.0	16.5	0.0
Oct.	-0.9	0.4	-0.9	9.3	-1.7	-0.7	5.1	-1.3	0.8	3.8	0.0
Nov.	-0.4	-0.5	-1.0	-13.4	0.6	-0.1	-14.3	20.2	17.4	5.9	0.0
Dec.	-11.4	-0.1	-6.8	-0.8	0.0	1.2	-17.7	3.8	-4.6	-13.9	0.0
2018 – Jan.	7.0	0.4	6.3	12.7	-2.4	0.0	23.7	-25.2	-9.1	-1.5	0.0
Feb.	-1.5	-0.3	-0.0	1.6	-0.1	-0.3	-0.5	6.2	16.0	5.7	0.0
Mar.	2.1	-0.2	0.0	14.7	-0.0	-0.1	16.7	3.5	5.5	20.1	0.0
Apr.	-2.1	-0.1	-0.0	12.4	0.4	0.1	10.7	-7.3	2.0	3.4	0.0
May	-0.4	-0.5	-0.1	13.3	0.1	0.2	13.1	-5.4	0.0	7.6	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 govern-ment 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)
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	2,070.3	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	44.0	33.9	2,173.4	35.7	30.0	26.9	58.2
2016	173.4	16.2	107.0	1,765.3	130.1	43.7	33.9	2,219.5	43.1	33.0	29.9	58.2
2017	173.3	14.3	106.6	1,805.0	133.8	44.4	33.9	2,263.1	29.3	22.5	32.2	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	2,217.1	74.7	52.6	27.6	58.2
Mar.	176.6	15.9	118.7	1,762.0	130.9	43.5	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	43.0	33.9	2,244.6	72.7	46.6	29.9	58.2
June	172.2	16.1	117.9	1,790.2	128.7	43.5	33.9	2,252.5	92.5	56.1	29.0	58.2
July	172.9	15.5	117.3	1,793.7	129.7	43.1	33.9	2,256.7	101.0	46.6	31.0	58.2
Aug.	172.4	15.6	117.0	1,764.6	129.2	42.5	33.9	2,225.8	64.6	46.0	32.1	58.2
Sept.	171.2	15.5	116.3	1,754.4	129.7	43.0	33.9	2,214.7	39.3	32.1	31.2	58.2
Oct.	172.3	15.5	114.9	1,766.8	128.3	42.6	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	42.9	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	43.7	33.9	2,219.5	43.1	33.0	29.9	58.2
2017 – Jan.	175.7	14.8	114.3	1,789.1	128.7	43.6	33.9	2,251.5	77.4	35.9	29.9	58.2
Feb.	173.8	15.2	114.5	1,779.2	129.9	43.4	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	2,261.2	54.6	36.2	32.6	58.2
Apr.	177.4	15.5	114.8	1,805.1	130.8	43.5	33.9	2,271.6	58.5	35.4	33.9	58.2
May	178.6	16.0	115.5	1,811.7	130.6	43.5	33.9	2,279.8	58.9	30.3	35.3	58.2
June	182.2	15.0	115.7	1,811.5	136.0	44.1	33.9	2,289.5	52.6	36.2	35.3	58.2
July	182.1	15.1	116.0	1,831.6	134.1	44.3	33.9	2,308.0	85.6	35.9	37.0	58.2
Aug.	184.0	15.1	115.9	1,808.6	134.1	44.1	33.9	2,286.7	63.4	36.1	36.7	58.2
Sept.	186.1	14.6	115.2	1,811.2	134.9	43.9	33.9	2,291.2	52.1	36.1	35.2	58.2
Oct.	185.2	15.0	114.3	1,820.3	133.2	43.2	33.9	2,296.1	53.3	35.3	34.7	58.2
Nov.	184.8	14.5	113.3	1,806.4	133.8	43.1	33.9	2,281.4	33.1	17.9	35.3	58.2
Dec.	173.3	14.3	106.6	1,805.0	133.8	44.4	33.9	2,263.1	29.3	22.5	32.2	58.2
2018 – Jan.	180.4	14.7	112.9	1,817.5	131.4	44.4	33.9	2,286.6	54.5	31.6	33.5	58.2
Feb.	178.8	14.4	112.8	1,819.5	131.3	44.0	33.9	2,286.5	48.3	15.6	34.4	58.2
Mar.	180.9	14.2	112.8	1,833.4	131.3	43.9	33.9	2,302.4	44.8	10.1	33.2	58.2
Apr.	178.8	14.1	112.8	1,845.4	131.7	44.0	33.9	2,312.8	52.1	8.1	34.8	58.2
May	178.4	13.6	112.7	1,860.3	131.8	44.2	33.9	2,327.4	57.6	8.1	35.9	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.