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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

Risks to the global economy increase

Growth remains solid in the main advanced economies, though world trade has slowed significantly and financial and currency tensions have surfaced in the most vulnerable emerging countries. Global risks have increased, stemming from the possible repercussions of protectionist measures on corporate investment and from the potential increase of financial tensions in the emerging economies.

Monetary conditions remain accommodative in the euro area

Economic activity in the euro area continues to expand, though more slowly. Inflation has remained at around 2.0 per cent, but core inflation is struggling to gain ground. The ECB's Governing Council reduced its net asset purchases in October and confirmed its intention to cease them at the end of 2018; it also reasserted the need to maintain an ample degree of monetary accommodation as long as necessary.

Growth continues in Italy, but appears to slow in the third quarter

In Italy, the marked expansion in investment helped to sustain growth in the second quarter, while exports remained stable owing to weak global trade. The available cyclical indicators suggest that in the third quarter, GDP growth slowed to about 0.1 per cent compared with the previous quarter, reflecting the stagnation in industrial production, continued growth of services and a moderately positive contribution from the construction sector.

Confidence indicators for the building sector, households and manufacturing firms were still favourable; however, the latter sector in particular registered less optimistic assessments over the summer as international trade tensions intensified. The survey conducted on a sample of industrial and service firms indicated that investment will continue to expand overall in 2018, albeit less than planned at the beginning of the year.

The current account surplus remains high

Despite the slowdown in global trade, the current account surplus remained ample, having reached 2.8 per cent of GDP; Italy's net international debtor position continued to decline, falling to 3.4 per cent of GDP at the end of June.

Purchases of Italian portfolio securities by foreign investors in the early part of the year were followed by net sales between May and August, though with considerable fluctuations.

Unemployment falls and wage growth increases

The recovery in the labour market continued. Employment rose considerably in the spring. Unemployment fell to 9.7 per cent in August, decreasing significantly for young people too. The growth in contractual wages, which had been showing signs of recovery since the end of 2017, strengthened in the private sector and in the economy as a whole, extending to actual wages as well.

Inflation returns to 2013 levels

Inflation rose to 1.7 per cent in the third quarter, the highest level since the beginning of 2013. A contributory factor to the upturn in prices was the increase in the prices of energy products; the growth in the core component remains modest. The surveys on Italian firms show that expectations of a rise in prices are gaining strength.

Tensions heighten on the government securities market ...

The Italian financial markets have been affected by strong tensions as a result of investors' uncertainty about the economic policy stance. Government bond yields have increased, including those on shorter *maturities. The sovereign risk premium grew, after having fluctuated considerably. The spread between Italian and German bonds was over 300 basis points in mid-October.*

... also affecting private share and bond prices, especially those of banks

The earnings and capital conditions of banks have improved significantly since the beginning of the year. However, both share prices, up by over 10 per cent in the first four months of the year, and risk premiums on bank bonds have been affected by uncertainties on the Italian financial market. In mid-October, bank share prices, which had risen considerably in 2017, were down compared with the first half of the year; the premiums on credit default swaps of the largest banks were 40 basis points higher than at the end of June (and about 110 basis points more than at the end of March). The average interest rate on new loans to firms also rose slightly, although it was still very low by historical standards.

Non-performing loans continue to diminish

Credit quality has improved steadily: net of loan loss provisions, the ratio of non-performing loans to total outstanding loans fell further to 4.7 per cent in the second quarter. Loans to households and firms grew moderately, buoyed by a small growth in demand.

The Government confirms the reduction of net borrowing for this year ...

In the Update to the 2018 Economic and Financial Document, *the Government estimates a reduction in the net borrowing to 1.8 per cent of GDP for the current year, from 2.4 per cent in 2017; the weight of the debt is expected to decrease slightly, to 130.9 per cent from 131.2 per cent.*[1]

... and is planning an expansionary fiscal policy for 2019

The net borrowing target in 2019 is set at 2.4 per cent of GDP, against 1.2 per cent in the current legislation scenario. In the following two years, the planned deficit will decrease and in 2021 it will reach the same level expected for the current year (1.8 per cent of GDP), partly owing to the rise in VAT linked to the partial activation of the 'safeguard clauses'. In the Update, the Government also announced its intention to replace these clauses with measures to lower expenditure and boost tax collection.

According to the Government's programmes, over the next three years the reduction in the debt-to-GDP ratio will average 1.4 percentage points per year, compared with the 2.1 points envisaged in the current legislation scenario.

Based on the Update's assessment, this budget package would significantly boost the economy. The real extent of the effects will depend on the design, timing and implementation of the measures. The effectiveness of the budgetary policies in supporting the economy will also rely on the preservation of saver and investor confidence in the attainment of balanced public finances.

[1] For further details, see *Preliminary hearing on the Update to the 2018 Economic and Financial Document*, testimony of the Deputy Governor of the Bank of Italy, L.F. Signorini, Chamber of Deputies, Rome, 9 October 2018.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Growth remains solid in the main advanced economies, though world trade has slowed significantly; global risks are increasing, stemming from the possible repercussions of protectionist measures on business activity and from the potential escalation of financial tensions in the emerging economies.

Global economic activity continues to expand ...

Economic growth strengthened in the main advanced economies in the second quarter of 2018 (Table 1); the leading indicators suggest it will likely continue in the third quarter too, especially in the United States, where it will probably still be driven by domestic demand and accompanied by sizeable growth in employment. Growth is likely to be at a slower pace in Japan and the United Kingdom (Figure 1).

Among the emerging countries, economic expansion strengthened in India and remained solid in China; for the latter, the most recent signs indicate slightly weaker growth. Cyclical conditions improved in Russia, reflecting the increase in oil prices, but deteriorated in Brazil, owing to the heightened political uncertainty.

... but world trade slows

In the second quarter of the year world trade slowed sharply. Imports fell markedly in Latin America, Russia and Turkey; they slowed significantly in Asia, with the exception of China and India, and were weak in the advanced markets.

According to the International Monetary Fund's (IMF) latest forecasts, global GDP will increase by 3.7 per cent in 2018 and 2019, which is 0.2 percentage points lower for both years compared

Table 1

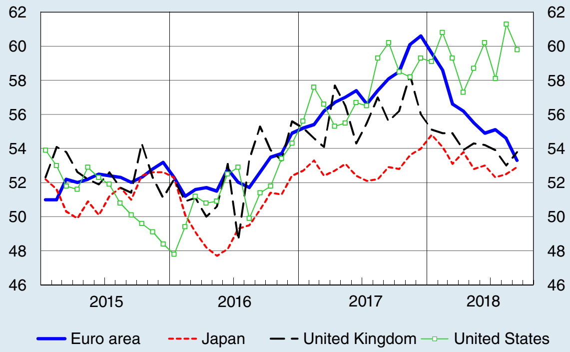
GDP growth and inflation
(percentage points)

	GDP growth			Inflation (1)
	2017	2018 Q1	2018 Q2	August 2018 (2)
Advanced economies (3)				
Japan	1.7	-0.9	3.0	1.3
United Kingdom	1.7	0.4	1.6	2.7
United States	2.2	2.2	4.2	2.3
Emerging economies (4)				
Brazil	1.0	1.2	1.0	4.5
China	6.9	6.8	6.7	2.3
India	6.3	7.7	8.2	3.8
Russia	1.6	1.3	1.9	3.4
Memorandum item:				
World trade (5)	**5.4**	**5.0**	**2.6**	

Sources: Thomson Reuters Datastream; Bank of Italy for world trade.
(1) Consumer price index, monthly data. – (2) The data for Brazil, India, Russia and the United States are for September 2018. – (3) Seasonally adjusted data; annualized quarterly percentage changes. – (4) Year-on-year percentage change. – (5) Based on national accounts and customs data. Seasonally adjusted quarterly data, annualized quarterly percentage changes.

Figure 1

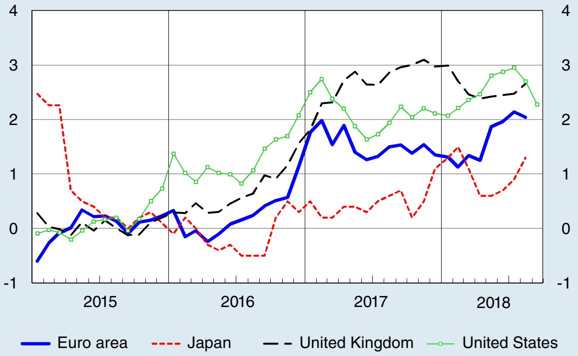
Manufacturing PMIs in the main advanced economies (1)
(monthly data)



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

Figure 2

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



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

Table 2

Macroeconomic projections
(changes and percentage points)

	Forecasts			Revisions (1)	
	2017	2018	2019	2018	2019
GDP (2)					
World	**3.7**	**3.7**	**3.7**	**-0.2**	**-0.2**
Advanced economies					
of which: Euro area	2.4	2.0	1.9	-0.2	0.0
Japan	1.7	1.1	0.9	0.1	0.0
United Kingdom	1.7	1.4	1.5	0.0	0.0
United States	2.2	2.9	2.5	0.0	-0.2
Emerging economies					
of which: Brazil	1.0	1.4	2.4	-0.4	-0.1
China	6.9	6.6	6.2	0.0	-0.2
India (3)	6.7	7.3	7.4	0.0	-0.1
Russia	1.5	1.7	1.8	0.0	0.3
World trade (4)	**5.4**	**4.4**	–	**-0.3**	–

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

with the July forecast (Table 2). Based on our estimates, world trade will grow overall in 2018 by 4.4 per cent, 0.3 percentage points lower than was forecast in July and a marked slowdown compared with 2017.

Inflation remains modest

Inflation remains modest in the main advanced economies; in August it was 2.7 per cent in the United Kingdom and 1.3 per cent in Japan, buoyed by higher energy prices. In September inflation fell to 2.3 per cent in the United States (Table 1 and Figure 2).

Global risks increase

Overall, various factors are increasing the risks for the global economic outlook. The repercussions of the trade tensions sparked by the protectionist measures introduced or announced by the United States and of the retaliation from trading partners could be magnified if a drop in confidence in foreign orders causes firms to change their investment decisions (see the box 'Trade tensions, uncertainty and economic activity'). Financial conditions in emerging countries, which have tightened in the wake of the normalization of monetary policy in the United States, could deteriorate further and lead to greater capital outflows from these economies, though there have been no signs as yet of any widespread contagion. Lastly, there is still considerable uncertainty over how economic relations between the United Kingdom and the European Union will evolve, in the light of the limited progress in the negotiations for the UK's withdrawal from the EU.

TRADE TENSIONS, UNCERTAINTY AND ECONOMIC ACTIVITY

Trade tensions have intensified at global level in 2018. In January, the US government introduced its first restrictions on the imports of some products from all countries; in March it increased its tariffs on aluminium and steel imports from several of its trading partners;[1] and in June, the

[1] The tariffs involved around one third of US steel and aluminium imports. The main countries affected included Russia, China, Japan, the United Arab Emirates, Taiwan, Turkey, India and Vietnam.

same tariffs were extended to all other countries as well, with the exception of Argentina and Australia. Over the summer, the US government imposed new tariffs on goods worth a total of $250 billion imported from China, which reacted by introducing restrictive measures on goods worth $110 billion imported from the United States.

The European Union, Canada and Mexico, after imposing tariffs on US products in response to those on steel and aluminium, launched a negotiation phase. In October, Canada and Mexico signed a new free trade agreement with the US government which, following approval by the respective governments, will only partially amend the treaty already in force, namely the North American Free Trade Agreement (NAFTA), though it will tighten the rules on origin and the production standards for the automotive sector. Instead, negotiations between the EU and the US are still under way.

The measures adopted since the beginning of the year have so far affected a very limited share of the goods exchanged at global level (about 2.5 per cent), yet the reactions of the financial markets have been significant. Since June, when the US government further tightened its restrictive policy on imports, share prices have risen by 1.0 per cent on the international markets; however, firms more exposed to the Chinese market have seen a considerable drop in their share prices (-8.0 per cent; Figure A).

The heightening of trade tensions during the year has also been flanked by a sharp increase in the uncertainty over the prospects for global economic policies (Figure B); this uncertainty may have contributed to the slowdown in world trade in the second and third quarters of 2018, which was much greater than had been expected by analysts in the early months of the year. The evidence suggests that an increase in the economic policy uncertainty (EPU) index has been associated with more modest growth in international trade.

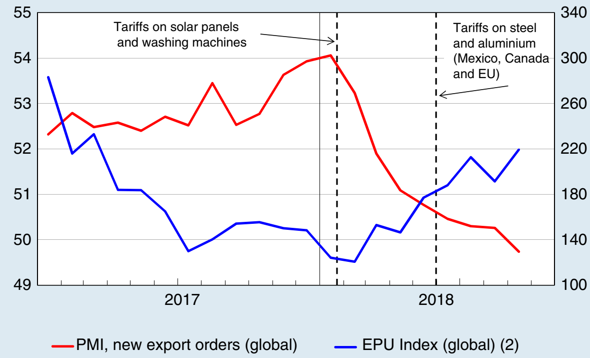
Figure A

Share price performance (1)
(daily data)

Source: Thomson Reuters Datastream.
(1) 1 January 2018=100.

Figure B

Indicator of new export orders and of economic policy uncertainty at global level (1)
(monthly data)



Sources: Thomson Reuters Datastream and the EPU index.
(1) Diffusion index based on the purchasing managers' assessments (PMI). The EPU index, measured by looking at the frequency of newspaper articles with references to situations of political and economic uncertainty, is presented in S.R. Baker, N. Bloom and S.J. Davis, 'Measuring economic policy uncertainty', *The Quarterly Journal of Economics*, 131, 4, 2016, 1593-1636. – (2) Right-hand scale.

The introduction of protectionist measures has been accompanied by a gradual worsening of firms' expectations for global trade, as measured by the purchasing managers' index (PMI) on new export orders (Figure B). The results of the Bank of Italy-*Il Sole 24 Ore* joint survey show that since the beginning of 2018, Italian firms have become increasingly concerned about the progressive exacerbation of global trade tensions. In September's survey, almost one third of firms interviewed said they expected sales abroad to decrease over the next twelve months, mainly due to lower demand from the United States. Negative opinions are stronger among manufacturing firms and those heavily oriented towards exports.

About one sixth of firms think that trade tensions could cause them to revise their investment plans slightly downwards over the next twelve months; this opinion is especially widespread among firms expecting a fall in exports to the United States because of the tariffs.

Oil prices begin to rise again

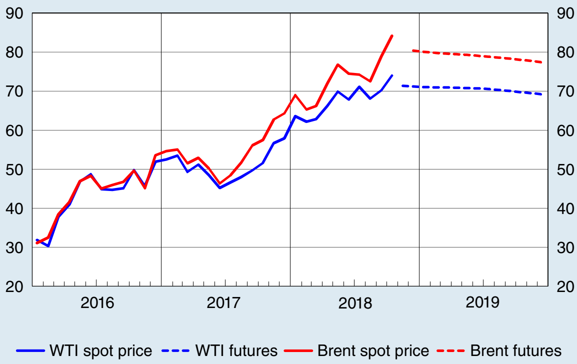
From the end of August, oil prices, which had reached high levels in the spring, began to rise again, especially Brent prices, mainly affected by fears of a reduction in the global supply owing to the United States imposing sanctions on Iran's energy sector, and in a context of limited spare capacity among world producers (Figure 3). Futures prices point to a slight decrease in prices in the medium term.

The Federal Reserve and the Bank of England increase their official interest rates

As expected, at its meeting on 26 September 2018, the Federal Reserve increased the target range for the federal funds rate by 25 basis points to 2.00-2.25 per cent, in response to the continued improvement in the labour market and strong economic growth. The prices for federal funds futures contracts and the expectations of the Federal Open Market Committee suggest that the rate may be increased again this year (Figure 4). In order to combat inflationary pressures stemming from the depreciation of the sterling exchange rate in the previous quarters, the Bank of England raised its bank rate by 25 basis points at the beginning of August, bringing it to 0.75 per cent. At a meeting at the end of July, the Bank of Japan, though not altering its overall stance, introduced forward guidance on changes in key interest rates and announced that rates would be kept at their current low levels for an extended period; it also said it would adopt greater flexibility in controlling long-term interest rates (see *Economic Bulletin*, 4, 2016). Between mid-July and mid-October, China's central bank cut the required reserve ratio by 150 basis points.

Figure 3

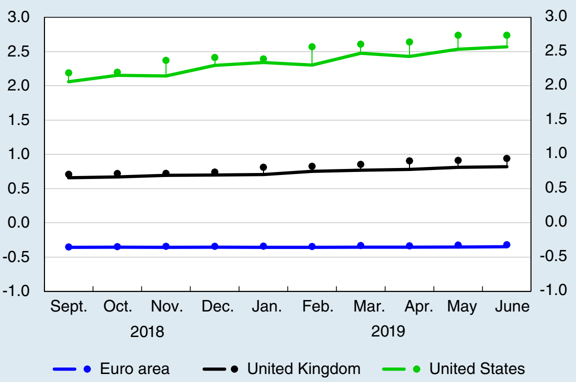
Oil prices (1)
(monthly data; dollars per barrel)



Source: Thomson Reuters Datastream.
(1) For the spot prices, monthly average data through August 2018; the latest data refer to the average of the daily data for 1-5 October.

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 July 2018, the dots show those forecast on 5 October 2018.

1.2 THE EURO AREA

Economic activity in the euro area continued to expand in the first half of 2018, albeit more slowly. The inflation rate remained at around 2.0 per cent, buoyed by the most volatile components. The ECB Governing Council reduced its monthly net asset purchases and confirmed its intention to cease such purchases at the end of 2018, although it reiterated the need to maintain an ample degree of monetary accommodation in the long term.

Growth continues but is slower

In the second quarter of 2018, euro-area GDP increased by 0.4 per cent compared with the previous quarter (Table 3), as it had done in the first three months of the year. Domestic demand continued to provide the main support to growth, while the sharp deceleration in world trade was accompanied by weakening foreign demand. The most recent cyclical indicators point to a moderate expansion of activity in the summer months as well, only a little lower than in the two previous quarters.

The Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, rose from 0.47 in August to 0.52 in September to reach a level just above the average for the preceding three months (Figure 5). The latest business and consumer surveys show that households and firms are still feeling cautious about the state of the economy, but their evaluations remain at levels consistent with a continuation of cyclical expansion. Indices based on the opinions of purchasing managers (PMI) declined again in manufacturing, but remained stable in services.

ECB staff projections in September pointed to a 2.0 per cent increase in GDP in 2018 as a whole, 0.1 percentage points down on the June estimate.

Inflation rises, but the core component is struggling to recover

Inflation remained at around 2.0 per cent in the third quarter, rising to 2.1 per cent in September, mainly driven by food and energy products (Figure 6). Core inflation is still low and, despite a slight recovery in pay growth in September, it remained stable at 0.9 per cent, the same level recorded in August. The ECB staff projections suggest that the increase in consumer prices will average 1.7 per cent this year (1.1 per cent net of the most volatile components).

Table 3

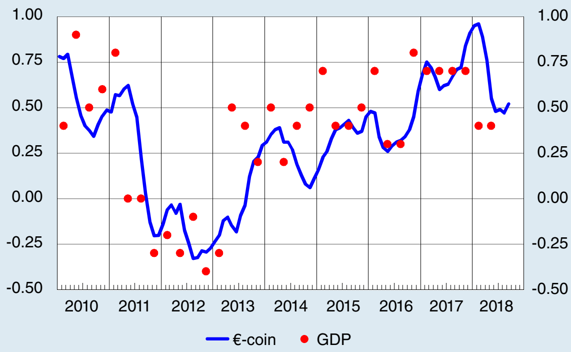
Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation
	2017	2018 Q1 (1)	2018 Q2 (1)	2018 September (2)
France	2.2	0.2	0.2	2.5
Germany	2.2	0.4	0.5	2.2
Italy	1.6	0.3	0.2	1.5
Spain	3.0	0.6	0.6	2.3
Euro area (3)	2.4	0.4	0.4	2.1

Sources: Based on national statistics and on Eurostat data.
(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.

Figure 5

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



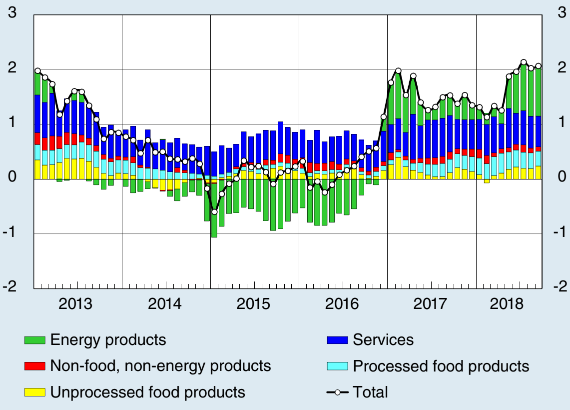
Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box, 'The €-coin indicator and the economic situation in the euro area', in *Economic Bulletin*, 53, 2009. Further details are available on the Bank of Italy's website: '€-coin: September 2018'. For 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.

Since mid-July, inflation expectations over the two-year and the five-year horizons, having diminished slightly, returned to 1.5 per cent (Figure 7.a); the five-year inflation expectations five years ahead remained virtually unchanged at 1.6 per cent. The probability that inflation will stay below 1.5 per cent over the next five years, as implied by the prices of inflation options, has remained stable; the probability of deflation continues to be nil (Figure 7.b).

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.

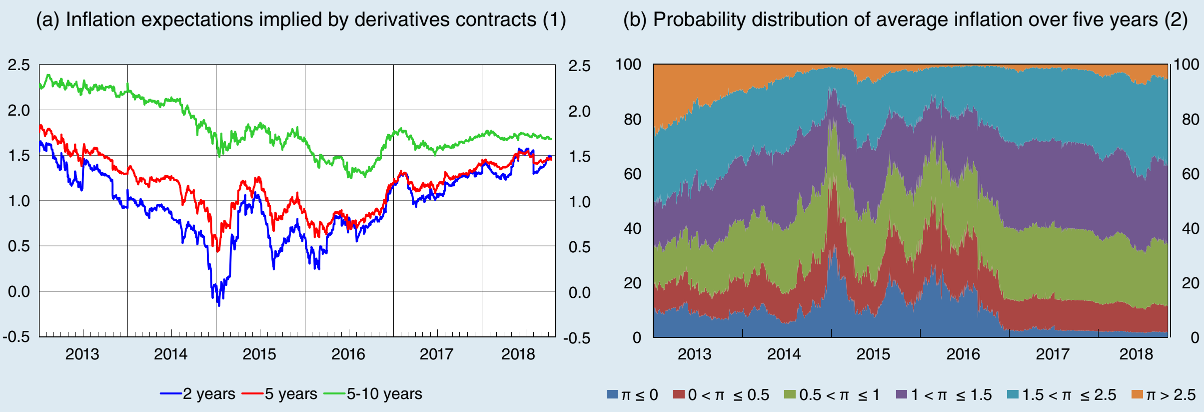
An ample degree of monetary accommodation is still needed

At its meeting of 13 September, the ECB Governing Council decided to begin reducing the monthly pace of its net asset purchases under the expanded asset purchase programme (APP) to €15 billion, starting in October. It continued to anticipate – subject to incoming data confirming the medium-term inflation outlook – that net purchases would cease at the end of 2018. The Governing Council also confirmed it expected to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases. The key interest rates remained unchanged and the Governing Council expects policy rates to remain at their present levels at least through the summer of 2019 (Figure 8).

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.

On 12 October the book value of government securities purchased by the Eurosystem under the APP stood at €2,083 billion, covered bank bonds at €260 billion, and asset-backed securities and corporate bonds at €27 billion and €171 billion respectively. At the end of September, purchases of Italian government securities amounted to €360 billion (of which €324 billion by the Bank of Italy).

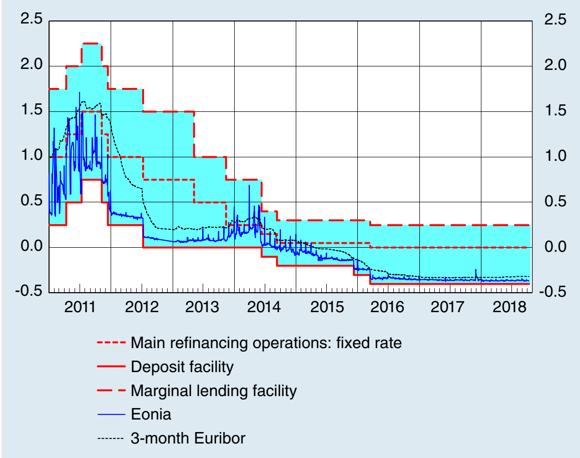
The value of the assets held by the Eurosystem that will be redeemed at maturity in the next twelve months and that the Eurosystem expects to reinvest is equal to €189 billion, of which government securities make up 81 per cent.

Lending continues to expand

Adjusted for seasonal factors and the accounting effect of securitizations, lending to non-financial firms in the euro area grew at an annualized rate of 3.9 per cent in the three months ending in August. Lending to households continued to increase (3.4 per cent in the third quarter), reflecting the expansion of loans in France, Germany and Italy, whereas in the other euro-area economies, growth is still virtually nil or negative. The cost of new loans to firms or mortgage loans to households in August remained unchanged at 1.5 and 1.8 per cent respectively; the dispersion of interest rates across countries remained low (Figure 9).

Figure 8

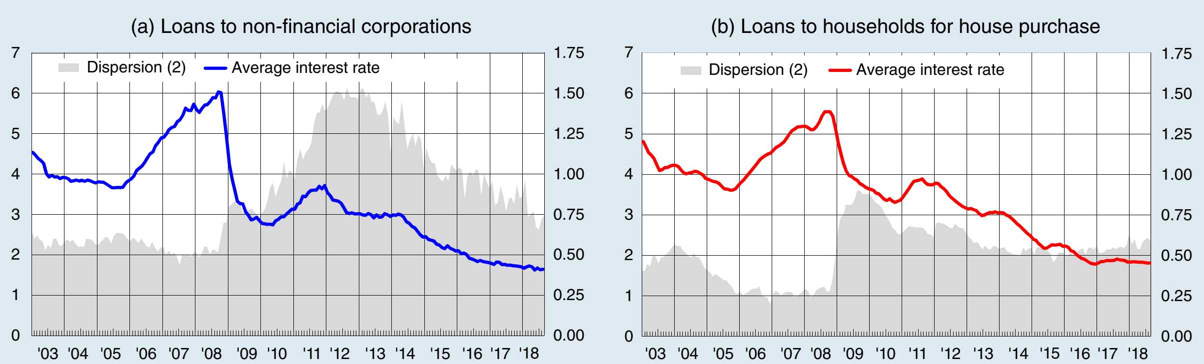
Official interest rates and money market rates in the euro area
(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

Figure 9

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



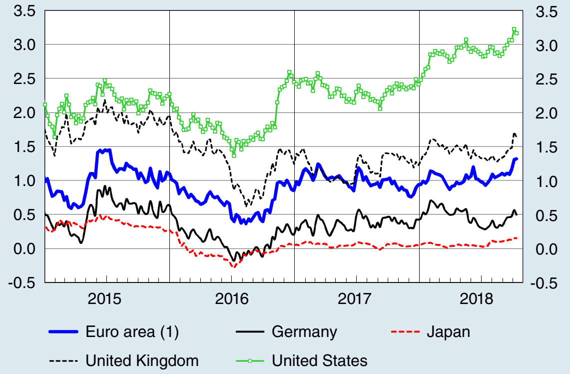
Source: ECB.
(1) Average of interest rates on new short- and medium-term loans weighted using the 24-month moving average of new loan disbursements. For non-financial corporations, includes overdrafts. – (2) Standard deviation of the average interest rates for 12 euro-area countries. Right-hand scale.

1.3 GLOBAL FINANCIAL MARKETS

In the third quarter, long-term yields rose in all the main economic areas. In the United States they responded to the positive performance of employment and wages. Financial and currency tensions surfaced in the emerging countries, as yet concentrated above all in the most fragile economies. Share prices fell in the United Kingdom as a result of heightened uncertainty over the Brexit negotiations; they have fallen significantly over the last few days in the United States, partly reflecting the concerns linked to the effects of trade tensions.

Figure 10

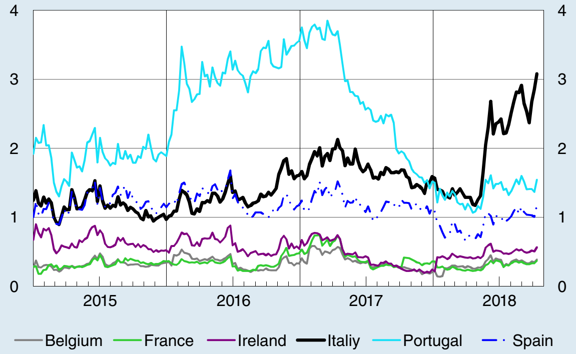
Yields on 10-year government bonds
(end-of-week data; per cent)



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

Figure 11

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



Source: Based on Bloomberg data.

Long-term yields are increasing

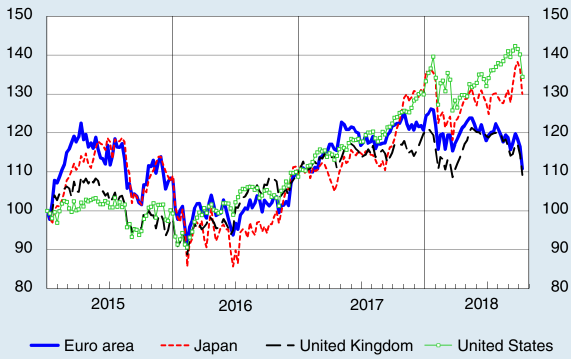
In the third quarter, the yields on ten-year government bonds increased in all the main economic areas: they rose by about 30 basis points in the United States, driven by employment and wages performing better than expected; they rose by the same amount in the United Kingdom. Yields in Japan increased by more than 10 basis points as a result of the central bank's decision to adopt greater flexibility in controlling long-term interest rates (Figure 10). The yields on German ten-year government bonds increased by 20 basis points, to 0.50 per cent. In connection with the tensions surrounding Italian government securities (see Section 2.8), sovereign risk premiums in the euro-area countries considered to be the most vulnerable fluctuated over the quarter, and in mid-October recorded figures slightly higher than those at the end of June (Figure 11).

Share prices fluctuate sharply

In the third quarter, share prices continued to rise in the United States, boosted by the recent tax cut for companies and by the positive performance, both current and expected, of the economy; however, they fell rapidly in early October, partly reflecting the concerns linked to the outcome of trade conflicts. In the United Kingdom they fell from the beginning of the summer, partly because of uncertainty over the Brexit negotiations (Figure 12). Implied volatility in the equities segment has increased since mid-July (Figure 13), especially in the sectors most exposed to the effects of trade tensions.

Figure 12

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



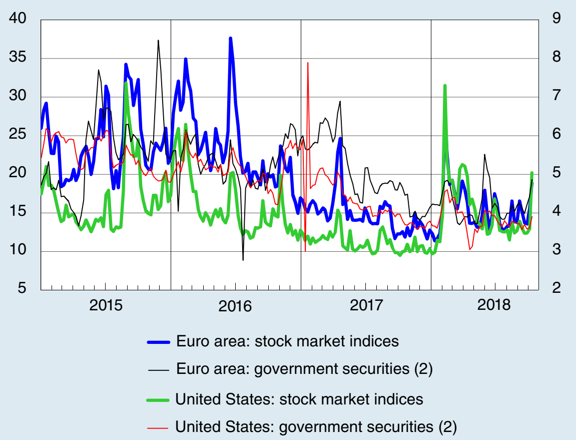
Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Tensions surface in the emerging countries

Conditions in the emerging financial markets tightened over the summer, with bond yields increasing, exchange rates weakening and stock markets falling in some countries. The tensions mainly followed the intensification, from the beginning of August, of the turmoil that hit the Turkish lira as a result of the deteriorating

Figure 13

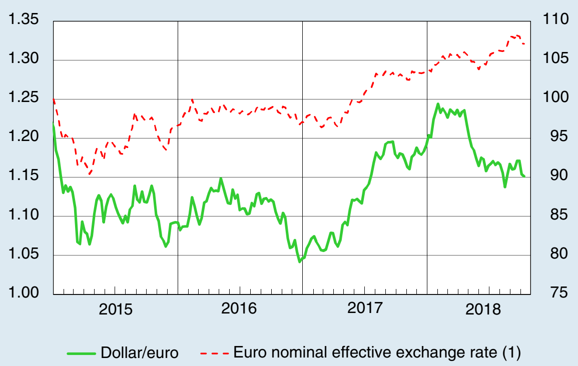
Implied volatility of equity and government securities prices (1)
(average weekly data; percentage points)



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 14

Exchange rates
(average weekly data)



Sources: ECB and Thomson Reuters Datastream.
(1) Right-hand scale; index number (1st week of January 2015=100); an increase in the nominal effective exchange rate indicates an appreciation.

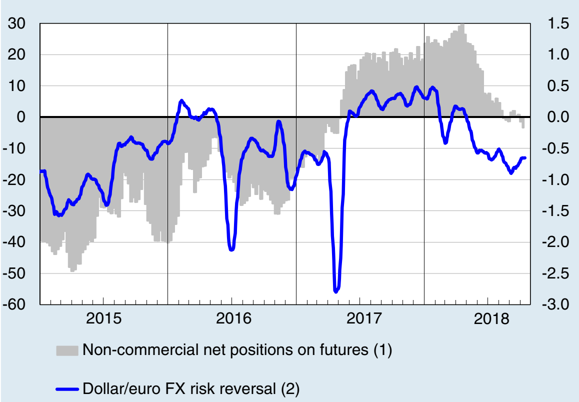
macroeconomic situation in Turkey and its worsening political and trade relations with the United States. This turmoil has also affected the currencies of the other emerging countries, especially those most exposed to increases in the cost of funding their external deficits. The currency crisis has escalated in Argentina, where the authorities have announced emergency measures and recently reached an agreement with the IMF to increase the financial aid programme approved last June to $57 billion, $32 billion of which to be available by December 2019. Exchange rate volatility has risen sharply, returning to the peak levels reached between the end of 2015 and the beginning of 2016.

The euro remains at high levels

Between the end of June and the first half of October, the euro remained strong against all the main currencies, although it depreciated by 1.0 per cent against the dollar. However, it appreciated by 2.0 per cent in nominal effective terms (Figure 14), mainly because it strengthened against the Turkish lira. The outlook for the euro/dollar exchange rate remains uncertain. On the one hand, the positions assumed by operators on the derivatives market are balanced, signalling expectations of stability for the euro against the dollar. On the other hand, the distribution of short-term expectations for the euro/dollar exchange rate is asymmetrical and indicates expectations of a depreciation of the euro: the one-month risk reversal index has turned negative, indicating that the cost of insuring against a significant weakening of the euro against the dollar continues to be higher than that of insuring against a marked appreciation (Figure 15).

Figure 15

Net positions on 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.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

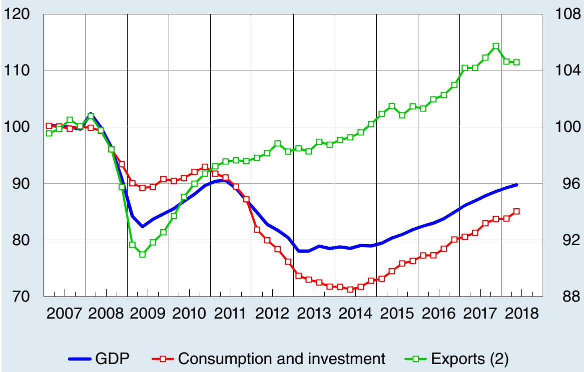
In the second quarter economic activity continued to expand at a moderate pace, somewhat slower than in the previous quarter. Strong growth in investment more than offset the negative contribution of foreign trade. According to the latest cyclical indicators, activity slowed in the third quarter.

Growth continues in the second quarter ...

In the springtime GDP rose by 0.2 per cent quarter-on-quarter, decelerating a little compared with the winter months (Figure 16; see *Economic Bulletin*, 3, 2018). The main contribution to economic activity was the strong recovery in investment (2.8 per cent), which had fallen in the first few months of the year. This decline was attributable to the decision by firms to bring forward a portion of their planned investment to

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

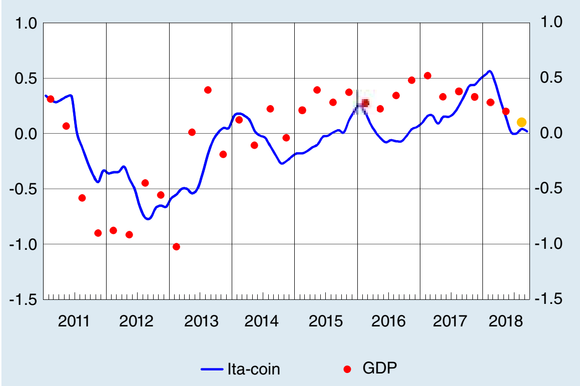
GDP and its main components (1)
(percentage change on previous period)

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2017
GDP	0.4	0.3	0.3	0.2	1.6
Total imports	1.4	1.6	-2.6	1.6	5.2
National demand (2)	0.3	0.2	0.3	0.7	1.3
National consumption	0.2	0.0	0.3	0.0	1.1
household spending (3)	0.3	0.1	0.4	0.0	1.5
other spending (4)	-0.1	0.0	-0.1	0.0	-0.1
Gross fixed investment	3.0	1.6	-1.1	2.8	4.3
construction	1.0	1.0	0.1	0.6	1.6
plant, machinery, arms (5)	7.5	2.9	-2.5	7.0	8.8
Change in inventories (6) (7)	-0.5	-0.1	0.2	0.2	-0.4
Total exports	1.7	1.8	-2.4	-0.1	5.7

Source: Istat.
(1) Chain-linked values; the quarterly data are adjusted for seasonal and calendar effects. – (2) Includes the changes in inventories and valuables. – (3) Includes non-profit institutions serving households. – (4) General government expenditure. – (5) Includes transport equipment. – (6) Includes valuables. – (7) 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 yellow circle shows the forecast for GDP growth in the third quarter based on bridge models. For Ita-coin, monthly estimates of the change in GDP on the previous quarter net of the most erratic components.

the end of 2017, owing to uncertainty at the time about whether existing tax incentives would be extended to 2018 (see *Economic Bulletin*, 3, 2018). Household consumption instead stagnated, after rising sharply in the first quarter. The contribution of foreign trade remained negative: exports were stable while there was a sustained increase in imports (Table 4). Value added rose in services and construction (0.3 and 0.5 per cent respectively), while in industry excluding construction it remained stable.

… but slackens in the third

According to our estimates, in the third quarter GDP growth slowed, despite moderately positive signs from the services and construction sectors (see the box 'Economic activity in the third quarter based on cyclical indicators'). In September the Bank of Italy's Ita-coin indicator was just above zero (Figure 17), indicating that the trend in economic activity was little more than stationary. During the same month, consumer confidence rose slightly, while business confidence fell as a result of less optimistic assessments regarding the general performance of the economy. The purchasing managers' index (PMI) also points to a slowdown in the rate of growth.

ECONOMIC ACTIVITY IN THE THIRD QUARTER BASED ON CYCLICAL INDICATORS

The latest data calculated using the Bank of Italy's statistical models[1] suggest that in the third quarter of 2018 GDP increased by 0.1 per cent quarter-on-quarter, slowing with respect to the previous quarter (Figure A). Uncertainty is quantifiable within a range of 0.1 percentage points above or below the central projection. Economic activity appeared to increase in services, but to continue to stagnate in industry excluding construction. Value added in construction continued to expand at a moderate pace.

The purchasing managers' index (PMI) for the service sector suggests that the increase in value added in this sector, which had contracted slightly in the second quarter, has stabilized at positive levels (Figure B). The contribution of firm start-ups and wind-ups, one of the indicators included in the forecasting models for the service sector, appeared to be essentially nil. The increase in services was due in part to the good performance of foreign tourism flows.

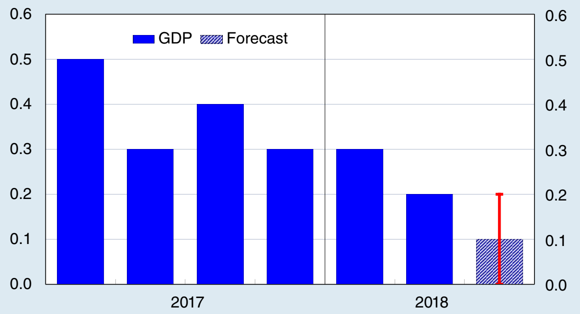
In the two months July-August industrial production fell slightly compared with the previous quarter. In light of our estimates for September, based as usual on a broad range of cyclical indicators, in the third quarter industrial activity still appeared flat overall: the increase in electricity consumption was offset by a drop in goods transport flows, while new vehicle registrations remained unchanged (Figure D). The confidence of manufacturing firms as measured by Istat deteriorated over the summer: indices related to assessments of foreign orders declined, especially in the investment and intermediate goods sectors (Figure C).

The contribution of construction-sector value added to the expansion in GDP was moderately positive. There are favourable signs, in particular, from Istat's survey of construction industry confidence, which after reaching very low levels at the start of 2013 has gradually, but consistently, improved (Figure C). The Bank of Italy's surveys also reveal consistently positive assessments of demand trends for the third quarter, mainly expressed by firms in the non-residential construction sector; however, views of investment conditions have dimmed (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 15 October 2018).

[1] The evaluation of GDP performance, in advance of the official figure that will be released by Istat on 30 October (about 30 days after the end of the reference quarter using a limited set of data), is based on a wide range of partial information (such as electricity consumption, goods transport and industrial production), business surveys and other qualitative assessments. These can then be combined according to 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

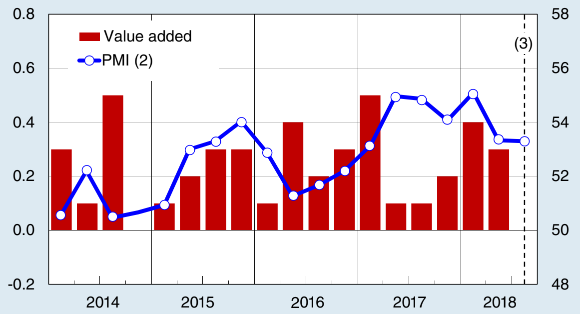
GDP estimates in the third quarter (1)
(percentage changes)



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

Figure B

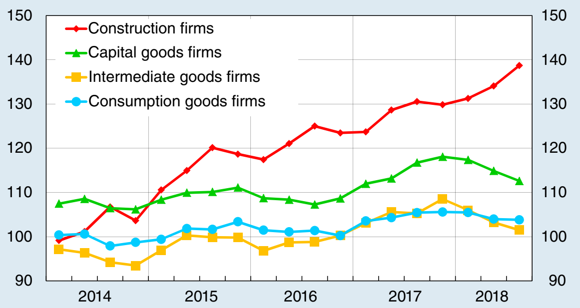
PMI and value added in services (1)
(levels and percentage changes)



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

Figure C

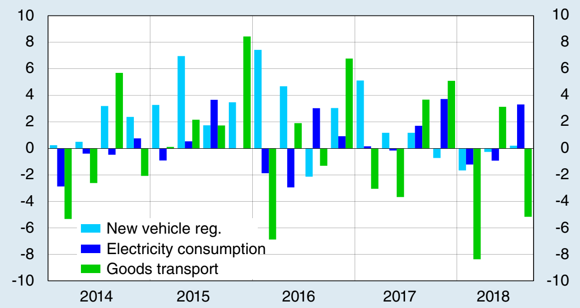
Business confidence indices (1)
(levels; indices: 2010=100)



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. These indicators are subject to revision.

2.2 FIRMS

Industrial output is estimated to have held stable in the third quarter. Investment increased sharply in spring; according to the surveys carried out by the Bank of Italy in September, investment plans are still expanding compared with 2017. Firms report less optimism concerning the outlook for demand, partly in view of heightened tensions in international trade.

Industrial output remains weak

Industrial output rose by 1.7 per cent in August, after recording a sharp fall in July (Figure 18). Our estimates indicate that manufacturing activity stagnated in the third quarter, having declined slightly in the previous period.

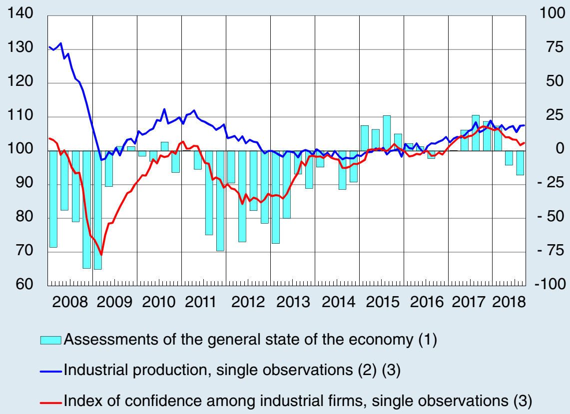
Business confidence is affected by the outlook for exports

Although business confidence indicators in manufacturing were still positive, in the third quarter they registered less optimistic expectations regarding the general economic outlook, particularly in view of the trend in exports. According to the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, the assessments of general economic conditions deteriorated; demand expectations three months ahead were still positive, although less so than at the beginning of the year. Purchasing managers' indices (PMIs) were stable on average in the third quarter in the service sector but declined in manufacturing, while continuing to predict an expansion of output.

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, 15 October 2018). – (2) Industrial production adjusted for seasonal and calendar effects; for September 2018, estimated data. – (3) Index: 2015=100.

Investment increases significantly

There was a particularly sharp increase in investment in plant and machinery in the second quarter, which rose by 7.0 per cent following a brief downturn at the start of the year (see Section 2.1). Investment in construction also increased after stagnating in the first three months of the year. According to the Bank of Italy-*Il Sole 24 Ore* survey, the share of firms intending to expand their investment plans this year compared with 2017 diminished but was still greater than the percentage of firms expecting to cut back. The Bank of Italy's autumn business outlook survey of a sample of firms with at least 20 employees in industry excluding construction and private non-financial services (see 'Business Outlook Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, forthcoming) points to continued growth in investment spending in 2018 compared with the previous year (see the box 'The investment outlook according to business surveys').

INVESTMENT OUTLOOK ACCORDING TO BUSINESS SURVEYS

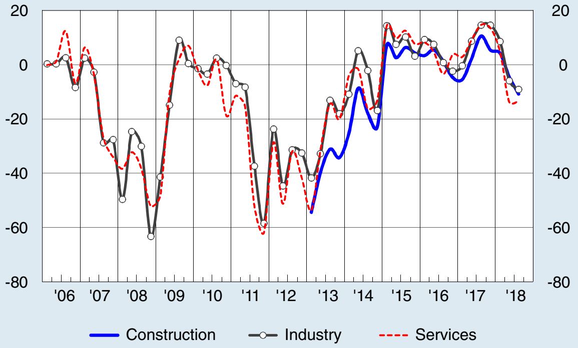
According to the quarterly survey of inflation and growth expectations carried out in September by the Bank of Italy and *Il Sole 24 Ore* on a sample of about 1,000 industrial, service and construction firms with 50 or more employees, domestic and foreign demand expectations remained stable, despite concerns about the impact of protectionist trade measures (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 15 October 2018 and the box 'Trade tensions, uncertainty and economic activity'). However, opinions were less favourable on the general economic situation and on firms' operating conditions.

As in the previous quarter, the share of firms reporting a worsening in investment conditions predominated: the balance between opinions of an improvement and those of a deterioration was -11.3 percentage points (see the figure), a value that, while negative, is still small by historical standards. The balance was similar across the various sectors: -10.8 for construction firms, -9.2 for firms in industry excluding construction and -13.5 for service firms.

However, firms confirmed the growth in their investment plans for 2018 as a whole, albeit to a lesser extent than planned at the start of the year: the share of firms expecting an increase in nominal expenditure exceeded the share expecting a decrease by 20.1 percentage points (24.0 percentage points in June and 27.5 in March; see the table). The balance between the two shares narrowed mainly among small firms. Firms with more than 1,000 employees, whose investment plans for 2018 were already very favourable in the previous survey, signalled a further improvement.

The positive performance of investment in 2018 was also confirmed in the Business Outlook Survey of Industrial and Service Firms (forthcoming), carried out annually between September and October by the Bank of Italy's branches on a sample of non-financial private firms with at least 20 employees and construction firms with at least 10 employees. This year, about two thirds of firms invested the amount originally planned at the end of 2017, while about a fifth invested more than expected. The positive investment dynamic was flanked by a slight increase in the demand for bank loans in the first half of 2018 compared with the second half of 2017, driven by credit access conditions that remained favourable overall. In the plans for 2019, about a quarter of firms expect a further expansion in investment spending compared with 2018, while 58 per cent expect it to remain unchanged.

Firms' assessments 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, 15 October 2018).

According to the same survey, the share of firms reporting an increase in turnover in the first nine months of 2018 compared with the year-earlier period remained prevalent. Firms expect sales to continue to improve at least until the spring of 2019: more than a third expect an expansion and only a tenth anticipate a decline.

In the construction sector, opinions on borrowing conditions were positive overall and have improved since the previous survey, while the demand for bank loans remained substantially unchanged. The production of construction firms seems to have continued to grow; assessments for the coming year confirm the sector's positive dynamic.

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

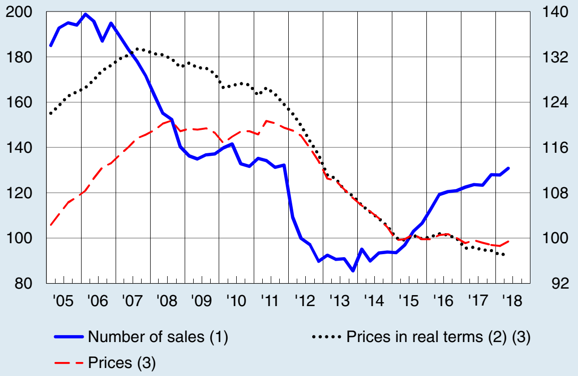
	Industry excluding construction	Services	Construction	Total economy
	Investment expenditure planned for H2 2018 compared with H1			
Higher	32.2	24.5	19.0	27.8
About the same	52.3	58.2	62.3	55.7
Lower	15.5	17.3	18.8	16.5
	Investment expenditure planned for 2018 compared with actual investment in 2017			
Higher	39.9	33.0	26.3	35.9
About the same	43.9	51.6	55.5	48.2
Lower	16.1	15.3	18.2	15.8

(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, 15 October 2018). Rounding may cause discrepancies.

Figure 19

House prices and sales

(quarterly data; indices: 2015=100)

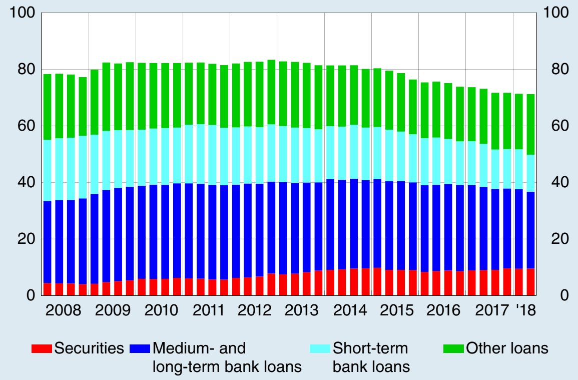


Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index. – (3) Right-hand scale.

Figure 20

Non-financial corporate debt (1)

(quarterly data; as a percentage of GDP)



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

Expectations regarding the real-estate market are fairly positive

The number of house sales rose in the second quarter, recouping the small decline recorded in the early part of the year. Prices continued to fall, however, dropping 0.2 per cent with respect to the previous year (Figure 19). According to the Italian Housing Market Survey conducted in July, most real-estate agents judged demand conditions to be stable. Their expectations regarding the outlook for the market were adjusted slightly downwards, while remaining nonetheless positive over a short- and medium-term horizon. In the survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, the demand expectations of construction firms for the third quarter are positive.

Firms' financial surplus continues to narrow

Based on Istat data, in the second quarter of 2018 the ratio of gross operating surplus to value added diminished compared with the previous period owing to the rise in labour costs. Although firms continued to benefit from the historically low level of net interest expense, their saving rate (calculated as the ratio of gross saving to value added) fell slightly; the financial balance as a ratio of value added (in surplus since the end of 2012) was further reduced, partly owing to the increase in investment spending. In the second quarter non-financial corporate debt fell slightly to 71.2 per cent of GDP, compared with 71.3 per cent at the end of March (Figure 20).

2.3 HOUSEHOLDS

In the spring, household consumption remained stable, notwithstanding the recovery in disposable income and the positive trend in the labour market. The latest cyclical indicators suggest that consumption expanded slightly in the third quarter.

Consumption remains unchanged in the second quarter ...

Household consumption stagnated in the spring after growing by 0.4 per cent in the first quarter (Figure 21). The modest increase in spending on durable goods and on services offset the decline in expenditure on semi-durable goods.

Real disposable income returned to growth (having declined by 0.1 per cent in the first quarter), partly benefiting from the boost provided by the labour market (see Section 2.5). On average last year, the propensity to save increased by 8.0 per cent (Figure 22).

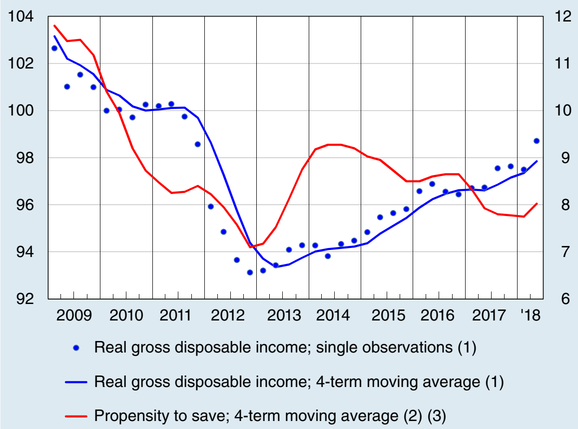
Figure 21

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

Source: Based on Istat data.
(1) Percentage changes on previous year. Until 2017, annual data; for 2018, percentage changes in the first 6 months compared with the year-earlier period. – (2) Chain-linked volumes. – (3) Obtained using the consumption expenditure deflator for households (chain-linked values, reference year 2010). – (4) Seasonally adjusted monthly data. Indices: 2010=100. – (5) In June 2013 methodological changes were introduced that make the data since then not directly comparable with the earlier data. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

Figure 22

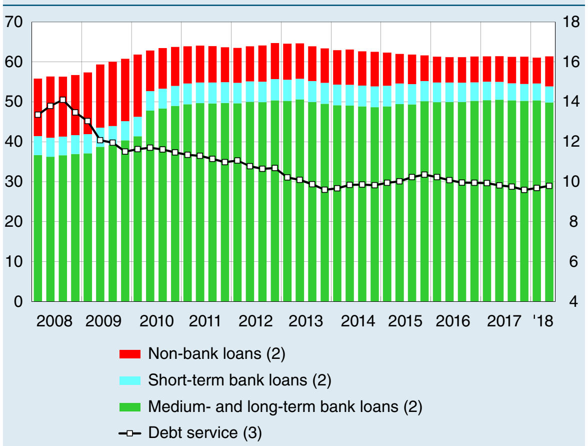
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



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

Figure 23

Household debt (1)
(quarterly data; as a percentage of gross disposable income)



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

... but grows in the summer months

Consumption is estimated to have expanded modestly in the third quarter, buoyed by the marked increase in disposable income. New car registrations declined for the second consecutive quarter. Consumer confidence indicators held stable at high levels: concern remained regarding the state of the economy and, in particular, the labour market in connection with the weaker demand for labour over the summer months (see Section 2.5); respondents' assessments of their own situations improved.

Household indebtedness increases

In the second quarter of 2018, the ratio of Italian household debt to disposable income increased to 61.4 per cent (from 61.1 per cent in March; Figure 23), well below the euro-area average of 94.9 per cent. As a share of GDP, household debt grew from 40.8 to 41.1 per cent (57.8 in the euro area). Debt servicing costs (interest plus repayment of principal) increased to 9.8 per cent of disposable income (from 9.7 per cent in March). Interest rates on new mortgage loans remained at historically low levels (see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the second quarter of 2018, Italian exports stalled, reflecting weak world trade. Based on the cyclical indicators, the outlook is still uncertain. The current account surplus is still large; the net international debtor position continued to reduce sharply and is now close to nil.

Exports stagnate in the second quarter

Following the decline in the first few months of the year, exports of goods and services remained weak in the second quarter (-0.1 per cent in volume terms compared with the previous quarter), reflecting weak world trade (see Section 1.1). Sales of goods remained stable in all the main markets both within the European Union and outside its borders. The expansion in exports of transport equipment and fashion goods was offset by the decline in exports of chemical, pharmaceutical and, above all, refined petroleum products. Exports of services fell slightly (-0.4 per cent).

Imports picked up again overall, rising by 1.6 per cent in volume terms compared with the previous quarter; purchases from abroad increased, especially in the metals and metal products and pharmaceutical sectors.

The latest data (July and August averages) show that goods exports, valued at current prices and seasonally adjusted, grew moderately compared with the second quarter. Manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI indicator, worsened in the third quarter (Figure 24).

The current account surplus is stable

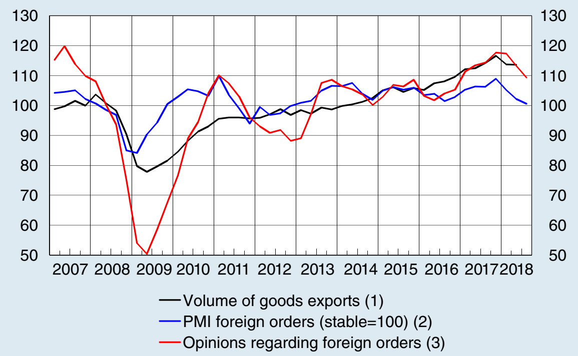
The current account surplus remained stable in the first eight months of 2018 compared with the same period in 2017 (Table 5). The improved net position of services, which benefited mainly from the trend towards higher spending by foreign tourists in Italy plus the increase in the primary income surplus, offset the slight decline in the surplus in merchandise trade, caused by greater spending on energy commodities. The current account balance reached 2.8 per cent of GDP, calculated on the basis of the moving averages of the four quarters ending in June (Figure 25).

Foreign investors reduce their holdings of Italian securities

In the first eight months of 2018, residents invested €57.4 billion in foreign portfolio securities, mainly in foreign investment fund units (€36.1 billion), although the pace of purchases slowed after the first

Figure 24

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.-Aug. 2017	Jan.-Aug. 2018
Current account	**42.8**	**48.3**	**28.1**	**28.0**
Memorandum item: % of GDP	2.5	2.8	–	–
Goods	57.7	55.8	34.4	32.3
non-energy products (2)	83.1	87.5	55.6	56.9
energy products (2)	-25.5	-31.8	-21.2	-24.6
Services	-3.4	-3.5	-0.9	0.2
Primary income	5.3	10.8	5.3	5.9
Secondary income	-16.8	-14.8	-10.7	-10.4
Capital account	**-3.1**	**-1.0**	**-1.3**	**-1.6**
Financial account	**65.5**	**62.1**	**38.5**	**27.1**
Direct investment	-4.1	3.2	-5.7	1.3
Portfolio investment	159.5	98.3	79.2	100.2
Financial derivatives	-3.0	-7.3	-3.2	-1.9
Other investment (3)	-85.8	-34.7	-34.1	-74.2
Changes in official reserves	-1.2	2.7	2.3	1.8
Errors and omissions	**25.8**	**14.8**	**11.7**	**0.7**

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

quarter of the year. Foreign investors reduced their holdings of Italian portfolio securities by €42.8 billion, mainly disposing of public sector securities (€24.9 billion) and bank bonds (€12.4 billion).

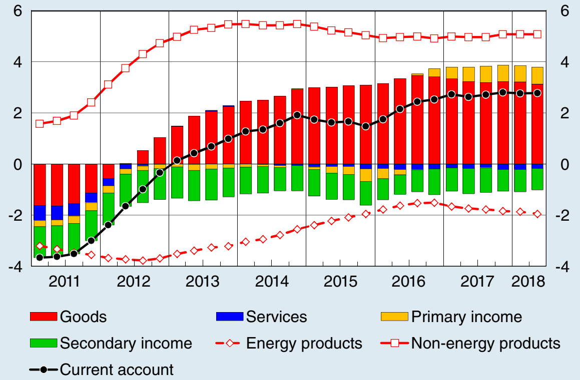
Purchases of Italian public sector securities on the part of foreign investors in the period from January to April (€41.7 billion) were more than offset by the sales recorded in May and in June (a total of €57.9 billion), coinciding with financial market tensions in Italy (see *Economic Bulletin*, 3, 2018). In July and August foreign investors sold sovereign debt securities for a total of €8.7 billion.

This was reflected in the Bank of Italy's net debtor position in the TARGET2 European payment system which fluctuated widely following substantial stability from January to April. It widened in May and June, reflected technical factors in July and August, then narrowed slightly to reach €489 billion at the end of September (see the box 'Recent trends in the Bank of Italy's TARGET2 position').

Figure 25

Current account balance and main components

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



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

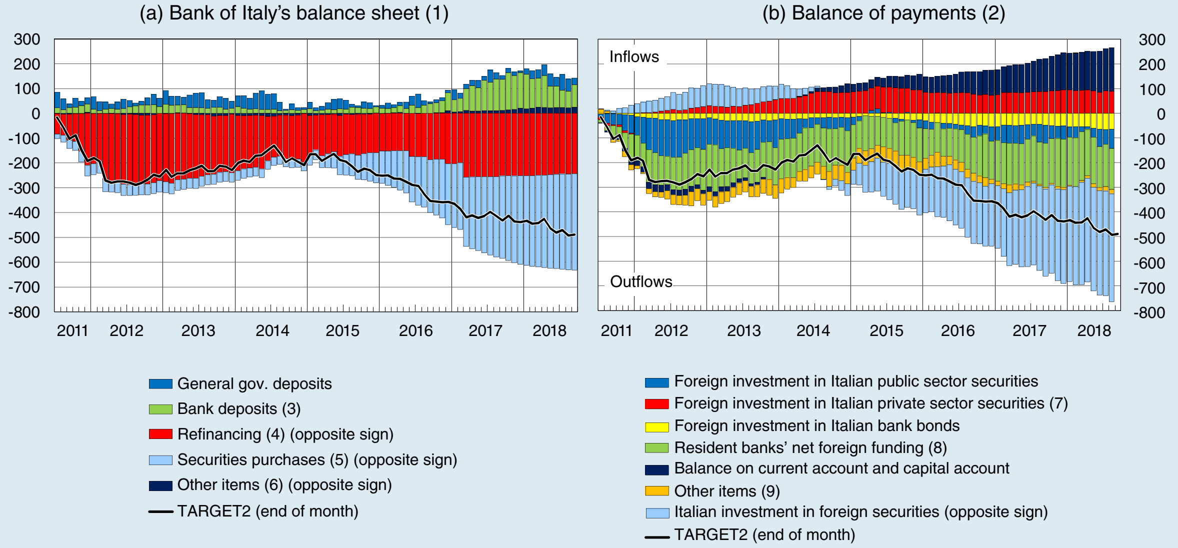
RECENT TRENDS IN THE BANK OF ITALY'S TARGET2 POSITION

The Bank of Italy's net debtor position on the TARGET2 European payment system remained essentially stable between the spring of 2017 and April 2018 and then increased, albeit with large fluctuations (Figure A).

Figure A

Main factors influencing the TARGET2 balance

(billions of euros)



(1) Breakdown based on the Bank of Italy's balance sheet accounting identity. Monthly stocks (data available up to September 2018, provisional for the month of September). – (2) Breakdown based on the balance of payments accounting identity. Cumulative flows from July 2011 (data available up to August 2018). – (3) Liabilities vis-à-vis EMU credit institutions for monetary policy purposes. – (4) Loans to EMU credit institutions for monetary policy purposes. – (5) Securities held for monetary policy purposes. – (6) Difference between other net assets and banknotes in circulation. – (7) Excluding bank bonds. – (8) Net bank funding in the form of loans, deposits and other investments of the banking sector , including that intermediated by resident central counterparties); excludes bank bonds. – (9) Direct investment, derivatives, official reserves, other investment and errors and omissions.

TARGET2 balance: accounting identity in relation to the Bank of Italy's balance sheet and the balance of payments (1)
(billions of euros)

			(A) Bank of Italy's balance sheet accounting identity					(B) Balance of payments accounting identity						
			Change in TARGET2 = (a)+(b)-(c)-(d)-(e)					Change in TARGET2 = (f)+(g)+(h)+(i)+(l)+(m)-(n)						
			more:		less:			more:						less:
	Balance at end of period	Change in balance (2)	General gov. deposits at the Bank of Italy	Bank deposits at the Bank of Italy (2)	Refinanc-ing (3)	Bank of Italy's securities purchases (4)	Other items (5)	Foreign investment in Italian public sector securities	Foreign investment in Italian private sector securities (6)	Foreign investment in Italian bank bonds	Resident banks' net foreign funding (7)	Current account and capital account	Other items (8)	Italian. investment in foreign securities
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(l)	(m)	(n)
			Changes in stocks					Flows						
Apr. '17-Apr. '18	-426	-6	26	42	-7	93	-11	62	9	-5	-18	49	20	123
Jan. '18-Apr. '18	-426	13	37	-13	-1	14	-2	42	-1	-2	8	7	-2	39
May '18	-465	-39	5	-41	-2	4	1	-25	-3	-7	-1	2	-2	2
June '18	-481	-16	-14	-2	-1	3	-2	-33	-5	-5	23	5	-1	1
July '18	-471	10	29	-17	-2	4	0	9	5	0	-5	7	-4	2
Aug. '18	-493	-21	-16	-1	0	3	2	-17	-1	1	5	5	0	13
Sept. '18 (9)	-489	3	-21	22	-2	3	-3							
Total since launch of APP Mar. '15-Aug 18	-493	-328	36	58	103	347	-28	-60	1	-52	-53	145	42	349

(1) Breakdown based on the Bank of Italy's balance sheet accounting identity (panel A) and on the balance of payments accounting identity (panel B). – (2) Liabilities vis-à-vis EMU credit institutions for monetary policy purposes. – (3) Loans to EMU credit institutions for monetary policy purposes. – (4) Securities held for monetary policy purposes. – (5) Difference between other net assets and banknotes in circulation. – (6) Excluding bank bonds. – (7) Net bank funding in the form of loans, deposits and other investments of the banking sector (including that intermediated by resident central counterparties); excludes bank bond funding. – (8) Direct investment, derivatives, official reserves, other investment and errors and omissions. – (9) For the accounting identity of the Bank of Italy's balance sheet, provisional data for September 2018.

The increase in the balance, which can be read as the accounting counterpart to all transactions between residents and non-residents in Italy (see the box 'The TARGET2 balance in the last three years', *Economic Bulletin*, 3, 2015) was concentrated around the end of May and the beginning of June, mainly reflecting net sales of Italian portfolio securities on the part of foreign investors (see panel (B) of the table), coinciding with the emergence of tensions on the Italian government bond market. The total amount of sales more than offset the inflows of liquidity deriving from the current account surplus and from Italian banks' net foreign funding on the interbank market, which rose sharply in June.

Foreigners' investments in Italian portfolio securities turned positive in July, while August saw net sales. Unlike the situation in the previous two months, in this period the fluctuations in foreign purchases of government securities largely mirrored the profile of net issues by the Treasury (positive in July, negative in August), with which it has usually been strongly correlated (Figure B).

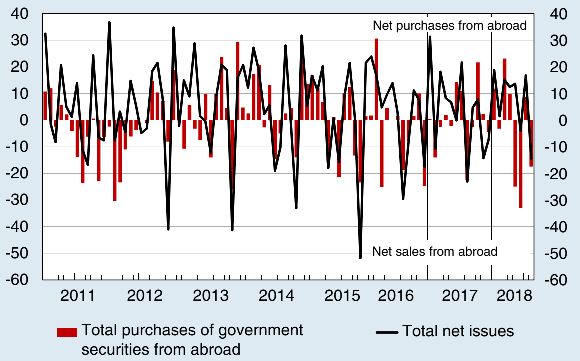
Since the start of the Eurosystem's expanded asset purchase programme, portfolio investment in foreign securities on the part of Italian residents has been the main counterpart to the increase in the debtor balance on the TARGET2 system (see the box 'Recent trends in the Bank of Italy's TARGET2 Balance' in Chapter 10 of the Bank of Italy's *Annual Report* for 2017, 2018). It slowed considerably between

April and July 2018 and it then accelerated in August. The decline in purchases of foreign securities observed during this period is mostly attributable to the non-bank private sector.

By means of the Bank of Italy's balance of payments accounting identity, the evolution of the TARGET2 balance is placed in relation to that of injections of liquidity into the system and its uses. A larger negative balance in May was reflected in a reduction in the excess liquidity held by Italian banks (see panel (A) of the table). During the summer, the changes in the balance were instead mainly due to fluctuations in liquidity resulting from the variations in general government deposits at the Bank of Italy, which reflected the Treasury's issuance policies in particular.

Figure B

Monthly net investments in Italian government securities
(monthly data; billions of euros)



In September the negative balance recorded a slight improvement.

Italy's net international investment position improves significantly

At the end of last June, Italy's net international investment position was 3.4 per cent of GDP, falling by about €65 billion (almost 4 percentage points of GDP) compared with the end of March. The improvement was determined by the current account surplus and the value adjustments made following the increase in yields (see *Economic Bulletin*, 3, 2018). The value of portfolio securities, in particular government bonds held by foreign investors and entered under liabilities in the net international investment position, fell by about €55 billion overall.

2.5 THE LABOUR MARKET

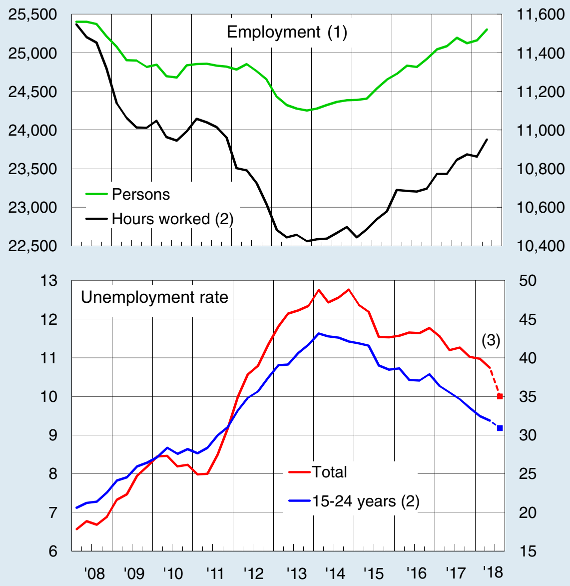
Employment increased significantly in the second quarter and unemployment fell, especially among young people. The growth in contractual wages strengthened, as did the growth in actual wages after two years of stagnation.

Employment increases in the second quarter ...

After the modest increase recorded in the first few months of the year, the number of persons in employment returned to marked growth in the second quarter, increasing by 0.5 per cent on the previous quarter (Figure 26 and Table 6). This was largely on account of the significant expansion recorded in industry excluding construction and

Figure 26

Employment and unemployment
(seasonally adjusted quarterly data)



Sources: Istat's quarterly national accounts for employment data and Istat's labour force survey for the unemployment rate.
(1) Thousands of persons, millions of hours. – (2) Right-hand scale. – (3) The dot indicates the two-month average for July and August.

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			
	Q2 2018	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Total number of persons employed	**25,301**	**0.4**	**-0.3**	**0.2**	**0.5**
of which: industry excl. construction	4,261	0.7	-0.4	0.3	0.8
private services (1)	11,138	0.6	0.2	0.5	0.2
Employees	19,286	0.5	-0.3	0.4	0.5
Self-employed	6,014	0.2	-0.3	-0.6	0.7
Hours worked	**10,950**	**0.7**	**0.3**	**-0.1**	**0.8**
of which: industry excl. construction	1,900	1.0	0.7	0.0	1.1
private services (1)	5,036	0.9	0.5	0.3	0.4
Employees	7,674	0.9	0.1	0.3	0.6
Self-employed	3,276	0.3	0.5	-1.2	1.3

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

in services to households. The total number of hours worked also returned to growth (0.8 per cent) as did the number of hours worked per capita (0.3 per cent).

The number of persons in self-employment, in decline since the end of 2017, showed signs of recovery. Payroll employment increased by 0.5 per cent on the previous quarter; the rise was confined to fixed-term contracts (3.6 per cent; 107,000 individuals), while the number of permanent contracts remained stable after the slight drop registered at the start of the year.

... and remains stable in the third

According to preliminary data from Istat's labour force survey, in July and August the total number of persons in employment remained unchanged compared with the previous two-month period, following the slowdown in fixed-term contracts and the slight contraction in permanent contracts and in self-employment.

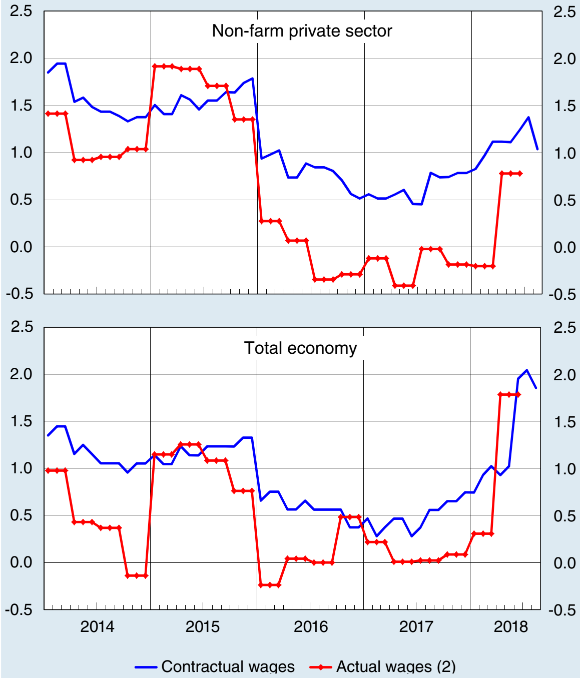
Unemployment falls

The labour force participation rate improved further in the second quarter, reaching 65.9 per cent, 0.4 points higher than in the previous quarter; the employment rate hit one of the highest levels recorded since the start of the time series (58.7 per cent). The unemployment rate fell by two tenths of a point to 10.7 per cent, while youth unemployment fell by six tenths to 31.9 per cent (Figure 26). According to preliminary data from Istat's labour force survey, the decline in the unemployment rate continued into the summer months, reaching 9.7 per cent in August thanks to the slight drop in the participation rate.

Figure 27

Hourly wages (1)

(percentage changes on previous period)



Sources: Istat's quarterly national accounts and survey of contractual wages.
(1) Raw monthly data for contractual wages; seasonally adjusted quarterly data for actual wages. – (2) Actual gross wages.

Wages accelerate

After displaying initial signs of recovery at the end of 2017, the growth in contractual wages in the non-farm private sector increased, reaching 1.4 per cent in July on an annualized basis. It declined slightly in August, partly on account of the non-renewal of the collective bargaining agreement in the retail and wholesale trade sector (Figure 27). The share of payroll employees with an expired employment contract rose from 22.4 per cent on average in the second quarter to 40.1 per cent. For the economy as a whole, the growth in hourly contractual wages has strengthened since June, thanks to the renewal of public sector employment contracts; the slight drop in August reflected the developments in the private sector.

After stagnating for two years, actual hourly wages also increased in the second quarter, rising by 0.8 per cent on the year-earlier period in the non-farm private sector (see the box 'Inflation expectations and wage dynamics', *Economic Bulletin*, 3, 2018). Hourly unit labour costs returned to growth (to 1.7 per cent compared with the same period of the previous year in the non-farm private sector, from -0.1 per cent in the first quarter), partly on account of the decrease in productivity.

2.6 PRICE DEVELOPMENTS

Inflation grew in the summer months, although the growth in the core component remains modest. Firms' expectations improved in the surveys.

Inflation rises ...

The twelve-month change in the harmonized index of consumer prices (HICP) reached the highest levels since the start of 2013 (1.7 per cent, from 1.0 per cent in the second quarter; Figure 28 and Table 7), on average for the third quarter, following the marked acceleration in the prices of energy products. In September, inflation fell to 1.5 per cent; the seasonally adjusted annualized three-month inflation rate stood at 0.8 per cent (Figure 29).

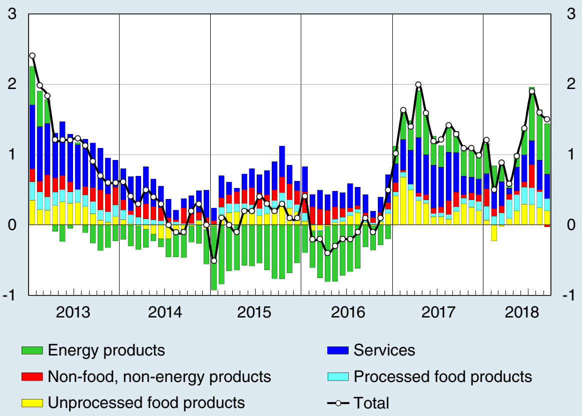
... while the core component remains modest

Core inflation decreased to 0.5 per cent in September, reflecting a slight deceleration in the prices of services and the continuing weakness of the non-energy industrial goods component.

Figure 28

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

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

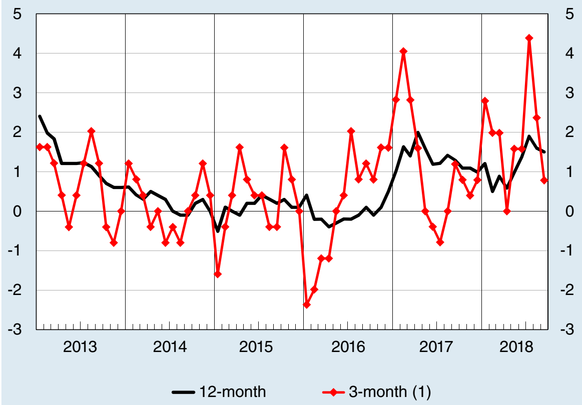


Source: Based on Eurostat data.
(1) Harmonized index of consumer prices.

Figure 29

Consumer price inflation

(monthly data; percentage changes)



Source: Based on Eurostat data.
(1) Annualized and seasonally adjusted.

Table 7

Indicators of inflation in Italy

(12-month percentage changes)

	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. food and energy	Overall index at constant taxation (4)	Overall index		Excl. food and energy	Overall index	
					at 1 month (5)			
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	1.1
2017	1.3	0.8	1.3	1.2	–	0.7	2.6	0.5
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	–
Dec.	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	–
Dec.	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	0.6	0.5	-0.2	0.2	1.4	–
May	1.0	0.6	1.0	1.0	0.4	0.5	2.7	–
June	1.4	0.7	1.3	1.3	0.2	0.5	3.2	–
July	1.9	0.9	1.9	1.5	0.2	0.5	5.1	–
Aug.	1.6	0.6	1.6	1.6	0.2	0.7	5.1	–
Sept.	1.5	0.5	1.4	1.4	-0.2	0.6	….	–

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally owing to the different method of recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Index calculated by Istat by subtracting from sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

Producer price pressures gain ground

In August, producer price inflation stood at 5.1 per cent year on year, on account of the energy component; that of non-food final consumption goods, which provides forward-looking indications on the corresponding component of the consumer price index, continues to be moderate at 0.7 per cent. Wages showed signs of accelerating which, despite a fall in value added per employee, resulted in an increase in unit labour costs in the second quarter (see Section 2.5).

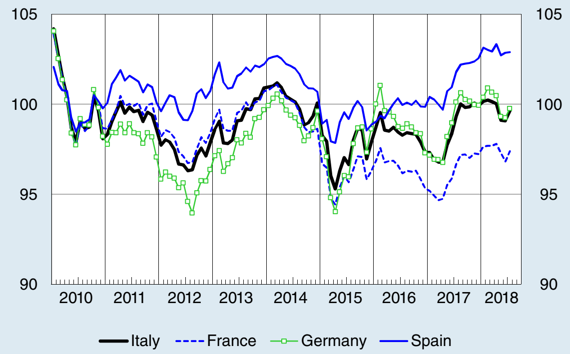
The appreciation of the euro results in a decline in competitiveness

According to our estimates, price competitiveness, measured by the producer prices of manufactured goods and taking account of Italy's trade structure, worsened slightly in the third quarter (Figure 30), especially in non-euro-area markets because of the appreciation of the euro; there was a similar decline in the other main European economies.

Figure 30

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 July 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 - May 2018', Methods and Sources: Methodological Notes, Banca d'Italia, Statistics Series, 18 May 2018.

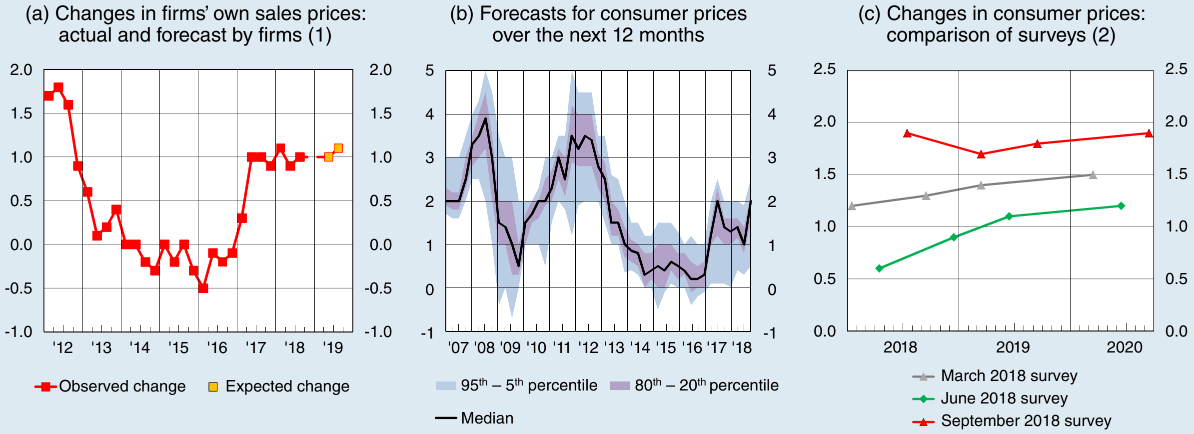
Firms' inflation expectations improve

In the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, firms reported an increase of 1.0 per cent in their list prices compared with the year-earlier period; a similar growth in prices is expected over the next twelve months. Inflation is expected to be considerably higher across all time horizons compared with the previous survey (Figure 31). According to Istat surveys, the percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months rose slightly

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, 15 October 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.

compared with the second quarter (from 63.8 to 64.4 per cent). The analysts polled in October by Consensus Economics confirmed their average inflation expectations of 1.3 per cent for 2018.

2.7 BANKS

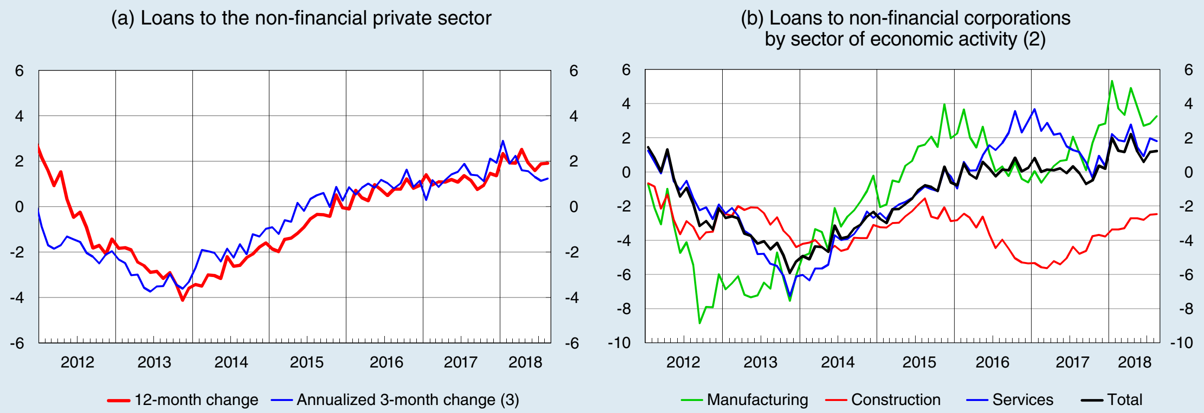
Lending to firms and households is rising moderately, supported by a small expansion in demand. The quality of loans to firms has continued to improve; credit supply conditions have remained relaxed overall, but deteriorated slightly over the summer. Tensions in financial markets were reflected in the risk premiums on bank bonds; the average interest rate on new business loans, while still very low in historical terms, rose slightly.

Lending continues to expand

In the three months ending in August, lending to the non-financial sector continued to grow (1.2 per cent on a seasonally adjusted, annualized basis; Figure 32). Growth in lending to households remained strong at 2.5 per cent, extending to both loans for home purchase and consumer credit.

Figure 32

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



Source: Supervisory reports.
(1) Includes bad debts, 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.

Of the various sectors, lending to non-financial firms rose by 1.2 per cent in the twelve months ending in August. Loans continued to increase both to firms operating in the service sector (1.8 per cent in August; Figure 32.b) and to manufacturing firms (3.3 per cent). The reduction in loans to construction firms instead continued, albeit at a slower pace (-2.5 per cent), as did loans to small firms.

Funding increases

Between May and August Italian banks' total funding increased by around €14 billion (Table 8), mainly due to the effect of greater net wholesale funding through central counterparties on the repo market. At the same time, deposits of residents continued to rise (at a twelve-month rate of 2.4 per cent) and bond funding continued to decrease (-18.2 per cent). On an annual basis the funding gap, i.e. the share of loans not covered by retail funding, fell by 1.6 percentage points; in August the indicator stood at 3.0 per cent.

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		12-month percentage changes (3)	
	May 2018	August 2018	May 2018	August 2018
Assets				
Loans to Italian residents (4)	1,769	1,728	-0.3	-1.1
of which: firms (5)	732	696	1.2	1.2
households (6)	634	628	2.8	2.7
Claims on central counterparties (7)	80	73	12.0	37.8
Debt securities excluding bonds of resident MFIs (8)	479	501	-2.7	7.2
of which: securities of Italian general government entities	361	372	-4.8	4.9
Claims on the Eurosystem (9)	89	68	-5.2	-46.4
External assets (10)	401	406	14.3	14.5
Other assets (11)	947	940	2.7	1.6
Total assets	**3,764**	**3,715**	**1.5**	**1.0**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,499	1,498	3.9	2.4
Deposits of non-residents (10)	313	317	5.4	5.8
Liabilities towards central counterparties (7)	122	138	-5.8	32.2
Bonds (13)	259	251	-17.7	-18.2
Liabilities towards the Eurosystem (9)	248	245	-2.6	-3.9
Liabilities connected with transfers of claims	116	119	0.5	8.7
Capital and reserves	433	400	-2.4	-8.8
Other liabilities (14)	774	748	8.9	6.8
Total liabilities	**3,764**	**3,715**	**1.5**	**1.0**

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.

The tensions on the financial markets affected yields on bank bonds and premiums on credit default swaps (CDSs), both of which have risen since May by more than 1 percentage point (see Section 2.8). The cost of lending to firms and households remains very low by historical standards. Between May and August, however, the average interest rate on new business loans rose by around 10 basis points (Figure 33) while that on new loans to households for home purchase was stable at 1.9 per cent. Findings based on historical patterns suggest that the cost of lending could be gradually affected by an increase in sovereign yields if this were to prove enduring.[1]

Supply conditions are relaxed, with some signs of a tightening

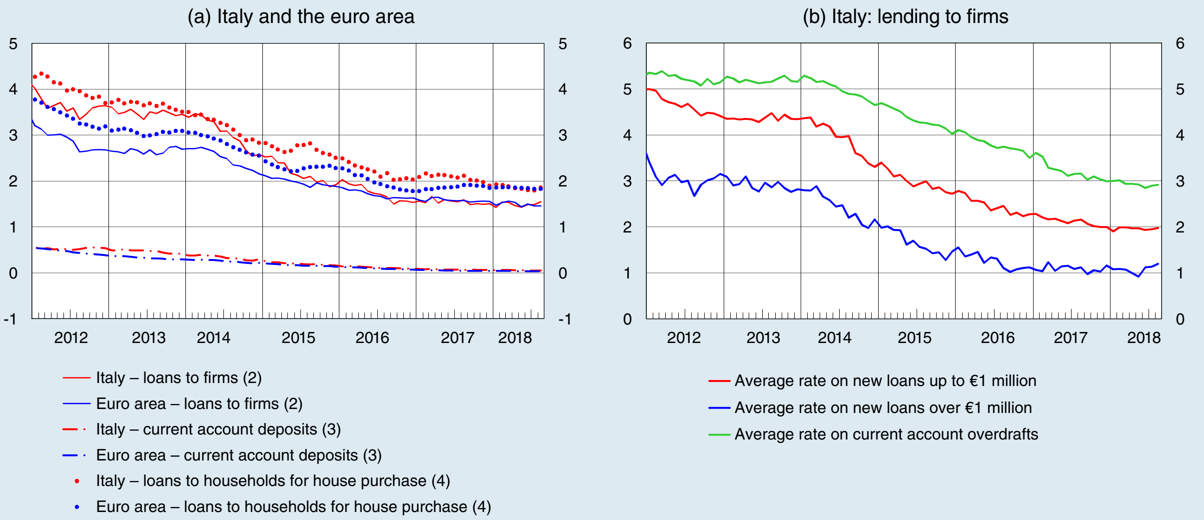
According to the Italian banks that took part in the euro-area bank lending survey, in the second quarter of 2018 credit supply conditions remained accommodative for both business and household loans (see the box 'Credit supply and demand').

[1] See for example U. Albertazzi, T. Ropele, G. Sene and F. M. Signoretti, 'The impact of the sovereign debt crisis on the activity of Italian banks', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 133, 2012.

Based on the latest data from the business surveys carried out in September, in the third quarter credit access conditions nonetheless worsened slightly.

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

CREDIT SUPPLY AND DEMAND

Based on the responses of the Italian banks interviewed for the euro-area bank lending survey, credit supply conditions for new loans in the second quarter of 2018 eased slightly for firms and remained broadly unchanged for households (Figure A).[1] Competitive pressures supported an improvement in supply conditions for business loans and a reduction in the average margins on total loans disbursed.

According to the banks interviewed, demand for business lending continued to grow moderately, still driven by the low cost of credit and by funding requirements for inventories and working capital. The favourable outlook for the real estate market and low interest rates contributed to the slight increase in demand for mortgage loans by households.

Banks were asked, with reference to the six-month period ending last June, about the effects on lending conditions of the new regulatory and supervisory requirements concerning capital, leverage, liquidity and provisioning. Based on the responses given, it appears that these measures caused risk-weighted assets to decline; though they contributed to a slight tightening in lending conditions for large firms, they had the effect of helping to reduce the margins on loans to households and firms.

This issue of the survey included a question about the impact of non-performing loans on lending conditions. The banks indicated that the ratio of these loans to total outstanding loans affects

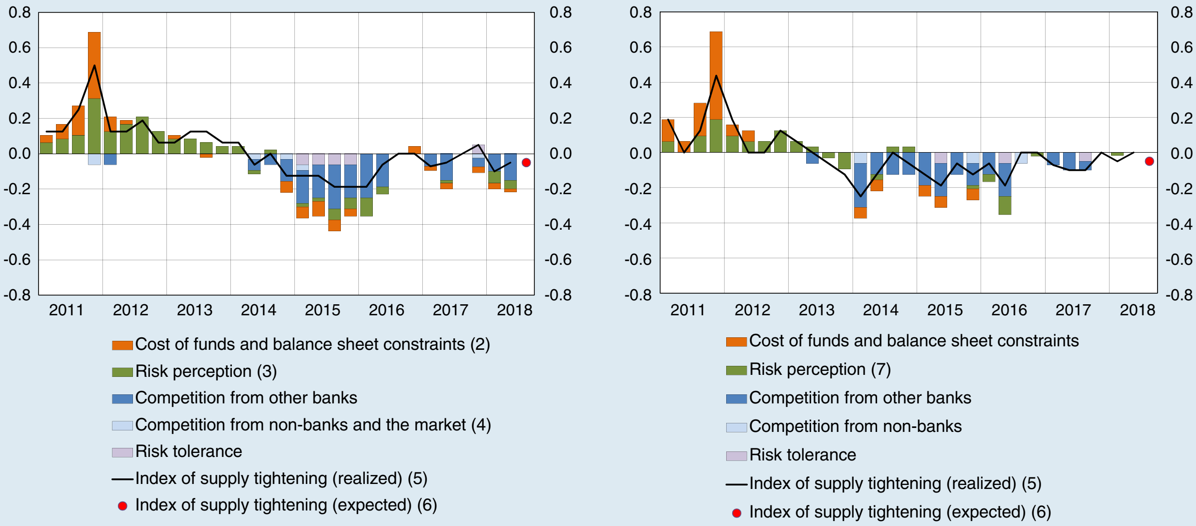
[1] Ten of the main Italian banking groups took part in the survey, which ended in late June. The results for Italy are available at www.bancaditalia.it, those for the euro area at www.ecb.int.

Figure A

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

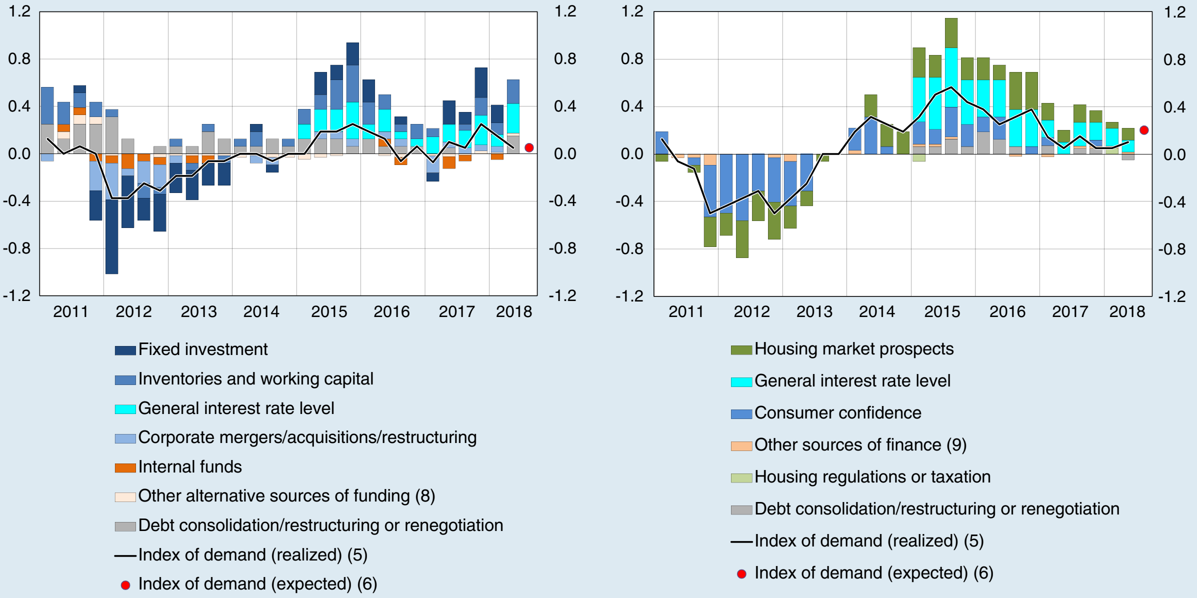
(a) Loans to firms | (b) Loans to households for house purchase

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



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

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



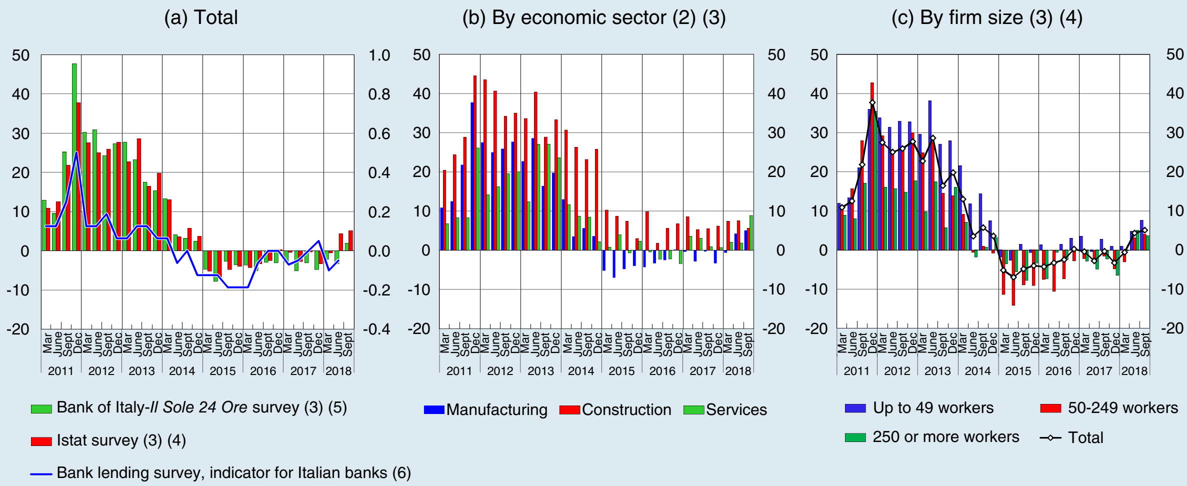
Source: Euro-area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically 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) For the quarter ending at the time of the survey; right-hand scale. – (6) Forecasts prepared in the previous quarter; right-hand scale. – (7) Average of the following factors: general economic situation and outlook; housing market prospects; and 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.

lending standards and conditions for households and firms. In line with the reduction in the ratio of NPLs to total outstanding loans, in the first half of this year the impact of the share of these loans on lending conditions was considerably lower compared with the average for the three preceding years.

The latest data on firms can be found in 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) and in Istat's business confidence surveys. Based on the responses given by the firms interviewed, in the third quarter of 2018 credit access conditions still appear to be relaxed overall, but seem to have deteriorated slightly across all sectors of economic activity compared with the spring months (Figure B).

Figure B

Firms' access to credit (1)



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

Non-performing loans continue to decrease

In the second quarter of 2018, the ratio of new non-performing loans to outstanding loans fell to 1.5 per cent on a seasonally adjusted annualized basis (from 1.7 per cent in the previous quarter; Figure 34). The ratio was unchanged for loans to households (1.2 per cent) and declined for those to firms, to 2.2 from 2.6 per cent. The reduction was greatest in the construction sector.

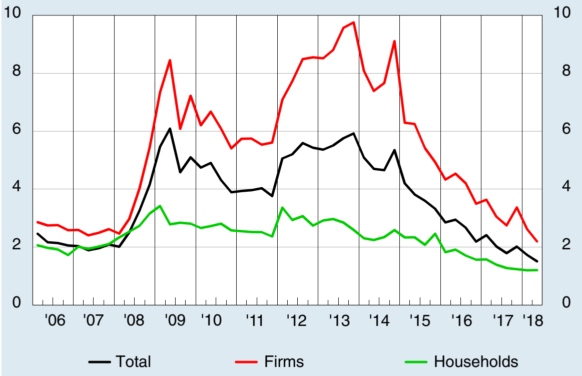
For the banking groups classified as significant for supervisory purposes, in the second quarter of 2018 the ratio of NPLs to total outstanding loans continued to diminish, both gross and net of loan loss provisions (reaching 9.7 and 4.7 per cent respectively, from 10.8 and 5.3 per cent in the first three months of 2018); see *Financial Stability Report*, 2, 2018, forthcoming). This reduction is largely attributable to the completion of sales of bad loans, which were already heavily written down (see the box 'The impact of the new IFRS 9 accounting standards' in *Financial Stability Report*, 2, 2017). As a result of these sales, the coverage ratio for non-performing loans of the significant banking groups fell by 1.0 percentage points to 54.4 per cent.

Profitability rises In the first half of 2018, the operating profits of the significant groups grew by 11.4 per cent compared with the same period of the previous year. Gross income rose by 2.0 per cent owing both to the increase in interest income and in net fee income. Operating costs fell by 2.6 per cent, benefiting from the reduction in staff costs (-4.4 per cent). Loan loss provisions fell by 58.0 per cent. The annualized return on equity amounted to 7.1 per cent, up from 6.2 per cent in the first half of 2017 (1.5 per cent net of extraordinary components in the first half of last year).

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.

Capital ratios increase on an annual basis while falling slightly for the quarter In June the common equity tier 1 (CET1) of the significant banks was equal to 12.7 per cent of risk-weighted assets. On an annual basis, the CET1 ratio grew; compared with the first quarter of 2018, it was down by about 50 basis points. This trend reflected both the increase in risk-weighted assets and the reduction in capital. The latter was due in part to the decrease in the value of provisions which, in turn, was affected by the decline in the prices of government securities held in bank portfolios, which contrasted with the positive contribution of profitability.

2.8 THE FINANCIAL MARKETS

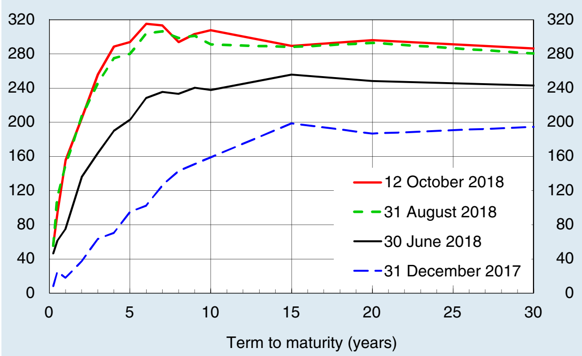
Volatility remains high on the Italian financial markets, reflecting international trends and investors' uncertainty about economic policies. Tensions have re-emerged on the government securities market in recent weeks, and have carried over to other sectors as well. Risk premiums on sovereign and bank bonds remained much higher compared with the levels recorded at the start of the year.

Sovereign spreads increase Government bond yields increased markedly, even for bonds with shorter maturities, largely on account of the uncertainty surrounding economic and financial policies. Yields on ten-year government bonds stood at 3.58 per cent in mid-October, about 90 basis points higher than at the end of June; the sovereign risk premium, measured by the spread between Italian and German ten-year bonds, widened by 70 basis points in the same period to over 300 basis points in mid-October (Figure 35). Among the factors that may influence sovereign risk levels, the spread between CDS contracts stipulated after 2014, which offer protection against redenomination risk, and CDS contracts stipulated earlier, which do not, remained wide, although not as wide as the peak levels recorded

Figure 35

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

(basis points)



Source: Based on Bloomberg data.

between the end of May and the start of June; to economic analysts, this spread measures the redenomination risk of Italian debt (Figure 36).

Share prices fall and volatility increases

The general index of the Italian stock market fell by 11.0 per cent, while the index of leading euro-area stocks declined by 6.2 per cent (Figure 37). The volatility of share prices as implied by options prices on the stock index increased in August and declined in September. Coinciding with the recent tensions on the sovereign bond market, there was another spike in volatility between the end of September and mid-October.

Figure 36

Italian sovereign CDS spreads (1)

(basis points)

Source: Based on data from Thomson Reuters.
(1) Spread between the premiums on Italian sovereign CDS ISDA-2014 and ISDA-2003 contracts with 5-year maturities. The International Swaps and Derivatives Association (ISDA) defined the characteristics of CDS contracts in 2003 and in 2014: compared with the 2003 definition, the 2014 ISDA definition offers greater protection against a redenomination of the underlying debt.

Sovereign market tensions spill over to the banking sector

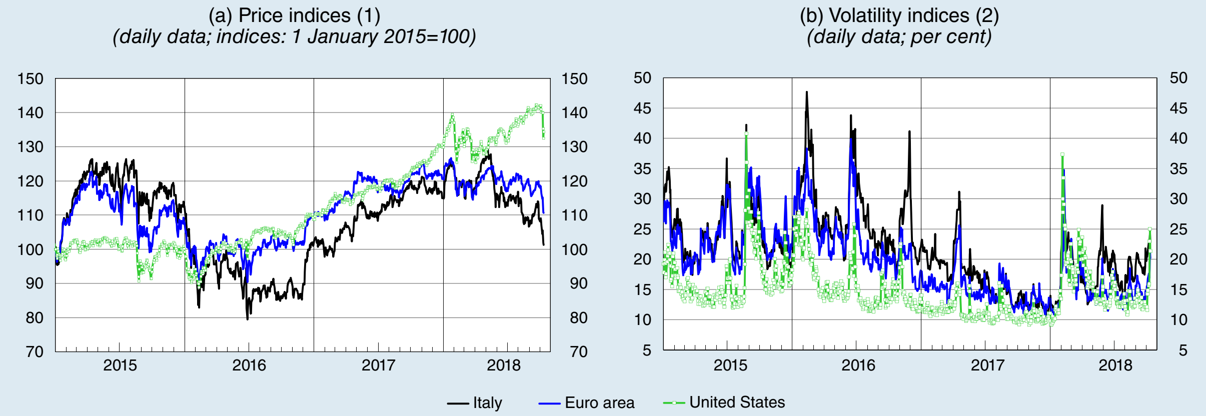
Notwithstanding the significant improvement in earnings and capital conditions since the start of the year, share prices in the banking sector, which grew at a faster pace than in the other euro-area countries between January and April, were affected by the uncertainties on the Italian financial market that emerged in mid-May. The yield on bank bonds in the secondary market and the premiums on bank credit default swaps fluctuated widely in connection with the movements in the sovereign risk premium. In mid-October, bank share prices were down 16.2 per cent from the end of the second quarter (28.1 per cent from the end of the first). The CDS premiums of the main Italian banks stand about 110 and 40 basis points higher than at the end of the first and second quarter respectively.

Net issues by banks decline ...

Italian non-financial corporations made a moderate amount of net issuance in the second quarter after the net redemptions made between January and March;

Figure 37

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.

banks continued to make net redemptions (see Table A.8 in the *Statistical Appendix*). According to preliminary data from Dealogic on gross issues only, in the third quarter the volume of issuance by Italian banks fell from €9.7 to €3.8 billion, while corporate bond issues increased from €6.0 to €12.3 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 second quarter of 2018 compared with the previous period, decreasing from €8.9 to €1.1 billion. Savers mainly preferred balanced and money market funds and, to a lesser extent, hedge and equity funds; bond funds reported sizeable net outflows.

2.9 THE PUBLIC FINANCES

In the Update to the 2018 Economic and Financial Document (DEF), the Government revised its public finance projections for the current year and laid down its objectives for the public accounts in the next three years. Estimated general government net borrowing for 2018 is slightly higher than forecast in April, also in connection with lower expected economic growth and higher interest payments; the reduction in the debt-to-GDP ratio appears to be more moderate than indicated in the spring months. For 2019, the Government is planning an expansionary fiscal policy; the structural deficit is expected to increase by almost 1 percentage point of GDP.

According to the Government's estimates, in 2018 net borrowing as a percentage of GDP will decrease by more than half a percentage point, to 1.8 per cent

In the Update to the 2018 DEF, the Government estimates net borrowing will amount to 1.8 per cent of GDP this year, against the 1.6 per cent indicated in April's DEF (Table 9). The difference is related to a reduction of €3.9 billion in revenue, partly connected to lower expected GDP growth, and to an increase of €1.9 billion in interest payments. Compared with 2017, the deficit is nevertheless expected to decrease by more than half a percentage point of GDP (Table 10). In the policy scenario, structural net borrowing (that is, cyclically-adjusted and net of temporary measures) is expected to decrease by 0.2 percentage points, to 0.9 per cent.

Table 9

Public finance objectives and estimates for 2018
(per cent of GDP)

	General government				Memorandum items:	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Objectives						
April 2017 (2)	2.1	1.5	1.7	-0.1	1.1	2.3
September 2017 (3)	2.1	1.3	1.7	-0.4	1.5	2.1
October 2017 (4)	1.6	1.0	2.0	-1.6	1.5	3.1
April 2018 (5)	–	–	–	–	–	–
September 2018 (6)	1.8	0.9	1.8	-0.3	1.2	2.5
Estimates						
April 2018 (5)	1.6	1.0	1.9	-1.0	1.5	2.9
September 2018 (6)	1.8	1.1	1.8	-0.3	1.2	2.5

(1) Change in the debt-to-GDP ratio compared with the previous year. – (2) 2017 Economic and Financial Document. – (3) Update to the 2017 Economic and Financial Document. – (4) Italy's 2018 Draft Budgetary Plan. – (5) The 2018 Economic and Financial Document does not contain the policy scenario. – (6) Update to the 2018 Economic and Financial Document; the date given here is that on which the Council of Ministers approved the Update.

According to the Update, in 2018 the debt-to-GDP ratio will fall slightly, from 131.2 to 130.9 per cent. The reduction is more moderate than that estimated in April (about 1 percentage point in the DEF), owing to higher than expected net borrowing and, especially, slower than expected nominal GDP growth.

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

The data observed so far on the borrowing requirement and government receipts are consistent with a reduction in net borrowing for the current year. In the first eight months of 2018, the general government borrowing requirement, net of privatization receipts, came to €22.8 billion, that is, lower by €24.2 billion compared with the year-earlier period (Figure 38). It is estimated that the cash balance improved, also taking into account the impact of operations that do not affect net borrowing as well as of deferments or advances of receipts and payments.

In the same period, general government debt grew by €63.1 billion (€68.0 billion in the first eight months of 2017). The increase mainly reflects, in addition to the borrowing requirement, the expansion of the Treasury's liquid balance (up by €35.7 billion, compared with an increase of €20.3 billion in the first eight months of 2017).

In the first nine months of 2018, tax revenue entered in the State budget, net of lottery and gaming receipts, increased by 0.5 per cent (€1.5 billion) compared with the same period of last year, above all thanks to the positive performance of VAT and personal income tax (Irpef) revenue. If the data are adjusted to take account of some temporal and accounting asymmetries between the two years, the estimated increase in revenue is greater and basically consistent with the growth forecasts of general government tax revenue indicated in the Update.

Table 10

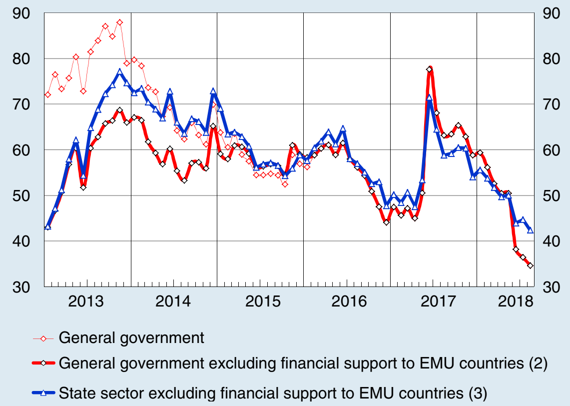
Outturns and official objectives of the main public finance indicators (1)
(per cent of GDP)

	2017	2018	2019	2020	2021
Net borrowing	2.4	1.8	2.4	2.1	1.8
Primary surplus	1.4	1.8	1.3	1.7	2.1
Interest payments	3.8	3.6	3.7	3.8	3.9
Structural net borrowing	1.1	0.9	1.7	1.7	1.7
Debt (2)	131.2	130.9	130.0	128.1	126.7

Source: Update to the 2018 Economic and Financial Document.
(1) Outturns for 2017 and official objectives for 2018-21. Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to EMU countries.

Figure 38

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



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

The Government is planning an expansionary fiscal policy for 2019 ...

In the Update the Government laid out its budgetary objectives for the next three years (April's DEF did not contain the policy scenario). In the Government's programmes, net borrowing is expected to come to 2.4 per cent of GDP in 2019, compared with 1.2 per cent in the current legislation scenario. It is then expected to decrease in the following two years and to return to this year's level in 2021 (1.8 per cent). This scenario incorporates the elimination of the 'safeguard clauses' providing for increases in indirect taxation, which is scheduled for 2019 (0.7 per cent of GDP), and their subsequent redesign in the following two years. In the Update the Government further suggested that in the future it plans to replace the safeguard clauses with measures to lower expenditure and boost tax collection.

The Update indicates an increase of 0.8 percentage points of GDP in net structural borrowing in 2019, bringing it to 1.7 per cent, a level at which it is expected to remain in the following two years. The attainment of a structural budget balance, which in the current legislation scenario is expected to be virtually achieved in 2020, would be postponed to after 2021. Based on the information presented in the Update, fiscal consolidation would resume in 2022; it would be brought forward only if GDP and employment were to return to pre-crisis levels before 2021.

... and a reduction in the debt-to-GDP ratio over the next three years compared with the current legislation scenario

In the Government's programmes, the public debt-to-GDP ratio will decrease on average by 1.4 percentage points in each of the next three years, compared with 2.1 points in the current legislation scenario. The higher net borrowing (on average 1.3 percentage points a year) will be offset only in part by the larger growth in nominal GDP. The debt-to-GDP ratio will come to 126.7 per cent in 2021.

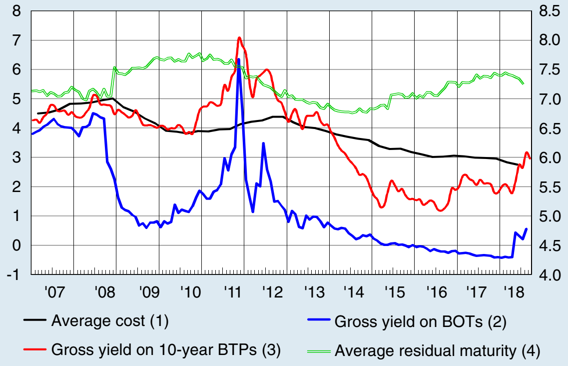
On 15 October the Government sent its 2019 Draft Budgetary Plan to the European Commission. The Plan sets out the measures the Government intends to include in its provisional budget. In addition to the interventions concerning the safeguard clauses, the Government intends to introduce a new poverty reduction mechanism, make pension requirements less stringent, and expand the number of those eligible for the 'simplified' taxation system in place for small firms, professionals and tradespeople. Finally, it plans to increase investment expenditure. Funding should come in part from redesigning some tax schemes, reducing central government expenditure, adopting measures to combat tax evasion, and through a series of provisions governing incentives for settling tax liabilities.

Based on the Update's assessment, the impact of the budgetary provisions on economic growth will be significant; their effects will depend on the design, timing and implementation of the measures. The effectiveness of the budgetary policies in supporting the economy will also rely on the preservation of saver and investor confidence in the attainment of balanced public finances.[2]

At the end of June 2018, the average cost of the debt was equal to 2.8 per cent, compared with 3.0 per cent at the end of 2017 (Figure 39). In the first half of the year, the average interest rate on new bond issues was below that on maturing securities. The average residual maturity of the debt had decreased slightly, to 7.3 years (7.4 at the end of 2017). In the second half of the year, as a consequence of heightened tensions on the financial markets, the average yield on new issues rose by about 80 basis points compared with that recorded in the first half of the year, despite the shorter average maturity of the securities issued.

Figure 39

Gross yields on BOTs and 10-year BTPs, average cost and average residual maturity of debt
(per cent and years)



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

[2] For further details, see 'Preliminary Hearing on the Update to the 2018 Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, L.F. Signorini, before the Senate of the Republic, Rome, 9 October 2018.

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: Italy and 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			
Italy									
2014	0.1	3.2	0.8	-6.6	2.4	-2.3	0.3	-0.7	2.7
2015	0.9	6.8	2.2	-0.7	4.8	2.1	1.9	-0.6	4.4
2016	1.1	3.6	1.7	0.9	5.9	3.5	1.3	0.3	2.1
2017	1.6	5.2	2.3	1.6	6.6	4.3	1.5	-0.1	5.7
2015 – Q1	0.2	4.0	1.0	-0.1	1.1	0.5	0.3	-0.7	1.8
Q2	0.4	1.6	0.7	0.0	1.0	0.6	0.9	-0.1	1.3
Q3	0.3	-0.3	0.1	0.1	1.5	0.8	0.7	0.3	-1.6
Q4	0.4	1.5	0.6	1.1	-0.6	0.2	0.4	-0.3	1.6
2016 – Q1	0.3	0.5	0.3	0.2	2.3	1.3	0.0	0.8	-0.4
Q2	0.2	1.6	0.5	0.1	-0.4	-0.1	0.2	-0.4	1.6
Q3	0.3	0.9	0.5	0.0	3.9	2.1	0.3	-0.3	0.7
Q4	0.5	1.4	0.7	0.2	4.9	2.7	0.3	0.2	1.7
2017 – Q1	0.5	1.5	0.7	1.1	-3.8	-1.6	0.8	0.0	2.8
Q2	0.3	1.3	0.5	-0.2	2.7	1.4	0.1	0.0	0.0
Q3	0.4	1.4	0.6	1.0	4.8	3.0	0.3	-0.1	1.7
Q4	0.3	1.6	0.6	1.0	2.0	1.6	0.1	0.0	1.8
2018 – Q1	0.3	-2.6	-0.4	0.1	-2.1	-1.1	0.4	-0.1	-2.4
Q2	0.2	1.6	0.5	0.6	4.6	2.8	0.0	0.0	-0.1
Euro area									
2014	1.4	4.9	2.4	-0.5	3.9	1.7	0.9	0.7	4.7
2015	2.1	7.6	3.7	0.4	9.5	4.9	1.8	1.3	6.5
2016	1.9	4.2	2.6	2.8	5.1	4.0	2.0	1.8	3.0
2017	2.4	3.9	2.8	3.9	1.5	2.6	1.6	1.2	5.2
2015 – Q1	0.7	3.0	1.4	0.7	-0.8	0.0	0.3	0.5	3.2
Q2	0.4	3.3	1.3	-0.9	16.0	7.5	0.5	0.2	0.7
Q3	0.4	-1.4	-0.2	0.6	-8.6	-4.3	0.4	0.5	0.2
Q4	0.5	2.3	1.0	1.1	4.3	2.7	0.5	0.5	0.9
2016 – Q1	0.7	0.6	0.7	0.7	0.5	0.6	0.6	0.8	0.6
Q2	0.3	1.1	0.5	0.3	2.1	1.3	0.3	0.2	1.2
Q3	0.3	0.7	0.4	1.4	0.3	0.8	0.3	0.2	0.3
Q4	0.8	1.9	1.1	0.9	1.9	1.4	0.6	0.3	1.5
2017 – Q1	0.7	0.5	0.6	1.2	-2.5	-0.7	0.4	0.2	1.8
Q2	0.7	1.1	0.8	0.9	3.2	2.1	0.5	0.4	1.0
Q3	0.7	0.6	0.6	1.2	-1.6	-0.3	0.4	0.5	1.3
Q4	0.7	1.5	0.9	0.9	2.2	1.5	0.2	0.2	2.1
2018 – Q1	0.4	-0.5	0.1	0.6	-0.4	0.1	0.5	0.1	-0.7
Q2	0.4	1.2	0.7	1.1	1.8	1.4	0.2	0.4	1.0

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

Table A2

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			
2014	1.0	0.9	-0.3	-1.2	0.1
2015	2.0	1.1	1.1	0.0	0.8
2016	-0.3	0.4	2.1	1.7	-0.8
2017	0.4	2.2	3.7	1.5	-1.7
2016 – Q1	-0.5	0.3	3.1	2.7	-0.8
Q2	-0.4	-0.7	1.4	2.1	0.3
Q3	-0.9	0.6	2.2	1.7	-1.4
Q4	-0.4	2.5	3.8	1.3	-2.8
2017 – Q1	0.5	2.2	2.4	0.2	-1.7
Q2	-0.1	3.2	4.4	1.2	-3.2
Q3	0.5	2.5	4.9	2.3	-1.9
Q4	0.3	1.2	4.1	2.9	-0.9
2018 – Q1	-0.1	1.0	3.3	2.3	-1.1
Q2	1.2	-0.9	1.9	2.9	2.2
		Services			
2014	-0.1	0.5	0.8	0.4	-0.5
2015	0.4	-0.2	0.8	1.0	0.5
2016	-0.1	-0.6	1.0	1.5	0.5
2017	0.0	0.0	1.1	1.1	0.0
2016 – Q1	-0.6	-1.2	0.9	2.2	0.6
Q2	-0.1	-0.9	1.1	2.0	0.8
Q3	0.0	-0.1	1.0	1.1	0.1
Q4	0.7	-0.2	0.9	1.1	0.9
2017 – Q1	0.3	0.6	1.4	0.8	-0.3
Q2	-0.2	0.3	1.1	0.9	-0.5
Q3	-0.3	-0.7	1.0	1.8	0.5
Q4	0.0	-0.4	1.0	1.4	0.4
2018 – Q1	0.4	-0.3	0.8	1.0	0.6
Q2	2.5	-0.5	1.0	1.5	3.1
		Total economy			
2014	0.3	0.3	0.2	-0.1	0.0
2015	0.8	0.2	0.9	0.7	0.6
2016	-0.2	-0.4	1.1	1.6	0.2
2017	0.1	0.4	1.5	1.1	-0.4
2016 – Q1	-0.7	-1.0	1.4	2.4	0.2
Q2	-0.3	-0.7	1.2	1.9	0.4
Q3	-0.3	-0.1	1.2	1.3	-0.1
Q4	0.3	0.2	1.3	1.1	0.1
2017 – Q1	0.2	0.7	1.5	0.8	-0.5
Q2	-0.2	0.8	1.6	0.8	-1.0
Q3	-0.1	0.1	1.6	1.5	-0.2
Q4	0.1	-0.1	1.5	1.7	0.2
2018 – Q1	0.4	0.4	1.3	0.8	-0.1
Q2	2.1	-0.5	1.2	1.6	2.6

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 A3

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2014	1.7	2.5	2.5	0.0	-0.9
2015	1.6	3.1	3.6	0.5	-1.5
2016	1.2	2.5	3.4	0.9	-1.3
2017	1.5	1.9	3.1	1.2	-0.4
2016 – Q1	1.3	2.2	3.3	1.0	-0.9
Q2	0.7	2.0	3.0	1.0	-1.3
Q3	1.3	1.9	2.7	0.8	-0.6
Q4	1.2	3.6	4.5	0.9	-2.3
2017 – Q1	1.2	1.2	2.2	1.0	0.0
Q2	1.2	2.0	3.2	1.3	-0.7
Q3	0.9	2.6	4.5	1.8	-1.7
Q4	1.1	1.8	3.9	2.1	-0.7
2018 – Q1	1.3	1.3	3.1	1.8	0.0
Q2	1.8	0.3	2.4	2.0	1.4
			Services		
2014	1.2	0.3	1.2	0.9	0.9
2015	1.2	0.1	1.6	1.5	1.0
2016	0.9	-0.2	1.5	1.8	1.1
2017	1.8	0.6	2.1	1.5	1.1
2016 – Q1	0.8	-0.5	1.5	2.0	1.3
Q2	0.8	-0.3	1.5	1.8	1.1
Q3	1.0	0.0	1.5	1.5	1.0
Q4	1.4	0.1	1.6	1.4	1.3
2017 – Q1	1.5	0.5	2.0	1.4	1.0
Q2	1.7	0.6	2.2	1.6	1.2
Q3	1.5	0.4	2.4	1.9	1.1
Q4	1.6	0.6	2.3	1.8	1.0
2018 – Q1	2.0	0.7	2.3	1.5	1.2
Q2	1.8	0.3	2.1	1.8	1.5
			Total economy		
2014	1.2	0.9	1.4	0.6	0.4
2015	1.2	0.7	1.9	1.2	0.5
2016	1.0	0.4	1.9	1.5	0.6
2017	1.7	1.0	2.4	1.4	0.7
2016 – Q1	0.9	0.1	1.8	1.7	0.8
Q2	0.8	0.3	1.8	1.5	0.5
Q3	1.1	0.4	1.7	1.2	0.7
Q4	1.4	0.9	2.1	1.2	0.5
2017 – Q1	1.4	0.7	2.0	1.3	0.7
Q2	1.6	1.0	2.4	1.4	0.6
Q3	1.3	1.0	2.8	1.8	0.3
Q4	1.4	0.9	2.8	1.8	0.5
2018 – Q1	1.8	1.0	2.5	1.5	0.8
Q2	1.7	0.4	2.2	1.8	1.3

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

Consumer prices: Italy, euro area and main economies

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

		Italy		France		Germany		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
2012		3.3	2.0	2.2	1.5	2.1	1.3	2.5	1.5
2013		1.2	1.2	1.0	0.7	1.6	1.2	1.4	1.1
2014		0.2	0.7	0.6	1.0	0.8	1.1	0.4	0.8
2015		0.1	0.7	0.1	0.6	0.1	1.1	0.0	0.8
2016		-0.1	0.5	0.3	0.6	0.4	1.1	0.2	0.9
2017		1.3	0.8	1.2	0.6	1.7	1.3	1.5	1.0
2016 –	Jan.	0.4	0.9	0.3	0.9	0.4	1.1	0.3	1.0
	Feb.	-0.2	0.5	-0.1	0.7	-0.2	0.8	-0.2	0.8
	Mar.	-0.2	0.8	-0.1	0.7	0.1	1.3	0.0	1.0
	Apr.	-0.4	0.6	-0.1	0.6	-0.3	0.7	-0.2	0.7
	May	-0.3	0.6	0.1	0.6	0.0	1.1	-0.1	0.8
	June	-0.2	0.5	0.3	0.6	0.2	1.2	0.1	0.9
	July	-0.2	0.5	0.4	0.6	0.4	1.3	0.2	0.9
	Aug.	-0.1	0.4	0.4	0.5	0.3	1.0	0.2	0.8
	Sept.	0.1	0.4	0.5	0.7	0.5	1.1	0.4	0.8
	Oct.	-0.1	0.2	0.5	0.6	0.7	1.1	0.5	0.8
	Nov.	0.1	0.4	0.7	0.6	0.7	1.0	0.6	0.8
	Dec.	0.5	0.7	0.8	0.4	1.7	1.4	1.1	0.9
2017 –	Jan.	1.0	0.5	1.6	0.7	1.9	1.1	1.8	0.9
	Feb.	1.6	0.7	1.4	0.3	2.2	1.1	2.0	0.9
	Mar.	1.4	0.6	1.4	0.5	1.5	0.9	1.5	0.7
	Apr.	2.0	1.3	1.4	0.6	2.0	1.6	1.9	1.2
	May	1.6	0.9	0.9	0.5	1.4	1.1	1.4	0.9
	June	1.2	1.0	0.8	0.6	1.5	1.5	1.3	1.1
	July	1.2	0.9	0.8	0.6	1.5	1.5	1.3	1.2
	Aug.	1.4	1.2	1.0	0.6	1.8	1.5	1.5	1.2
	Sept.	1.3	1.1	1.1	0.6	1.8	1.5	1.5	1.1
	Oct.	1.1	0.5	1.2	0.6	1.5	1.1	1.4	0.9
	Nov.	1.1	0.4	1.2	0.6	1.8	1.3	1.5	0.9
	Dec.	1.0	0.5	1.2	0.6	1.6	1.4	1.4	0.9
2018 –	Jan.	1.2	0.7	1.5	1.0	1.4	1.3	1.3	1.0
	Feb.	0.5	0.5	1.3	0.8	1.2	1.4	1.1	1.0
	Mar.	0.9	0.7	1.7	1.0	1.5	1.3	1.3	1.0
	Apr.	0.6	0.2	1.8	0.9	1.4	1.0	1.3	0.8
	May	1.0	0.6	2.3	1.1	2.2	1.5	1.9	1.1
	June	1.4	0.7	2.3	0.8	2.1	1.1	2.0	0.9
	July	1.9	0.9	2.6	1.0	2.1	1.2	2.1	1.1
	Aug.	1.6	0.6	2.6	1.0	1.9	1.1	2.0	0.9
	Sept.	1.5	0.5	2.5	0.8	2.2	1,2	2.1	0.9

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

Table A5

Italy's net international investment position: stocks and reconciliation with the flows of the financial account in the balance of payments (1)

(billions of euros; per cent)

	Stocks									Stock-flow reconciliation		
	Direct investment	Portfolio Investment			Financial derivatives	Other investment	Official Reserves	Total	Total as a percentage of GDP	Change in total stocks	Valuation adjustments (2)	Financial account balance
		Total	equity and investment funds	debt securities						(a)=(b)+(c)	(b)	(c)
						Assets						
2013	506	921	505	416	104	468	106	2,104	131.1	-32	-58	26
2014	521	1,059	613	446	126	493	117	2,315	142.7	211	81	130
2015	540	1,184	708	476	99	480	120	2,424	146.7	109	-8	117
2016	555	1,288	769	519	92	489	129	2,552	151.0	128	28	100
2017	564	1,426	887	539	75	506	126	2,697	156.3	145	-14	159
2017 – Q1	560	1,346	816	530	85	509	134	2,634	155.0	82	11	72
Q2	566	1,363	836	526	80	499	128	2,635	154.4	1	-24	25
Q3	567	1,395	861	534	78	500	127	2,667	155.4	32	5	27
Q4	564	1,426	887	539	75	506	126	2,697	156.3	30	-6	36
2018 – Q1	566	1,436	888	549	72	516	125	2,714	156.6	17	-34	51
Q2	573	1,445	896	549	74	532	127	2,751	157.6	37	8	29
						Liabilities						
2013	382	1,165	185	980	146	774	..	2,467	153.8	-27	-31	4
2014	407	1,324	198	1,127	188	736	..	2,656	163.8	189	110	79
2015	423	1,387	247	1,140	150	787	..	2,747	166.3	91	9	82
2016	440	1,259	207	1,052	148	873	..	2,719	160.9	-27	-62	35
2017	450	1,295	250	1,045	119	925	..	2,789	161.7	69	-28	97
2017 – Q1	445	1,259	231	1,027	136	938	..	2,777	163.4	58	-13	71
Q2	451	1,278	238	1,040	125	917	..	2,771	162.3	-7	-13	6
Q3	454	1,282	257	1,025	122	933	..	2,791	162.7	21	19	2
Q4	450	1,295	250	1,045	119	925	..	2,789	161.7	-3	-21	18
2018 – Q1	452	1,335	258	1,077	114	938	..	2,838	163.8	50	4	45
Q2	457	1,214	241	972	115	1,025	..	2,810	161.0	-28	-52	23
						Net position						
2013	124	-244	320	-565	-43	-306	106	-364	-22.7	-5	-27	22
2014	114	-266	415	-681	-62	-244	117	-341	-21.0	22	-29	52
2015	117	-203	461	-664	-51	-307	120	-323	-19.5	18	-17	35
2016	116	29	562	-533	-56	-385	129	-167	-9.9	156	90	65
2017	114	132	637	-505	-44	-419	126	-92	-5.3	75	13	62
2017 – Q1	115	87	585	-498	-51	-428	134	-143	-8.4	24	23	1
Q2	115	85	599	-514	-46	-418	128	-135	-7.9	7	-11	19
Q3	113	112	604	-491	-44	-433	127	-124	-7.2	11	-14	25
Q4	114	132	637	-505	-44	-419	126	-92	-5.3	33	15	18
2018 – Q1	114	101	630	-528	-42	-422	125	-124	-7.2	-33	-38	5
Q2	116	232	655	-423	-41	-494	127	-59	-3.4	65	60	5

(1) Based on the international standards in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6), *2009*. – (2) Adjustments of exchange rates, prices and other changes in volume.

Table A6

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	15,847	36,099	430	-2,610	-18,072	-744	-3,142	2,398
2014	30,960	47,407	-1,075	533	-15,905	2,682	-942	3,624
2015	24,412	51,105	-3,159	-8,211	-15,324	3,901	-1,183	5,085
2016	42,779	57,663	-3,414	5,285	-16,755	-3,123	-1,973	-1,150
2017	48,312	55,772	-3,545	10,840	-14,755	-1,044	-1,208	164
2017 – Q1	5,471	9,589	-2,422	2,971	-4,666	-345	-262	-83
Q2	9,905	14,242	62	-969	-3,431	-700	-276	-424
Q3	17,405	15,191	1,843	4,242	-3,871	-366	-248	-118
Q4	15,532	16,751	-3,029	4,596	-2,787	367	-422	789
2018 – Q1	4,993	9,554	-2,595	3,089	-5,055	-603	-478	-124
Q2	10,504	13,141	779	-363	-3,052	-823	-347	-476
2017 – Jan.	-970	329	-818	628	-1,109	-65	-57	-8
Feb.	1,843	2,887	-662	1,141	-1,523	-76	-56	-20
Mar.	4,598	6,372	-942	1,201	-2,034	-204	-149	-55
Apr.	3,118	4,249	-446	368	-1,053	-229	-99	-129
May	2,280	4,900	-17	-1,796	-807	-232	-93	-139
June	4,507	5,093	525	459	-1,570	-240	-84	-156
July	7,819	7,121	672	1,326	-1,300	-110	-81	-29
Aug.	4,870	3,482	781	1,931	-1,324	-100	-68	-31
Sept.	4,716	4,587	390	984	-1,246	-156	-99	-57
Oct.	5,920	5,562	-663	1,777	-755	278	-79	357
Nov.	4,446	5,400	-1,386	1,200	-768	224	-75	299
Dec.	5,165	5,790	-980	1,619	-1,264	-136	-268	133
2018 – Jan.	-874	500	-724	541	-1,192	-138	-112	-26
Feb.	2,497	3,745	-835	1,262	-1,675	-138	-102	-36
Mar.	3,371	5,309	-1,036	1,286	-2,189	-326	-264	-63
Apr.	3,115	3,652	-202	652	-987	-261	-118	-144
May	1,914	3,900	236	-1,522	-699	-272	-116	-155
June	5,475	5,589	745	507	-1,366	-290	-114	-177
July	(7.544)	(6.553)	(1.020)	(1.022)	(-1.052)	(-110)	(-115)	(6)
Aug.	(4.994)	(3.091)	(973)	(2.196)	(-1.267)	(-96)	(-100)	(4)

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

Table A7

MFI loans adjusted for the accounting effect of securitizations: Italy and euro area (1)

(Twelve-month percentage changes)

	Italy (2)				Euro area (3)			
	Private sector (4)	Non-financial private sector	Non-financial corporations	Households	Private sector (4)	Non-financial private sector	Non-financial corporations	Households
2012	-0.9	-1.4	-2.1	-0.5	-0.5	-0.6	-1.5	0.1
2013	-3.7	-3.6	-5.2	-1.3	-2.4	-1.7	-3.1	-0.3
2014	-1.6	-1.6	-2.3	-0.5	-0.3	-0.6	-1.5	0.1
2015	-0.3	0.0	-0.6	0.7	0.7	1.0	0.5	1.4
2016	1.1	0.9	0.2	1.9	2.4	2.2	2.3	2.0
2017	1.8	1.4	0.2	2.8	2.9	3.1	3.1	2.9
2016 – Jan.	-0.1	-0.1	-0.8	0.8	1.0	1.3	1.1	1.4
Feb.	0.7	0.7	0.5	1.0	1.3	1.6	1.5	1.5
Mar.	0.3	0.4	-0.1	1.1	1.1	1.5	1.3	1.6
Apr.	0.4	0.3	-0.4	1.1	1.2	1.6	1.5	1.5
May	0.9	1.0	0.6	1.5	1.3	1.8	1.8	1.6
June	0.7	0.7	0.2	1.5	1.6	1.9	1.9	1.8
July	0.5	0.5	-0.3	1.5	1.9	1.9	2.1	1.8
Aug.	0.8	0.8	0.1	1.6	1.9	2.0	2.1	1.8
Sept.	1.0	0.8	0.1	1.7	2.1	2.0	2.1	1.8
Oct.	1.2	1.2	0.8	1.7	2.2	2.1	2.2	1.8
Nov.	0.5	0.8	0.0	1.8	2.2	2.1	2.1	1.9
Dec.	1.1	0.9	0.2	1.9	2.4	2.2	2.3	2.0
2017 – Jan.	1.2	1.4	0.8	2.2	2.5	2.4	2.3	2.2
Feb.	0.8	1.0	0.0	2.2	2.3	2.2	2.0	2.3
Mar.	0.9	1.1	0.1	2.3	2.7	2.5	2.4	2.4
Apr.	0.7	1.1	0.1	2.3	2.6	2.6	2.5	2.5
May	1.0	1.2	0.2	2.4	2.7	2.6	2.5	2.6
June	1.1	1.1	-0.1	2.6	2.5	2.4	2.0	2.6
July	1.4	1.4	0.3	2.7	2.6	2.6	2.3	2.6
Aug.	1.1	1.1	-0.1	2.7	2.6	2.6	2.4	2.7
Sept.	0.7	0.8	-0.7	2.6	2.7	2.7	2.5	2.7
Oct.	1.0	0.9	-0.5	2.8	2.8	2.9	2.8	2.7
Nov.	1.4	1.5	0.4	2.9	2.9	3.0	3.1	2.8
Dec.	1.8	1.4	0.2	2.8	2.9	3.1	3.1	2.9
2018 – Jan.	2.7	2.3	2.0	2.8	3.3	3.2	3.4	2.9
Feb.	2.4	1.9	1.2	2.8	3.1	3.1	3.2	2.9
Mar.	2.4	1.9	1.2	2.8	3.0	3.1	3.2	2.9
Apr.	3.0	2.5	2.2	2.9	3.0	3.2	3.3	2.9
May	2.5	1.9	1.2	2.8	3.3	3.3	3.6	2.9
June	2.4	1.6	0.6	2.8	3.5	3.5	4.1	3.0
July	2.5	1.9	1.1	2.8	3.3	3.6	4.0	3.0
Aug.	2.6	1.9	1.2	2.7	3.4	3.7	4.2	3.1

(1) Loans include bad loans and repos, as well as the securitized component of these not recognized in banks' balance sheets. The percentage changes are calculated net of reclassifications, changes in exchange rates, valuation adjustments and other changes not associated with transactions. For more information on the euro-area data, please refer to the ECB website Monetary Developments in the Euro Area. – (2) Loans to Italian residents. – (3) Loans to euro-area residents. – (4) The series are based on the new definitions for monetary aggregates and counterparties adopted by the ECB in September 2012, which exclude repo transactions with central counterparties (for the euro area, starting with the June 2010 data).

Table A8

Net bond issues: Italy and euro area (1)

(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2016	-66.9	1.7	17.5	-47.7
2017	-64.9	15.6	21.4	-27.8
2017 – Q1	-13.8	0.6	4.6	-8.5
Q2	-12.5	-5.0	2.8	-14.7
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
Q2	-16.9	1.2	0.6	-15.1
		Euro area		
2016	-146.4	-17.9	76.8	-87.5
2017	-46.9	5.3	66.1	24.4
2017 – Q1	6.7	-10.1	12.9	9.5
Q2	5.0	41.6	18.2	64.8
Q3	-36.3	-13.1	20.1	-29.2
Q4	-22.3	-13.2	14.9	-20.6
2018 – Q1	31.1	40.3	21.4	92.8
Q2	-19.2	24.8	2.1	7.6

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

Table A9

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which*: investments of liquidity	Borrowing requirement	*of which*: in connection with financial support to EMU countries (3)
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	1.0	45.0	13.8	10.5	58.8	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	0.9	-13.2	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	0.7	8.1	-0.5	5.0	7.6	0.0
June	3.5	-1.0	0.2	-0.3	5.4	0.7	9.7	6.3	-5.8	16.0	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	-14.4	20.2	17.4	5.9	0.0
Dec.	-11.4	-0.1	-6.8	-0.8	0.0	0.8	-18.1	3.8	-4.6	-14.3	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	-0.4	-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	0.1	13.0	-5.4	0.0	7.6	0.0
June	-2.6	0.3	0.7	-5.6	1.2	0.8	-5.4	9.2	-4.8	3.8	0.0
July	5.1	-0.2	-0.2	17.0	-4.1	-1.2	16.5	-31.6	-2.5	-15.1	0.0
Aug.	-2.0	0.4	-0.6	-13.8	0.2	0.0	-16.2	14.9	-1.0	-1.3	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.

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	*of which:* in connection with EFSF loans	General government debt	Memorandum item: Treasury's liquid balances (2)	*of which:* investments of liquidity	Memorandum item: Deposits with resident MFIs net of liquidity transactions	Memorandum item: 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	2,219.6	43.1	33.0	29.9	58.2
2017	173.3	14.3	106.6	1,805.0	133.8	44.8	33.9	2,263.5	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	129.7	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	131.0	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	131.7	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	128.8	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	2,219.6	43.1	33.0	29.9	58.2
2017 – Jan.	175.7	14.8	114.3	1,789.1	128.8	43.6	33.9	2,251.5	77.4	35.9	29.9	58.2
Feb.	173.8	15.2	114.5	1,779.2	129.9	43.4	33.9	2,240.8	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	130.9	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	44.2	33.9	2,280.6	58.9	30.3	35.3	58.2
June	182.2	15.0	115.7	1,811.5	136.0	44.9	33.9	2,290.4	52.6	36.2	35.3	58.2
July	182.1	15.1	116.0	1,831.6	134.1	45.1	33.9	2,308.9	85.6	35.9	37.0	58.2
Aug.	184.0	15.1	115.9	1,808.6	134.1	45.0	33.9	2,287.6	63.4	36.1	36.7	58.2
Sept.	186.1	14.6	115.2	1,811.2	134.9	44.7	33.9	2,292.1	52.1	36.1	35.2	58.2
Oct.	185.2	15.0	114.3	1,820.3	133.2	44.0	33.9	2,297.0	53.3	35.3	34.7	58.2
Nov.	184.8	14.5	113.3	1,806.4	133.8	43.9	33.9	2,282.2	33.1	17.9	35.3	58.2
Dec.	173.3	14.3	106.6	1,805.0	133.8	44.8	33.9	2,263.5	29.3	22.5	32.2	58.2
2018 – Jan.	180.4	14.7	112.9	1,817.5	131.5	44.8	33.9	2,287.0	54.5	31.6	33.5	58.2
Feb.	178.8	14.4	112.8	1,819.5	131.3	44.4	33.9	2,286.9	48.3	15.6	34.4	58.2
Mar.	180.9	14.2	112.8	1,833.4	131.3	44.3	33.9	2,302.8	44.8	10.1	33.2	58.2
Apr.	178.8	14.1	112.8	1,845.4	131.7	44.4	33.9	2,313.2	52.1	8.1	34.8	58.2
May	178.4	13.6	112.7	1,860.3	131.8	44.5	33.9	2,327.7	57.6	8.1	35.9	58.2
June	175.8	13.8	113.4	1,856.0	133.0	45.4	33.9	2,323.6	48.4	12.9	33.8	58.2
July	180.9	13.6	113.2	1,874.9	128.9	44.2	33.9	2,342.1	80.0	15.4	35.1	58.2
Aug.	178.9	14.0	112.6	1,861.8	129.0	44.2	33.9	2,326.5	65.1	16.4	34.8	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.