MN INTERVIEW: Italy To Grow Into Q1 2023 - BOI's Signorini

Italy's economy has outperformed analysts' forecasts, Bank of Italy Senior Deputy Governor Luigi Federico Signorini tells MNI

By Santi Pinol

(MNI Rome) - The Italian economy is proving resilient to the war in Ukraine, supply bottlenecks and rising commodity prices and should continue to grow into the first quarter of 2023 after "reassuring" second quarter gross domestic product data, Bank of Italy Senior Deputy Governor Luigi Federico Signorini told MNI.

"Since 2021, the actual figures have tended to surprise positively when compared with analysts' predictions, confirming the overall good performance of the Italian economy in these difficult times," Signorini said in an emailed interview, pointing to data released last week confirming GDP growth at 1% in the second quarter versus the first.

Signorini said he was confident growth should continue into 2023, in line with recent European Commission and International Monetary Fund forecasts.

Nor should the eurozone slip into recession as the European Central Bank tightens policy, he said, noting that the latest Eurosystem projections, which incorporate market interest rates, foresee inflation returning to 2% by the end of 2024 without a fall in output.

"In those projections no recession is expected to be needed to achieve the Eurosystem's inflation target," he said, stressing that future monetary policy decisions will be data-dependent.

The ECB's new Transmission Protection Instrument will be a "key tool" for ensuring a smooth delivery of monetary policy and to "avoid any unintended consequences of the policy normalisation", he added. (See *MNI SOURCES: Majority Sufficient For ECB's New TPI Tool*)

EXCEPTIONAL UNCERTAINTY

Still uncertainty is "exceptionally high". The Covid pandemic and a global slowdown are both risks, while an interruption to supplies of Russian gas would have a serious impact on the economy.

"Not just directly, through the temporarily reduced availability of fuel, but also indirectly through higher energy prices, a slowdown in global trade and a fall in business and consumer confidence," he said, praising progress made by Prime Minister Mario Draghi in reducing the country's dependence on Russian gas from 40% to 25% and European Commission contingency plans to mitigate the effects of any cut in supplies.

Reopening coal-fired power stations would be only a "short-run fix", according to Signorini, who said there is no trade-off between environmental sustainability and energy security and that scarce public resources should be used to protect vulnerable households and help them transition to clean energy rather than to keep energy prices low.

"We would certainly have preferred a gradual, policy-oriented and carefully planned transition, with sufficient room for redistribution, to an exogenous, violent shock that leaves all of us poorer," he said, though he noted that the recent rise in fossil fuel prices "was needed anyway to help achieve the climate-related transition."

The green transition may affect relative prices more than overall inflation levels, Signorini said, adding that about 60% of Italy's current inflation can be explained by direct and indirect effects of energy prices.

But authorities must avoid that current price increases "morph into a stubborn inflationary process" like in the 1970s.

"Society must be aware of the risk and avoid starting a price-wage spiral", he said, adding that in Europe wage and non-fuel price increases are moderate "on the whole."

MNI INTERVIEW 2 (RPT): Italian Banks Ready For Basel - Signorini

New rules on risk weights will not restrict the flow of bank credit to Italian companies, the Bank of Italy's Luigi Federico Signorini tells MNI

By Santi Pinol

Italian banks are well positioned for the phasing in of the remaining elements of Basel III regulations by 2025 and new rules on risk weights should not reduce the flow of credit to firms, Bank of Italy Senior Deputy Governor Luigi Federico Signorini told MNI.

Banks have already boosted capital levels significantly during the course of Basel III, though remaining steps including the fundamental review of the trading book are crucial, said Signorini, pointing to how credit continued to flow during the pandemic, albeit with support from monetary and fiscal authorities.

The ability of banks to withstand episodes of financial turmoil since 2020 has been a vindication of the Basel reforms, he said in an interview. This time banks have been part of the solution, not part of the problem, said Signorini, who declared himself proud of his own work on the Basel Committee. In contrast, regulation of non-bank financial institutions has been disappointingly slow so far, he added.

INSURERS

Italy's insurance industry is also in solid shape as rates rise, Signorini said. While volatility in Italian sovereign spreads led them to lose money on their holdings in May for the first time in recent years, and their exposure to government debt has to be carefully considered, he noted that Solvency II rules also tend to reduce their liabilities in such conditions.

In terms of market value, an increase in rates, especially of the risk-free rate, does not only affect assets, by lowering the prices of portfolio securities, but it also affects liabilities, by reducing the current value of insurance liabilities, said Signorini.

Italy's insurers, who reported an average solvency ratio of just under 240% at the end of June, slightly down from 2021 but well in excess of the regulatory minimum of 100%, are navigating market volatility better than their peers elsewhere in Europe, he said. Signorini, though, said he was calling for tighter supervision of cross-border operations by insurers operating in other European Union member states, in order to guarantee consumer protection.

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