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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

OVERVIEW

The prospects for world trade are weaker

The global economy has continued to grow in recent months, but signs have emerged of a deterioration in cyclical conditions in many advanced and emerging economies. The prospects for world trade continued to weaken after the slowdown in the first part of last year. The uncertainties over economic conditions have had repercussions on the international financial markets, lowering long-term interest rates and share prices. The risk factors weighing on global economic prospects include the possible repercussions of a negative outcome to the trade negotiations between the United States and China, the worsening of financial tensions in the emerging economies and the arrangements for the United Kingdom's withdrawal from the European Union.

The ECB Governing Council confirms that it will maintain ample monetary stimulus

In the euro area, economic activity grew at a slower pace; in November industrial production fell sharply in Germany, France and Italy. Inflation decreased as a result of the deceleration in energy prices, though it was still firmly in positive territory. The ECB Governing Council confirmed its intention to maintain ample monetary stimulus for an extended period of time.

In Italy, economic activity continues to be weak

In Italy, the available cyclical indicators point to a possible decline in economic activity in the last three months of the year after the interruption in growth in the third quarter. The decline in the summer months was partly attributable to the fall in domestic demand, especially investment, and to a slight reduction in household spending. The survey carried out by the Bank of Italy in collaboration with Il Sole 24 Ore *points to a slowdown in investments planned by industrial and service firms owing to the uncertainty surrounding political and economic factors and trade tensions.*

The current account surplus remains large

The performance of Italian exports remained favourable in the second half of the year. However, the slowdown in global trade influenced firms' assessments of foreign orders. The current account surplus remained large and Italy's net international debtor position continued to improve, narrowing to just over 3 per cent of GDP at the end of September.

The number of hours worked rises, but not the number of persons employed; wages continue to grow moderately

In the third quarter, the number of hours worked increased while the number of persons employed fell slightly; according to preliminary data, the number of persons employed remained essentially unchanged in the fourth quarter. The growth in contractual wages continued across all sectors.

Inflation falls and the core component remains weak

Consumer price inflation fell to 1.2 per cent in December, largely on account of slower growth in energy prices. Core inflation remained weak, standing at 0.5 per cent. Firms revised downwards their inflation expectations.

Developments on the government bond market are favourable…

Sovereign risk premiums have fallen on account of the agreement reached between the Italian Government and the European Commission regarding Italy's budget policies. The spread between Italian and German ten-year bonds stood at around 260 basis points in mid-January, 65 points below the peak registered in mid-November. Nonetheless, financial market conditions remain tenser than at the start of the summer.

...as are those on bank CDS premiums

The share prices of credit institutions declined by an average of 14 per cent from the end of September, reflecting, as in the euro area as a whole, a weaker growth outlook. However, CDS premiums for debt instruments in the banking sector have fallen since the end of 2018 on account of the easing in the tensions regarding government bonds. In mid-January, the CDS premiums of the main Italian banks were 40 basis points lower than the values recorded in mid-November.

Credit standards remain relaxed; the stock of NPLs declines

Supply conditions remain relaxed overall; interest rates on loans increased slightly compared with May, before the emergence of tensions on the government bond market. However, persistently higher yields on government bonds and rising bank funding costs would increase the cost of credit. In the latest business surveys, firms indicated a tightening in credit access conditions.

The ratio of NPLs to total outstanding loans continued to diminish, reaching 4.5 per cent net of loan loss provisions in the third quarter, 1.8 points less than the year-earlier period. The ratio of new non-performing loans to outstanding loans also remained low, standing at 1.7 per cent on a seasonally adjusted, annualized basis.

The budgetary plan will increase the deficit

The budget will increase the deficit in the three years 2019-21 with respect to the current legislation projections. According to official estimates, net borrowing is expected to stand at 2.0 per cent of GDP in 2019, interrupting the decline underway since 2014. In the light of the changes made to the draft budget, which in its original version would have increased the deficit for 2019 to 2.4 per cent of GDP, the European Commission decided not to launch an excessive deficit procedure against Italy at this stage.

The projections indicate a slowdown in growth for 2019

This Economic Bulletin presents the macroeconomic projections for the Italian economy for the three years 2019-21. The projections update those prepared as part of the Eurosystem staff macroeconomic projections, which were based on information available on 27 November.

The central projection for GDP growth is 0.6 per cent this year, 0.4 points lower than the previous projection. The downward revision was on account of three main considerations: new information pointing to a sharper cyclical slowdown in the last part of 2018, which reduced the carry-over effect on growth by 0.2 points; the cutback in firms' investment plans, as confirmed by recent surveys; and the expected slowdown in global trade. The agreement reached between the Government and the European Commission has had moderately positive effects on growth: the positive stimulus provided by the lower long-term interest rates will amply compensate the direct effects of the revision in the budgetary measures. In the two years 2020-21, the central projection for growth is 0.9 and 1.0 per cent respectively. These are the central values of a probability distribution which has a particularly large dispersion.

Inflation is expected to increase gradually, from 1.0 per cent in 2019 to 1.5 per cent on average in the next two years, following an acceleration in private sector wages and a gradual alignment in inflation expectations.

The risks to growth are downside

In addition to the global factors fuelling uncertainty, downside risks to growth also stem from the possibility of renewed increases in interest rates on government bonds, of a faster deterioration in private sector borrowing conditions and of a sharper drop in firms' propensity to invest. On the other hand, the growth rate might actually exceed this projected scenario if sovereign spreads diminish further.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The global economy has continued to grow, but the prospects for world trade are weaker. Several risk factors are affecting the expansion of the international economy: the repercussions of a negative outcome to the trade negotiations between the United States and China, the worsening financial tensions in the emerging economies and the arrangements for the United Kingdom's withdrawal from the European Union (Brexit).

Signs of deterioration emerge

In the third quarter of 2018, there were differing economic trends in the main advanced economies (Table 1). According to the latest indicators, at the end of the year the growth rate remained robust in the United States and turned positive in Japan, following the marked fall in GDP recorded in this quarter as a result of the natural disasters that hit the country. Growth in the United Kingdom was in line with the average for the first half of the year. Looking ahead, the purchasing managers' indices (PMIs) point to a deterioration in cyclical conditions, especially in the euro area and the United States; uncertainty over the outcome of the Brexit negotiations remains high (Figure 1).

Among the main emerging economies, the slowdown in China's economy under way since the beginning of 2018 continued into the last months of the year, despite the fiscal stimulus measures introduced by the government. In contrast, cyclical growth remained substantial in India, although at a lower rate than in the early months of the year; the macroeconomic situation remains fragile in Brazil.

The prospects for world trade are weaker

In the third quarter of 2018 world trade slowed slightly; the PMI indicators on

Table 1

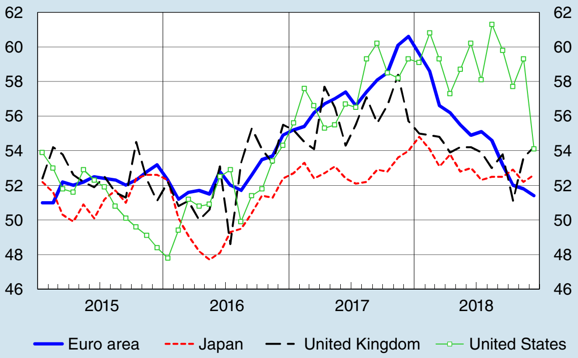
GDP growth and inflation
(percentage points)

	GDP growth			Inflation (1)
	2017	2018 Q2	2018 Q3	December 2018
Advanced economies (2)				
Japan (3)	1.9	2.8	-2.5	0.8
United Kingdom	1.8	1.7	2.5	2.1
United States	2.2	4.2	3.4	1.9
Emerging economies (4)				
Brazil	1.1	0.9	1.3	3.8
China	6.9	6.7	6.5	1.9
India	6.3	8.2	7.1	2.2
Russia	1.6	1.9	1.5	4.3
Memorandum item:				
World trade (5)	**5.4**	**3.8**	**3.7**	

Sources: Thomson Reuters Datastream; OECD, *OECD Economic Outlook,* November 2018; and Bank of Italy for the data on world trade.
(1) Consumer price index, monthly data. – (2) Seasonally adjusted data; annualized percentage changes. – (3) Figure for November 2018. – (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.

export orders point to a more noticeable slackening in the latter part of the year.

Consumer price inflation declined in the United States and in the United Kingdom (Figure 2); it fluctuated at around 1 per cent in Japan, although the core component remains close to zero.

Projections are revised downwards ...

According to the projections released by the OECD last November, growth in the world economy stood at 3.7 per cent in 2018, higher by 0.1 percentage point compared with 2017 (Table 2). In 2019, world GDP is expected to increase by 3.5 per cent, 0.2 percentage points less than in September's forecast; the revision reflects a slight deterioration in the outlook for the euro area, Japan and the main emerging economies, together with the slowdown already expected in the United States, partly due to the gradual fading of the expansionary effects of fiscal stimulus.

According to our estimates, international trade grew by 4.4 per cent in 2018, decelerating considerably compared with the previous year; in 2019 trade is expected to slow further, to 3.5 per cent, which is over 2 percentage points lower than in 2017.

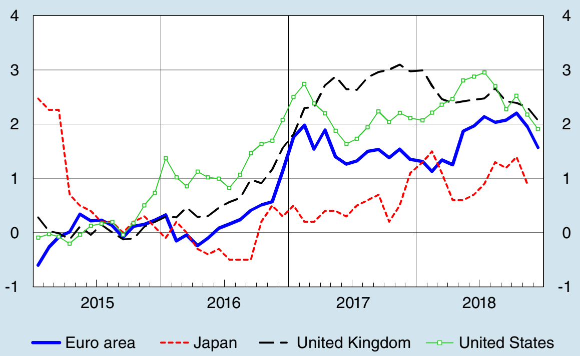
... against a backdrop of high uncertainty

The risks for global economic prospects are high. The start of negotiations between the United States and China has not dispelled the uncertainty that new protectionist measures may affect international trade over the next few months. In addition, any sudden changes in term premiums in the United States or in the expectations regarding the Federal Reserve's monetary policy could lead to a reduction in capital flows to the emerging economies. Lastly, concern over future economic relations between the United Kingdom and the European Union remains high, following the British Parliament's vote not to ratify the negotiated agreement reached by the Government in November.

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

(percentage changes and points)

	Forecasts			Revisions (1)	
	2017	2018	2019	2018	2019
GDP (2)					
World	**3.6**	**3.7**	**3.5**	**0.0**	**-0.2**
Advanced economies					
of which: Euro area	2.5	1.9	1.8	-0.1	-0.1
Japan	1.7	0.9	1.0	-0.3	-0.2
United Kingdom	1.7	1.3	1.4	0.0	0.2
United States	2.2	2.9	2.7	0.0	0.0
Emerging economies					
of which: Brazil	1.0	1.2	2.1	0.0	-0.4
China	6.9	6.6	6.3	-0.1	-0.1
India (3)	6.7	7.5	7.3	-0.1	-0.1
Russia	1.5	1.6	1.5	-0.2	0.0
World trade (4)	**5.6**	**4.4**	**3.5**	**0.0**	**–**

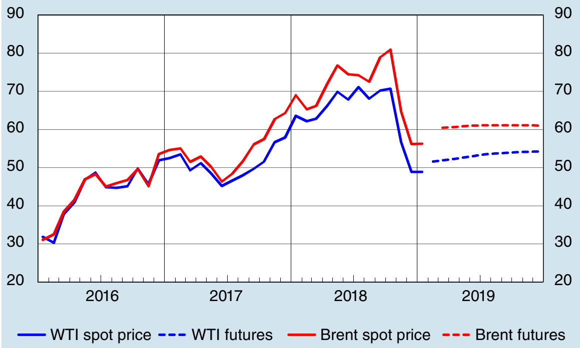
Sources: OECD, *OECD Economic Outlook*, November 2018; Bank of Italy for the data on world trade.
(1) Revisions compared with the previous forecasting scenario. – (2) Forecasts taken from OECD, *OECD Economic Outlook*, November 2018, revisions compared with OECD, *OECD Interim Economic Outlook*, September 2018. – (3) The data relate to the fiscal year starting in April. – (4) Based on national accounts and customs data; the forecasts refer to January 2019; the revisions to October 2018.

Oil prices fall markedly

Oil prices have fallen considerably since the beginning of October, thanks above all to supply factors, such as the increase in production in the United States, Saudi Arabia and Russia, as well as the performance of Iran's exports following the temporary easing of the sanctions imposed by the United States. Prices were subsequently affected by less optimistic expectations for oil demand, owing to the prospect of a slowdown in the global economy. The agreement on the new production cuts reached at the beginning of December between the OPEC countries and other oil-producing countries (OPEC+) has not been enough to stop prices from falling. Futures prices suggest a moderate increase in prices in the medium term; they currently stand at around $61 per barrel for Brent quality oil, about $25 lower than the peak price reached last October (Figure 3).

Figure 3

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



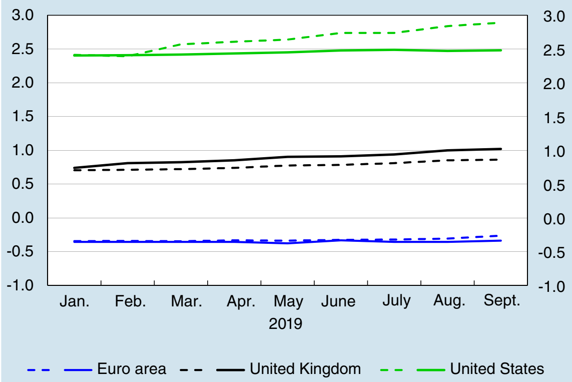
Source: Thomson Reuters Datastream.
(1) For the spot prices, average monthly data through November 2018; the latest figure is the average of the daily data from 2 to 11 January 2019.

The Federal Reserve raises its benchmark interest rates

As expected, at its meeting on 19 December the Federal Reserve increased the target range for the federal funds rate by 25 basis points to 2.25-2.50 per cent; the prices for federal funds futures contracts and the expectations of the Federal Open Market Committee point to a more gradual increase in the benchmark rate next year (Figure 4). The Bank of England did not alter its benchmark rate, in view of the growing uncertainty over the economic outlook and Brexit. China's central bank continued to relax monetary conditions and announced a cut of 100 basis points in the required reserve ratio at the beginning of the year.

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 dotted lines indicate the interest rates forecast on 10 October 2018, the solid lines show those forecast on 11 January 2019.

1.2 THE EURO AREA

Economic activity in the euro area slowed, in part owing to temporary factors but also because of a deterioration in firms' expectations and the weakness of foreign demand. In November industrial production fell sharply in all the main economies. In the autumn, inflation decreased as a result of the performance of energy prices. The ECB Governing Council confirmed its intention to maintain an ample degree of monetary accommodation in the long term.

Economic activity slows in the third quarter ...

In the third quarter of 2018, euro-area GDP rose by 0.2 per cent on the previous period (Table 3), a marked slowdown compared with the spring months. A virtual stagnation in exports contributed to this. Domestic demand continued to drive GDP by 0.5 percentage points, led by the change in inventories and, to a lesser degree, by investment.

Economic activity grew in France and declined in Germany and Italy, in part owing to the entry into force of the Worldwide Harmonized Light Vehicles Test Procedure (WLTP). The new regulation brought both car production and registration to a halt, and had an especially strong impact in Germany and Italy owing to the very important part played both directly and indirectly by the automotive sector in these countries. Some of these effects are expected to be temporary.

... and in the fourth quarter

In the last part of the year, industrial production dropped more than had been expected in Germany, France and Italy. In December, the Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, declined further to 0.42, the lowest level since the end of 2016 (Figure 5). The qualitative indicators point to modest growth in the last quarter: the purchasing managers' indices (PMI) fell in both manufacturing and services; firms' expectations of foreign sales worsened in connection with the uncertain prospects for world trade (see Section 1.1). Households' expectations remain cautious as well.

Table 3

Euro-area GDP growth and inflation
(percentage points)

	GDP growth			Inflation
	2017	2018 Q2 (1)	2018 Q3 (1)	2018 December (2)
France	2.2	0.2	0.3	1.9
Germany	2.2	0.5	-0.2	1.7
Italy	1.6	0.2	-0.1	1.2
Spain	3.0	0.6	0.6	1.2
Euro area (3)	2.4	0.4	0.2	1.6

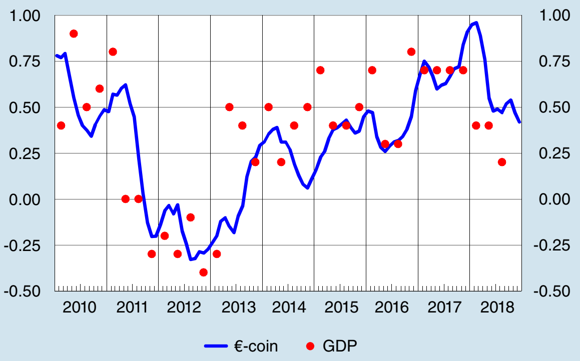
Sources: Based on national statistics and on Eurostat data.
(1) Quarterly series adjusted for seasonal and calendar effects; percentage changes on previous quarter, not annualized. – (2) Change on the corresponding period. – (3) The euro-area aggregate is based on a 19-country composition.

Inflation decreases, curbed by energy prices

Inflation decreased in the autumn months, to 1.6 per cent at the end of the year owing to the deceleration in energy prices (Figure 6). For the year as a whole, inflation averaged 1.7 per cent (1.5 per cent in 2017). The core component remains weak: in December it stayed at 1.0 per cent. Looking ahead, core inflation could be buoyed by the wage increases recorded in some countries since mid-2017. According to the December Eurosystem projections, inflation will fall to 1.6 per cent in 2019, in line with the expectations of the professional forecasters polled by Consensus Economics, and will then rise gradually in the following two years.

Figure 5

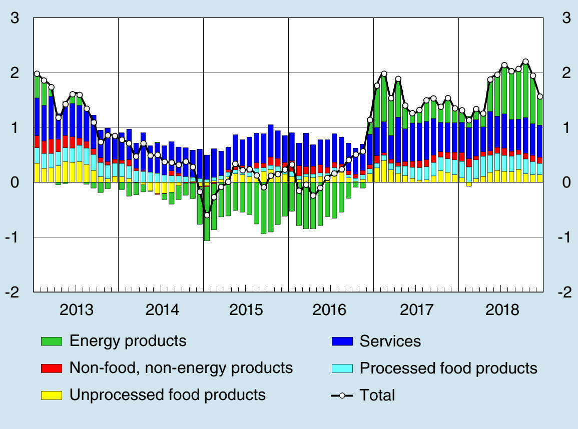
€-coin coincident cyclical indicator and euro-area GDP (1)
(percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', in *Economic Bulletin*, July, 2009. Further details are available on the Bank of Italy's website: '*€-coin: December 2018*'. For GDP, quarterly data; changes on the previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

Figure 6

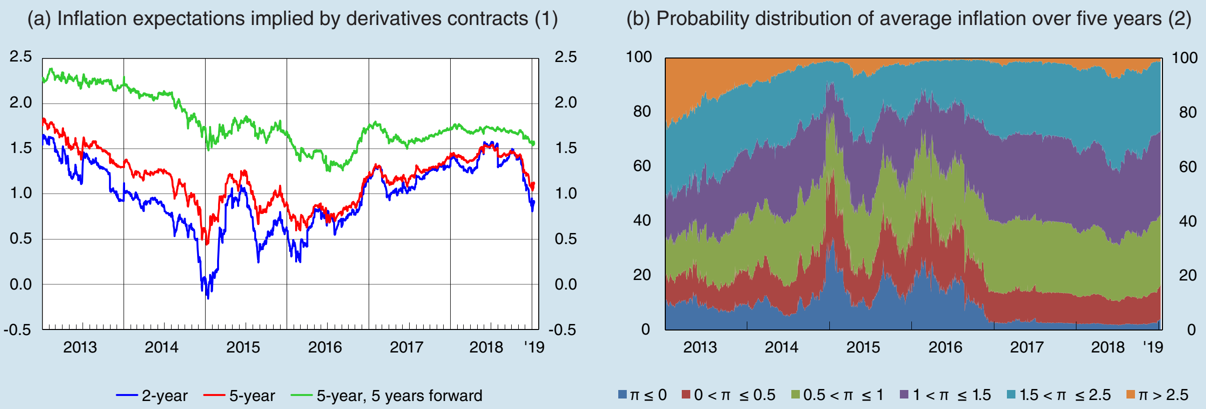
Euro-area inflation and contributions of its components (1)
(monthly data; 12-month percentage changes and percentage points)



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

Figure 7

Inflation expectations
(daily data; per cent)



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

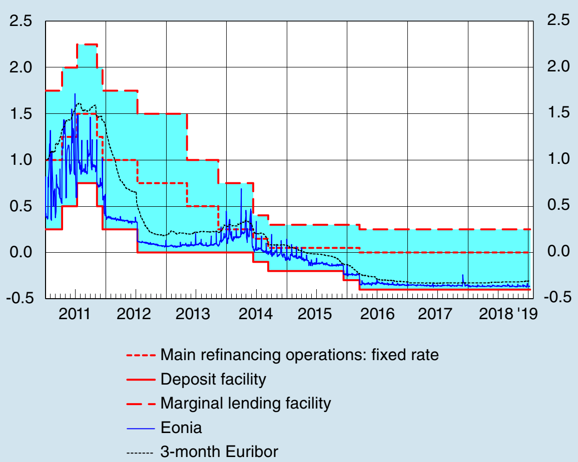
Since mid-October, inflation expectations as implied by inflation swap yields have decreased: over the two-year and the five-year horizons they have fallen by about 0.5 and 0.3 percentage points, to 0.9 and 1.1 per cent respectively in mid-January (Figure 7.a); the five-year, five years forward inflation expectations diminished by 0.1 percentage points, to 1.6 per cent. The fall is ascribable to the reduction in oil prices and the worsening outlook for growth in the euro area. Based on the prices of inflation options, the probability that inflation will grow by less than 1.5 per cent on average over the next five years rose slightly; the probability of deflation continues to be virtually nil (Figure 7.b).

The ECB Governing Council will maintain ample monetary stimulus

At the end of 2018 the net purchases of financial assets carried out under the expanded asset purchase programme (APP) came to an end (see the box 'The monetary policy measures adopted in December 2018'). The ECB Governing Council, however, confirmed the importance of strong monetary stimulus to support price dynamics in the medium term. Accordingly, it intends to continue reinvesting in full the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain an ample degree of monetary accommodation. The Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary (Figure 8).

Figure 8

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



Sources: ECB and Thomson Reuters Datastream.

THE MONETARY POLICY MEASURES ADOPTED IN DECEMBER 2018

At its 13 December meeting the ECB Governing Council decided, in keeping with the intentions first announced in June 2018, to end its net asset purchases under the Eurosystem's expanded asset purchase programme (APP) at the end of 2018. The Governing Council also announced that it intends to continue reinvesting in full the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Moreover, the ECB announced and published on its website the technical parameters for the reinvestment of its asset purchase programme after the end of the net asset purchases.[1]

The Council reiterated that significant monetary stimulus is still needed to support inflation developments over the medium term. Even after the end of the net purchases, this support will continue to be guaranteed by the ample stock of assets in its portfolio, the reinvestment of the principal payments from maturing securities, and the low interest rates which, according to the Council's expectations, will remain at their current levels at least through the summer of 2019, and in any case for as long as necessary.

The large stock of assets held in the portfolio will contribute to preserving strong monetary stimulus. First of all, it will continue to exert downward pressures on the term structure of interest rates. Secondly, it will guarantee abundant liquidity in the banking system, attenuating the risk of tensions in the interbank market and maintaining money market rates close to the deposit facility rate.

The Council also announced that it will assess all the possible measures needed to ensure that the banking sector has the liquidity necessary for the smooth functioning of the monetary policy transmission mechanism in the coming years.

The forward guidance on the key ECB interest rates and on the duration of the reinvestment of the APP portfolio is tied to the evolution of the economic outlook.

The Governing Council reiterated that it stands ready to adjust all of its instruments, should the need arise.

[1] ECB, 'ECB decides on technical parameters for the reinvestment of its asset purchase programme', press release of 13 December 2018.

On 11 January the book value of government securities purchased by the Eurosystem under the APP stood at €2,101 billion, covered bank bonds at €263 billion, and asset-backed securities and corporate bonds at €28 billion and €178 billion respectively. At the end of December, purchases of Italian government securities amounted to €365 billion (of which €329 billion by the Bank of Italy). The value of the assets that will be redeemed at maturity in the next twelve months and reinvested by the Eurosystem amounts to €203 billion, of which government securities make up 83 per cent.

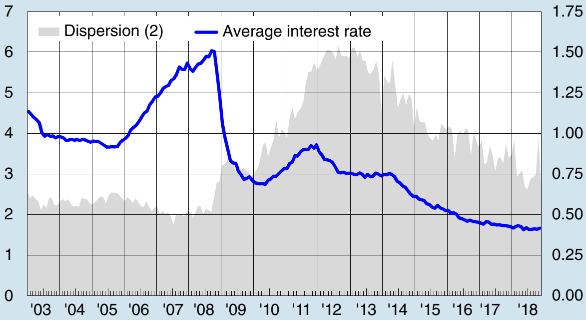
Lending continues to grow

Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in November lending to non-financial firms in the euro area continued to increase (by 3.9 per cent on an annual basis, compared with 4.1 per cent in August). Lending to households continued to grow on a quarterly basis (3.5 per cent) across all the main countries.

The cost of new loans to firms or mortgage loans to households in November remained largely unchanged at 1.7 and 1.8 per cent respectively; the dispersion of interest rates across countries remained low (Figure 9).

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

1.3 GLOBAL FINANCIAL MARKETS

Owing to the greater uncertainty over the outlook for world economic growth, long-term interest rates in the main advanced economies decreased again, following the increase recorded at the start of October; the fall in share prices accelerated against a backdrop of high volatility. Risk premiums increased slightly in the euro area.

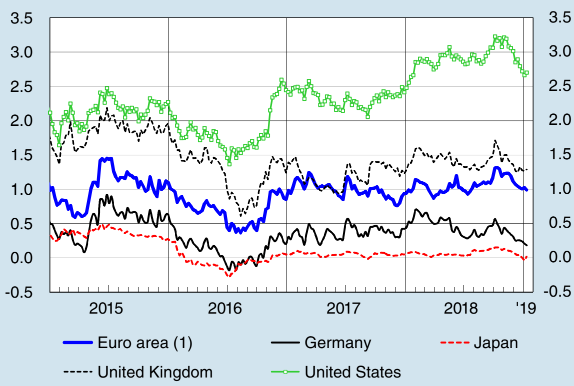
Long-term yields decline

During the fourth quarter, the yields on ten-year government bonds declined in all the main economic areas. The global causes of this decrease were flanked by expectations of a more gradual normalization of monetary policy in the United States, and in the United Kingdom by the uncertainty linked with Brexit (Figure 10).

Interest rates on German ten-year government bonds fell by 23 basis points to 0.24 per cent in

Figure 10

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

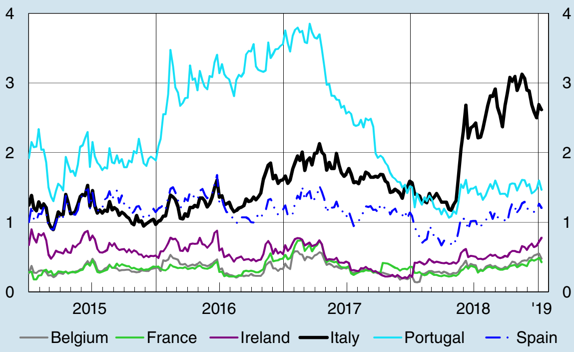


Source: Based on Thomson Reuters Datastream data.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries, excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

the fourth quarter. Yield spreads between ten-year government bonds and the corresponding German Bund increased by about 20 basis points in Ireland and Spain and by about 10 points in Belgium, France and Portugal (Figure 11). In Italy the spread narrowed by 65 basis points compared with the peak recorded in mid-November, thanks to the agreement between the Government and the European Commission (see Sections 2.8 and 2.9): in mid-January it returned to the level observed at the end of September (262 basis points).

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.

Share prices fall in a high volatility landscape

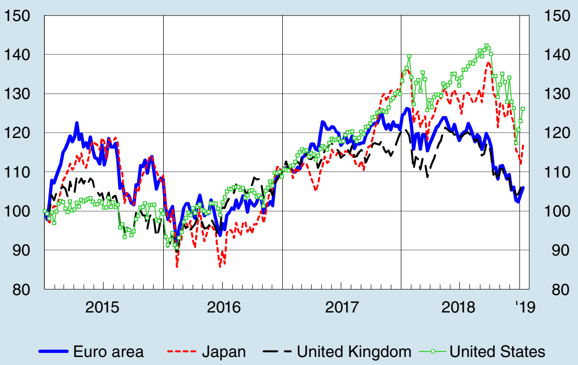
Share prices have declined by an average of around 11 per cent since the end of the third quarter in all the main advanced economies (Figure 12); this decrease has been particularly marked in the United States, reflecting in part the worsening of the global growth prospects. Prices have partially recovered over the last few weeks following the publication of positive data on the US labour market. Volatility has increased in both the United States and the euro area (Figure 13).

Volatility also increases in the emerging economies

Conditions in the financial markets of the emerging economies have been highly volatile since the end of September. Following the losses recorded in the autumn, share prices have recovered over the last few weeks, coinciding with the start of the trade negotiations between China and the United States.

Figure 12

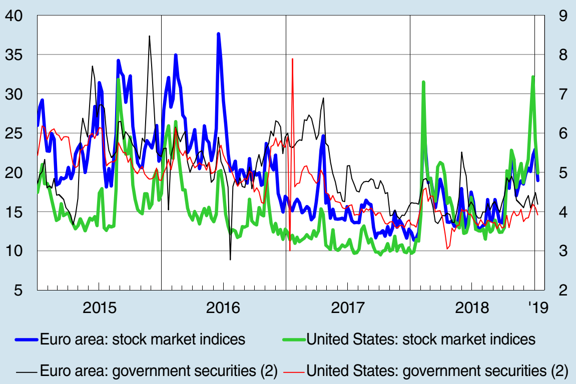
Stock market indices (1)
(end-of-week data;
1st week of January 2015=100)



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

Figure 13

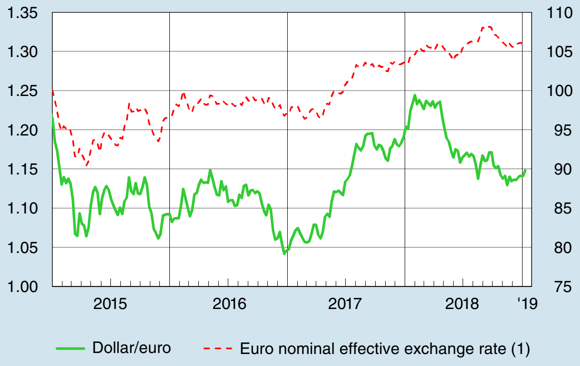
Implied volatility of equity and government securities prices (1)
(average weekly data; percentage points)



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

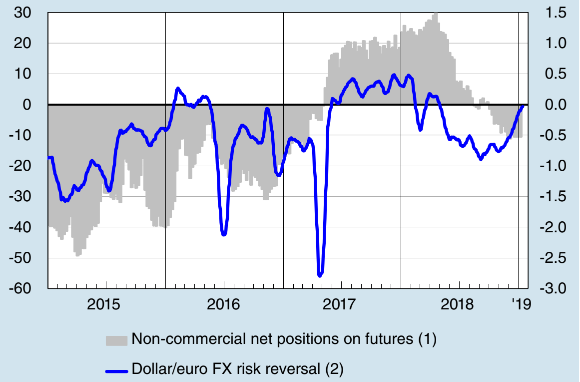
Exchange rates
(average weekly data; per cent)



Sources: ECB, Bloomberg and Thomson Reuters Datastream.
(1) An increase in the nominal effective exchange rate indicates an appreciation.

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), which measures the asymmetry of the distribution of expectations for the dollar/euro exchange rate. Negative values indicate that the risk of a depreciation in the dollar/euro exchange rate remains prevalent. – (2) Right-hand scale.

Expectations of a depreciation of the euro prevail

The euro depreciated against the dollar and vis-à-vis the currencies of the main trading partners (in nominal effective terms) by about 2 per cent (Figure 14). Non-commercial operators' net positions in dollar/euro signal that the markets expect a further weakening of the euro (Figure 15).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

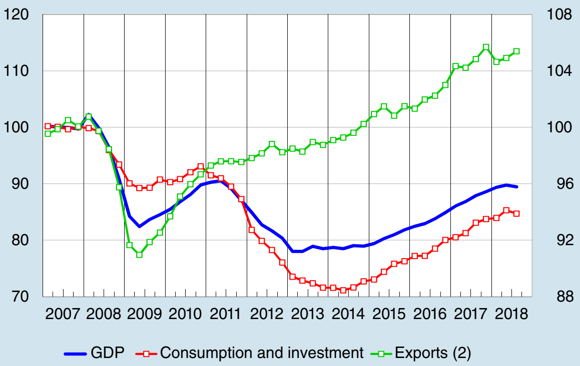
In the last quarter of 2018 Italy's GDP is estimated to have declined further, after the expansion of economic activity, under way for more than three years, came to a halt in the third quarter following a fall in domestic demand. Exports continued to recover, however.

Growth comes to a halt in the third quarter ...

In the summer months, GDP declined by 0.1 per cent compared with the previous quarter, interrupting the expansion under way since the second quarter of 2014 (Figure 16). Activity was held back mainly by a 1.1 per cent fall in investment, in particular in capital goods, but also by a slight reduction in household spending (Table 4). Some

Figure 16

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



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

Table 4

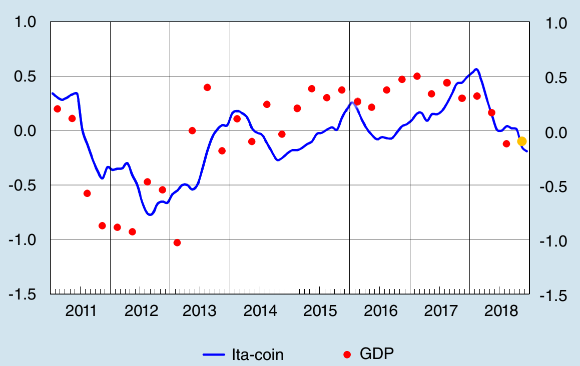
GDP and its main components (1)
(percentage change on previous period)

	2017	2018			2017
	Q4	Q1	Q2	Q3	
GDP	0.3	0.3	0.2	-0.1	1.6
Total imports	1.9	-2.6	2.4	0.8	5.2
National demand (2)	0.2	0.3	0.7	-0.2	1.3
National consumption	0.0	0.3	0.1	-0.1	1.1
household spending (3)	0.0	0.4	0.0	-0.1	1.5
other spending (4)	0.0	0.0	0.2	0.0	-0.1
Gross fixed investment	1.5	-0.8	2.8	-1.1	4.3
construction	0.9	0.1	0.7	0.5	1.6
plant, machinery, arms (5)	2.7	-2.8	6.9	-2.8	8.8
Change in inventories (6) (7)	-0.1	0.2	0.1	0.0	-0.4
Total exports	1.9	-2.3	0.6	1.1	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 methodology used to construct the indicator, see the box 'Ita-coin: a coincident indicator of the Italian economic cycle', in *Economic Bulletin*, 2, 2015. Further details on this indicator are available on the Bank of Italy's website: '*Ita-coin: a coincident cyclical indicator*'. For GDP, quarterly data; changes on the previous quarter. The yellow dot shows the forecast for GDP growth in the fourth quarter of 2018 based on bridge models. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

temporary factors also affected demand, especially the stall in production and sales in the automotive sector caused by the introduction of new emissions regulations (see Section 1.2). Overall, foreign trade made a positive contribution to growth: Italian exports accelerated, recording a greater increase than imports (see Section 2.4). Value added fell both in manufacturing and services; it rose again in the construction sector (see Section 2.2).

... and in the fourth

The available indicators show that activity declined further in the fourth quarter (see the box 'Economic activity in the fourth quarter of 2018'). The currently weak cyclical phase was confirmed by the Bank of Italy's Ita-coin indicator, which fell to negative values in the last months of 2018, reaching -0.19 in December (Figure 17). Similar signs are also given by the fall in the purchasing managers' index (PMI) and the worsening of business and consumer confidence indicators, although these are still at a fairly high level. According to these estimates for 2018 as a whole, GDP was 1.0 per cent when calculated on the basis of annual data (0.9 per cent if calculated on the basis of quarterly data, corrected for seasonal and calendar effects).

ECONOMIC ACTIVITY IN THE FOURTH QUARTER OF 2018

The Bank of Italy's forecasting models[1] indicate that in the fourth quarter of 2018, Italy's GDP may have fallen further, following the slight decline recorded in the three previous months (Figure A). Economic activity is estimated to have remained more or less stable in services and to have diminished in industry excluding construction; it appears to have increased slightly in the construction sector.

Our models show that in the last quarter of 2018 industrial activity declined; looking at the available indicators, the positive data coming from goods transport flows were offset by the reduction in electricity consumption. The number of new vehicle registrations fell for the third quarter running (Figure D). Manufacturing firms' confidence continued to fall (Figure C); similar indications come from the purchasing managers' index (PMI), which dropped below the threshold compatible with an expansion in activity for the first time since the end of 2014.

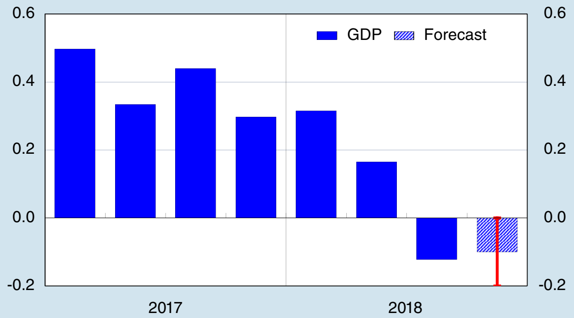
In the services sector too, the PMI fell in the fourth quarter, reaching its lowest level since the summer of 2013 (Figure B). Our estimates, which also take account of start-ups and wind-ups of companies and financial services for households and firms, point to a substantial stagnation of the sector's value added.

The construction sector appears to have slowed down, in line with the poorer confidence indicators, which nevertheless remain at a fairly high level (Figure C). Similar indications also come from the Bank of Italy's surveys, according to which construction demand continued to grow in the fourth quarter albeit more moderately (see '*Survey on Inflation and Growth Expectations*', Banca d'Italia, Statistics Series, 14 January 2019).

[1] Istat's preliminary estimate of GDP will be released on 31 January. The assessment made in this box is based on a range of partial information (such as electricity consumption, goods transport flows, and industrial output), business surveys, and other qualitative assessments, which can all be combined using statistical models. For an overview of the short-term forecasting models see the box 'Economic activity in the fourth quarter of 2016 according to coincident indicators', in *Economic Bulletin*, 1, 2017; see also *'Macroeconomic Models'* on the Bank of Italy's website.

Figure A

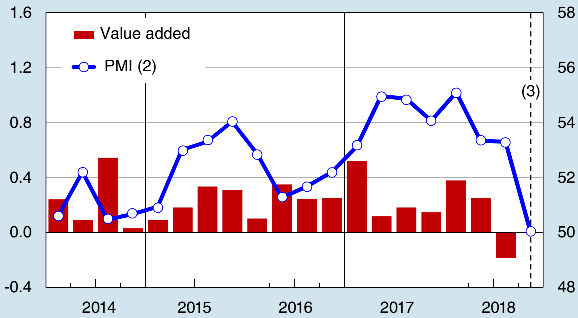
GDP growth (1)
(percentage changes)



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

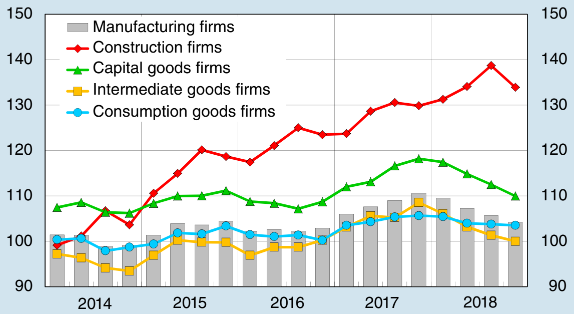
PMI and value added in services (1)
(levels and percentage changes)



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 fourth quarter of 2018 is not yet available.

Figure C

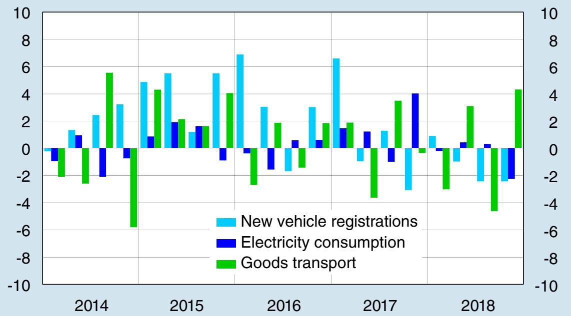
Business confidence indices (1)
(levels; indices: 2010=100)



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 composite 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 the related conclusions. These indicators are subject to revision.

2.2 FIRMS

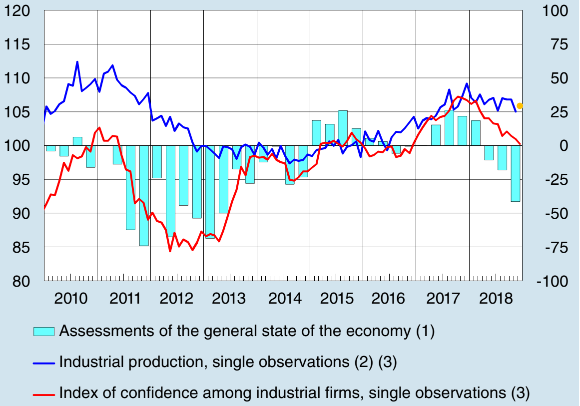
Industrial production seems to have declined in the autumn months, while investment appears to have picked up after falling in the third quarter. According to the assessments of firms, investment is expected to continue to expand in 2019, although at a slower pace than in 2018. Firms are less optimistic about the outlook for demand and the general economic conditions compared with the surveys conducted in September.

Industrial production declines

In November industrial production fell by 1.6 per cent compared with the previous month; there was a decline in the other main euro-area countries as well (see Section 1.2). According to our estimates, it dropped by about 0.5 percentage points in the fourth quarter (Figure 18; see the box 'Economic activity in the fourth quarter of 2018'). The difficulties faced by the automotive sector in the third quarter contributed (see Section 2.1). The growth in manufacturing activity is estimated to have slowed to 1.7 per cent on average in 2018 from 3.1 per cent in 2017.

Figure 18

Industrial production and business confidence indicators
(monthly data)



Sources: Based on data from Istat, Terna and the 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, 14 January 2019). – (2) Industrial production adjusted for seasonal and calendar effects; the dot represents the estimate for December 2018. – (3) Index: 2015=100.

Business confidence indicators deteriorate

Last autumn business confidence deteriorated further. The purchasing managers' indices (PMIs) fell to just below the level that indicates an expansion in manufacturing and hovered around the same mark in the service sector, reaching the lowest point in five years. The Bank of Italy-*Il Sole 24 Ore* survey points to similar signs: the assessments of general economic conditions worsened, as did demand expectations, especially for the domestic component.

Planned investment slows

After having risen by 2.8 per cent in the second quarter, in the autumn months investment fell by 1.1 per cent. The decline in purchases of capital goods (-2.8 per cent) was offset by the sharp increase reported in the previous period (6.9 per cent). These marked fluctuations may reflect the timing of tax incentives still in force in 2018 and those for 2019 included in the recent budgetary provisions. Investment in construction continued to increase for the fifth quarter in a row (0.5 per cent; 0.7 per cent in the second quarter), although it was still well below the levels reported prior to the financial crisis. According to our estimates, in the autumn investment rose, albeit moderately, across all sectors.

The Bank of Italy-*Il Sole 24 Ore* survey points to a slowdown in investment planned by firms for 2019 (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations'), in line with our forecasts (see Section 2.10). Uncertainty attributable to economic and political factors and, to a lesser extent, trade tensions continue to take a toll on firms' business.

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

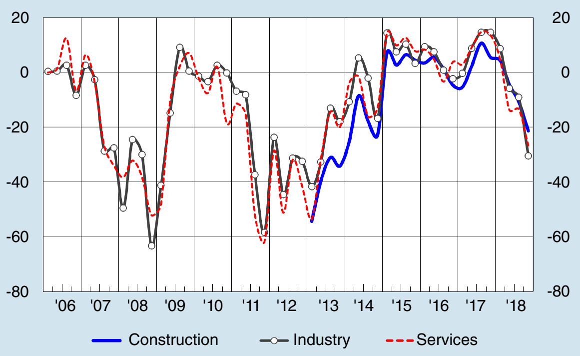
In December, the Bank of Italy and *Il Sole 24 Ore* carried out their quarterly survey on a sample of about 1,000 industrial, service and construction firms with 50 or more employees (see '*Survey on Inflation and Growth Expectations*', Banca d'Italia, Statistics Series, 14 January 2019).

The assessments of the general state of the economy pointed to a deterioration across all sectors; even the outlook for the first quarter of 2019 worsened, owing above all to heightened uncertainty over economic and political factors. Tensions surrounding international trade also had an effect. Short-term expectations regarding current demand trends, in both foreign and domestic markets, have become less favourable.

Compared with the September survey, the balance between opinions of an improvement and those of a deterioration dipped sharply to -28 percentage points from -11 points in the September survey

Figure A

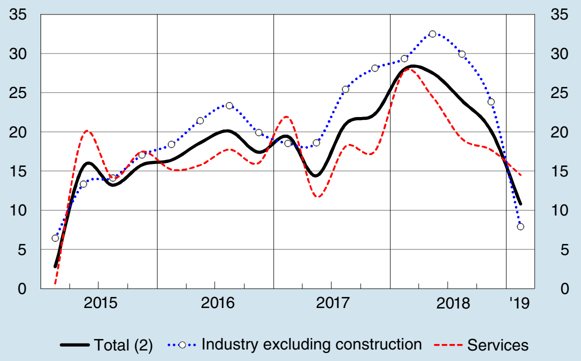
Firms' assessments of conditions for investing compared with the previous quarter (1)
(quarterly data; percentage points)



(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, 14 January 2019).

Figure B

Firms' expectations of investment trends (1)
(quarterly data; percentage points)



(1) Balance between judgments of improvement and deterioration by comparison with the previous year 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, 14 January 2019). The initial indications of the expectations for the reference year are gathered in the fourth quarter of the preceding year. – (2) The total includes construction firms.

(Figure A), bringing it to its lowest level since mid-2013. The decline, which was significant for all sectors, was even more marked for firms in industry excluding construction (-30.5 percentage points, from -9 points in the previous survey).

The share of firms that plan to increase nominal expenditure on investment in 2019 continues to exceed, by almost 11 points, the share of firms that expect to decrease it (the difference was about 25 points on average for the four surveys covering 2018; Figure B). The gap between expectations of an increase and those of a decrease in expenditure is the narrowest it has been since 2014 and is practically nil in the construction sector.

Less optimistic signs emerge for construction firms

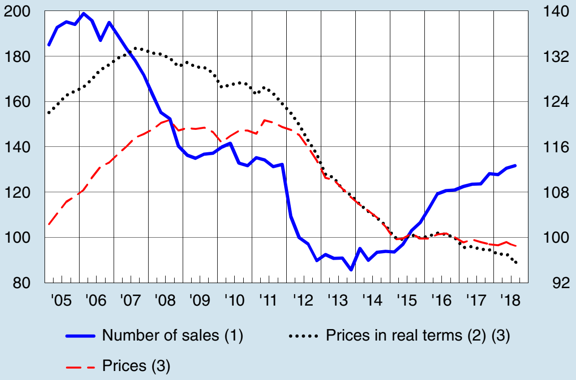
Housing sales continued to recover in the summer months, after a new drop in prices (Figure 19). According to the Housing Market Survey conducted in October, downward pressures on selling prices abated. The real estate agents' assessment of short- and medium-term market trends remains favourable. The most recent signs, however, indicate a slowdown in the construction sector: the construction firms interviewed for the Bank of Italy-*Il Sole 24 Ore* survey conducted in December were less optimistic about the outlook for demand and employment.

Firms' financial surplus continues to narrow

Based on Istat data, in the third quarter of 2018 the profit share of non-financial corporations (calculated as the ratio of gross operating surplus to value added) decreased compared with the previous period, reflecting the increase in labour costs. The saving rate (calculated as the ratio of gross saving to value added) rose slightly given the reduction in spending on current transfers; 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 summer quarter, non-financial corporate debt fell to 70.9 per cent of GDP, compared with 71.1 per cent at the end of June (Figure 20). Demand for bank loans continued to rise at a moderate pace, benefiting from still low interest rates (see the box 'Credit supply and demand').

Figure 19

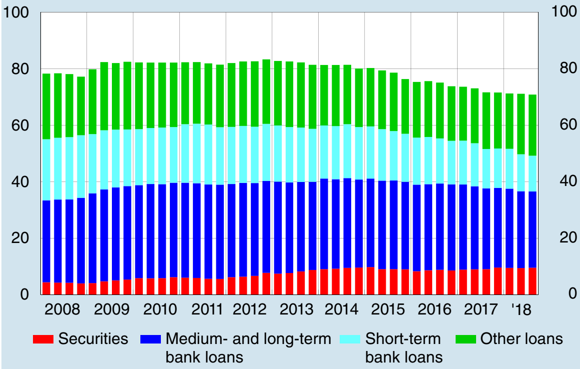
House prices and sales
(quarterly data; indices: 2015=100)



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.

2.3 HOUSEHOLDS

In the summer quarter household consumption fell slightly. The latest data indicate that spending remained weak even in the last part of the year, while signs from the labour market are still not very encouraging.

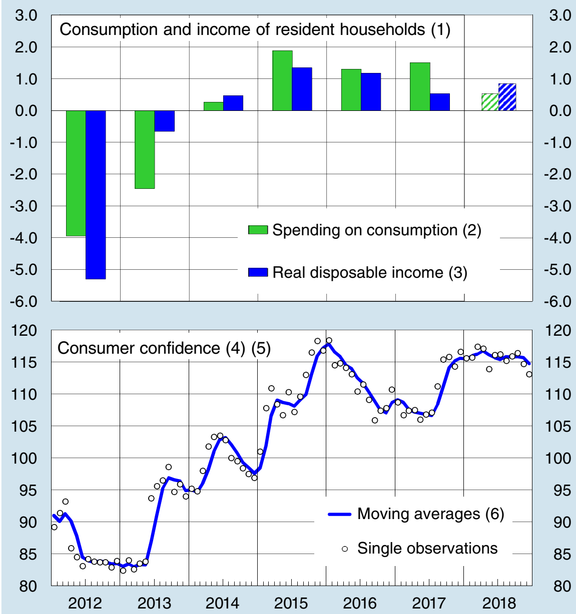
Consumption falls in the third quarter ...

In the third quarter household consumption, which had been gradually slowing since the start of the year, fell by 0.1 per cent compared with the previous period, with a drop in spending on non-durable goods and, to a lesser extent, on durable goods.

Households' decisions were affected by uncertainty about the income situation: after the marked acceleration in the spring, real disposable income fell by 0.2 per cent compared with the previous quarter, reflecting less favourable developments in employment (see Section 2.5); it instead continued to grow on a twelve-month basis (0.8 per cent; Figure 21). In this context, the propensity to save continued to rise, reaching 8.1 per cent on average in the last four quarters (Figure 22), and signalling a heightened precautionary motive to save.

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 9 months compared with the corresponding year-earlier period. – (2) Chain-linked volumes. – (3) Obtained using the consumption deflator for households (chain-linked volumes, 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.

... and remains weak in the fourth quarter

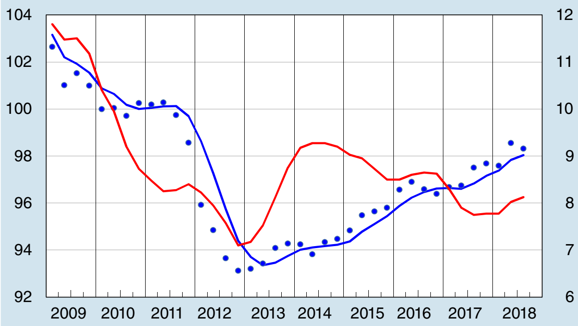
The latest cyclical indicators suggest that in the last three months of the year the trend in consumption was again weak, in line with recent developments in the labour market (see Section 2.5). New car registrations partly recouped the sharp decline recorded in September, when they were affected by the entry into force of emissions regulations. At the same time consumer confidence, while remaining high, reflected less favourable expectations about the general state of the economy and employment.

Household debt remains stable

In the third quarter of 2018, the ratio of Italian household debt to disposable income remained unchanged at 61.3 per cent (Figure 23), well below the euro-area average of 94.8 per cent. As a share of GDP, household debt held steady at 41.0 per cent (57.7 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) amounted to around 9.8 per cent of disposable income, as in the preceding quarter. The average cost of new mortgage loans to households remained low (1.9 per cent in October), although it has risen by about 10 basis points from the low point observed in July (see Section 2.7).

Figure 22

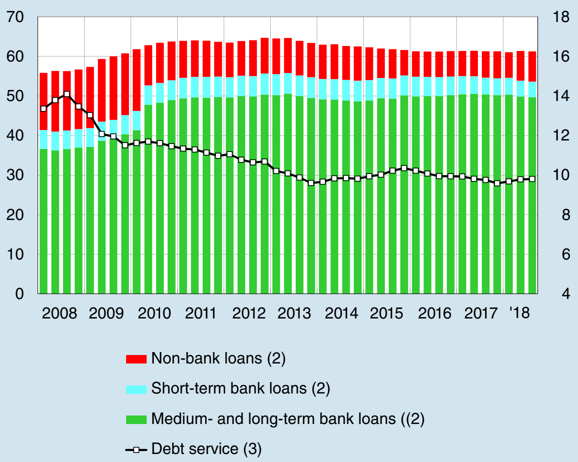
Consumer households' disposable income and propensity to save
(seasonally adjusted data)



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 gross disposable income. – (3) Right-hand scale.

Figure 23

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



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. The data for the last quarter are provisional. Debt includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology, see the note in 'Monetary and Financial Indicators. Financial Accounts', in *Supplements to the Statistical Bulletin*, 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (interest plus repayment of capital) for consumer households only.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the third quarter of 2018, Italy's exports returned to growth, though their prospects are being affected by concerns over the global economy. The current account surplus remains large and is contributing to the narrowing of Italy's net international debtor position, which is now close to a balance.

Exports grow in the third quarter ...

Following the sharp drop recorded at the beginning of the year and the sluggishness of the spring months, in the third quarter exports accelerated to 1.1 per cent in volume terms, from 0.6 per cent in the second quarter. The increase in the goods component was 1.2 per cent, less than that in potential demand, especially that from non-euro markets, also owing to the appreciation of the euro in effective and in real terms recorded up until the summer months. The performance of exports was especially favourable towards EU markets, despite the marked slowdown in sales to Germany due to the contraction in economic activity observed there. The rise in total volumes mainly concerned the mechanical machinery sector and, to a lesser degree, the electrical equipment and electronics sectors. Conversely, exports decreased in the pharmaceutical and transport equipment sectors.

Imports slowed to 0.8 per cent in volume terms, from 2.4 per cent in the previous quarter. The rise in the purchases of commodities and electronic and pharmaceutical products was offset by the sharp drop recorded for transport equipment, especially cars.

... but assessments of foreign orders worsen

According to the latest data, in October and November there was an increase in the exports of goods to non-EU markets, valued at current prices and seasonally adjusted, coinciding with the recent exchange rate depreciation (see Section 1.3). Manufacturing firms' assessments of foreign orders show signs of a weakening, however, confirming the high degree of uncertainty about the performance of this component of demand (Figure 24).

The current account surplus remains large

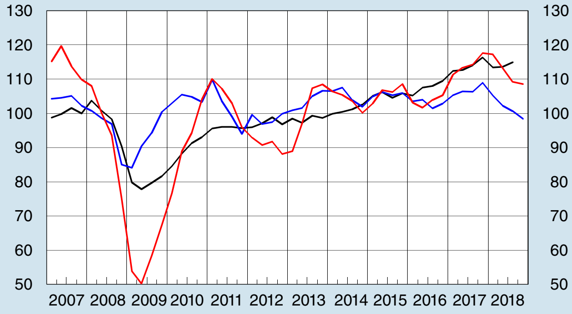
The current account surplus narrowed slightly in the first eleven months of 2018 compared with the year-earlier period, but remains high (Table 5). The narrowing in the merchandise trade surplus, due to increased spending on energy commodities, was partially offset by the wider primary income surplus and by the balance on services, which improved mainly owing to the favourable trend in expenditure by foreign tourists in Italy. The current account balance stood at 2.7 per cent of GDP, calculated on the basis of the moving averages of the four quarters ending in September (Figure 25).

In the first eleven months of last year, residents' net investment in foreign portfolio

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.-Nov. 2017	Jan.-Nov. 2018
Current account	**42.9**	**48.0**	**42.7**	**41.3**
Memorandum item: % of GDP	2.5	2.8	–	–
Goods	57.7	55.8	50.0	43.7
non-energy products (2)	83.1	87.6	78.6	79.4
energy products (2)	-25.5	-31.8	-28.6	-35.7
Services	-3.4	-3.5	-2.6	-0.3
Primary income	5.4	10.8	9.0	12.1
Secondary income	-16.8	-15.0	-13.7	-14.2
Capital account	**-3.1**	**-1.0**	**-0.9**	**-1.3**
Financial account	**59.9**	**51.4**	**56.4**	**28.1**
Direct investment	-9.7	3.3	9.0	7.5
Portfolio investment	159.5	87.5	81.4	112.5
Financial derivatives	-3.0	-7.3	-7.4	-4.0
Other investment (3)	-85.8	-34.7	-29.1	-90.1
Changes in official reserves	-1.2	2.7	2.5	2.2
Errors and omissions	**20.1**	**4.4**	**14.6**	**-11.9**

(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 October and November 2018. provisional data. – (2) Based on Istat foreign trade data. – (3) Includes change in the TARGET2 balance.

securities totalled €51 billion, of which half in mutual funds, a noticeable slowdown compared with the year-earlier period; in October and November they were negative by €9.3 billion.

Though with a significantly lower intensity compared with May and June (see *Economic Bulletin*, 4, 2018), non-resident investors reduced their stocks of Italian government securities and bank bonds (by €35.6 billion and €18.1 billion in the first eleven months respectively; €19.4 billion and €4.9 billion between July and November). Conversely, Italian banks increased their foreign funding in the form of loans and deposits by about €41 billion in the first eleven months of 2018 (mainly between April and September), against a reduction of €44 billion in the same period of 2017.

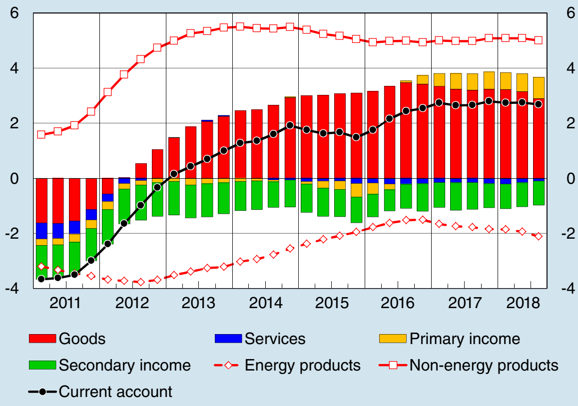
According to the latest data, in recent months overall capital outflows have slowed: in the last part of 2018 the Bank of Italy's net debtor position in the TARGET2 European payment system improved, with a concentration of inflows in December; it came to €482 billion at the end of the year (Figure 26).

Italy's net international investment position is close to a balance

At the end of September 2018, Italy's net international debtor position stood at €54.7 billion (3.1 per cent of GDP), narrowing by almost €32 billion compared with the previous quarter. The improvement was determined by the current account surplus (€15.1 billion) and the reduction in the market value of portfolio securities (by €18.4 billion), in turn due to the fall in share prices and especially in government bond prices (see *Economic Bulletin*, 4, 2018).

Figure 25

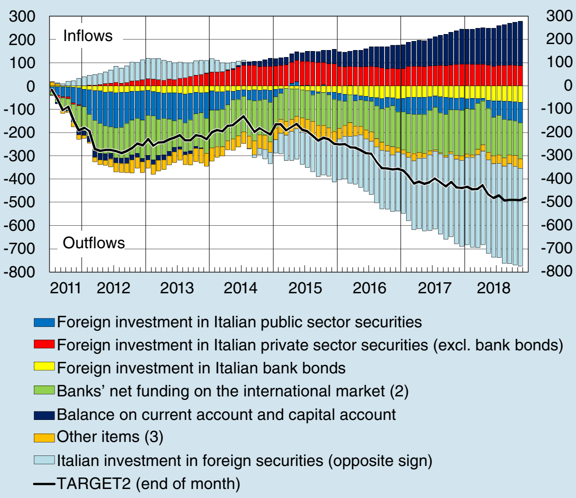
Current account balance and main components
(per cent of GDP; 4-quarter moving averages)



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

Figure 26

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



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's negative balance vis-à-vis the ECB in the TARGET2 payment system may reflect investment in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and capital account surplus. Cumulative capital flows since July 2011. – (2) Net bank funding in the form of loans, deposits and other investments by the banking sector, including those intermediated by resident central counterparties. – (3) Direct investment, derivatives, other investment, official reserves, errors and omissions.

2.5 THE LABOUR MARKET

In the third quarter of 2018 the number of hours worked continued to rise. The number of persons employed declined in the economy overall; according to the latest indicators, it remained stable in October and November. Contractual earnings continued to increase in all sectors.

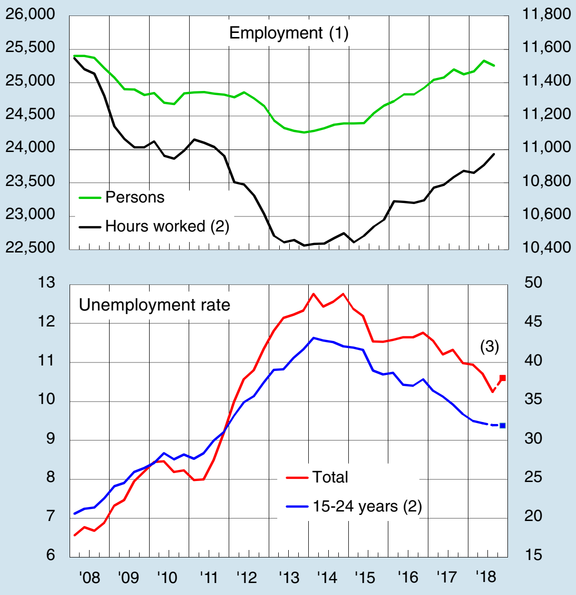
In the third quarter the number of hours worked rises, but the number of persons employed falls

In the summer months, growth in the number of hours worked continued, recording an increase of 0.6 per cent compared with the previous period (Figure 27 and Table 6); there was also less recourse to wage supplementation in industry and construction. Following the marked increase recorded in the spring, the number of persons employed then declined by 0.3 per cent in the third quarter. This decrease was concentrated in the services to households and individuals sector (entertainment activities, domestic work and other personal and household services): conversely, employment increased in the other main sectors. According to preliminary data from Istat's labour force survey, in October and November the number of persons employed remained essentially unchanged compared with the preceding two months.

Figure 27

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 average for the two-month period October-November.

Payroll employment slows, while permanent contracts increase

According to the administrative data from INPS on payroll employment contracts in the private sector, the balance between new hires and terminations fell significantly in the first ten months of 2018, compared with the year-earlier period, as a result of the slowdown in fixed-term contracts, which has been particularly intense since June. However, the balance of permanent contracts improved, buoyed by the growth in the number of contracts converted from fixed-term to permanent under way since the beginning of 2018; the improvement is partly attributable to the structural incentives in force since the start of the same year for new permanent contracts for workers under the age of 35.

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			
	Q3 2018	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Persons employed	**25,257**	**-0.3**	**0.2**	**0.6**	**-0.3**
of which: industry excl. construction	4,276	-0.5	0.6	0.8	0.1
construction	1,552	0.4	-1.6	0.3	0.7
private services (1)	11,161	0.2	0.4	0.2	0.3
Hours worked	**10,973**	**0.3**	**-0.1**	**0.4**	**0.6**
of which: industry excl. construction	1,914	0.7	0.2	0.5	1.3
construction	712	2.2	-3.3	-0.4	1.6
private services (1)	5,047	0.6	0.1	0.3	0.5

Source: Istat's quarterly national accounts.
(1) Does not include services to households and individuals (arts, entertainment and recreational activities; domestic work; other personal and household services).

The unemployment rate rises again in early autumn

Following the decrease observed in the summer, according to preliminary data from the labour force survey, the unemployment rate in October and November averaged figures similar to those observed at the end of the spring, boosted by an increase in the participation rate (Figure 27). The youth unemployment rate remained virtually unchanged at around 32.0 per cent.

Wages continue to grow in the private sector

In the summer quarter the growth in wages, under way since the beginning of 2018, continued. The contractual component grew by 1.1 per cent in the non-farm private sector compared with the same period in 2017; a similar figure was also recorded for actual hourly wages (Figure 28). The increase in wages was more marked in the economy as a whole (1.9 per cent for contractual earnings and 1.3 per cent for actual earnings), following the payment of wage instalments in the public sector. According to the latest cyclical indicators, in October and November wages continued to grow at a similar pace to that observed in the summer.

In the third quarter, hourly unit labour costs increased further in the non-farm private sector (by 2.5 per cent compared with the year-earlier period, from 1.4 per cent in the spring months), in part because of the drop in productivity.

2.6 PRICE DEVELOPMENTS

Inflation fell in the final months of 2018, reflecting slower growth in energy prices since October; the core component remained weak. Firms revised downward their inflation expectations for 2019.

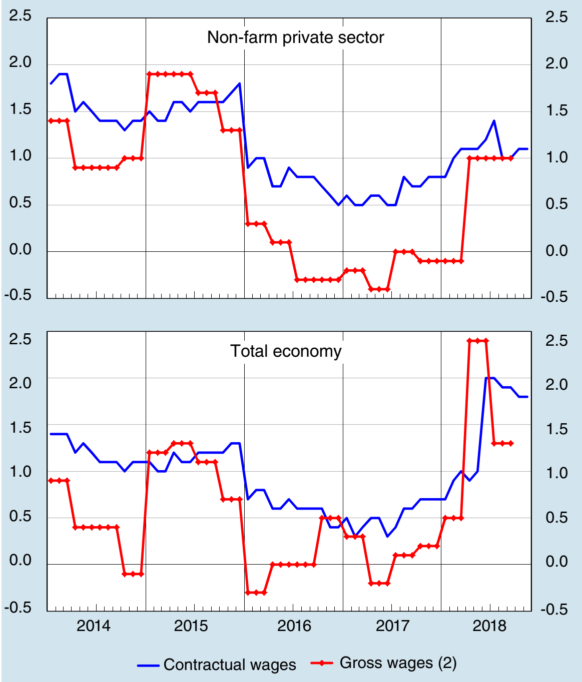
Inflation is limited by slower growth in energy prices

Since October the growth in the energy component has weakened; consumer price inflation fell in December to 1.2 per cent (from 1.6 per cent in November; Figure 29). During the same month, the change in seasonally adjusted annualized three-month inflation was slightly negative

Figure 28

Hourly wages (1)

(percentage changes on previous period)

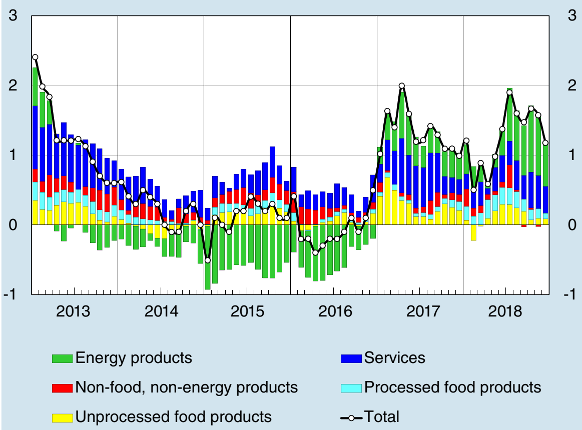


Sources: Istat's quarterly national accounts and survey of contractual wages.
(1) Raw monthly data for contractual wages; seasonally adjusted quarterly data for actual wages. – (2) Actual gross wages.

Figure 29

Consumer price inflation in Italy and the contribution 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 30). For the year as a whole, inflation averaged 1.2 per cent (1.3 per cent in 2017).

The core component weakens ...

Core inflation fell to 0.5 per cent in December (Table 7) and to 0.6 per cent on average in 2018. This decline reflects in part a temporary factor, namely the reduction in university fees in 2017, which slowed the year-on-year growth in prices in the early months of 2018 (see *Economic Bulletin*, 1, 2018).

Producer price inflation of industrial products sold on the domestic market, although remaining high, fell in November to 5.7 per cent, mainly reflecting price developments in the energy component. Although the growth in the non-food final consumption goods component remains moderate (0.9 per cent, as in the previous month), it is now at its highest level since 2014.

... but pressures exerted by wages could increase

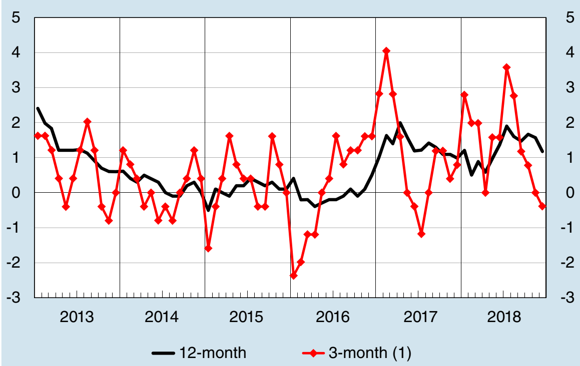
Looking forward, upward pressures on prices may be exerted by wage growth, which began to rise again in the private sector last spring and is expected to strengthen gradually in 2019 (see also Section 2.10). In the third quarter wage growth, combined with the drop in productivity, drove up unit labour costs in the non-farm private sector (see Section 2.5).

Firms' price competitiveness improves

According to our estimates, in the autumn months price competitiveness measured by the producer prices of manufactured goods and taking account of the structure of Italy's trade, improved, as in the other leading euro-area countries, thanks to the depreciation of the nominal exchange rate of the euro (Figure 31).

Figure 30

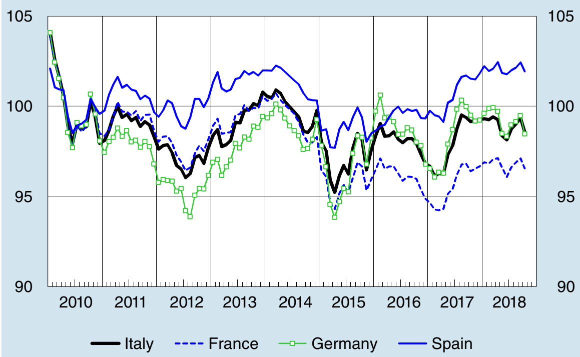
Consumer price inflation
(monthly data; percentage changes)



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

Figure 31

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 producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to October 2018. For the method of calculation, see A. Felettigh and C. Giordano, 'Rethinking prices and markets underlying price-competitiveness indicators', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, 2018.

Inflation expectations are revised downward

The list of sales prices of firms interviewed for the quarterly survey conducted in December by the Bank of Italy and *Il Sole 24 Ore* rose by 1.0 per cent in the last year; growth is expected to be marginally slower in 2019. Compared with the previous survey, firms lowered slightly their inflation expectations across all time horizons (Figure 32). According to Istat surveys, in the autumn months the balance between the share of manufacturing firms expecting to raise their prices and the share of those planning to reduce them narrowed, while remaining positive. The percentage of consumers expecting prices to remain unchanged or to decline over the next twelve months fell to 61.3 per cent (from 64.4 per cent in the third quarter). The analysts polled in December by Consensus Economics expect consumer price inflation to be 1.3 per cent in 2019, as in the previous two years.

Table 7

Indicators of inflation in Italy

(12-month percentage changes)

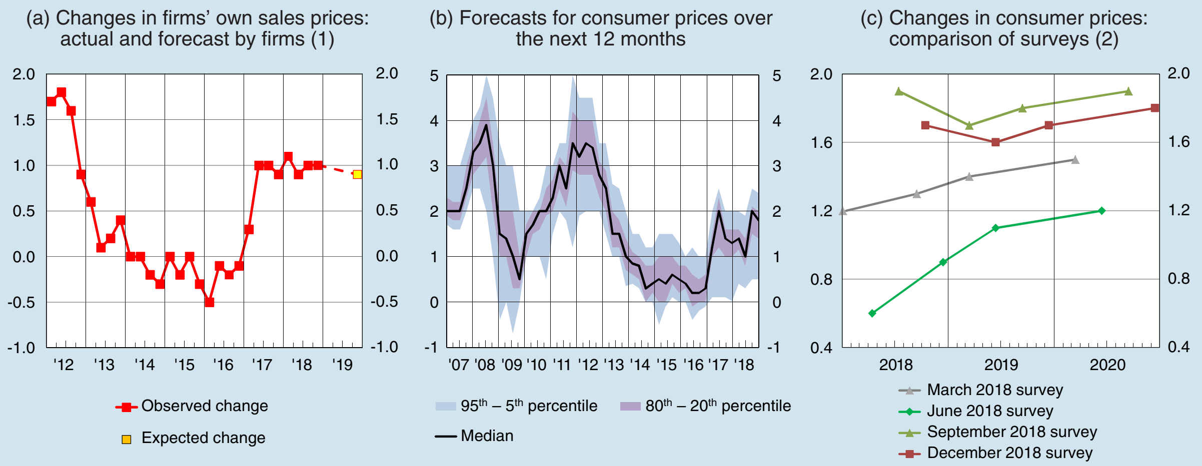
	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. food and energy	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. food and energy	Overall index	
2013	1.2	1.2	1.1	1.2	–	1.1	-1.2	1.2
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	1.0
2015	0.1	0.7	0.0	0.0	–	0.5	-3.4	0.9
2016	-0.1	0.5	-0.1	-0.1	–	0.5	-2.2	1.1
2017	1.3	0.8	1.3	1.2	–	0.7	2.6	0.5
2018	1.2	0.6	1.2	1.1	–	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	5.2	–
Sept.	1.5	0.5	1.4	1.4	-0.2	0.6	5.6	–
Oct.	1.7	0.7	1.7	1.6	0.2	0.7	7.1	–
Nov.	1.6	0.7	1.6	1.6	0.1	0.6	5.7	–
Dec.	1.2	0.5	1.2	1.1	-0.4	0.5	....	–

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.

Figure 32

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, 14 January 2019). – (2) The first point of each curve is the definitive figure available at the time of the survey, which is provided to interviewees in the questionnaire to be used as the basis for formulating their expectations; the second point represents the average of the forecasts for the subsequent 6 months; the third point is the average of the forecasts for the subsequent 12 months; the fourth point is the average of the forecasts for the subsequent 24 months.

2.7 BANKS

Credit supply conditions remain relaxed overall, though business surveys are reporting some signs of tightening. The cost of credit is still relatively low: thus far, the transmission of the higher wholesale funding costs to lending rates has been dampened by banks' favourable capitalization levels and their very stable funding sources. However, this may change if the higher yields on sovereign securities persist. Non-performing loans continued to decrease.

Lending continues to expand moderately ...

Lending to the non-financial private sector continued to grow at a moderate pace in November, at 1.8 per cent on a seasonally adjusted, annualized and quarterly basis (Figure 33.a). Growth in lending to households remained strong, in relation to both loans for house purchase and consumer credit.

Lending to non-financial corporations rose by 1.1 per cent over the preceding twelve months. Loans continued to increase for manufacturing firms (2.1 per cent; Figure 33.b) and for firms operating in the service sector (2.3 per cent); the reduction in loans to construction firms continued (-2.4 per cent). Across all sectors, lending to small firms contracted further (-3.2 per cent).

Funding holds stable

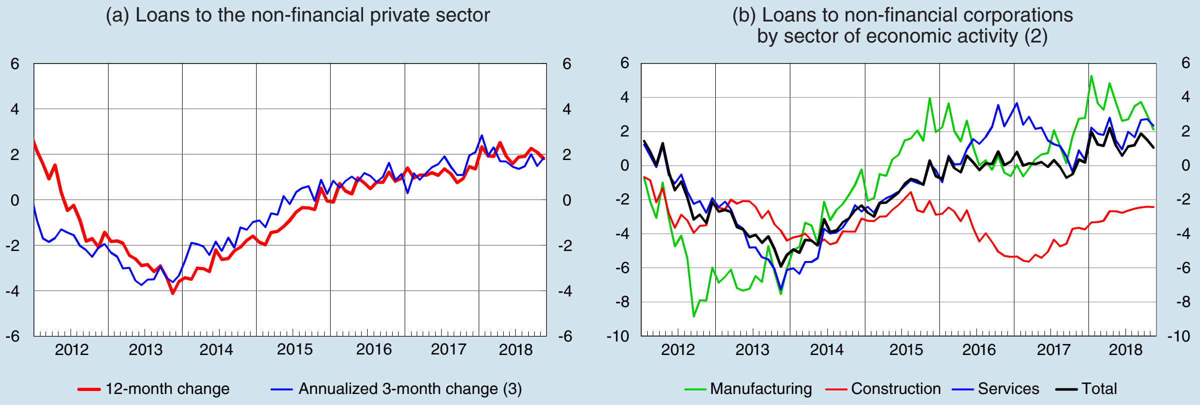
In the autumn, Italian banks' total funding remained substantially unchanged (Table 8). The growth in deposits of residents and in net wholesale funding on the repo market offset the reduction in bond funding caused primarily by higher redemptions. In November, the funding gap, i.e. share of loans not covered by retail funding, fell further, by about 0.7 per cent on an annual basis, to 4.7 per cent.

Supply conditions show some signs of tightening

According to the Italian banks that took part in the euro-area bank lending survey, in the third quarter of 2018 credit standards remained accommodative overall (see the

Figure 33

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; until December 2013, the data for each sector are not adjusted 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.

Table 8

Main assets and liabilities of Italian banks (1)

	End of month stocks (2)		12-month percentage changes (3)	
	August 2018	November 2018	August 2018	November 2018
Assets				
Loans to Italian residents (4)	1,728	1,727	-1.2	-1.8
of which: firms (5)	696	697	1.2	1.1
households (6)	628	631	2.8	2.7
Claims on central counterparties (7)	73	74	37.8	-32.9
Debt securities excluding bonds of resident MFIs (8)	501	514	7.3	17.2
of which: securities of Italian general government entities	372	386	4.9	18.8
Claims on the Eurosystem (9)	68	89	-46.4	-35.1
External assets (10)	406	398	14.6	9.8
Other assets (11)	939	888	1.6	1.5
Total assets	**3,715**	**3,689**	**1.0**	**0.2**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,498	1,505	2.4	3.5
Deposits of non-residents (10)	317	317	5.8	4.2
Liabilities towards central counterparties (7)	138	144	32.2	4.3
Bonds (13)	251	236	-18.2	-18.3
Liabilities towards the Eurosystem (9)	245	244	-3.9	-3.3
Liabilities connected with transfers of claims	119	115	8.7	3.8
Capital and reserves	401	392	-8.7	-9.9
Other liabilities (14)	747	737	6.7	6.4
Total liabilities	**3,715**	**3,689**	**1.0**	**0.2**

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

box, 'Credit supply and demand'). However, the deterioration in funding conditions over the summer months translated into a slight tightening in the overall terms and conditions of loan agreements. Based on the latest business surveys, credit access conditions tightened in the last quarter of 2018.

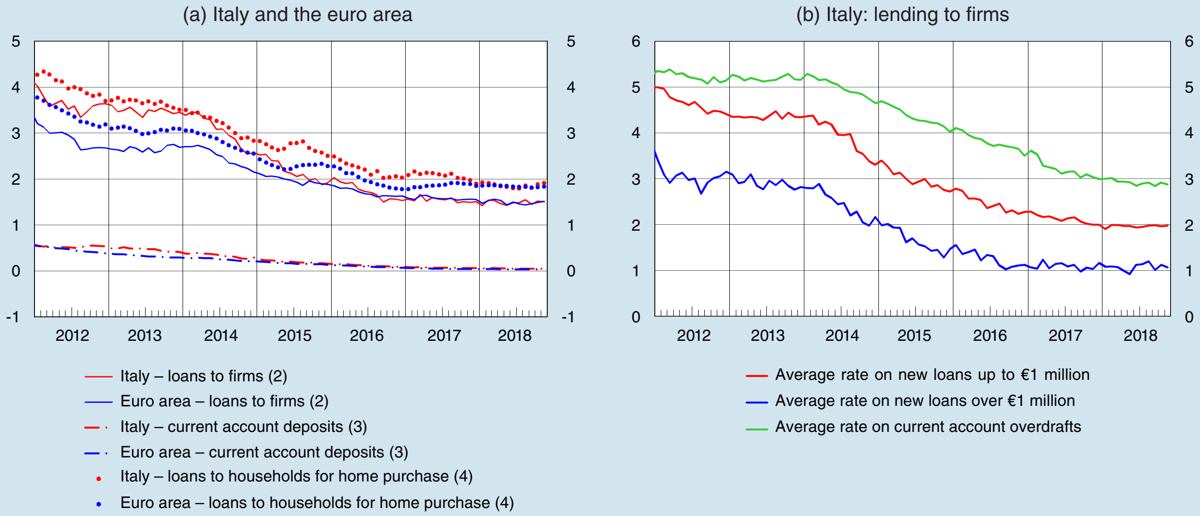
The cost of new loans remains low ...

The cost of credit remained substantially unchanged compared with August, at historically low levels that are slightly above the lows recorded last spring. The interest rate on new loans to firms stood at 1.5 per cent in November (Figure 34.a); the rate on loans below €1 million, which serves as an estimate of the cost of loans to small firms, stood at 2.0 per cent (Figure 34.b) while the rate on loans above €1 million was 1.1 per cent. The interest rate on new mortgage loans to households was 1.9 per cent. Compared with May, before tensions on the government securities market emerged, the cost of new loans to firms and new loans to households increased by about 0.1 points.

Figure 34

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

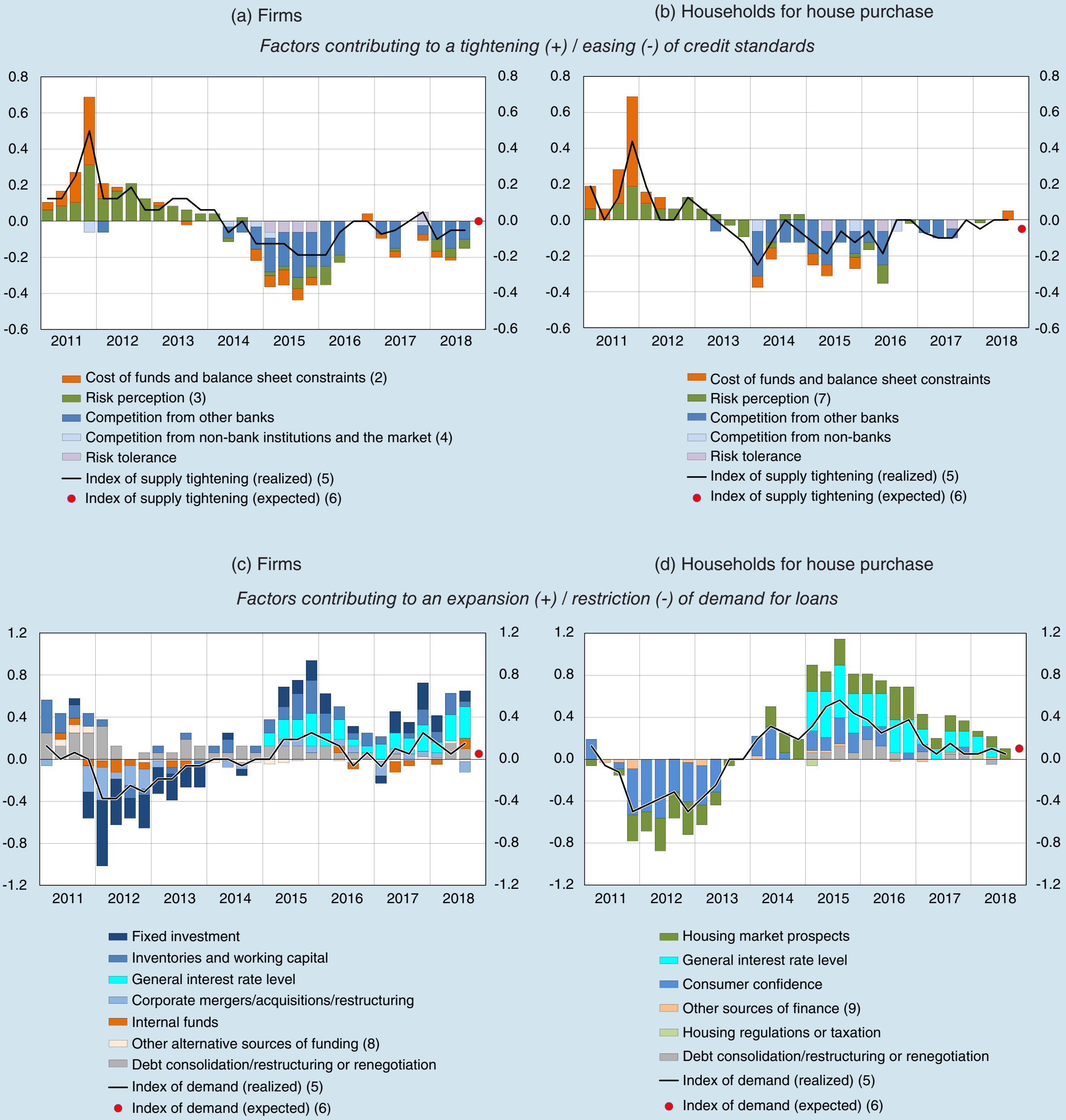
Based on the responses of the Italian banks interviewed for the euro-area bank lending survey, credit standards for new loans to households for house purchase remained unchanged in the third quarter of 2018; those for new loans to firms eased slightly, benefiting from the effects of competitive pressures from other banks and lower perceived risk (Figure A).[1] Overall, the average margin on loans continued to decline. However, the deterioration in banks' funding conditions, related to tensions on the sovereign debt market, was reflected in a slight tightening of the overall terms and conditions applied to loan agreements.

The banks interviewed reported that the demand for business lending continued to expand moderately, driven in large part by low interest rates, while the favourable outlook for the real estate market buoyed the demand for mortgage loans on the part of households.

[1] Ten of the main Italian banking groups took part in the survey, which ended on 1 October 2018. The results for Italy are available at *www.bancaditalia.it*, those for the euro area at *www.ecb.int*.

Figure A

Credit standards and demand for loans in Italy (1)



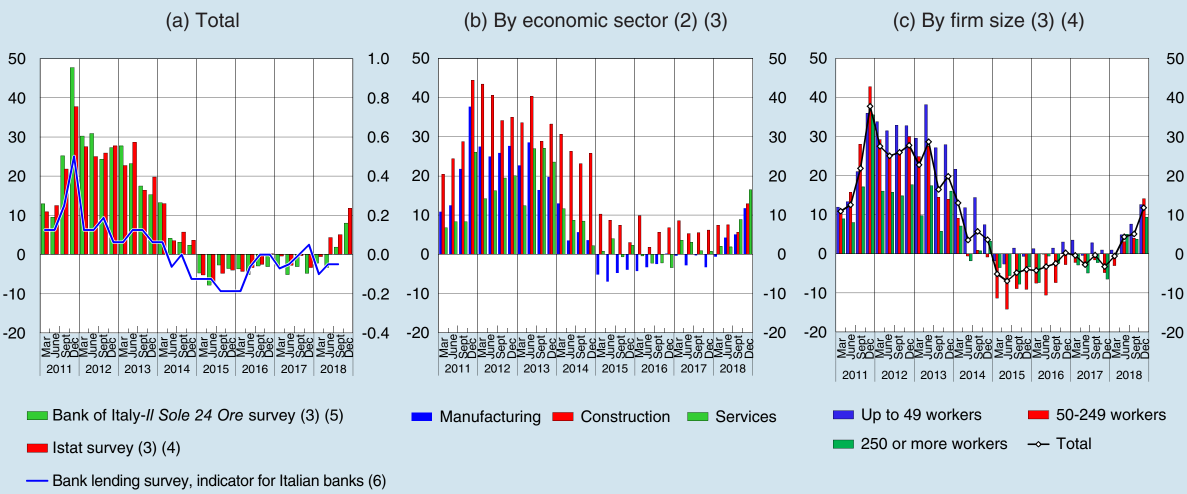
Source: Euro-area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand, 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Average of the following factors: bank's capital position; bank's ability to access market financing; and bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from other financing sources. – (5) For the quarter ending at the time of the survey. – (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.

The survey included specific questions relating to the effect on credit conditions of some measures implemented by the ECB Governing Council in the six months ending in September 2018. The banks reported that the Eurosystem's expanded asset purchase programme (APP) helped to improve their funding conditions and their liquidity positions, albeit to a lesser extent than reported in previous surveys; the programme also helped to increase the volume of loans and to ease lending terms and conditions. The negative rate applied to deposits held with the Eurosystem continued to reduce the cost of bank lending for firms and households.

However, signs of growing concerns regarding credit conditions have emerged from business surveys, which reported that while the conditions applied to loans remain relatively relaxed, they have generally and progressively tightened since the spring. This trend was more pronounced at the end of 2018: based on the latest data, credit access conditions tightened further in the last quarter, for all firms and across every economic sector, though more markedly so for service firms and for small and medium-sized manufacturing firms (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.

… but may increase if the higher yields on government securities persist

Compared with previous bouts of tension on the financial markets, several factors have played a part in dampening the effects of the higher wholesale funding costs recorded since last summer on the interest rates applied to loans to households and firms. First, banks have a more stable composition of liabilities, requiring less recourse to sources of funding that are more reactive to financial market conditions in terms of their cost and availability. Second, the banking system as a whole has a higher level of capitalization. Lastly, increased competition between credit institutions and the uncertainty surrounding the outlook for yields in the Italian financial markets may have contributed in tempering the transmission mechanism (see Sections 2.8 and 2.9). However, the cost of credit may continue to be gradually driven upward if the higher yields on government securities persist.

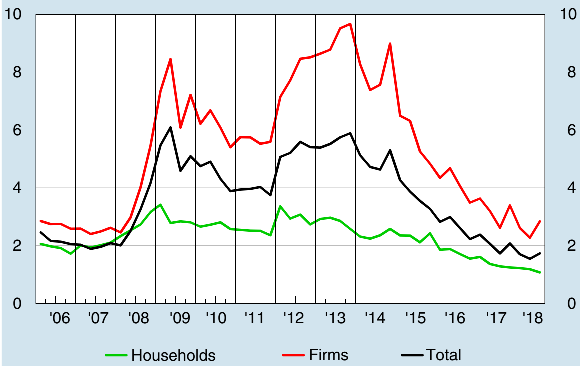
The flow of new non-performing loans remains very low ...

In the third quarter of 2018 the ratio of new non-performing loans to outstanding loans remained very low at 1.7 per cent on a seasonally adjusted, annualized basis (Figure 35). The slight increase in the ratio for business loans, which rose from 2.3 per cent in the second quarter to 2.8 per cent, was due to the reclassification of one very large exposure. The ratio fell by 0.1 points to 1.1 per cent for loans to households.

Figure 35

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.

For the banking groups classified as significant for supervisory purposes, the ratio of NPLs to total outstanding loans continued to diminish in the third quarter, both gross and net of loan loss provisions (reaching 9.4 and 4.5 per cent respectively, from 9.7 and 4.7 in the second quarter). This reduction is partly attributable to the sale of bad loans; the coverage ratio for NPLs remained stable compared with the second quarter, standing at 54.5 per cent.

... and profitability rises

In the first nine months of 2018, the operating profits of the significant groups grew by 21 per cent compared with the same period the previous year. Gross income rose by 4.3 per cent owing to the increase in interest income (5.8 per cent) and in non-interest income (2.9 per cent), which both benefited from the growth in net fee income (3.0 per cent). The reduction in staff costs was reflected in the decline in operating costs (-3.5 per cent), which accounted for 63.4 per cent of gross income (a drop of more than 2 percentage points). Loan loss provisions decreased by 41 per cent. Compared with September 2017, annualized return on equity rose from 4.4 per cent to 6.1 per cent net of extraordinary components.

Capital ratios remain unchanged

The capital ratios of Italy's significant banks remained stable in the third quarter of 2018. In September, common equity tier 1 (CET1) averaged 12.7 per cent of risk-weighted assets (RWA), as it did in June: the reduction in the fair value of government securities, owing to the drop in their prices, was offset by the drop in RWA.

On January 7, the government approved a decree law authorizing urgent support measures for Banca Carige SpA. For the purposes of ensuring access to stable medium-term funding, Banca Carige has requested state guarantees on future bond issues.

2.8 THE FINANCIAL MARKETS

From the second half of November, risk premiums on Italian government securities fell sharply in anticipation of the agreement reached between the Italian Government and the European Commission on 18 December, which avoided the application of the excessive deficit procedure. Nonetheless, financial markets conditions remain tenser than before the summer.

Sovereign risk premiums fall significantly in the last part of 2018

Between the end of September and the first half of November, the sovereign risk premium, measured by the spread between Italian and German ten-year bonds, increased by about 60 basis points to just under 330 points (Figure 36), reflecting both the heightened uncertainty surrounding Italy's budget for the three years

2019-21 and the release of macroeconomic data that fell below expectations.

Subsequently, the gradual easing of uncertainties regarding Italy's budget policies and the agreement reached with the European Commission (see Section 2.9) helped to significantly decrease the spread, which by mid-January returned to the levels recorded at the end of September (262 basis points), 65 points below the peak registered in mid-November. This decline was partly due to the lower redenomination risk perceived by investors, as inferred by the reduction of 24 basis points (between mid-November and mid-January) in the difference between the premiums on credit default swaps (CDS) on Italian government securities governed by the new ISDA 2014 rules – which offer protection from redenomination risk – and those on CDS contracts governed by the old rules (Figure 37). In mid-January the yields on ten-year bonds stood at 2.85 per cent, 76 and 29 basis points below the values recorded in mid-November and at the end of September respectively.

Share prices fall ...

The general index of the Italian stock market fell by 6.9 per cent from the end of September 2018, while the index of leading euro-area stocks declined by 10.6 per cent (Figure 38). The volatility of share prices as implied by the options prices on the stock index remained high, similar to the levels recorded in the euro area as a whole.

... but bank CDS premiums improve in the fourth quarter

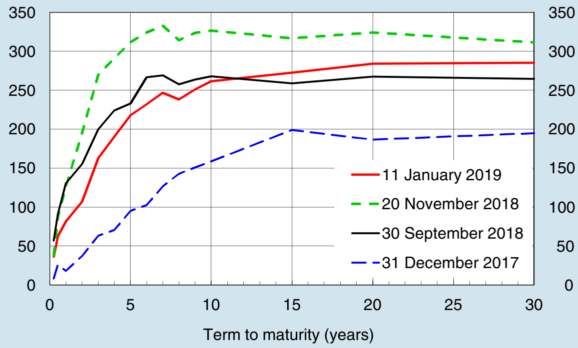
The share prices of credit institutions, which declined by an average of 14.1 per cent from the end of September, also continued to be affected by the signs of a worsening in the growth outlook for the Italian and global economies. However, the CDS premiums of the main Italian banks have benefited from an easing in the tensions regarding the government's budget; in mid-January, premiums fell by 40 basis points compared with the values recorded in mid-November, after having increased by 55 points in the first part of the fourth quarter of 2018.

Net bond issuance by banks and firms is modest ...

Italian non-financial corporations made a moderate amount of net issues last summer; net issuance by banks was slightly positive, in the presence of a marked decline in redemptions (see Table A.8 in the Statistical Appendix). According to preliminary data from Dealogic on gross issues only, in the fourth quarter the volume of issuance by Italian banks increased slightly, from €3.8 billion to €4.8 billion, while corporate bond issues decreased significantly, from €12.3 billion to €1.1 billion.

Figure 36

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



Source: Based on Bloomberg data.

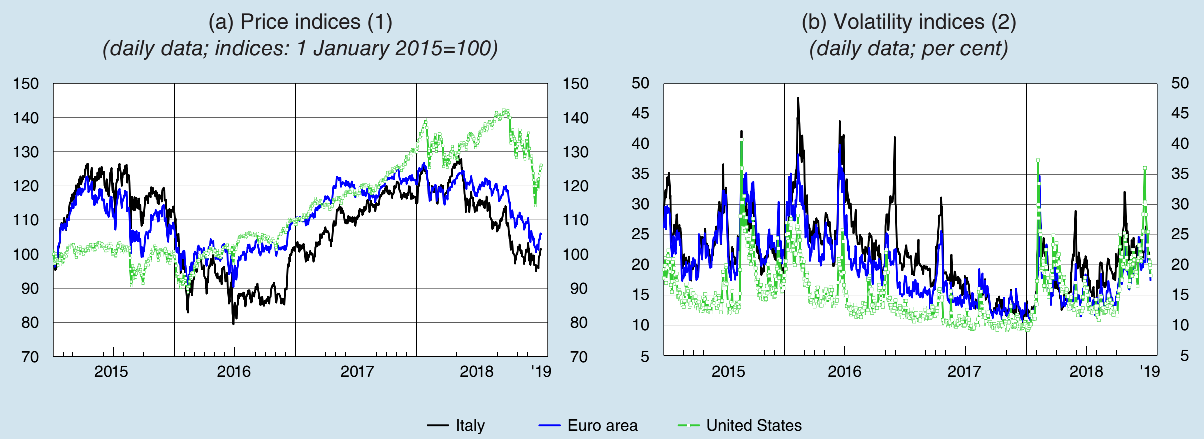
Figure 37

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.

Figure 38

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.

… and investment funds record net outflows

According to Assogestioni data, there was a net outflow of savings from Italian and foreign open-end investment funds in the third quarter of 2018 (-€0.6 billion, compared with €1.1 billion in the second quarter of 2018). The outflow was partly due to the worsening of conditions in the Italian sovereign securities market observed since May, and was largely limited to bond funds (-€5.8 billion) and, to a lesser extent, money market funds; equity and balanced funds reported net inflows totaling €4.4 billion overall.

2.9 THE PUBLIC FINANCES

The available preliminary data are consistent with a reduction in net borrowing in 2018 with respect to the previous year, while the debt-to-GDP ratio is estimated to have increased slightly.

In official estimates, the budgetary measures will increase the deficit on average by more than half a point per year between 2019-21 compared with the level on a current legislation basis; net borrowing will stand at 2.0 per cent of GDP this year, interrupting the decline under way since 2014. The approved budget differs significantly from the initial version presented by the Government. In the light of this change, the European Commission decided not to launch an excessive deficit procedure against Italy at this stage. Over the next two years, the Government's net borrowing target should begin to diminish again, falling to 1.5 per cent of GDP in 2021; excluding the revenue from the 'safeguard clauses', in the same period the deficit should stand at around 3 per cent of GDP.

Preliminary data point to a decline in net borrowing with respect to 2017

In the first eleven months of 2018, the general government borrowing requirement net of privatization receipts stood at €52.4 billion, €20.7 billion less than in the corresponding period in 2017. Taking account of the preliminary data for December and the impact of the main connecting factors between the borrowing requirement and net borrowing (financial transactions and cash/accruals differences), it is estimated that net borrowing fell from 2.4 per cent of GDP in 2017 to approximately 2 per cent in 2018 (Table 9).

The state sector borrowing requirement stood at €45.5 billion in 2018, €6.6 billion lower than in 2017 (Figure 39).

Table 9

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

	2016	2017	2018	2019
Net borrowing	2.5	2.4	1.9	2.0
Primary surplus	1.4	1.4	1.8	1.7
Interest payments	3.9	3.8	3.7	3.7
Debt (2)	131.4	131.2	131.7	130.7

Sources: For the items of the general government national accounts for the years 2016-17, Istat; for the years 2018-19, Ministry of Economy and Finance, Update to the macroeconomic outlook and the public finances, December 2018 (in Italian only).
(1) Rounding of decimal points may cause discrepancies in totals.

According to the quarterly accounts estimates released by Istat, in the first nine months of 2018, general government net borrowing came to 1.9 per cent of GDP, an improvement of about 0.7 percentage points with respect to the same period in 2017.

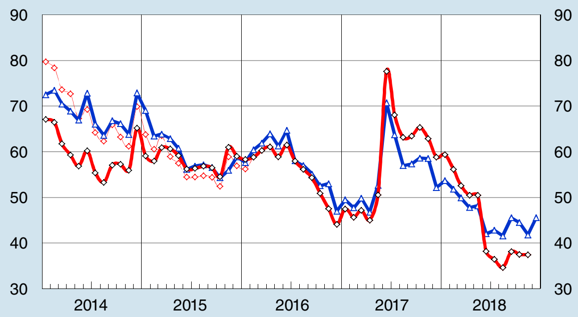
The debt-to-GDP ratio appears to increase slightly

At the end of November, general government debt stood at €2,345.3 billion, an increase of €63.1 billion compared with 2017.

Based on preliminary data for December, it is estimated that in 2018 the debt-to-GDP ratio increased slightly, largely reflecting the increase in the Treasury's liquid balance (0.3 percentage points of GDP).

Figure 39

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.

In 2018 the average yield at issue increased by about 40 basis points with respect to the previous year. The average cost of the debt stood at 2.8 per cent at the end of September, against 3.0 per cent at the end of 2017 (Figure 40). The average residual maturity declined to 7.2 years at the end of November, from 7.4 years at the end of 2017.

The Government presented its draft budgetary plan in October

According to the Government's budgetary measures presented to the Parliament in October, the deficit would have increased with respect to the current legislation projections by about 1.3 percentage points of GDP per annum in the three years 2019-21, deactivating the safeguard clauses for this year and reducing, albeit only slightly, the amounts for the following two years. Under the Government's plan, net borrowing was expected to reach 2.4 per cent of GDP in 2019, 1.2 percentage points higher than the current legislation projections in October and more than 0.5 percentage points higher than the level indicated at that time in the official estimates for 2018; the structural balance was expected to worsen by 0.8 percentage points of GDP.[1] The budget

[1] For more information, see '*Preliminary hearing on the budgetary provisions for the three years 2019-21*', Testimony of L. F. Signorini, Deputy Governor of the Bank of Italy, Chamber of Deputies, Rome, 9 November 2018.

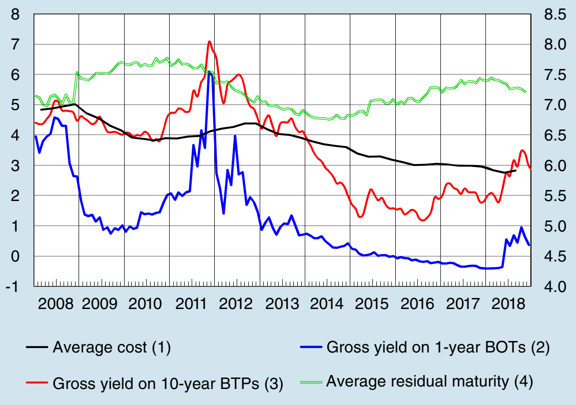
allocated resources to the introduction of the 'citizen's income', the revision of the pension system and greater public investment.

After the report of the European Commission ...

In October, in its assessment of Italy's draft budgetary plan for 2019, the European Commission found particularly serious non-compliance with the rules of the Stability and Growth Pact and invited the Government to revise its budget.[2] According to the estimates of the Commission presented at the start of November, Italy's structural balance would deteriorate by 1.2 percentage points in 2019, instead of improving by 0.6 points as requested by the EU Council in July. At the end of November, after Italy submitted a revised draft budgetary plan for 2019, in which it requested flexibility for the extraordinary maintenance programme for the road network and for a preventive plan to limit hydrogeological risks, the Commission confirmed its assessment and deemed that starting an excessive deficit procedure was warranted for non-compliance with the debt criterion; this assessment was shared by the European Union's Economic and Financial Committee (EFC).

Figure 40

Average gross yield on 1-year BOTs, gross yield on 10-year BTPs, average cost and average residual maturity of debt
(per cent and years)



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

... the deficit target for 2019 was reduced

In a letter to the Commission in December, the Government expressed its willingness to reduce the deficit target for 2019, lowering it from 2.4 to 2.0 per cent of GDP, and therefore to adjust its budgetary plans, partly due to the deterioration in the macroeconomic outlook. In official estimates that took account of the revised plan, the deficit for 2019 under a current legislation basis would rise to 1.4 per cent of GDP, against 1.2 per cent as the Government had initially estimated. The Commission considered that the proposed changes to the budget would be sufficient to avoid the launch of an excessive deficit procedure at this stage so long as Parliament approved those changes by the end of 2018. Consequently, the Government presented an amendment to the draft budget law.

The budgetary provisions will increase the deficit by more than 0.5 points of GDP per annum in the three years 2019-21

At the end of December, the Parliament approved a budget in line with the 2019 budget targets agreed with the European Commission (2.0 per cent of GDP). The budgetary measures increase the deficit, with respect to the current legislation projections, by an average of more than 0.5 per cent of GDP per annum in the three years 2019-21, deactivating the safeguard clauses for the current year but significantly increasing the amount for the following two years.

In the Government's new planning scenario, the structural deficit for 2019 will increase, albeit to a lesser degree than originally planned (0.2 percentage points of GDP against 0.8 points); excluding

[2] European Commission, '*Commission Opinion of 23.10.2018 on the Draft Budgetary Plan of Italy and requesting Italy to submit a revised Draft Budgetary Plan*', C(2018) 7510 final, 2018.

extraordinary expenditure items for which the Government has requested margins of flexibility from the European Commission, it would remain substantially unchanged with respect to the previous year. The Government has planned disposals amounting to 1 percentage point of GDP, thanks to which the debt ratio is expected to decrease from an estimated 131.7 per cent for 2018 to 130.7 per cent for 2019.

With respect to October's draft budgetary plan, the approved budget provides for a reduction in 2019 in the resources for the citizen's income and for the pension measures totalling €4.6 billion (around 0.25 per cent of GDP), compared with an initial planned outlay of €13.5 billion (almost 0.75 per cent of GDP).

According to official estimates, net borrowing is expected to fall to 1.8 per cent and 1.5 per cent of GDP in the two years 2020 and 2021 respectively; excluding revenue from the safeguard clauses, the deficit is expected to stand at around 3 per cent of GDP in both years. These clauses were already provided for in the preceding legislation, with an expected revenue stream of €19.2 billion in 2020 and €19.6 billion in 2021. The draft budgetary plan presented in October revised the safeguard clauses, providing a reduction in revenue to €13.7 billion in 2020 and to €15.6 billion in 2021. Instead, the budgetary plan approved by Parliament in December increased the amounts: according to official estimates, revenue from the safeguard clauses is currently expected to increase to about €23 billion in 2020 and approximately €29 billion in 2021 (or to 1.2 and to 1.5 per cent of GDP respectively).

Under the Government's budgetary plan, debt is expected to continue to decrease in the two years 2020-21, reaching 128.2 per cent of GDP.

2.10 PROJECTIONS

The projections for the Italian economy presented in this Economic Bulletin update those prepared as part of the Eurosystem staff macroeconomic projections, which were based on information available on 27 November.[3] Since then new data have been published on international trade, economic activity and business sentiment in Italy and the euro area that generally indicate a less favourable development in the global and Italian economy than suggested by the information available at the end of November. Moreover, the Italian Government has also revised the budget increase proposed for this year in the budget law (see Section 2.9); this revision has been accompanied by a drop in the yield on ten-year government bonds of about 75 basis points with respect to the peaks at the end of November.

The projections are based on the assumption of a slowdown in world trade

The scenario presented here assumes that international trade will reflect the current trade tensions, the lower growth projections for the Chinese economy and the less favourable performance of firms' foreign order books (see Section 2.4). The assumptions are of an increase in Italy's foreign demand, weighted by destination market, of slightly over 3 per cent in 2019 and about 3.5 per cent on average in each of the next two years; overall these projections are about 2 percentage points lower (of which 1.4 points in 2019) than projected in the forecasting scenario in July (see *Economic Bulletin*, 3, 2018). The medium-term outlook for the global economy continues to be shrouded in uncertainty.

Monetary conditions are still accommodative, but financial volatility is high

The scenario assumes that monetary conditions will remain highly accommodative, consistent with the statement of the ECB Governing Council following its December meeting. Consistent with financial market expectations, short-term interest rates are assumed to remain negative this year and the next before rising to 0.1 per cent in 2021.

[3] See '*Macroeconomic projections for the Italian economy*', 14 December 2018, available on the Bank of Italy's website.

In recent weeks, as the uncertainty fuelled by discussions with the European Commission over the budget for the coming years eased, risk premiums on Italian government bonds diminished, although they are still higher than the averages observed for 2016-17. Expectations based on market prices in the ten business days ending on 11 January are that the interest rates on ten-year Italian government bonds will average 3.2 per cent this year, rising slightly over the next two years (see the box 'The assumptions underlying the macroeconomic scenario'). The rise in sovereign yields will be passed on gradually to lending conditions in the private sector. The average cost of borrowing for firms is expected to rise by around 100 basis points over the three-year period.

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by the Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published on the Bank's website at the start of June and December in concomitance with the euro-area projections.[1] The macroeconomic projections for Italy presented here update those based on data available up to 27 November and follow on the publication of more recent information, including the latest national accounts data published by Istat on 30 November, after the end of the previous projection exercise. The technical assumptions have been revised in the light of changes in the exogenous variables at 11 January.

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

a) Foreign demand, weighted by the outlet market for Italian exports, increases by 3.4 per cent on average in the three years 2019-21;

b) The euro/dollar exchange rate, which averaged 1.18 in 2018, stays at 1.15 in the three years 2019-21;[2]

c) The price of a barrel of Brent crude oil, equal to $72 on average in 2018, drops to $58 in 2019 and then rises slightly to $59 in 2021 (on 11 January it was $58.9);

d) Three-month interest rates on the interbank market (Euribor), equal to -0.3 per cent this year, rise to 0.1 per cent on average in 2021;

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

	2018	2019	2020	2021
Potential foreign demand	3.6	3.1	3.5	3.5
Dollar/euro (1)	1.18	1.15	1.15	1.15
Nominal effective exchange rate (2)	-1.1	0.8	0.0	0.0
Crude oil prices (1) (3)	71.8	58.2	58.9	59.4
3-month Euribor (1)	-0.3	-0.3	-0.1	0.1
1-year BOTs (1)	0.1	0.4	0.6	0.9
10-year BTPs (1)	2.6	3.2	3.5	3.8

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

e) The yield on ten-year BTPs, equal to 2.6 per cent in 2018, rises to 3.2 per cent in 2019, 3.5 per cent in 2020 and 3.8 per cent in 2021, in line with the values of forward rates implied by the term structure of interest rates on government bond yields;

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

[2] The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the market in the ten working days to 11 January.

f) The scenario takes account of the measures set out in the budgetary legislation for 2019. As in previous macroeconomic projection exercises, for 2020-21 it is assumed that the safeguard clauses relative to VAT and excise duty increases are not activated. In accordance with the guidelines underlying the Eurosystem forecasts, which do not incorporate measures that have yet to be defined in sufficient detail, the macroeconomic scenario excludes alternative measures for recouping revenue.

The assumptions underlying the scenario take into account the public finance package passed at the end of December. The effects on economic activity of the various measures planned by the Government are consistent with those estimated using the Bank of Italy's econometric model. However, it is assumed that transfers will be made to households with a higher than average propensity to consume (see the box 'The effects on the projections of changes in the underlying assumptions').

EFFECTS ON THE PROJECTIONS OF CHANGES IN THE UNDERLYING ASSUMPTIONS

The projections presented in this Economic Bulletin are based on technical assumptions regarding the external context, movements in the financial variables, economic policies and business and consumer confidence. For interest rates, risk premiums, oil prices and exchange rates, the expectations embedded in financial market prices are taken into account; for economic policy measures, those passed or approved with a sufficient degree of detail; and for confidence levels and credit standards, the information drawn from surveys. In the present situation these assumptions must be assessed with great care, given the considerable uncertainty surrounding them, but also because the variables do not move independently of one another; combined changes in them, particularly in cyclical phases marked by high volatility and uncertainty, can strengthen or weaken the impact on economic activity.

The effects on growth projections of changes in the assumptions regarding the composition of fiscal policy, financial and credit market conditions, and business confidence can be analysed by means of simulations using the Bank of Italy's econometric model.[1] The results of the exercises are shown in the figure.

The impact of a budget package on economic activity depends largely on its composition and on the details of the single measures. Panel (a) of the figure shows the changes in GDP typically associated with fiscal measures entailing an increase in expenditure or a decrease in government revenues of 1 per cent of GDP (multipliers).[2]

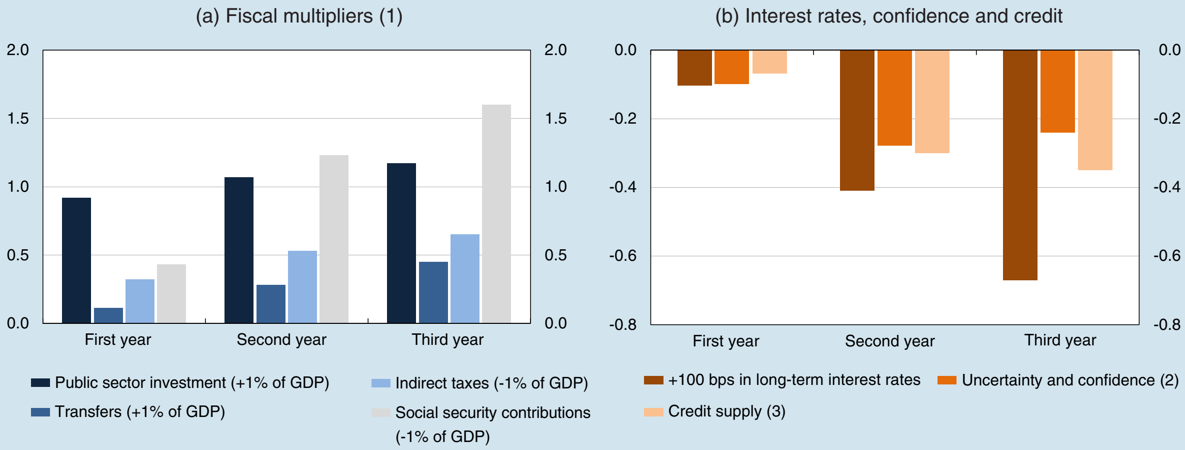
In the case of measures that increase expenditure, a larger impact on GDP is produced by public sector investment, whose multiplier is close to 1 from the very first year. A multiplier of this size assumes that the measures are enacted rapidly and efficiently and that they effectively help to increase productivity in the economy.[3]

[1] G. Bulligan, F. Busetti, M. Caivano, P. Cova, D. Fantino, A. Locarno and L. Rodano, '*The Bank of Italy econometric model: an update of the main equations and model elasticities*', Banca d'Italia, Temi di Discussione (Working Papers), 1130, 2017.

[2] The multiplier estimates shown here assume that the measures are designed and enacted in a similar way, on average, to the past and that they do not contain any specific elements capable of strengthening or weakening their impact.

[3] '*Public investment for developing the economy*', address by the Governor of the Bank of Italy I. Visco, 64th Conference on Government Studies, Varenna, 22 September 2018. See also F. Busetti, C. Giorgiantonio, G. Ivaldi, S. Mocetti, A. Notarpietro and P. Tommasino, 'Capitale e investimenti pubblici in Italia: misurazione, effetti macroeconomici, criticità procedurali', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

Effects on GDP of different shocks
(percentage deviations in GDP with respect to the base simulation)



(1) Effects on the level of GDP of measures either to increase spending or reduce revenue amounting to 1 per cent of GDP. – (2) Increase in uncertainty and decrease in the confidence indicator equal to about half of the change observed in the 2008-09 crisis; temporary shock lasting two years. – (3) Shock to credit supply equal to about half the change observed in the 2008-09 crisis.

Transfers to households usually have a less marked effect, with a multiplier of just under 0.5 after three years. The macroeconomic projections presented in this Economic Bulletin assume that transfers for the 'citizen's income and pension' mainly relate to households with a high propensity to consume, implying a multiplier of about 0.7 after three years. This multiplier could be higher if the measures were designed to target households with tight liquidity constraints.

In the case of measures that reduce revenue, a very strong if gradual stimulus can be obtained with measures to lower the burden of firms' social security contributions in labour costs that foster export competitiveness and support households' real income; the multiplier is over 1 after two years. Reducing indirect taxes has a smaller impact, with a multiplier of just over 0.5 after three years.

However, the effects of a fiscal expansion or tightening may be combined with, and sometimes amply offset by, the effects of potential changes in financial conditions, business confidence or credit conditions brought about by changes in the economic policy stance. Panel (b) of the figure looks at the effects on GDP of (a) a 100 basis point increase in risk premiums on medium- and long-term government security yields; (b) an increase in economic uncertainty and a deterioration in business confidence equal to about half the particularly large shifts recorded during the global financial crisis according to the main indices; and (c) credit rationing equal to half the amount estimated for the 2008-09 crisis as measured on the basis of the Bank Lending Survey.[4]

In each of the three cases, the negative effects on GDP derive mainly from the squeeze on private sector investment spending and they increase with time. In the first simulation the increase in risk premiums is passed on to firms' cost of capital – with a cut back in planned investment – and raises households' propensity to save. The resulting contraction in GDP is equal overall to about

[4] The macroeconomic impact of uncertainty and lending conditions is based on the estimates of the investment equation of the Bank of Italy's econometric model as in F. Busetti, C. Giordano and G. Zevi, 'The drivers of Italy's investment slump during the double recession', *Italian Economic Journal*, 2, 2, 2016, pp. 143-165. These simulations therefore do not assume direct repercussions on consumption from a decrease in consumer confidence.

0.7 percentage points after three years. In the second simulation, the deterioration in confidence and increase in uncertainty regarding the outlook for growth make firms more cautious about their investment decisions, subtracting nearly 0.3 points from GDP in the space of three years. In the third case, limits on credit supply lead to a contraction in private sector investment, with an overall drop in GDP of more than 0.3 percentage points.[5]

[5] In these simulations the effect of each factor on economic activity is assessed separately. However, interdependencies and non-linearity, which are not taken into account in these exercises, may amplify their overall effects.

In this scenario GDP growth continues at a modest pace

Based on these assumptions and the latest cyclical data, the central projection for GDP growth is equal to 0.6 per cent in 2019, to 0.9 per cent in 2020 and to 1 per cent in 2021 (Table 10 and Figures 41 and 42).[4] The dispersion of the probability distribution around these values is particularly large in the current environment.

Table 10

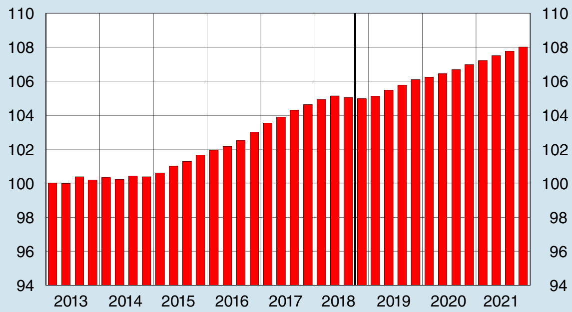
Macroeconomic scenario
(percentage changes on previous year unless otherwise indicated)

	2018	2019	2020	2021
GDP (1)	0.9	0.6	0.9	1.0
Household consumption	0.6	0.6	1.0	0.9
Government consumption	0.2	0.3	0.0	-0.2
Gross fixed investment	3.8	0.6	0.2	0.8
of which: in METE	5.2	-0.3	-1.2	0.5
Total exports	0.8	3.0	3.3	3.5
Total imports	1.7	2.8	2.5	2.5
Change in stocks (2)	0.1	-0.1	0.0	0.0
Memorandum item: GDP (3)	*1.0*	*0.6*	*1.0*	*1.0*
Prices (HICP)	1.2	1.0	1.3	1.6
HICP net of food and energy	0.6	0.8	1.2	1.5
Employment (standard units) (4)	0.6	0.4	0.6	0.7
Unemployment rate (5)	10.5	10.3	10.3	10.0
Export competitiveness (6)	-1.1	1.7	0.9	0.3
Current account balance (7)	2.5	2.8	2.8	2.9

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

Figure 41

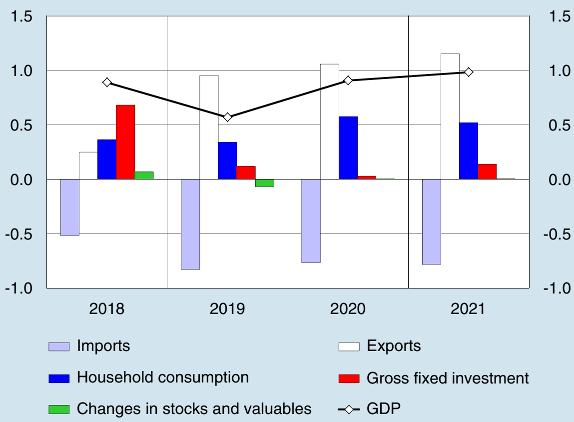
GDP projections: quarterly profile (1)
(levels; Q1 2013=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to Q3 2018; projections thereafter.

Figure 42

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



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

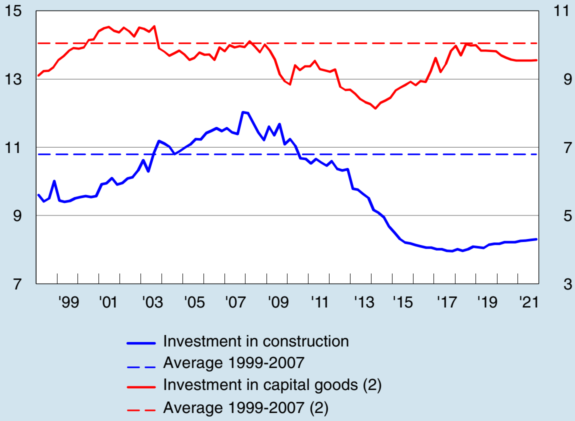
[4] The projections are based on quarterly data adjusted for seasonal and calendar effects.

Household consumption is expected to expand at the same rate as GDP and disposable income, boosted by the support measures included in the budget law. Although monetary conditions will remain accommodative, in 2019-21 investment is expected to reflect higher borrowing costs and the loss of business confidence caused by the poor outlook for international trade. Investment in METE (machinery, equipment and transport equipment) will slow, partly as a result of changes to earlier tax incentives, which will be cut back with respect to the previous three-year period. There will be a moderate growth in expenditure on construction, underpinned by a slowly strengthening real-estate market and by public sector investment. No further increase is expected in the ratio of investment in METE to GDP, which last year returned close to the level recorded prior to the double-dip recession. In the construction sector, in 2021 the ratio is expected to remain below the pre-crisis level by about 3.5 percentage points (Figure 43).

Figure 43

Investment as a percentage of GDP (1)

(quarterly data)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. – (2) Right-hand scale.

Export growth, which had come to a halt in the early months of 2018 partly as a delayed effect of the appreciation of the euro exchange rate in 2017, should resume at a moderate pace, close to that of foreign demand. Imports are expected to grow at a slightly slower pace, partly as a consequence of slacker domestic demand. The current account of the balance of payments should remain firmly over 2.5 per cent of GDP (Figure 44).

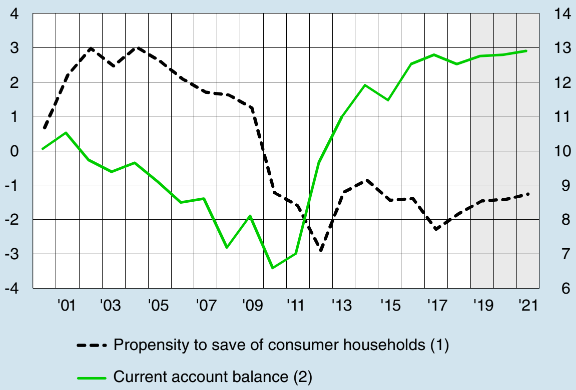
Inflation gradually increases

Inflation, measured by the harmonized index of consumer prices, is expected to be 1.0 per cent in 2019, slightly lower than in the previous year (Figure 45). It is projected to rise to 1.5 per cent on average in the following two years, mainly driven

Figure 44

Propensity to save of consumer households and current account balance

(percentage points)

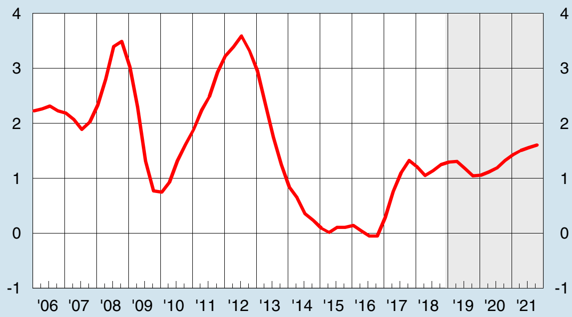


Sources: Based on Bank of Italy and Istat data.
(1) Right-hand scale. – (2) Per cent of GDP.

Figure 45

Consumer price inflation

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



Sources: Based on Bank of Italy and Istat data.

by the core component. The main contributory factor will be an acceleration in private sector wages, boosted by the gradual improvement in inflation expectations embodied in new labour contracts. Private sector profit margins are set to increase by around half a percentage point overall in the three years 2019-21.

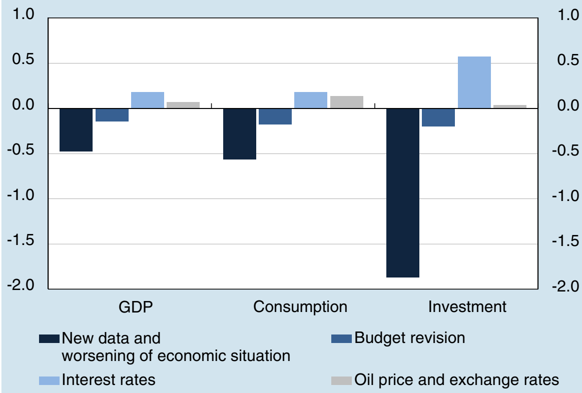
The growth projections are revised downwards

GDP growth projections have been revised downwards with respect to those based on end-November data by 0.4 percentage points for 2019 and 0.2 points for 2020. Inflation projections are lower than previous estimates by an average of about 0.2 points in the two years 2019-2020, mainly reflecting lower oil prices; the estimates for 2021 are virtually unchanged.

The GDP growth estimate for 2019 has been lowered largely in the light of new information (Figure 46) pointing to a sharper cyclical slowdown (see the box 'Economic activity in the fourth quarter of 2018'), a contraction in foreign demand and a cutback in firms' investment plans, as confirmed by December's quarterly survey of inflation and growth expectations (see the box 'Italian firms' investment according to the Survey on Inflation and Growth'). The favourable stimulus provided by lower long-term interest rates following the agreement reached with the European Commission will amply compensate the direct effects of the revision in the budgetary measures (see the box 'Effects on the projections of changes in the underlying assumptions').

Figure 46

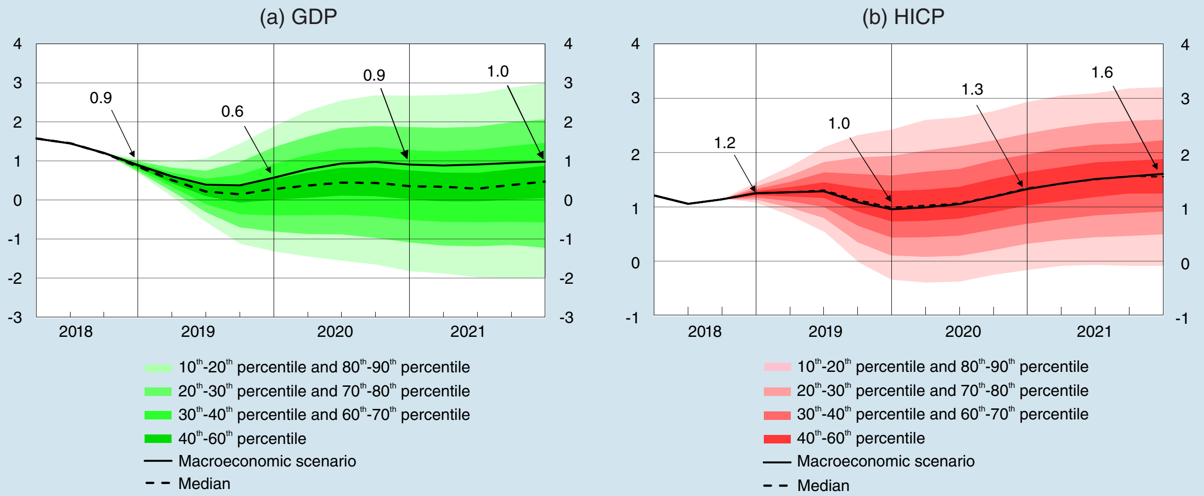
Determinants of revised growth forecasts in 2019 (1)
(percentage changes)



Sources: Based on Bank of Italy and Istat data.
(1) Revisions of growth forecasts for GDP, consumption and investment with respect to the scenario based on data at the end of November. Data seasonally and calendar adjusted.

Figure 47

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



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

The risks to growth are still downside

The risks for growth are tilted to the downside (Figure 47). Those of international origin reflect trade policy tensions, which are not only holding back global economic activity but might also fuel new bouts of financial volatility, leading to an even sharper deterioration in firms' expectations. At the national level, renewed increases in interest rates on government bonds and a faster transmission of current rates to private sector borrowing conditions or a sharper drop in firms' propensity to invest would negatively affect GDP growth. On the other hand, the growth rate might actually exceed this projected scenario in the medium term if sovereign spreads diminish further.

The upward risks to inflation associated with the pressures stemming from higher energy commodity prices will be offset by the impact of a potential slowdown in domestic and international economic activity and the possibility that, in a situation of fairly weak demand, existing wage increases will be passed on to prices more slowly than under similar conditions in the past.

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

Price-competiveness indicators based on producer prices in manufacturing (1)
(period averages; indices: 1999=100)

		Belgium	Canada	China	South Korea	France	Germany
2012		115.8	121.9	92.6	92.8	93.8	87.7
2013		118.0	118.9	95.9	95.1	95.5	89.9
2014		116.4	113.8	95.7	99.0	95.6	91.0
2015		107.2	106.3	101.9	97.6	92.0	88.7
2016		106.8	105.0	97.1	94.1	92.4	90.8
2017		113.0	106.4	97.3	97.4	91.9	90.4
2017 –	Q1	111.2	106.3	97.1	98.5	90.7	88.6
	Q2	111.2	104.2	95.6	97.9	91.3	89.8
	Q3	113.5	107.9	97.3	95.3	92.8	92.0
	Q4	116.0	107.3	99.1	97.9	92.8	91.3
2018 –	Q1	117.4	106.8	100.6	97.6	93.2	91.8
	Q2	118.0	106.2	100.7	97.9	92.8	90.9
	Q3	119.1	105.6	96.2	97.7	93.1	91.2
2017 –	Jan.	111.3	106.7	97.5	96.6	91.0	88.8
	Feb.	111.4	107.1	97.0	99.2	90.6	88.4
	Mar.	111.0	105.2	96.9	99.6	90.6	88.6
	Apr.	111.3	104.8	95.7	98.6	90.6	88.6
	May	111.3	103.6	95.2	98.5	91.4	90.0
	June	111.1	104.3	95.8	96.7	91.7	90.8
	July	111.9	107.3	95.9	96.0	92.4	91.8
	Aug.	113.8	107.5	97.0	94.9	93.0	92.3
	Sept.	114.8	109.0	98.9	94.9	93.1	92.0
	Oct.	115.4	107.6	99.1	95.9	92.6	91.5
	Nov.	116.2	107.3	99.1	98.4	92.8	91.2
	Dec.	116.3	106.9	99.1	99.3	92.9	91.3
2018 –	Jan.	117.3	108.7	100.2	98.7	93.1	91.6
	Feb.	117.4	106.9	101.0	96.8	93.1	91.9
	Mar.	117.4	104.8	100.6	97.3	93.3	91.9
	Apr.	117.9	106.6	100.7	97.6	93.4	91.7
	May	117.8	106.7	101.1	98.4	92.9	90.6
	June	118.2	105.4	100.3	97.6	92.3	90.4
	July	118.6	105.1	97.1	96.8	92.8	91.0
	Aug.	118.8	105.8	95.8	98.0	93.1	91.2
	Sept.	120.0	105.7	95.6	98.4	93.3	91.5
	Oct.	120.0	106.0	94.9	97.6	92.8	90.6

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh, C. Giordano, '*Rethinking prices and markets underlying price-competitiveness indicators*', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, July 2018 and '*Balance of Payments and International Investment Position*', Banca d'Italia, Statistics Series, Methods and Sources: Methodological Notes, 20 December 2018. Rounding may cause discrepancies between monthly, quarterly and annual data.

cont.

Price-competitiveness indicators based on producer prices in manufacturing (1)
(period averages; indices: 1999=100)

		Japan	Italy	Netherlands	United Kingdom	Spain	United States
2012		82.8	97.5	112.9	83.5	108.2	91.7
2013		68.2	99.6	115.1	82.7	110.1	93.2
2014		65.7	100.2	115.5	87.2	109.9	96.1
2015		63.1	97.4	109.4	91.2	107.0	105.3
2016		71.1	98.5	111.1	82.8	107.8	107.3
2017		67.1	98.4	112.9	78.9	109.1	106.1
2017 –	Q1	67.6	96.8	111.7	78.5	107.9	108.5
	Q2	68.6	97.5	112.2	79.3	108.3	107.1
	Q3	66.8	99.6	113.9	78.2	110.0	104.1
	Q4	65.3	99.6	113.7	79.6	110.1	104.6
2018 –	Q1	66.0	99.8	114.2	80.6	110.7	102.0
	Q2	66.0	99.0	114.3	81.2	110.6	104.9
	Q3	66.7	99.5	115.2	80.2	110.8	107.7
2017 –	Jan.	67.2	97.1	111.7	78.5	108.1	109.6
	Feb.	67.8	96.5	111.6	79.0	107.9	108.0
	Mar.	67.8	96.7	111.9	78.0	107.8	107.8
	Apr.	69.4	96.7	111.5	79.6	107.5	107.6
	May	67.9	97.7	112.5	80.0	108.6	107.2
	June	68.4	98.2	112.6	78.3	108.8	106.4
	July	66.9	99.2	113.3	78.5	109.7	105.0
	Aug.	67.5	100.0	114.1	77.2	110.2	103.9
	Sept.	66.1	99.8	114.3	78.8	110.3	103.4
	Oct.	65.5	99.6	113.8	79.0	110.1	104.6
	Nov.	65.4	99.7	113.8	79.4	110.0	104.8
	Dec.	65.0	99.7	113.6	80.2	110.4	104.4
2018 –	Jan.	64.8	99.7	114.0	80.4	110.8	102.1
	Feb.	66.1	99.7	114.2	80.5	110.5	101.7
	Mar.	67.2	99.8	114.4	80.7	110.7	102.1
	Apr.	66.1	99.7	114.9	81.9	111.1	102.4
	May	65.8	98.8	114.0	80.9	110.4	105.5
	June	66.2	98.6	114.0	80.7	110.3	106.9
	July	66.4	99.2	114.8	80.3	110.6	107.4
	Aug.	67.2	99.4	115.0	79.7	110.7	107.9
	Sept.	66.6	99.8	115.9	80.7	111.0	108.0
	Oct.	66.8	99.0	115.2	81.4	110.5	109.0

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh, C. Giordano, '*Rethinking prices and markets underlying price-competitiveness indicators*', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, July 2018 and '*Balance of Payments and International Investment Position*', Banca d'Italia, Statistics Series, Methods and Sources: Methodological Notes, 20 December 2018. Rounding may cause discrepancies between monthly, quarterly and annual data.

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

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

Table 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	-0.8
2015	1.6	3.1	3.6	0.5	-14.5
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	3.2	1.0	-0.8
Q2	0.8	2.0	3.0	1.0	-1.2
Q3	1.3	2.0	2.8	0.8	-0.6
Q4	1.2	3.7	4.6	0.9	-2.3
2017 – Q1	1.3	1.2	2.2	0.9	0.0
Q2	1.2	1.9	3.2	1.3	-0.7
Q3	0.9	2.7	4.5	1.8	-1.7
Q4	1.1	1.9	3.9	2.0	-0.7
2018 – Q1	1.4	1.4	3.1	1.7	0.0
Q2	1.9	0.6	2.4	1.8	1.3
Q3	1.7	-0.9	0.8	1.7	2.7
			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	05.8	-0.5	1.5	2.0	1.4
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	1.5	1.4	1.2
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	0.5	2.4	1.9	1.1
Q4	1.6	0.6	2.4	1.7	1.0
2018 – Q1	2.1	0.8	2.2	1.5	1.3
Q2	2.0	0.4	2.1	1.7	1.6
Q3	2.2	0.2	1.8	1.5	1.9
			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	0.5	1.7	1.2	0.7
Q4	1.3	0.9	2.1	1.2	0.4
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	1.1	2.8	1.8	0.3
Q4	1.5	1.0	2.8	1.8	-0.5
2018 – Q1	1.9	1.0	2.5	1.4	0.8
Q2	1.9	70.5	2.2	1.7	1.4
Q3	2.0	0.0	1.6	1.6	2.0

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
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
2018	1.2	0.6	2.1	0.9	1.9	1.2	1.7	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
Oct.	1.7	0.7	2.5	0.8	2.4	1.5	2.2	1.1
Nov.	1.6	0.7	2.2	0.7	2.2	1.2	1.9	1.0
Dec.	1.2	0.5	1.9	0.6	1.7	1.4	1.6	1.0

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

Table 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 invest-ment	Portfolio Investment			Financial deriva-tives	Other invest-ment	Official Reserves	Total	Total as a percent-age of GDP	Change in total stocks	Valuation adjust-ments (2)	Financial account balance
		Total	equity and invest-ment funds	debt securi-ties						(a)=(b)+(c)	(b)	(c)
							Assets (3)					
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	1,414	875	539	75	506	126	2,685	155.7	133	-16	148
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	1,414	875	539	75	506	126	2,685	155.7	18	-7	25
2018 – Q1	566	1,419	871	549	72	516	125	2,697	155.6	12	-34	46
Q2	573	1,423	874	549	74	532	127	2,728	156.3	31	8	23
Q3	574	1,453	895	559	71	536	124	2,758	157.4	29	-4	33
							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	445	1,259	207	1,052	148	873	..	2,725	161.3	-22	-62	41
2017	455	1,295	250	1,045	119	925	..	2,794	162.0	69	-28	97
2017 – Q1	451	1,259	231	1,027	136	938	..	2,783	163.7	58	-13	71
Q2	457	1,278	238	1,040	125	917	..	2,776	162.6	-7	-13	6
Q3	459	1,282	257	1,025	122	933	..	2,797	163.0	21	19	2
Q4	455	1,295	250	1,045	119	925	..	2,794	162.0	-3	-21	18
2018 – Q1	457	1,335	258	1,077	114	938	..	2,843	164.0	49	4	45
Q2	462	1,213	242	971	115	1,025	..	2,815	161.2	-29	-51	22
Q3	470	1,187	240	948	108	1,046	..	2,812	160.5	-2	-21	18
							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	110	29	562	-533	-56	-385	129	-173	-10.2	150	90	60
2017	108	120	625	-505	-44	-419	126	-109	-6.3	63	12	51
2017 – Q1	109	87	585	-498	-51	-428	134	-148	-8.7	24	23	1
Q2	109	85	599	-514	-46	-418	128	-141	-8.3	7	-11	19
Q3	107	112	604	-491	-44	-433	127	-130	-7.6	11	-14	25
Q4	108	120	625	-505	-44	-419	126	-109	-6.3	21	14	7
2018 – Q1	109	84	613	-528	-42	-422	125	-147	-8.5	-37	-38	0
Q2	111	210	632	-422	-41	-494	127	-86	-4.9	60	59	1
Q3	104	266	655	-389	-38	-510	124	-55	-3.1	32	17	15

(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. – (3) Following a revision of the methods used to calculate Italian residents' foreign holdings, as of the fourth quarter of 2017 the assets were revised downwards; compared with the data given in *Economic Bulletin*, 4, 2018, at the end of June 2018 there was a decrease of about €23 billion with the subsequent worsening of the net international debtor position. For further details, see the news item published on 28 December 2018 on the Bank of Italy's website, *Statistical Database* (DBS), Calendar and News.

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	42,862	57,663	-3,414	5,368	-16,755	-3,123	-1,973	-1,150
2017	48,042	55,772	-3,546	10,816	-15,001	-1,044	-1,208	164
2017 – Q1	5,471	9,589	-2,422	3,007	-4,702	-345	-262	-83
Q2	9,903	14,242	62	-949	-3,452	-700	-276	-424
Q3	16,228	15,191	1,843	3,260	-4,066	-366	-248	-118
Q4	16,440	16,751	-3,029	5,498	-2,780	367	-422	789
2018 – Q1	4,783	9,554	-2,595	2,939	-5,114	-543	-478	-65
Q2	10,528	13,207	784	-346	-3,118	-700	-347	-353
Q3	15,141	10,940	2,942	5,595	-4,336	-353	-327	-26
2017 – Jan.	-970	329	-818	640	-1,121	-65	-57	-8
Feb.	1,844	2,887	-662	1,153	-1,534	-76	-56	-20
Mar.	4,597	6,372	-942	1,214	-2,047	-204	-149	-55
Apr.	3,123	4,249	-446	380	-1,061	-229	-99	-129
May	2,285	4,900	-17	-1,784	-815	-232	-93	-139
June	4,495	5,093	525	454	-1,577	-240	-84	-156
July	7,324	7,121	672	947	-1,417	-110	-81	-29
Aug.	4,461	3,482	781	1,575	-1,377	-100	-68	-31
Sept.	4,443	4,587	390	738	-1,272	-156	-99	-57
Oct.	6,287	5,562	-663	2,139	-751	278	-79	357
Nov.	4,773	5,400	-1,386	1,524	-765	224	-75	299
Dec.	5,381	5,790	-980	1,835	-1,264	-136	-268	133
2018 – Jan.	-936	500	-724	492	-1,204	-117	-112	-5
Feb.	2,431	3,745	-835	1,212	-1,691	-115	-102	-13
Mar.	3,289	5,309	-1,036	1,235	-2,218	-311	-264	-47
Apr.	3,009	3,652	-202	569	-1,010	-237	-118	-120
May	1,804	3,900	236	-1,608	-724	-247	-116	-131
June	5,716	5,655	750	693	-1,383	-215	-114	-102
July	7,110	6,046	1,054	1,316	-1,306	-107	-106	-1
Aug.	5,106	3,132	1,206	2,249	-1,481	-95	-92	-3
Sept.	2,924	1,761	682	2,031	-1,550	-151	-129	-22
Oct.	(6,043)	(4,889)	(-375)	(2,220)	(-690)	(170)	(-113)	(283)
Nov.	(4,806)	(5,095)	(-1,093)	(1,734)	(-930)	(118)	(-116)	(234)

(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
Sept.	2.9	2.3	1.9	2.7	3.4	3.8	4.3	3.2
Oct.	2.7	2.1	1.5	2.8	3.3	3.6	3.9	3.2
Nov.	2.3	1.8	1.1	2.7	3.3	3.7	4.0	3.3

(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 Italyn 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	18.5	-46.7
2017	-64.9	15.6	21.5	-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	5.1
2018 – Q1	-15.8	-5.6	-2.9	-24.3
Q2	-16.9	1.1	0.6	-15.2
Q3	1.1	3.8	1.8	6.8
		Euro area		
2016	-146.1	-19.1	75.0	-90.2
2017	-46.9	5.5	64.1	22.6
2017 – Q1	6.7	-8.9	11.4	9.2
Q2	5.0	41.1	17.5	63.6
Q3	-36.3	-13.1	19.4	-29.9
Q4	-22.3	-13.7	15.7	-20.3
2018 – Q1	31.1	41.0	20.4	92.4
Q2	-19.8	29.1	1.7	11.1
Q3	46.9	-17.3	19.1	48.7

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	0.6	-0.4	0.2	6.2	16.0	6.4	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
Sept.	-1.3	-0.6	0.2	5.5	0.3	-0.1	4.6	15.4	-5.6	20.0	0.0
Oct.	-1.2	0.2	-0.0	4.6	-0.4	-0.7	2.2	1.0	-1.4	3.2	0.0
Nov.	0.3	-0.5	0.5	6.4	0.8	1.1	9.1	-3.3	2.1	5.8	0.0

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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	132.0	44.4	33.9	2,287.6	48.3	15.6	34.4	58.2
Mar.	180.9	14.2	112.8	1,833.4	132.0	44.3	33.9	2,303.5	44.8	10.1	33.2	58.2
Apr.	178.8	14.1	112.8	1,845.4	132.4	44.4	33.9	2,313.9	52.1	8.1	34.8	58.2
May	178.4	13.6	112.7	1,860.3	132.5	44.5	33.9	2,328.4	57.6	8.1	35.9	58.2
June	175.8	13.8	113.4	1,856.0	133.7	45.4	33.9	2,324.4	48.4	12.9	33.8	58.2
July	180.9	13.6	113.2	1,874.9	129.6	44.2	33.9	2,342.8	80.0	15.4	35.1	58.2
Aug.	178.9	14.0	112.6	1,861.8	129.7	44.2	33.9	2,327.3	65.1	16.4	34.8	58.2
Sept.	177.6	13.4	112.8	1,867.4	130.0	44.1	33.9	2,332.0	49.6	22.0	33.6	58.2
Oct.	176.4	13.6	112.8	1,872.9	129.6	43.4	33.9	2,335.1	48.7	23.4	33.7	58.2
Nov.	176.7	13.0	113.3	1,880.5	130.4	44.5	33.9	2,345.3	51.9	21.4	33.1	58.2

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