BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

3 | 2019

July 2019

BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 3 / 2019
July

Other economic publications of the Bank of Italy:

Annual Report
Account of the main developments in the Italian and world economy during the year

Financial Stability Report
Six-monthly analysis of the state of the Italian financial system

Economie Regionali
A series of reports on the regional economies

Temi di Discussione (Working Papers)
A series of empirical and theoretical papers

Questioni di Economia e Finanza (Occasional Papers)
Miscellaneous studies on issues of special relevance to the Bank of Italy

Newsletter
News on recent research work and conferences

Quaderni di Storia Economica (Economic History Working Papers)
A series of papers on Italian economic history

These publications are available online at www.bancaditalia.it
and in hard copy from the Bank of Italy's library (Biblioteca, Via Nazionale 91, 00184 Rome - Italy)
and at the branches of the Bank

For the paper-based version: registration with the Court of Rome No. 290, 14 October 1983
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

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

Address
Via Nazionale 91 – 00184 Rome – Italy

Telephone
+39 0647921

Website
http://www.bancaditalia.it

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

Based on data available on 5 July 2019, unless otherwise indicated

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

CONTENTS

LIST OF BOXES

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

In the figures with different right-hand and left-hand scales, only the right-hand scale is recalled in the note.

OVERVIEW

Risks for the world economy persist

The risks for the world economic outlook stemming from the ongoing international trade tensions and from the slowdown of economic activity in China have not subsided. Long-term yields have declined in the advanced countries, affected by the poorer growth prospects and by the more accommodative stance of the main central banks: the Federal Reserve has indicated the possibility of future reductions in interest rates.

The ECB considers all the tools at its disposal

Economic activity in the euro area remains weak and prone to downward risks, and inflation is still at low levels. The ECB Governing Council has extended the time horizon over which it expects to keep interest rates low and has set out the details of a new series of refinancing operations (TLTRO III). It announced that, in the absence of improvements, additional stimulus will be required, and discussed the options that could be used.

In Italy, the weak industrial cycle curbs economic activity ...

According to the latest cyclical indicators, economic activity in Italy may have remained unchanged or decreased slightly in the second quarter. The main contributory factor is the weak industrial cycle, common to Germany too, caused by persisting trade tensions. The Bank of Italy's surveys show that firms' assessments of demand for their own products have improved slightly; however, they point to a slowdown over the next few months and indicate a very modest growth in planned investment for the current year.

... while exports grow, despite a backdrop of uncertainty

Despite the contraction in international trade, exports grew moderately in the first four months of the year. Uncertainty over developments in the global context is nevertheless reflected in firms' unfavourable assessments of the outlook for foreign orders. However, the current account surplus has widened again; Italy's negative net international investment position is close to balance. Foreign investors have been purchasing Italian government securities since the beginning of the year and the Bank of Italy's negative balance on the TARGET2 payment system has narrowed.

Cyclical weakness keeps price dynamics down

The slowdown in the prices of energy products and the weak economic cycle are curbing inflation, which decreased to 0.8 per cent in June (0.4 per cent excluding the food and energy components). According to the surveys, firms and households' inflation expectations remain subdued, even if they have been revised slightly upwards.

Share prices and government bond yields fluctuated widely

The evolution of the uncertainty over budget policy has affected the yield spread between Italian and German government bonds, which increased in May and decreased from the first week of June onwards. Contributory factors to this fall, at a time of a generalized decline in risk premiums due to the prospect of monetary accommodation, were the revision of the deficit forecast for this year and the resulting decision by the European Commission not to recommend the launch of an excessive deficit procedure against Italy. However, the yield spread between ten-year Italian government bonds and the corresponding German Bund remains higher than the level prevailing in April 2018.

Loans to firms decrease

Bank lending to the private sector weakened slightly; growth in loans to *households remained solid, while lending to firms contracted slightly. Last year's increase in banks' bond funding costs has so far had little effect on the interest rates applied to loans, in part thanks to the high level of liquidity and the improvement in banks' balance sheets; nevertheless, credit access conditions tightened for smaller firms.*

The update of the projections for Italy ...

The macroeconomic projections for the Italian economy for 2019-21 presented in this Bulletin update those prepared as part of the Eurosystem's forecasting exercise, which was based on the information available on 22 May.

The projections assume a scenario of weaker world trade, persisting trade tensions, a very accommodative monetary stance (consistently with the communication of the ECB Governing Council) and sovereign spreads that are still high (and are gradually passed through to private sector borrowing conditions).

... includes a slowdown in 2019 and a recovery in the two years 2020-21 ...

The central projection for GDP growth is 0.1 per cent this year, 0.8 per cent next year and 1.0 per cent in 2021. The scenario indicates a slowdown in investment, in line with the findings of our business surveys and with the gradual increase in borrowing costs; exports are projected to be affected by the deceleration in world trade, although Italian firms maintain their market shares. From the second half of this year, economic activity should gradually recover, thanks above all to household spending and exports. Inflation is expected to fall to 0.7 per cent in 2019, and then progressively strengthen owing to the gradual recovery driven by core inflation.

... though it is subject to international and domestic risks

This scenario is subject to risks for growth. Continued tensions over trade policies, by curbing exports and adversely affecting firms' propensity to invest, would undermine the recovery in economic activity projected for the second half of 2019 in Italy and the euro area. On the domestic side, a heightened uncertainty about budget policy from next year on could generate new turbulence in the financial markets and influence firms' investment plans; a virtuous circle between fiscal policy and financial conditions could instead boost economic activity. Inflation risks, stemming on the one hand from increases in energy prices, and on the other from weak economic activity, are balanced overall.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The risks connected with a further heightening of global trade tensions and with a slowdown of growth in China continue to weigh on the outlook for the world economy. Uncertainty persists over the timeframe and arrangements for the United Kingdom's withdrawal from the European Union (Brexit).

The signs of a cyclical slowdown are confirmed

The prospects for the world economy seem weak, despite the growth recorded in the first quarter of 2019 (Table 1). Among the advanced countries, in the United States and Japan, the GDP growth in the first three months of this year was driven above all by the fall in imports and by the increase in inventories, at a time of weak final domestic demand. According to the latest assessments from the purchasing managers' index (PMI) for the manufacturing sector, cyclical conditions deteriorated in all the main economies in the second quarter (Figure 1).

In Brazil, India and Russia, GDP growth slowed in the first quarter; it remained stable in China, but the most recent cyclical indicators point to a deceleration in economic activity in the spring.

World trade contracts ...

World trade contracted further in the first three months of 2019 (-0.8 per cent on an annual basis according to our estimates; Figure 2). Imports declined in the United States, Japan and the emerging Asian economies, particularly in China, while there was a moderate increase in euro-area imports. The performance of international trade was affected by both the trade restrictions adopted since last year and by the ensuing deterioration in investment and in business confidence (see

Table 1

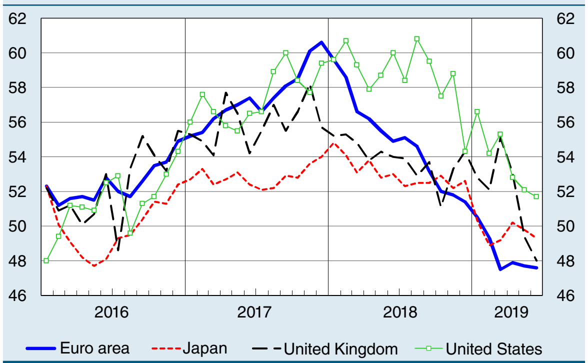
GDP growth and inflation
(percentage points)

	GDP growth (1)			Inflation (2)
	2018	2018 Q4	2019 Q1	May 2019
Advanced countries				
Japan	0.8	1.8	2.2	0.7
United Kingdom	1.4	0.9	2.0	2.0
United States	2.9	2.2	3.1	1.8
Emerging countries				
Brazil	1.1	1.1	0.5	4.7
China	6.6	6.4	6.4	2.7
India	7.4	6.6	5.8	3.0
Russia	2.3	2.8	0.6	5.1
Memorandum item:				
World trade (3)	**4.1**	**-0.6**	**-0.8**	

Sources: National statistics and the Bank of Italy for the data on world trade.
(1) For the annual figure, percentage change. For the quarterly figures: quarterly percentage changes, annualized and seasonally adjusted, for the advanced countries; year-on-year percentage changes for the emerging economies. – (2) Consumer price index, year-on-year change. – (3) 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 Refinitiv.
(1) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments.

the box 'Recent trade tensions and their implications', Chapter 1, *Annual Report for 2018*, 2019).

... and trade tensions have not abated

The US administration unexpectedly raised duties in May from 10 to 25 per cent on about $200 billion worth of products imported from China, which in turn increased tariffs on around $60 billion worth of imports from the United States. The American president is considering applying additional protectionist measures to other countries as well, thereby exacerbating fears of a trade war, which were only partially mitigated by the recent announcement of resumed negotiations between the United States and China. The US administration has postponed its decision on a possible increase in tariffs on cars and car components; such a measure would heavily penalize the exports of European Union countries.

Inflation remains moderate

Consumer price inflation remains moderate in the main advanced economies (Figure 3), despite labour market conditions being generally positive; the long-term inflation expectations derived from financial market data have declined in the United States and in the euro area (see Section 1.2).

The outlook for world growth worsens ...

According to the projections released by the OECD in May, world GDP is expected to slow to 3.2 per cent in the current year (Table 2): the weakness of the manufacturing sector, especially in the economies most exposed to international trade, will only be partly offset by the expansion in service sector activity and by the measures to support growth adopted by some countries, particularly China. Our estimates for world trade have been revised downwards; growth in 2019 is expected to come to 1.5 per cent, a sharp drop compared with last year's figure of 4.1 per cent.

... with downside risks

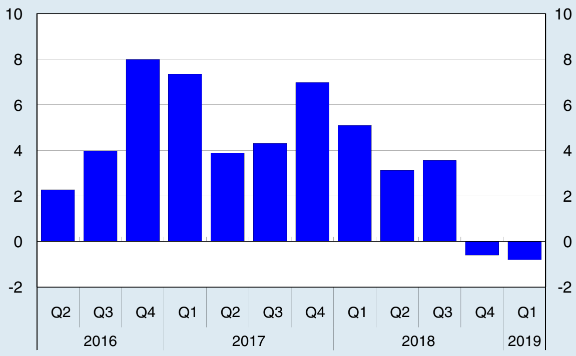
The risks for global economic prospects remain not only those of trade tensions heightening further, but also those connected with a greater than expected slowdown in China and with the unknowns surrounding the timeframe and arrangements for Brexit.

Oil prices decline

After recovering in the early months of this year, oil prices declined in the spring (Figure 4). They were affected by an increase in production in some countries, especially in the United States, as well as by weak global cyclical conditions.

Figure 2

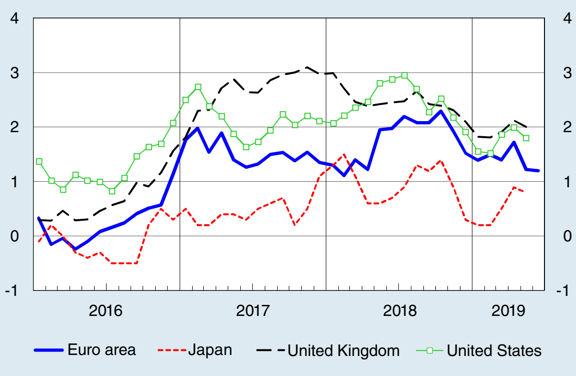
World trade (1)
(percentage changes)



Source: Based on national accounts and customs data.
(1) Seasonally adjusted quarterly data; annualized quarterly percentage changes.

Figure 3

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



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

Against this backdrop, at the beginning of July, the OPEC+ countries agreed to extend until March 2020 the cuts in production decided in December 2018.[1] The slope of the term structure of futures prices remains negative.

The Fed adopts a more accommodative stance At its meeting that ended on 19 June, the Federal Reserve left its reference rates unchanged, but it revised inflation forecasts downwards for the two years 2019-20 and indicated the possibility of future reductions in interest rates. The prices of swap contracts on the federal funds rate point to a fall in interest rates by the end of the year (Figure 5). At its June meeting, the Bank of England kept monetary conditions unchanged, along with its expectation of a gradual increase in interest rates over the next three years. In the same month, the Bank of Japan maintained a broadly accommodative stance and confirmed its intention to keep its reference rates at current levels at least until spring 2020. In May, the People's Bank of China began to progressively decrease the required reserve ratio for smaller banks (by a total of 350 basis points), in order to support lending to small and medium-sized enterprises.

Table 2

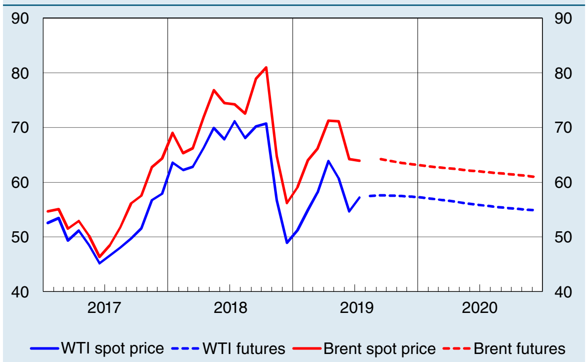
Macroeconomic projections
(changes and percentage points)

	2018	Forecasts (1)		Revisions (2)	
		2019	2020	2019	2020
GDP					
World	3.5	3.2	3.4	-0.1	0.0
Advanced countries					
of which: Euro area	1.8	1.2	1.4	0.2	0.2
Japan	0.8	0.7	0.6	-0.1	-0.1
United Kingdom	1.4	1.2	1.0	0.4	0.1
United States	2.9	2.8	2.3	0.2	0.1
Emerging countries					
of which: Brazil	1.1	1.4	2.3	-0.5	-0.1
China	6.6	6.2	6.0	0.0	0.0
India (3)	7.0	7.2	7.4	0.0	0.1
Russia	2.3	1.4	2.1	0.0	0.6
World trade (4)	**4.1**	**1.5**	**....**	**-1.4**	**....**

Sources: OECD, *OECD Economic Outlook*, May 2019; Bank of Italy for the data on world trade.
(1) For GDP, forecasts taken from OECD, *OECD Economic Outlook*, May 2019; percentage changes. – (2) Revisions compared with the previous forecasting scenario of March, taken from OECD, *OECD Interim Economic Outlook*, March 2019; percentage points. – (3) The data refer to the fiscal year starting in April. – (4) Based on national accounts and customs data; the forecasts refer to June 2019; the revisions are calculated on the April 2019 forecasts published in *Economic Bulletin*, 2, 2019.

Figure 4

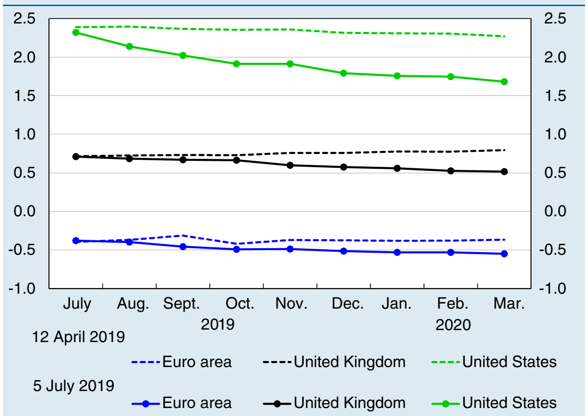
Oil prices (1)
(monthly data; dollars per barrel)



Source: Refinitiv.
(1) For the spot prices, average monthly data through June 2019; the latest figure is the average of the daily data from 1 to 5 July 2019.

Figure 5

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



Source: Based on Refinitiv data.
(1) Expected interest rate implied by overnight indexed swap (OIS) prices.

[1] The OPEC+ group includes, in addition to the OPEC countries, those countries that agreed at different times to reduce crude oil production, starting in November 2016 (these include Kazakhstan, Mexico and Russia).

1.2 THE EURO AREA

Despite the slight acceleration recorded at the beginning of 2019, economic activity in the euro area is still weak and prone to downside risks. Inflation remains low. The ECB Governing Council decided to extend monetary expansion and began discussing the additional expansionary measures to be adopted if the macroeconomic scenario does not improve.

GDP accelerates in early 2019 ...

In the first quarter of 2019, the euro area's GDP grew by 0.4 per cent compared with the previous period (Table 3), driven by domestic demand and the barely positive contribution of foreign trade. Among the major countries, economic activity accelerated in Spain, Germany and, to a lesser degree, Italy, while slowing slightly in France.

... but appears to slow in the second quarter

The latest cyclical indicators suggest that in the spring quarter the euro area's GDP continued to grow, but at a slower pace compared with the first three months of the year, owing above all to the impact of trade tensions on foreign demand, which especially affected the German manufacturing sector. In June, the Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area, remained at very low levels (Figure 6). The purchasing managers' indices (PMIs) point to a contraction in economic activity in the manufacturing sector and moderate growth in services. Firms' expectations regarding foreign sales are weak, especially in Germany.

Table 3

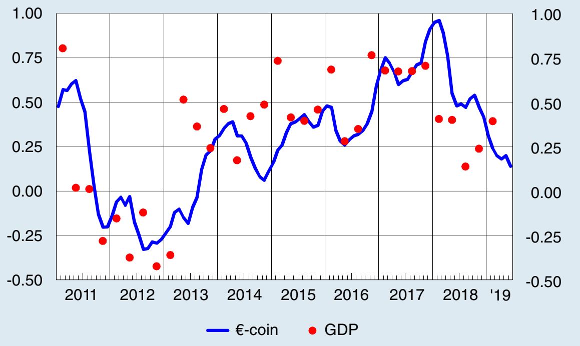
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2018	2018 Q4 (1)	2019 Q1 (1)	2019 June (2)
France	1.7	0.4	0.3	1.4
Germany	1.4	0.0	0.4	1.3
Italy	0.9	-0.1	0.1	0.8
Spain	2.6	0.6	0.7	0.6
Euro area	1.9	0.2	0.4	1.2

Sources: Based on national statistics and Eurostat data.
(1) Quarterly series adjusted for seasonal and calendar effects; percentage changes on previous quarter. – (2) Year-on-year percentage changes.

Figure 6

€-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: June 2019'*. 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.

The Eurosystem staff projections published in June indicate that GDP should grow by 1.2 per cent in 2019 and by 1.4 per cent in the two years 2020-21 (about 0.3 percentage points less than in the March projections). These latest projections are affected by downside risks.

Inflation remains low

In the spring quarter, the twelve-month inflation rate remained at moderate levels, despite the temporary rise in April due to the calendar effects connected with the Easter holiday period: according to preliminary data, it reached 1.2 per cent in June (Figure 7). Similarly, the core component continued to grow at a slow pace (1.1 per cent in June), mainly owing to the sluggish performance of the prices of non-energy industrial goods.

According to the June Eurosystem projections, inflation is forecast to average 1.3 per cent in 2019 as a whole, and to rise to 1.4 per cent in 2020 and 1.6 per cent in 2021.

Since mid-April, inflation expectations as implied by inflation swap yields have decreased by about 0.2 percentage points over all time horizons (Figure 8.a); after reaching a historical low in mid-June (1.1 per cent), the five-year five years forward inflation expectations came to 1.2 per cent at the beginning of July. Based on the prices of inflation options, the probability that inflation will remain below 1.5 per cent over the next five years rose slightly, to about 75 per cent (Figure 8.b).

The ECB extends monetary expansion

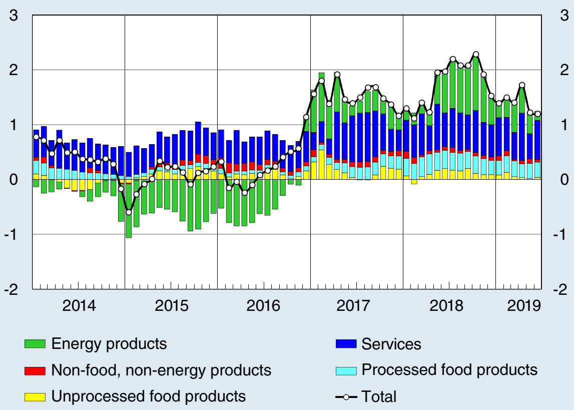
The ECB Governing Council announced a number of expansionary measures: it extended the minimum time horizon over which it expects to keep its key interest rates unchanged (Figure 9) and confirmed its intention to continue reinvesting in full the principal payments from maturing securities purchased under the expanded asset purchase programme (APP) for an extended period of time past the date when it starts raising the key ECB interest rates. It also communicated the terms of the new series of targeted longer-term refinancing operations (TLTRO III) with the objective of preserving expansionary monetary conditions (see the box 'The monetary policy measures adopted in June 2019').

It has also been highlighted that, in the absence of improvements, additional stimulus will be required, and that all available tools will be considered.

Figure 7

Euro-area inflation and contributions of its components (1)

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

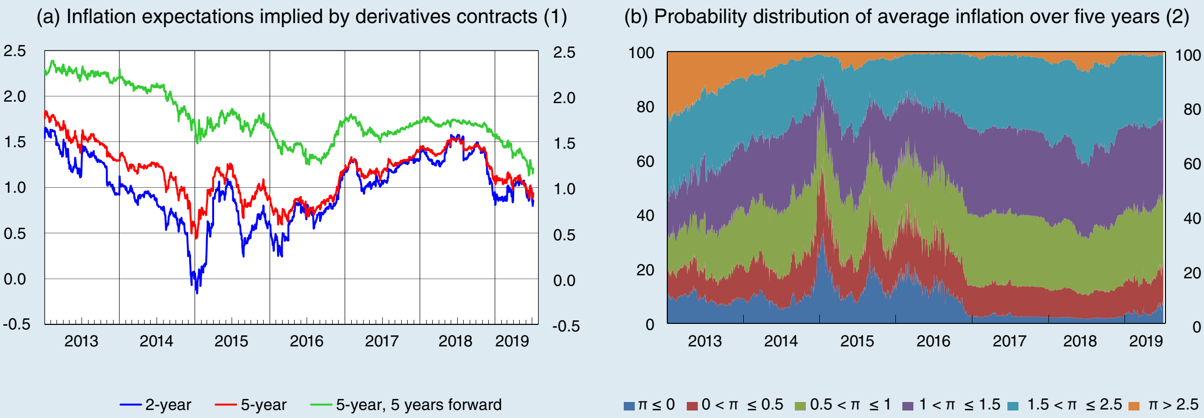


Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices.

Figure 8

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 (π) reflect both expected inflation rates and risk premiums. The figure shows the probability, over the next 5 years, of inflation being within the various intervals.

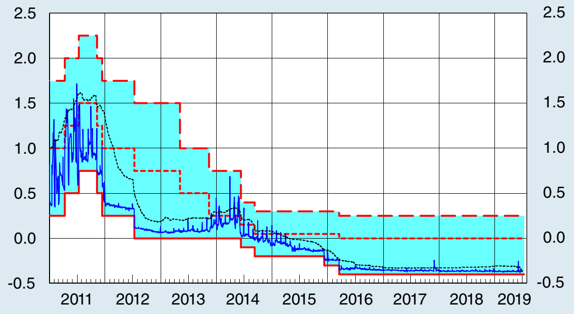
Credit growth is uneven across the main economies

In the three months ending in May, lending to non-financial corporations in the euro area accelerated to an annualized 4.7 per cent (adjusted for seasonal factors and the accounting effect of securitizations); the growth in business lending was strong in Germany and France, weak in Spain and slightly negative in Italy. The expansion in lending to households continued to be solid (at an annualized quarterly rate of 3.3 per cent for the euro area on average).

In May the cost of new loans to households for house purchase and to firms fell slightly (to 1.7 and 1.6 per cent respectively); the dispersion of interest rates across countries remains limited (Figure 10).

Figure 9

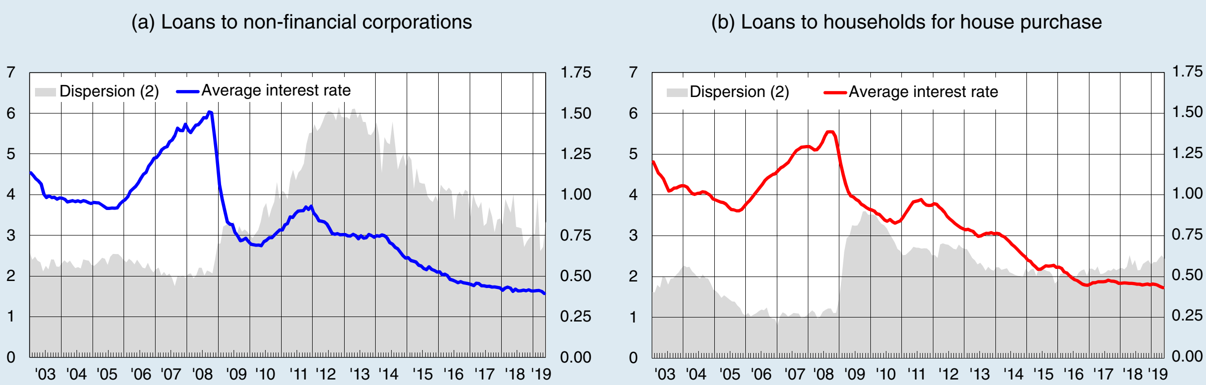
Official interest rates and money market rates in the euro area
(daily data; per cent)



Sources: ECB and Refinitiv.

Figure 10

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



Source: ECB.
(1) Average of interest rates on new short- and medium- to 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.

THE MONETARY POLICY MEASURES ADOPTED IN JUNE 2019

At its 6 June meeting, the ECB Governing Council kept the key interest rates unchanged and announced that it expects them to remain at their present levels at least through the first half of 2020, and in any case for as long as necessary. As regards maturing securities purchased under the expanded asset purchase programme (APP), the Council confirmed that it intends to continue reinvesting in full the principal payments from these securities 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 Council communicated the terms of the new series of targeted longer-term refinancing operations (TLTRO III) announced last March, designed to preserve favourable liquidity conditions and ensure the orderly transmission of monetary policy.

There will be seven operations, conducted every quarter, over the period from September 2019 to March 2021. Each operation will have a maturity of two years. The interest rate in each operation will be set at 10 basis points above the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. The TLTRO III operations feature a mechanism to incentivize lending to households and firms similar to that in place for the operations still outstanding (TLTRO II): the cost for banks can decrease according to the lending they disburse, down to a value corresponding to the average interest rate on the deposit facility plus 10 basis points.[1] The maximum amount of liquidity that can be disbursed to each credit institution will be equal to 30 per cent of the stock of loans to households and firms (net of loans for house purchase) outstanding at the end of last February.

For Italian banks, the overall maximum amount that can be granted as part of the seven TLTRO III operations is equal to about €260 billion, gross of the funding already obtained through TLTRO II (around €240 billion); the latter will mature between June 2020 and March 2021 and it will be possible to replace it by means of the new operations. For TLTRO III, in contrast to TLTRO II, early redemptions of borrowed funds will not be possible; the amount that can be requested in each operation will be capped at one third of the overall maximum amount.[2]

If there is no improvement in the macroeconomic scenario, further monetary stimulus will be needed, using all the tools at the disposal of the ECB Governing Council, to ensure the convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.[3]

The Council began a detailed discussion on all the tools at its disposal and on the measures that may be taken if necessary. To this end, it assessed that, at this point in time, the contribution of negative interest rates to the accommodative monetary policy stance is not jeopardized by possible side effects on bank-based intermediation. However, the Council will continue to monitor the situation and assess whether mitigating measures are needed in the future.

[1] For the details of TLTRO III and their cost for banks, see ECB, 'ECB announces details of new targeted longer-term refinancing operations (TLTRO III)', press release of 6 June 2019.

[2] Therefore, the cap on each operation corresponds to 10 per cent of the stock of loans to households and firms (net of loans for house purchase) outstanding at the end of last February.

[3] 'Twenty Years of the ECB's monetary policy', speech by Mario Draghi, President of the ECB, ECB Forum on Central Banking, Sintra, 18 June 2019

1.3 GLOBAL FINANCIAL MARKETS

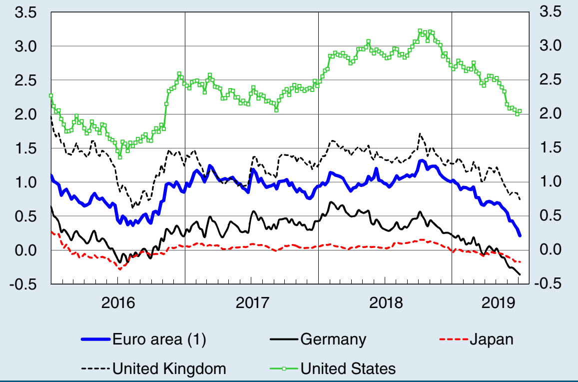
The rekindling of trade tensions and the weaker growth outlook were reflected in a widespread decline in long-term yields in the main advanced economies; share price volatility increased. The outlook is still uncertain as regards the dollar/euro exchange rate.

Long-term yields decline ...

In the second quarter of this year, long-term yields continued to fall in all the main economies (Figure 11), due to the weaker growth outlook and the ensuing expectation of a prolonged period of monetary accommodation by the main central banks (see Sections 1.1 and 1.2).

Figure 11

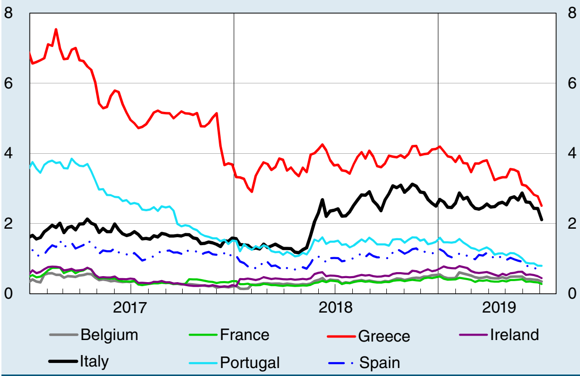
Yields on 10-year government bonds
(end-of-week data; per cent)



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

Figure 12

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



Source: Based on Bloomberg data.

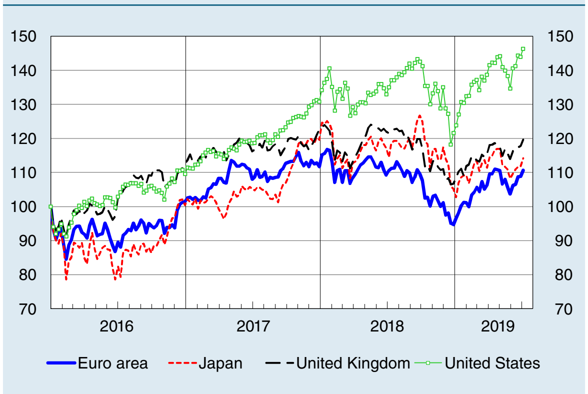
Between the end of March and the beginning of July, the yield on German ten-year government bonds fell by about 30 basis points to -0.36 per cent. Sovereign risk premiums diminished in all the euro-area countries: the yield spreads between ten-year government bonds and the corresponding German Bund fell by about 130 basis points in Greece, 75 points in Italy (see Section 2.) and 50 points in Portugal and Spain; the reduction was smaller in Belgium, France and Ireland (Figure 12).

... and share price volatility increases

Share prices in the main advanced economies fluctuated widely (Figure 13). In June prices picked up, recouping the losses suffered in the previous month following signs of worsening economic activity and the flare-up of trade tensions

Figure 13

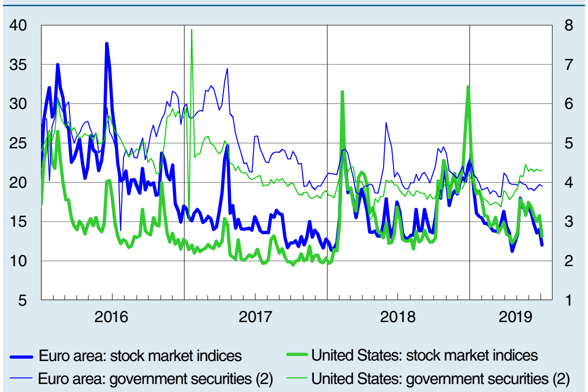
Stock market indices (1)
(end-of-week data;
1st week of January 2016=100)



Source: Refinitiv.
(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 14

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



Source: Based on Refinitiv 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 German Bund futures for the euro area and on Treasury Notes for the United States. – (2) Right-hand scale.

between the United States and China (see Section 1.1). The implied volatility of stock market indices rose temporarily, but was nevertheless well below the levels reached during past episodes of heightened tension on the markets (Figure 14).

The euro remains stable against the dollar

The euro exchange rate against the dollar remained basically stable in the second quarter (Figure 15), although it strengthened in nominal effective terms, largely as a result of its appreciation against the pound sterling and the Chinese yuan. Prices on derivatives markets suggest that the outlook for the dollar/euro exchange rate is uncertain. On the one hand, non-commercial operators' speculative positions in euros are negative, pointing to the risk of a weakening of the common currency; on the other, the one-month risk reversal indicates that the cost of hedging against a significant appreciation of the euro vis-à-vis the dollar is slightly greater than that of hedging against a strong depreciation (Figure 16).

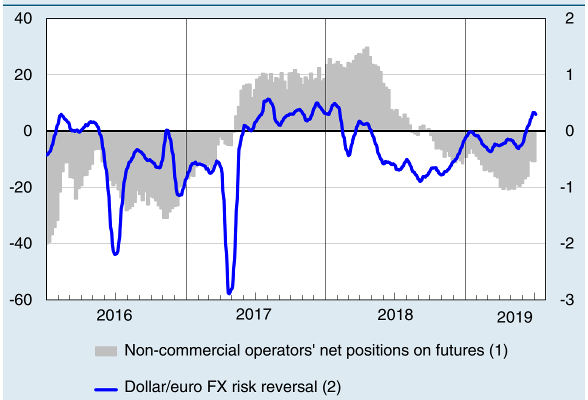
Figure 15

Exchange rates
(average weekly data)

Sources: ECB, Bloomberg and Refinitiv.
(1) An increase in the nominal effective exchange rate indicates an appreciation of the euro. Right-hand scale (1st week of January 2016=100).

Figure 16

Net positions on the dollar/euro exchange rate and risk reversal
(per cent)



Sources: ECB, Bloomberg and Refinitiv.
(1) Difference between non-commercial operators' long and short positions in euros on dollar/euro FX futures as a percentage of total outstanding positions. – (2) 1-month risk reversal (20-day moving average), which measures the asymmetry of the distribution of expectations for the dollar/euro exchange rate. Negative (positive) values indicate a greater risk of a depreciation (appreciation) of the euro. Right-hand scale.

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

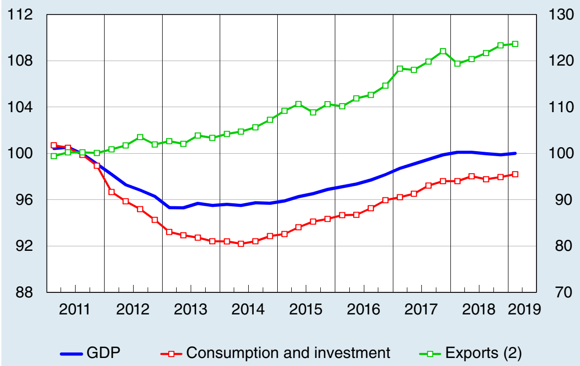
After the modest increase recorded in the first three months of 2019, economic activity in Italy may have remained unchanged or declined slightly in the spring. The weakness of the industrial cycle, which reflects above all the enduring trade tensions at international level, has only partly been offset by the favourable trends in services and construction.

GDP rises slightly at the start of the year ...

In the first quarter, GDP growth turned barely positive (0.1 per cent on the previous period). Economic activity was buoyed by foreign trade, by investment in construction and by consumption, but it was held back by the decrease in inventories and by lower investment in machinery, equipment and

Figure 17

GDP and its main demand components (1)
(quarterly data; indices: 2011=100)



Source: Based on Istat data.
(1) Chain-linked volumes; the data are adjusted for seasonal and calendar effects. The data prior to 2017 have not yet been revised by Istat in light of the new definition of the general government perimeter (see Istat, 'GDP and General Government Net Borrowing: Updating', Note, 9 April 2019). – (2) Right-hand scale.

Table 4

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

	2018			2019	2018
	Q2	Q3	Q4	Q1	
GDP	0.0	-0.1	-0.1	0.1	0.9
Total imports	1.6	0.4	1.3	-1.5	2.3
National demand (2)	0.2	-0.4	-0.2	-0.4	0.9
National consumption	-0.1	-0.1	0.1	0.2	0.5
Household spending (3)	-0.1	0.0	0.2	0.1	0.6
General government spending	0.1	-0.2	-0.2	0.2	0.2
Gross fixed investment	2.7	-1.2	0.6	0.6	3.4
Construction	1.2	0.9	0.4	2.6	2.6
Machinery, equipment, sundry products and transport equipment	3.8	-2.9	0.8	-1.1	4.0
Change in stocks (4) (5)	-0.2	-0.1	-0.4	-0.6	0.0
Total exports	0.8	1.1	1.4	0.2	1.9
Net exports (5)	-0.2	0.2	0.1	0.5	-0.1

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

transport equipment (Figure 17 and Table 4). The marked decline in imports was mainly attributable to the downturn in demand for transport equipment (see Section 2.4). The increase in value added was robust in construction and moderate in industry excluding construction; however, economic activity contracted in services.

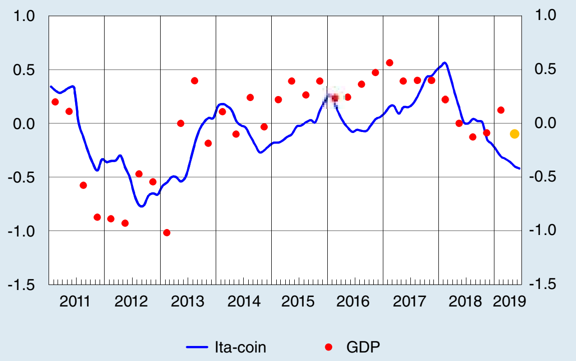
... and appears to remained unchanged or decreased slightly in the spring

The available indicators show that GDP appears to have remained unchanged or declined slightly in the second quarter (see the box 'Economic activity in the second quarter of 2019'). The Bank of Italy's Ita-coin indicator, which measures underlying growth in the Italian economy, came down as a result of the uncertain outlook for international trade and the weakness of the manufacturing cycle (Figure 18). The latter has particularly affected Italy and Germany, which have strong production and trade ties in common.

Figure 18

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

(percentage changes)



Sources: Bank of Italy and Istat.
(1) For the methodology and construction of the indicator, see the box 'Ita-coin: a coincident indicator of the Italian economic cycle', in *Economic Bulletin*, 2, 2015. Further details are available on the Bank of Italy's website 'Ita-coin coincident cyclical indicator'. For GDP, quarterly data, changes on the previous quarter. The yellow dot shows the forecast for GDP growth based on bridge models. The data prior to 2017 have not yet been revised by Istat in light of the new definition of the general government perimeter (see Istat, 'GDP and General Government Net Borrowing: Updating', Note, 9 April 2019). For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

ECONOMIC ACTIVITY IN THE SECOND QUARTER OF 2019

According to the latest data and based on the Bank of Italy's forecasting models,[1] Italy's GDP appears to have remained unchanged or decreased marginally in the second quarter of 2019 (Figure A). The negative trend in industrial activity seems to have only partly been offset by a slight increase in the service and construction sectors.

Our estimates for June indicate that industrial production declined in the spring quarter (-0.7 per cent). Electricity consumption fell, while goods transport flows rose slightly (Figure B). The purchasing managers' index (PMI) for the manufacturing sector has remained below the threshold compatible with an expansion (Figure 19.b). The signs of cyclical weakness are also confirmed by the indicators of firms' confidence in this sector, which remain at low levels (Figure C).

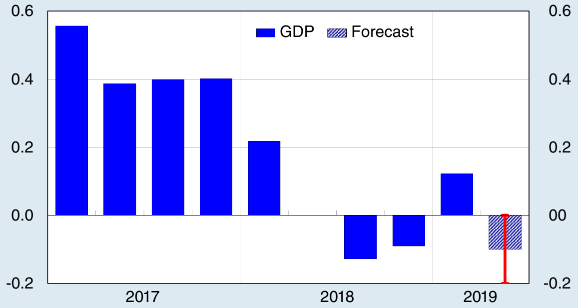
Value added seems to have increased slightly in services, as indicated by the PMI performance for this sector, which was consistent with a modest increase in activity (Figure D).

The expansion in the construction sector may have faltered in the spring: this is suggested by the fall in production recorded in April, despite the further increase in business confidence (Figure C).

[1] The assessment is based on a wide range of partial quantitative information (such as electricity consumption, goods transport and industrial output), business surveys, and other qualitative assessments, which are 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. Istat's preliminary estimate of GDP will be released on 31 July.

Figure A

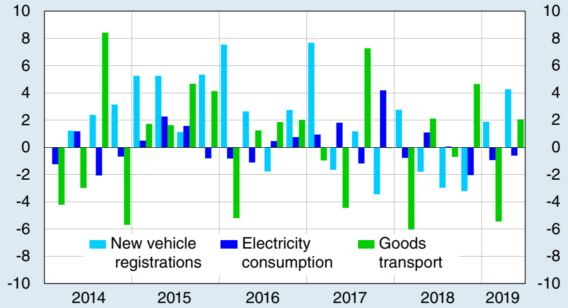
GDP growth (1)
(percentage changes)



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 is equal in width to twice the forecast root mean square error over the last 3 years.

Figure B

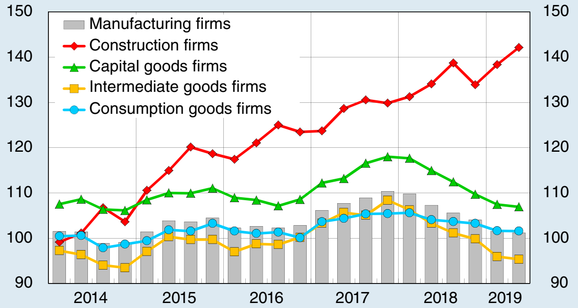
Cyclical indicators (1)
(seasonally adjusted percentage changes)



Sources: Based on data from Anfia, Autostrade per l'Italia, Ferrovie dello Stato, Istat and Terna.
(1) Average change in the reference quarter; seasonally adjusted data. For goods flows, the synthetic indicator is drawn from road and rail transport flows provided respectively by Autostrade per l'Italia and Ferrovie dello Stato (data subject to revision). The two companies are not responsible for the estimates and related conclusions.

Figure C

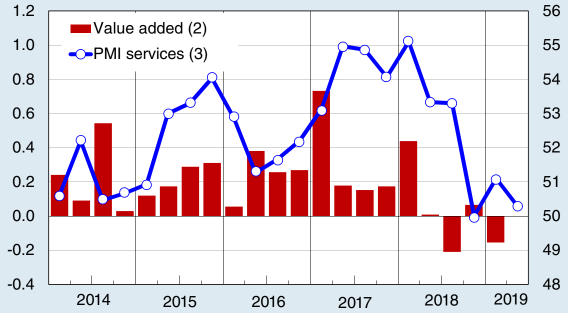
Business confidence indices (1)
(levels; indices: 2010=100)



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

Figure D

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



Sources: Based on Istat and Markit data.
(1) For the PMI, average level in the reference quarter. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) The figure for value added in the second quarter of 2019 is not yet available. – (3) Right-hand scale.

2.2 FIRMS

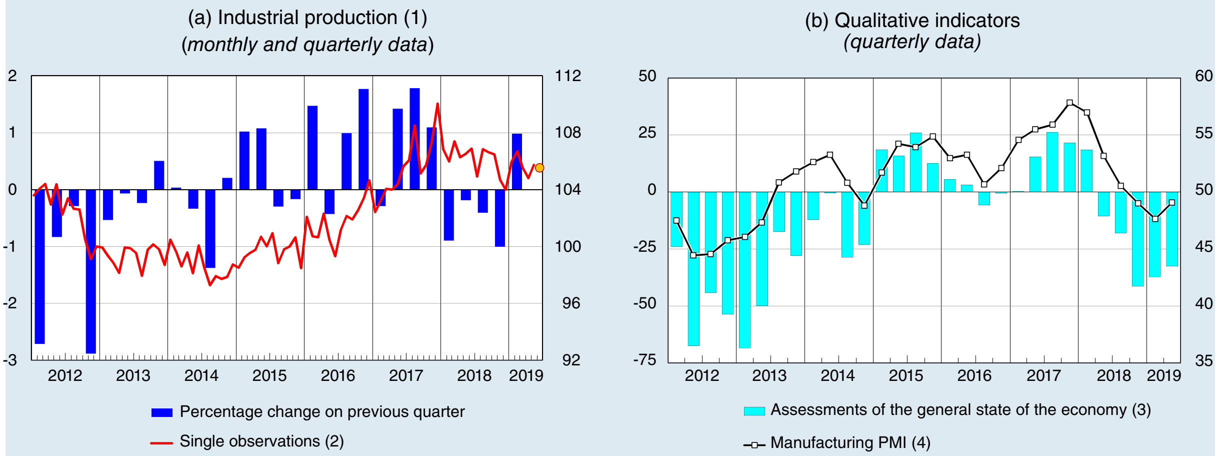
The available cyclical indicators suggest that industrial production may have fallen in the second quarter, after rising in the winter. Firms expect demand to slow in the coming months owing to weaker foreign demand, and report a modest increase in planned investment for the year as a whole.

Industrial production declines in the spring

In May industrial activity rose by 0.9 per cent, thanks to the rebound in the production of capital and consumption goods, only partly recouping the decline of the preceding two months (Figure 19.a); based on our estimates for June, industrial production fell by 0.7 per cent in the second quarter as a whole.

Figure 19

Industrial production and qualitative indicators



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data seasonally and calendar adjusted. – (2) Indices: 2015=100; the dot represents the estimate for June 2019. Right-hand scale. – (3) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the Italian economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 10 July 2019). (4) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments. Right-hand scale.

Firms' assessments remain negative

The business confidence index for the manufacturing sector fell in June, reflecting the deterioration in assessments concerning orders and production expectations. The purchasing managers' index (PMI) remained below the threshold compatible with expansion (Figure 19.b); the qualitative indicators for services point to a marginal increase in activity. The assessments of the present economic situation by the firms interviewed for the Survey on Inflation and Growth Expectations (conducted in June by the Bank of Italy) are still negative, although they are more favourable than in the March survey. Firms' assessments of demand for their own products over the next three months point to a moderate increase in sales, which have been affected by the deterioration in foreign demand expectations (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

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

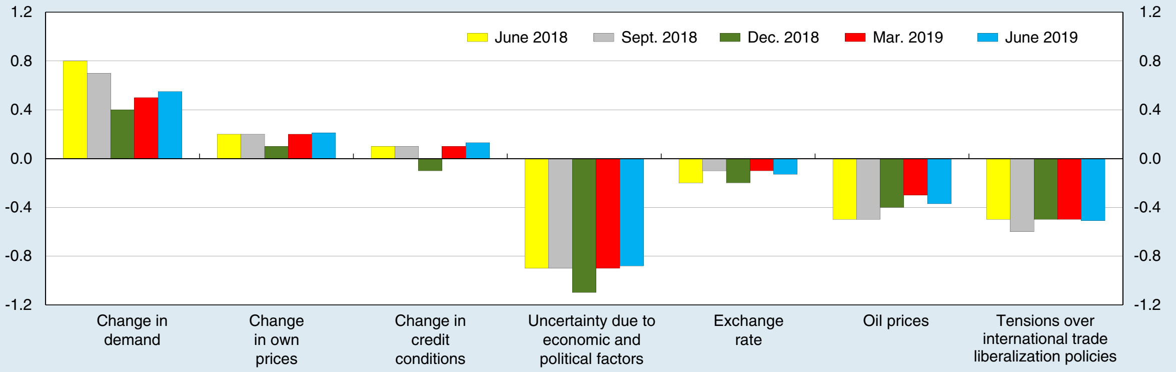
Between 27 May and 14 June, the Bank of Italy conducted its quarterly survey on a sample of about 1,000 industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 10 July 2019).

Firms' assessments of demand for their own products are still unfavourable, though they have improved slightly; they expect modest growth over the next three months, hampered by the deterioration in expectations for foreign demand. The balance between expectations of an increase and those of a decrease in demand remains positive, although it fell from 25 to 14 percentage points; about 70 per cent of firms expect foreign demand to remain stable. The firms indicate that their business activity is mainly being held back by economic and political uncertainty and international trade tensions (Figure A).

As regards investment conditions, the balance between the opinions indicating an improvement and those indicating a deterioration remains negative, although it has improved slightly since the last survey (Figure B). Half of the firms plan to keep their investment expenditure for the year as a whole the same as in 2018; of the rest, the share of firms planning to increase investment barely exceeds that of those planning to reduce it, consistent with the previous assessment (Figure C).

Figure A

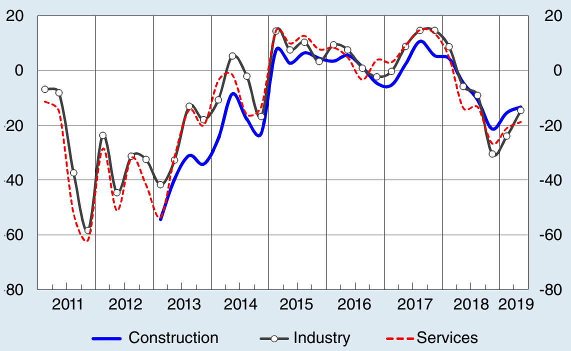
Firms' assessments of the factors that will influence their business in the short term (1)
(quarterly data)



(1) Firms were asked to provide their assessment of how each factor will influence their business in the next 3 months. The responses in terms of direction (increase or decrease) or intensity (strong/medium/modest) are coded on a scale ranging from -3 to 3 (where 0 indicates a neutral assessment) and then weighted by the number of firms.

Figure B

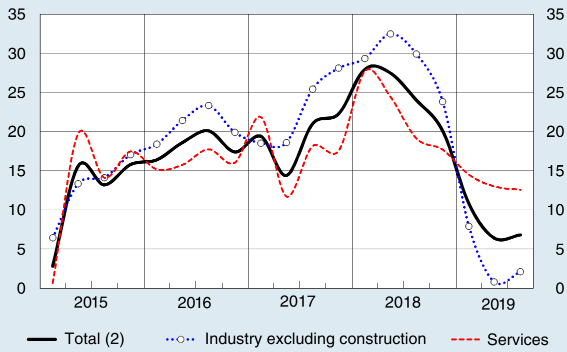
Firms' assessments of conditions for investing compared with the previous quarter (1)
(quarterly data; percentage points)



(1) Balance between expectations of improvement and deterioration by comparison with the previous quarter, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 10 July 2019).

Figure C

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



(1) Balance between expectations of an increase and of a decrease by comparison with the previous year, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 10 July 2019). The initial indications of the expectations for the reference year are surveyed in the fourth quarter of the preceding year. – (2) Includes construction firms.

Firms plan a modest increase in investment in 2019

In the first quarter, investment activity rose by 0.6 per cent, driven by a sharp acceleration in the construction sector; investment in machinery, equipment and transport equipment decreased, reflecting the drop in spending on motor vehicles. There were signs of a slight increase in planned investment by firms in 2019 as a whole in the Bank of Italy's annual survey (see the box 'The Bank of Italy's Survey of Industrial and Service Firms') and in its quarterly survey conducted in June (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

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

Every year the Bank of Italy carries out a survey of firms with 20 or more employees in non-construction industry and non-financial private services. The results of the survey, in which some 4,200 firms took part this year between February and May, confirm that there was a slowdown in production in 2018, although investment increased, and that the outlook for 2019 as a whole is unfavourable (see 'Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, 1 July 2019).

Sales volumes rose last year by 0.6 per cent (see the table), from 2.3 per cent in 2017; weakening domestic demand, which had already been partly expected by firms in the previous survey, contributed to the deceleration, as did the unexpected deterioration in foreign demand.

Main trends in 2018 and expectations for 2019
(percentage changes)

	Sales turnover (1)		Investment (1)		Employment	
	2018	2019	2018	2019	2018	2019
Sector						
Non-construction industry	0.2	0.0	6.7	0.6	0.9	0.8
of which: manufacturing	0.9	1.0	5.5	-2.0	1.0	0.8
Non-financial services	1.0	1.5	-1.2	0.3	1.2	-0.1
Firm size						
20-49	0.9	1.6	3.0	-12.6	0.9	0.4
50-199	1.1	1.1	4.1	-4.7	1.3	1.0
200-499	-0.2	0.8	10.7	-4.3	1.9	0.3
500 and over	0.3	-0.2	0.3	9.7	0.7	-0.2
Total	**0.6**	**0.8**	**3.0**	**0.4**	**1.1**	**0.3**

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

The average increase in selling prices (1.4 per cent) was 0.3 points lower than that registered in 2017. Compared with the previous survey, there was a significant increase in the share of firms that pointed to the trend in demand as the factor that most influenced their selling prices (from 25 to 42 per cent); more than half of these firms did not raise their prices.

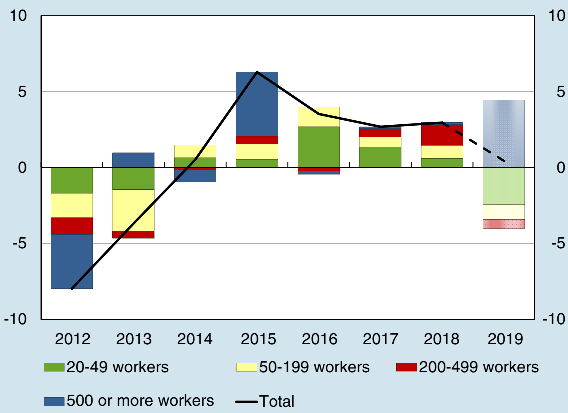
Average employment during the year continued to rise, accompanied by an increase in hours worked per capita, which is an indicator of labour input utilization in production.

According to the survey, investment expenditure rose in 2018 at a pace similar to that for the year before (3.0 per cent compared with 2.7 per cent in 2017). Small firms increased their investment, in contrast to the contraction forecast at the start of the year; investment by medium-sized firms (from 50 to 499 employees) rose broadly in line with expectations, while that of large firms was unchanged, despite very positive forecasts. Total investment expenditure increased by just over half the amount planned at the start of 2018 (5.3 per cent).

More than half of the firms took advantage of at least one support measure.[1] Spending by these firms amounted to over two thirds of total investment expenditure in 2018; around one third of these reported that at least part of their investments were made thanks to the support measures.

According to the firms' assessments as a whole, in 2019 investment expenditure at constant prices is expected to be just above that for 2018, curtailed by cutbacks planned by manufacturing firms. Small and medium-sized firms, which have driven the growth in investment since 2016, expect to reduce investment considerably, while large firms, which in the last three-year period contributed to a more limited extent, plan to increase their investment significantly (see the figure). Service firms, which in 2018 cut back on their spending, expect it to pick up.

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



(1) Values at constant prices calculated with the deflators obtained from the survey. Data weighted by the number of firms in the population and by investment expenditure. The dashed line and the lightest areas indicate firms' projections for 2019.

[1] Firms were asked to assess the support measures still in force in 2018: (a) a subsidy for investment in machinery, equipment, plant, capital goods for use in production and hardware, as well as software and digital technologies (the 'new Sabatini' measure); (b) a tax credit for the purchase of producer goods by firms located in the South; (c) 'superamortization' for investments in producer goods, which, for tax purposes, raises the value of the goods amortized; (d) 'hyper-amortization' for investments in advanced technologies, which, for tax purposes, raises the value of the goods amortized; and (e) 'superamortization' for investments in intangible assets, which raises the value of all amortizable intangibles purchased (of which firms that take advantage of 'hyper-amortization' can benefit).

Activity weakens in the construction sector

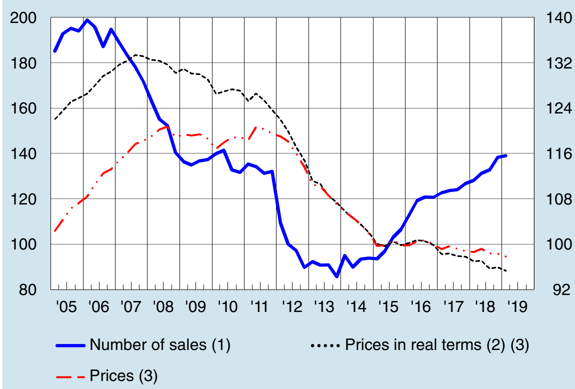
House sales continued to rise in the winter months (0.4 per cent); prices, however, fell further (Figure 20). The Italian Housing Market Survey conducted in May indicates that the estate agents' outlook for the property market is still favourable in the short and medium term. In the second quarter, the expansion in the activity of the construction sector seems to have weakened slightly (see the box 'Economic activity in the second quarter of 2019').

Corporate debt declines

Based on Istat data, in the first quarter of 2019 the profit share of non-financial corporations (defined as the ratio of gross operating surplus to value added, both annualized by summing the last four quarters)

Figure 20

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

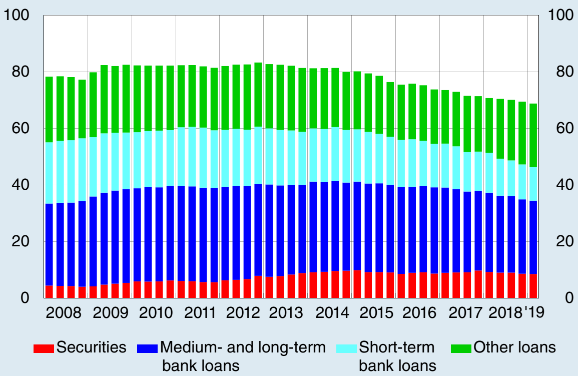


Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index. – (3) Right-hand scale.

decreased compared with the previous period, reflecting rising labour costs (see Section 2.6). Their self-financing capacity (calculated as the ratio of gross saving to value added) also declined. The financial surplus as a ratio of value added was unchanged as a result of the reduction in capital expenditure. Total non-financial corporate debt decreased further, to 68.7 per cent of GDP (Figure 21).

Figure 21

Debt of non-financial corporations (1)
(quarterly data; per cent of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and 4-quarter cumulative flows. The data for the last quarter are provisional. Debt includes securitized loans.

2.3 HOUSEHOLDS

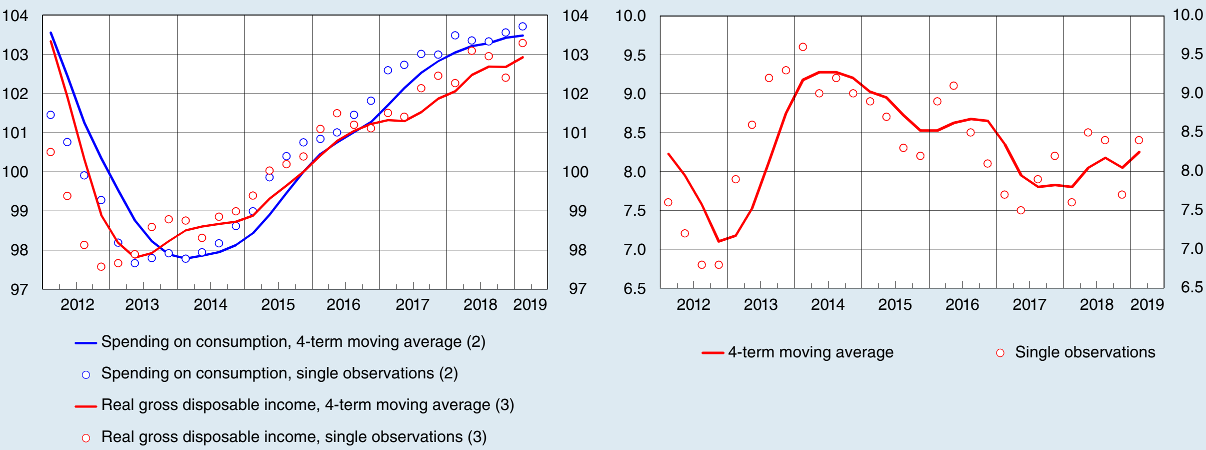
Despite the robust recovery in disposable income, in the first three months of 2019 household spending only rose a little; the propensity to save began to increase again. The latest cyclical indicators suggest that growth in consumption was weak in the second quarter as well.

Consumption rises slightly at the start of the year ...

In the first quarter, household consumption rose by 0.1 per cent compared with the preceding period (Figure 22.a) owing to a pick-up in spending on services, while spending on goods, especially durable goods, decreased. The expansion in consumption was only in part the result of the sharp increase in real disposable income (0.9 per cent compared with the previous quarter), buoyed by the increase in employment income. The propensity to save rose to 8.4 per cent (Figure 22.b), partly in connection with rising uncertainty about the economic outlook as indicated by the consumer confidence surveys.

Figure 22

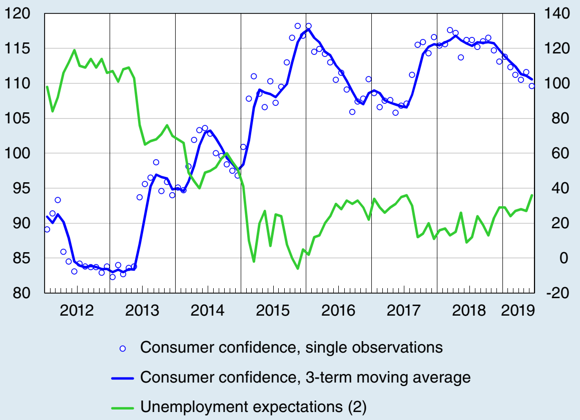
Consumption, income and propensity to save (1)



Source: Based on Istat data.
(1) The data prior to 2017 have not yet been revised by Istat in light of the new definition of the general government perimeter (see Istat, 'GDP and General Government Net Borrowing: Updating', Note, 9 April 2019). – (2) Seasonally adjusted chain-linked volumes. Indices: 2015=100. – (3) Net of the variation in the final consumption expenditure deflator for resident households. Indices: 2015=100. Seasonally adjusted data. – (4) Consumer households' savings as a percentage of gross disposable income. Seasonally adjusted data.

Figure 23

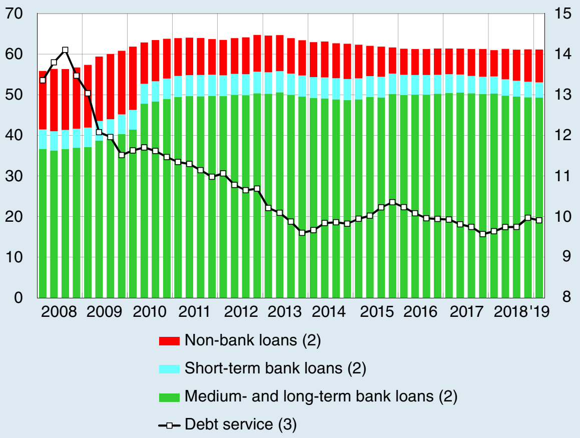
Consumer confidence (1)
(index numbers)



Source: Based on Istat data.
(1) Seasonally adjusted monthly data. Indices: 2010=100. In June 2013 methodological changes were introduced such that the data since then are not directly comparable with the earlier data. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating 'a decrease'. A rise in the balance signals a deterioration in the expectations regarding the unemployment rate. Right-hand scale.

Figure 24

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



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and 4-quarter cumulative flows. 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 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) Estimated cost of debt service (interest plus repayment of principal) for consumer households only. Right-hand scale.

... and remains weak in the spring

According to our estimates based on the latest cyclical indicators, consumption rose at a very modest pace in the spring; spending on non-durable goods stagnated. Consumer durables, which represent about one tenth of household expenditure, contributed positively, connected with a sharp increase in new car registrations, which are nevertheless still below the levels reported prior to the entry into force of new emission regulations in September of last year. Following a temporary increase in May, the consumer confidence index began to fall again, continuing the downward trend under way since the end of 2018. Expectations about the general state of the economy and employment deteriorated (Figure 23).

Household debt remains stable

In the third quarter of 2019, the ratio of Italian household debt to disposable income was basically unchanged at 61.1 per cent (Figure 24), well below the euro-area average of 94.1 per cent. As a share of GDP, it held stable at 41.1 per cent (57.5 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) were confirmed at around 10 per cent of disposable income.

In the spring months the average cost of new loans to households for house purchase remained at low levels (1.9 per cent in May; see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italian exports increased slightly in the first quarter, despite the contraction in international trade. The current account surplus increased in the first four months of the year and foreign investors purchased Italian government securities. The Bank of Italy's negative balance on the TARGET2 payment system narrowed. Italy's net international investment position is close to balance.

Exports expand slightly ...

In the first quarter, the volume of exports of goods and services grew by 0.2 per cent quarter-on-quarter (Table 5). There was a marked slowdown in the goods component, especially as regards exports to non-EU markets, where the effects of the downturn in sales in the United States were felt following strong growth in the final months of 2018. Pharmaceuticals and metal products provided the main contribution to the overall increase in exports.

Imports of goods and services declined in volume terms (-1.5 per cent). Imports of transport equipment declined very markedly, in connection with the fall in investment in this type of product (see Sections 2.1 and 2.2).

Table 5

Italy's exports and imports (1)
(percentage change on previous period)

	2018 Q4	2019 Q1
Exports	**1.4**	**0.2**
Goods	1.1	0.2
EU countries	0.4	0.3
Non-EU countries	2.2	0.2
Services	2.3	0.3
Imports	**1.3**	**-1.5**
Goods	1.0	-1.9
EU countries	1.9	-2.0
Non-EU countries	-0.2	-1.6
Services	2.3	-0.1

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

... although firms' assessments of foreign orders are weak

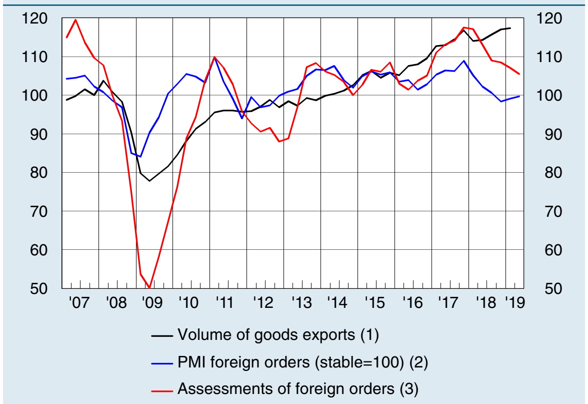
In April, goods exports, valued at current prices and seasonally adjusted, rose by 0.3 per cent compared with the previous month. In May, sales continued to grow in non-EU markets. In the second quarter manufacturing firms' assessments of foreign orders, as surveyed by Istat, and the corresponding PMI indicator, were on average close to the threshold consistent with a stagnation in sales (Figure 25). The Bank of Italy's survey, conducted in June, indicates a worsening of firms' foreign demand expectations (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

The current account surplus increases

The current account surplus rose to €8.4 billion in the first four months of 2019 (about one billion more than in the same period a year earlier). This

Figure 25

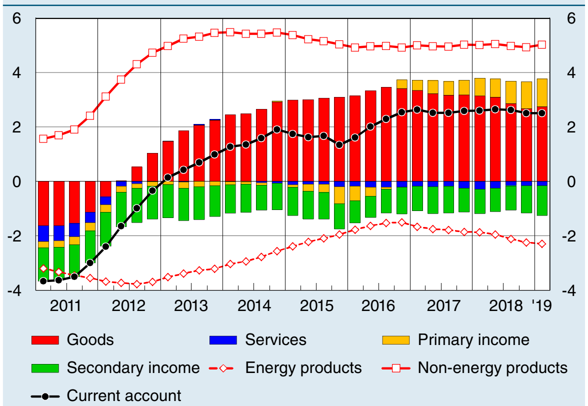
Manufacturing firms' assessments of foreign orders
(seasonally adjusted quarterly data; index numbers)



Sources: Istat, Markit and Refinitiv.
(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 'an increase' and 'a decrease', minus the average, plus 100.

Figure 26

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



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

Table 6

Italy's balance of payments (1)
(billions of euros)

	2017	2018	Jan.-Apr. 2018	Jan.-Apr. 2019
Current account	**44.9**	**44.0**	**7.5**	**8.4**
Memorandum item:				
% of GDP	2.6	2.5	–	–
Goods	55.0	47.1	13.2	14.9
Non-energy products (2)	87.0	86.6	25.1	27.8
Energy products (2)	-32.0	-39.5	-11.9	-13.0
Services	-4.3	-2.7	-3.6	-3.8
Primary income	9.3	17.3	4.1	5.1
Secondary income	-15.1	-17.6	-6.2	-7.8
Capital account	**0.6**	**-0.6**	**-0.5**	**-0.6**
Financial account	**51.4**	**30.0**	**-2.5**	**13.6**
Direct investment	3.3	-3.1	-0.6	2.6
Portfolio investment	87.5	121.7	-5.7	-34.7
Financial derivatives	-7.3	-2.8	-0.5	0.5
Other investment (3)	-34.7	-88.5	4.5	43.7
Changes in official reserves	2.7	2.6	-0.1	1.6
Errors and omissions	**5.9**	**-13.5**	**-9.5**	**5.7**

(1) In line with the standards given in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6), 2009. For April 2019, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in the TARGET2 balance.

reflected the greater surplus in non-energy products and the further expansion of the primary income surplus (Table 6). The current account balance stood at 2.5 per cent of GDP, calculated on the basis of the average of the four quarters ending in March (Figure 26).

Foreign investors resume purchases of Italian government securities

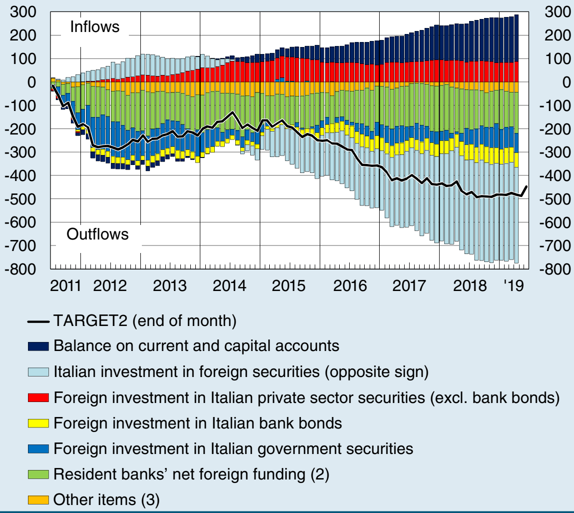
In the first four months of this year, foreign investors made net purchases of Italian securities (€29.2 billion), mainly those issued by the public sector (€22.3 billion), accounting for more than 40 per cent of Treasury net issues in the same period. On the asset side, compared with investments of more than €30 billion in the same period the previous year, residents disposed of foreign portfolio securities totalling €5.5 billion, in line with the trend under way since the end of 2018.

TARGET2 liabilities are reduced

The Bank of Italy's liabilities on the TARGET2 European payment system, which in the first five months of 2019 fluctuated around the levels reached at the end of 2018

Figure 27

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



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's negative balance vis-à-vis the ECB in the TARGET2 payment system may reflect 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 funding in the form of loans, deposits and other investments by the banking sector, including those intermediated by resident central counterparties. – (3) Direct investments, financial derivatives, other investments, official reserves, errors and omissions.

Table 7

Changes in the TARGET2 balance and relation with the other balance of payments items (1)
(billions of euros)

	TARGET2 balance (end of period)	Change in TARGET2 balance (compared with the end of the previous period) (A) + (B) + (C) + (D) + (E) + (F) – (G)	Foreign portfolio investment in Italian public sector securities (A)	Foreign portfolio investment in Italian private sector securities (excl. bank bonds) (B)	Foreign portfolio investment in Italian bank bonds (C)	Net foreign funding of resident monetary financial institutions (excluding central bank) in loans and deposits (D)	*of which:* cleared by resident central counterparties	Current account and capital account balance (E)	Other items (2) (F)	Italian portfolio investment in foreign securities (G)
2018	-482	-43	-51	-13	-12	53	43	43	-17	46
2018 – Q1	-442	-3	32	-2	-2	-1	2	4	-4	30
Q2	-481	-38	-48	-8	-11	31	33	10	-11	2
Q3	-489	-8	-11	5	-2	16	-4	16	-4	29
Q4	-482	7	-24	-8	3	7	12	13	2	-15
2019 – Q1	-475	7	17	1	0	-5	-18	4	-9	1
2019 – Jan.	-482	0	21	1	0	-28	-32	-1	2	-5
Feb.	-483	-1	-4	1	-3	16	16	2	-7	6
Mar.	-475	8	0	-1	3	7	-3	3	-4	-1
Apr.	-481	-7	5	4	2	-29	-19	4	1	-7
May	-486	-5	….	….	….	….	….	….	….	….
June	-448	39	….	….	….	….	….	….	….	….

(1) A negative change in the TARGET2 balance indicates an increase in the Bank of Italy's liabilities in TARGET2. Data available on the Bank of Italy's website in the Statistical database (BDS), especially Table TBP60200. – (2) Direct investment, financial derivatives, residual items in Other investment, Official reserves, Errors and omissions.

(€482 billion; Figure 27), fell to €448 billion at the end of June (Table 7), alongside the significant improvement in conditions on the Italian financial markets (see Section 2.8).

Italy's net international investment position improves

At the end of March, Italy's net international investment position was negative by €45.1 billion (2.6 per cent of GDP), €23.9 billion lower than at the end of 2018. The improvement is attributable not only to the current and capital accounts' overall surplus but above all to the valuation adjustments of very substantial foreign portfolio assets, about 60 per cent of which are made up of shares and investment fund units, which benefited as the international financial markets began to recover in the first quarter of the year (see Section 1.3).

2.5 THE LABOUR MARKET

In the early months of the year, employment increased slightly; the number of hours worked rose, especially in industry excluding construction. The unemployment rate fell, while contractual earnings slowed.

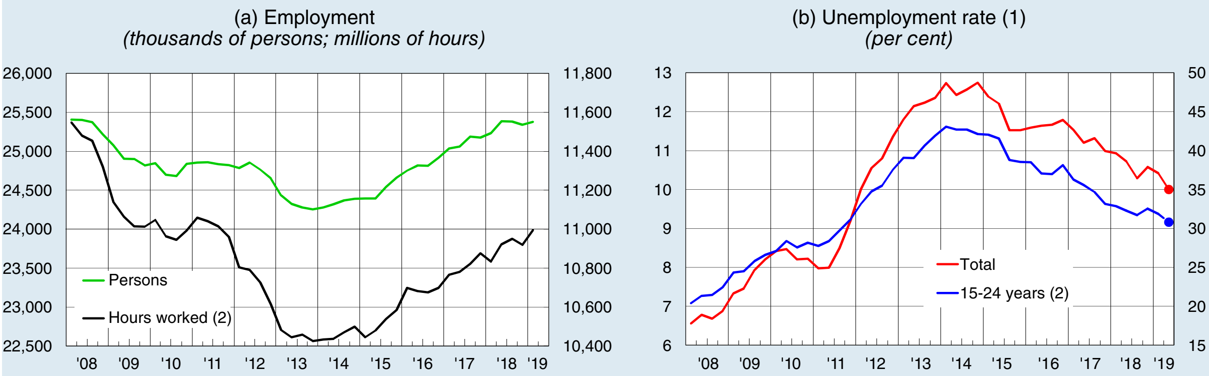
Employment and the number of hours worked grow

In the first three months of the year, employment increased modestly, only partially offsetting the contraction recorded in the previous quarter; the number of hours worked rose (Figure 28.a), particularly in industry excluding construction (Table 8), in line with production in that sector. According to preliminary data from Istat's labour force survey, the number of persons employed rose in April and May as well.

Figure 28

Employment and unemployment

(seasonally adjusted quarterly data)



Source: Istat's quarterly national accounts for employment data and Istat's labour force survey for the unemployment rate.
(1) The dot indicates the average for the two-month period April-May. – (2) Right-hand scale.

Table 8

Employment and hours worked

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

	Stocks	Changes			
	Q1 2019	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Total number of persons employed	**25,376**	**0.6**	**0.0**	**-0.2**	**0.1**
of which: industry excluding construction	4,305	1.0	0.1	-0.1	0.6
private services (1)	11,190	0.1	0.3	0.3	0.1
Employees	19,351	0.5	-0.1	-0.1	0.2
Self-employed	6,025	1.1	0.2	-0.3	-0.1
Hours worked	**10,994**	**0.8**	**0.3**	**-0.3**	**0.7**
of which: industry excluding construction	1,913	0.8	0.4	-0.1	1.4
private services (1)	5,064	0.4	0.6	-0.1	0.7
Employees	7,715	0.4	0.2	0.0	0.6
Self-employed	3,279	1.8	0.3	-0.9	0.9

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).

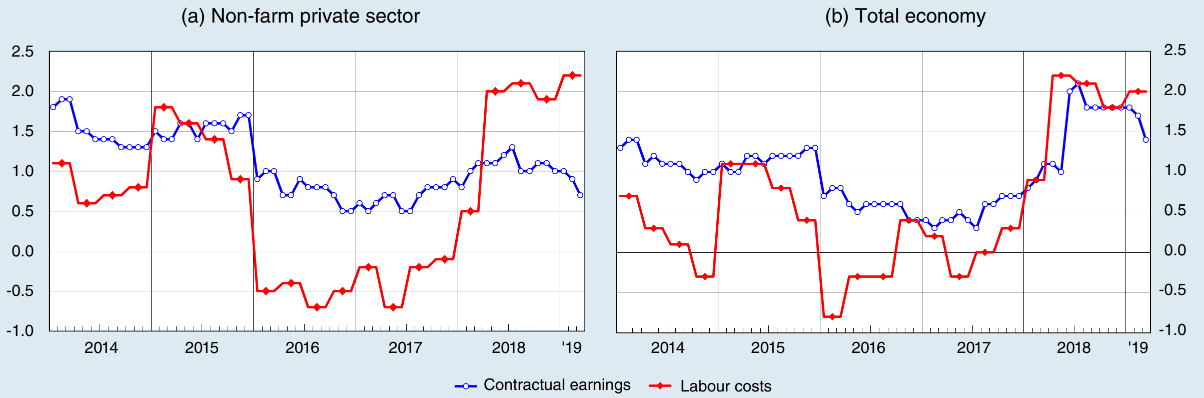
Permanent contracts continue to increase

The slight expansion in employment recorded in the first quarter was driven by payroll employment. According to INPS administrative data on payroll employment, the growth mainly concerned permanent contracts, reflecting, as in previous quarters, the conversion of fixed-term contracts. This process benefited from the increase in the average rate of conversion of the latter, in turn fostered by the new legislation that, in the second half of 2018, introduced greater constraints on the use of non-permanent contracts; the large number of contracts signed in the two years 2017-18 also contributed to this. Conversely, the number of new fixed-term contracts slowed significantly, owing both to the latest legislation and to the cyclical weakness.

Figure 29

Contractual earnings and labour costs per hour worked (1)

(year-on-year percentage changes)



Source: Istat's quarterly national accounts and survey of contractual wages.
(1) Raw monthly data for contractual wages; seasonally adjusted quarterly data for labour costs.

The unemployment rate decreases again

Against the backdrop of a virtually unchanged participation rate (65.7 per cent), the unemployment rate decreased by 0.2 percentage points in the first quarter, to 10.4 per cent (Figure 28.b). According to preliminary data from Istat's labour force survey, in the two months April and May the participation rate remained stable while the unemployment rate continued to decline.

Contractual earnings slow

In the first quarter, contractual earnings slowed after the increase recorded last year. In the non-farm private sector, the twelve-month change decreased to 0.8 per cent (Figure 29). In a situation marked by uncertainty about cyclical developments and the outlook for inflation, the share of employees whose contracts are regulated by collective bargaining agreements that either expired or were extended without wage increases remained stable at 41 per cent in May. This is a high level which could, in future, facilitate an additional slowdown in contractual earnings, should the renewal of the bargaining agreements be delayed further.

Conversely, labour costs grew markedly in the first quarter, in part reflecting the increase in social security contributions due to the expiry of the incentives introduced in 2015 for new permanent contracts.

2.6 PRICE DEVELOPMENTS

Inflation has declined slightly, reflecting both the slowdown in the prices of energy and food products and the weakness of the core component. Firms, households and analysts' expectations remain weak, even though they have been revised upwards a little compared with the first quarter.

Consumer price inflation remains weak ...

According to preliminary data, the twelve-month change in the harmonized index of consumer prices (HICP) stood at 0.8 per cent in June (Figure 30); the seasonally adjusted annualized three-month inflation rate declined to zero (Figure 31).

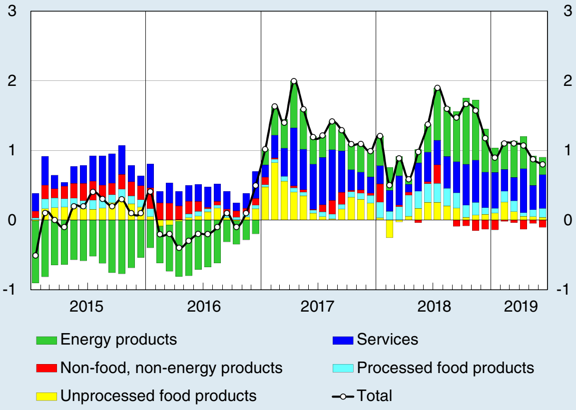
... as does the core component

Excluding the food and energy components, inflation reached 0.4 per cent (Table 9); the weakness of core inflation, which is consistent with the stagnant economic conditions, reflected the fall in the prices of non-energy industrial goods and slow growth in service prices.

Figure 30

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

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

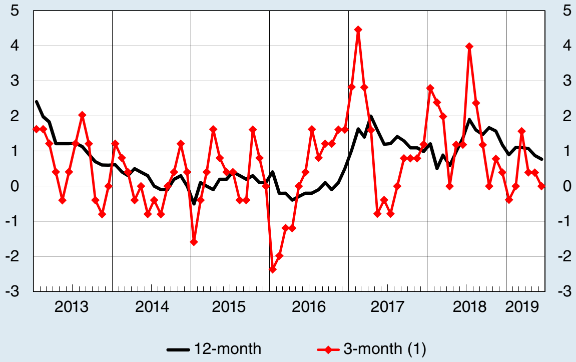


Source: Based on Eurostat data.
(1) Harmonized index of consumer prices.

Figure 31

Consumer price inflation

(monthly data; percentage changes)



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

Table 9

Indicators of inflation in Italy

(year-on-year percentage changes)

	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	Overall index at 1 month (5)	Excl. energy and food	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	0.1	–	0.5	-3.4	0.9
2016	-0.1	0.5	-0.1	-0.1	–	0.5	-2.2	1.2
2017	1.3	0.8	1.3	1.2	–	0.7	2.6	0.5
2018	1.2	0.6	1.2	1.2	–	0.5	3.9	0.8
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	0.2	0.5	2.2	–
Apr.	0.6	0.2	0.6	0.5	-0.1	0.2	1.4	–
May	1.0	0.6	1.0	1.0	0.3	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	0.3	0.5	5.1	–
Aug.	1.6	0.6	1.6	1.6	0.1	0.7	5.2	–
Sept.	1.5	0.5	1.4	1.4	-0.1	0.6	5.6	–
Oct.	1.7	0.7	1.7	1.6	0.3	0.7	7.1	–
Nov.	1.6	0.7	1.6	1.6	0.0	0.6	5.8	–
Dec.	1.2	0.5	1.2	1.1	-0.2	0.5	5.2	–
2019 – Jan.	0.9	0.6	0.9	0.9	0.2	0.5	4.4	–
Feb.	1.1	0.4	1.0	1.0	0.0	0.3	3.9	–
Mar.	1.1	0.3	1.0	1.0	0.2	0.3	3.7	–
Apr.	1.1	0.7	1.0	1.1	0.0	0.7	2.8	–
May	0.9	0.5	0.8	0.8	0.0	0.4	1.8	–
June	(0.8)	(0.4)	....	(0.8)	(0.2)	(0.5)	–	–

Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(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) Seasonally adjusted.

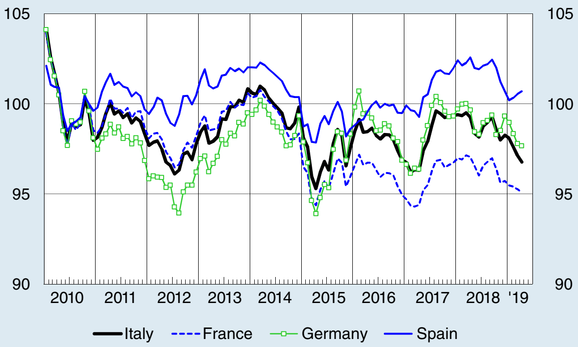
The rise in labour costs has not passed through to prices

In May the producer prices of the industrial products sold on the domestic market slowed to 1.8 per cent, owing to the slowdown in the prices of energy products. In the first quarter, unit labour costs rose by over 3 per cent in the economy as a whole and even more markedly in manufacturing. Contributory factors included the cyclical contraction in production and the increase in social security contributions (see Section 2.5). The increase in the cost of labour did not pass through to prices: firms' profit margins declined, continuing the trend under way since the start of 2017 (see Section 2.2).

Figure 32

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 relate to April 2019. 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

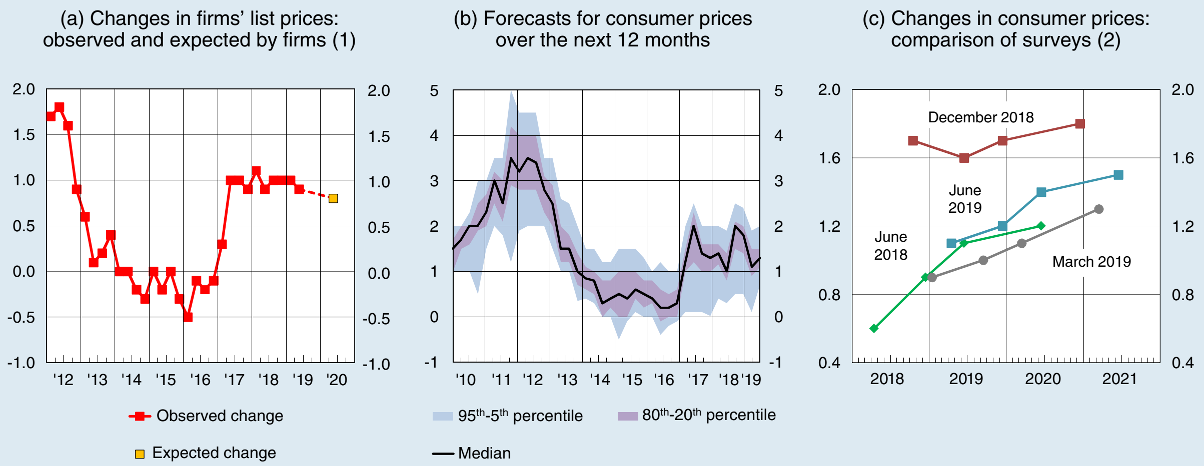
Firms' price competitiveness improves

According to our estimates, in the second quarter of this year price competitiveness, as measured by the producer prices of manufactured goods and taking account of Italy's trade structure, recorded a further improvement. This was the case both as regards competitors outside the euro area, following the depreciation of the nominal exchange rate of the single currency, and the other euro-area countries, thanks to slower growth in producer prices in Italy's manufacturing sector (Figure 32).

Figure 33

Inflation expectations of industrial (excluding construction) and service firms

(12-month percentage changes)



Source: Based on the findings of the Bank of Italy's quarterly Survey on Inflation and Growth Expectations. Up to October 2018 the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Robust average of responses to questions on the observed percentage change in firms' list prices over the past 12 months and the change expected over the next 12 months. – (2) The first point of each curve is the definitive figure available at the time of the survey, which is provided to respondents in the questionnaire 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.

Firms and households' inflation expectations are still weak

The firms interviewed in the quarterly survey conducted in May by the Bank of Italy expect to raise their list prices by a small amount over the next twelve months (0.9 per cent); they also revised their consumer price inflation expectations slightly upwards, which nonetheless remain well below 2 per cent across all time horizons (Figure 33). Similar indications emerge from Istat surveys of household expectations. The professional forecasters polled in June by Consensus Economics expect the rate of consumer price inflation to reach 0.9 per cent on average in 2019, 0.4 percentage points below that forecast for the euro area as a whole.

2.7 BANKS

The growth in lending remains positive and solid for households, but slightly negative for firms. Last year's increases in bank wholesale funding costs continue to have a very limited effect on the interest rates applied to loans, but there are signs of a tightening in lending conditions for certain categories of firms. Credit quality continues to improve.

The growth in lending to the private sector remains modest

In the three months ending in May, loans to the non-financial private sector increased slightly, by 0.7 per cent on a seasonally adjusted and annualized basis (Table 10 and Figure 34.a). The robust expansion in lending to households was offset by a modest contraction in loans to non-financial corporations.

Table 10

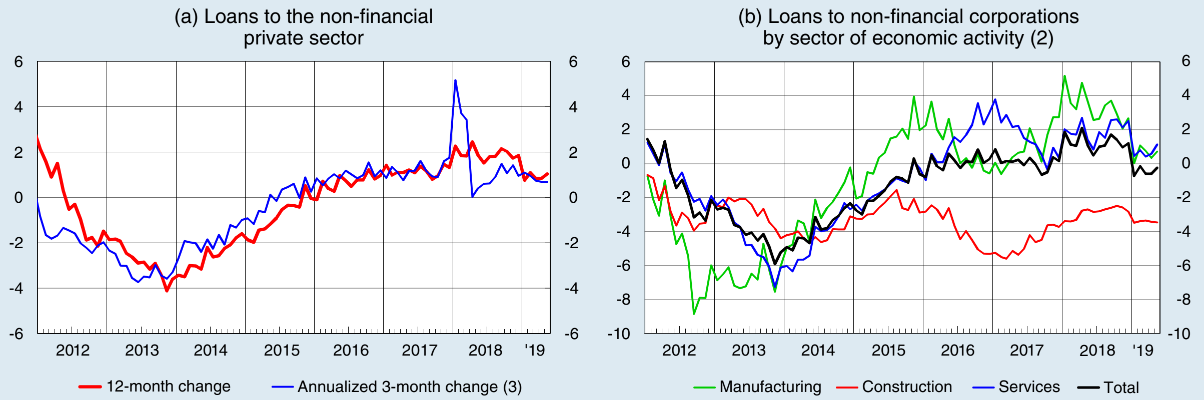
Bank lending as at May 2019 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**1.0**	**0.7**
Households	**2.6**	**2.5**
of which: loans for house purchase	2.5	....
consumer credit and other loans	2.6	....
Non-financial corporations	**-0.2**	**-0.8**
of which: manufacturing	0.7	....
services	1.1	....
construction	-3.5	....

Source: Supervisory reports.
(1) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Annualized and seasonally adjusted.

Figure 34

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 changes are 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 corrected for value adjustments. – (3) Seasonally adjusted. As a consequence of the models used to make seasonal adjustments, which are in accordance with the guidelines of the European Statistical System, direct comparison between the series shown in the graph and the series presented in previous issues of the Economic Bulletin may not be possible.

Lending to firms declined over the preceding twelve months, especially for smaller firms. This was caused by weak lending growth in the manufacturing and service sectors and a sharp contraction in lending to construction firms (Figure 34.b).

Funding increases

Bank funding increased slightly between February and May (Table 11). The increase in resident deposits more than offset the decline in net wholesale funding in the form of repos handled by central counterparties. Overall, the funding gap, i.e. the share of loans not covered by retail funding, declined further, falling close to zero.

Table 11

Main assets and liabilities of Italian banks (1)
(billions of euros; percentage changes)

	End-of-month stocks		12-month percentage changes (2)	
	February 2019	May 2019	February 2019	May 2019
Assets				
Loans to Italian residents (3)	1,711	1,702	-2.4	-2.9
of which: firms (4)	677	667	-0.2	-0.2
households (5)	627	630	2.6	2.6
Claims on central counterparties (6)	82	97	20.6	21.8
Debt securities excluding bonds of resident MFIs (7)	527	526	15.1	9.2
of which: securities of Italian general government entities	394	399	18.0	9.5
Claims on the Eurosystem (8)	73	85	-38.9	-3.8
External assets (9)	402	412	6.5	1.2
Other assets (10)	895	922	4.8	2.3
Total assets	**3,689**	**3,745**	**1.7**	**0.9**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,524	1,562	2.6	3.8
Deposits of non-residents (9)	329	335	9.1	6.7
Liabilities towards central counterparties (6)	139	131	33.5	7.6
Bonds (12)	240	239	-10.3	-6.9
Liabilities towards the Eurosystem (8)	243	243	-3.2	-2.1
Liabilities connected with transfers of claims	117	112	-3.0	-3.3
Capital and reserves	379	373	-11.7	-11.4
Other liabilities (13)	719	751	6.9	2.7
Total Liabilities	**3,689**	**3,745**	**1.7**	**0.9**

Source: Supervisory reports.
(1) The data for May 2019 are provisional. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (3) Excludes transactions with central counterparties. – (4) Harmonized definition, excludes producer households. – (5) Harmonized definition, includes producer households, non-profit institutions serving households, and households not classified elsewhere. – (6) Includes only repos. – (7) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (8) Includes the accounts with the Eurosystem for monetary policy operations; see the Bank of Italy website, '*Banks and Money: National Data*', Tables 3.3a and 3.3b, Statistics Series. – (9) In the period considered these refer mainly to interbank transactions. – (10) Includes 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. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs, deposits of resident MFIs, derivatives, and some minor items.

Italian bank bond yields declined significantly on the secondary market after having risen in May in connection with the heightened tensions surrounding government securities. However at the start of July, yields were about 10 basis points higher than in April 2018 while they were 50 basis points lower for banks in the other euro-area countries.

The cost of credit remains low ...

Last year's increase in bond funding costs has thus far had a limited effect on the interest rates on loans, partly thanks to the strong capital position of Italian banks and the ample recourse to stable sources of funding (see *Economic Bulletin*, 1, 2019). In May the average cost of new loans to firms stood at 1.4 per cent and that of new mortgage loans to households at 1.9 per cent, slightly higher than the level that prevailed before the emergence of tensions on the government securities market in the spring of 2018 (Table 12 and Figure 35).

... but there are some signs of a tightening

Nonethless, according to the most recent surveys carried out by Istat and the Bank of Italy, firms reported that credit access conditions tightened further in the second quarter, especially for construction companies and smaller firms (see the box 'Credit supply and demand').

Table 12

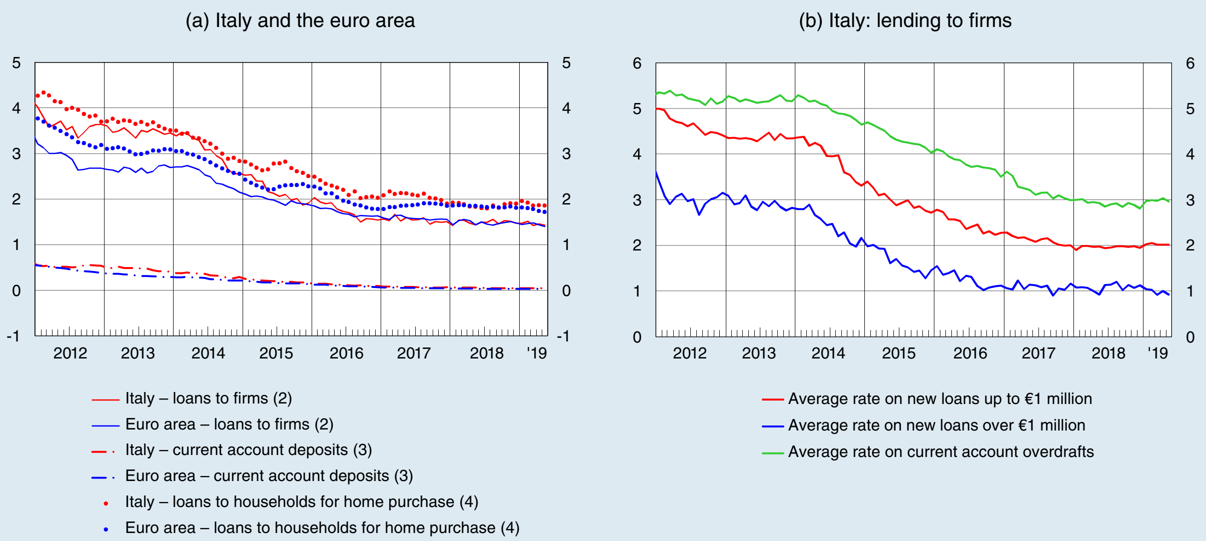
Bank interest rates (1)
(per cent)

	May 2018	February 2019	May 2019
Loans to firms	**1.4**	**1.5**	**1.4**
of which: up to €1 million	2.0	2.0	2.0
over €1 million	0.9	1.0	0.9
Loans to households for house purchase	**1.8**	**1.9**	**1.9**
of which: fixed rate (2)	2.0	2.1	2.0
variable rate (3)	1.5	1.5	1.5

(1) Average rates on new euro-denominated loans. The data are collected and processed using the Eurosystem's harmonized method. – (2) Initial rate fixation period of more than one year. – (3) Initial rate fixation period of less than one year.

Figure 35

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



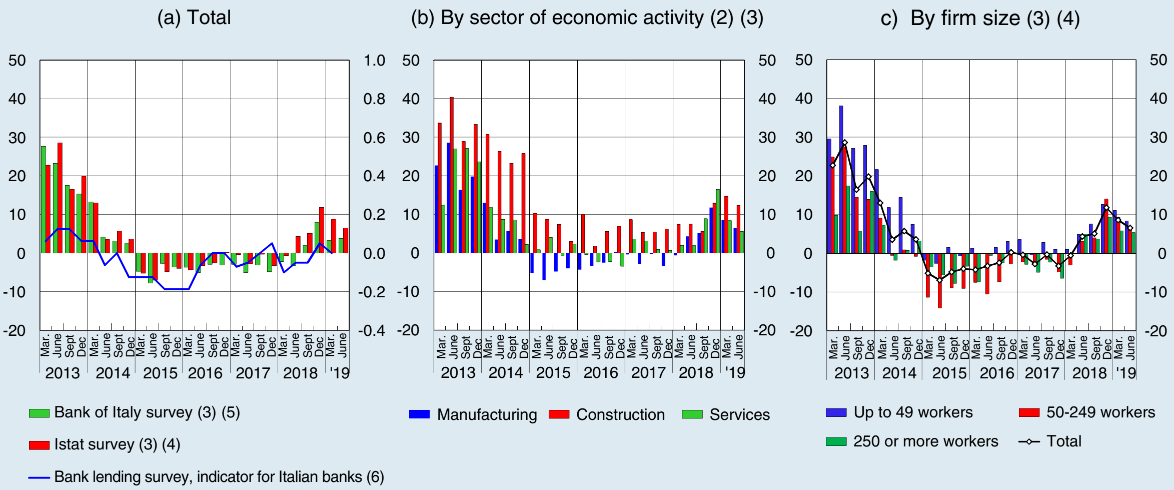
Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Rate on new loans to firms. – (3) Rate on current account deposits of households and firms. – (4) Rate on new loans to households for home purchase.

CREDIT SUPPLY AND DEMAND

Based on the responses of the banks interviewed in March[1] for the euro-area bank lending survey, credit standards for new loans to households for house purchase tightened slightly in the first quarter of 2019 while they remained unchanged for loans to firms (see the box 'Credit supply and demand', in *Economic Bulletin*, 2, 2019). The banks reported that the terms and conditions applied to loans were somewhat affected by higher funding costs and, for business loans, by a higher risk perception concerning the macroeconomic outlook. The banks also indicated that the growth in the demand for loans had come to a halt.

The business surveys carried out in June (the Bank of Italy's quarterly survey on a sample of firms with at least 50 employees and Istat's business confidence surveys, which also includes smaller firms) confirmed that there was a general tightening in credit access conditions in the second quarter of the year: the share of firms that indicated a worsening in conditions remained slightly higher than the share reporting an improvement (see panel (a) of the figure). The tightening was more marked for construction companies and small manufacturing firms (see panels (b) and (c) of the figure).

Firms' access to credit (1)



(1) The Bank of Italy survey (in collaboration with *Il Sole 24 Ore* up to October 2018) 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 in the box 'Credit supply and demand' in *Economic Bulletin*, 2, 2019. – (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*', Banca d'Italia, Statistics Series. – (6) Right-hand scale.

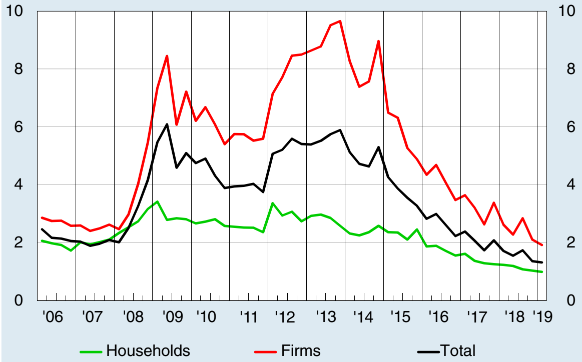
[1] The results of the survey on the second quarter of 2019, conducted between the end of June and the start of July, will be available on 23 July 2019 on the Bank of Italy's website at www.bancaditalia.it; the results for the euro area will be available at www.ecb.int.

The flow of new non-performing loans declines further

In the first quarter, the ratio of new non-performing loans to outstanding loans continued to decline slightly, to 1.3 per cent on a seasonally-adjusted and annualized basis, lower than the average for the two years preceding the global financial crisis (Figure 36). The ratio fell more markedly for loans to firms as a whole (by 0.2 percentage points to 1.9 per cent), notwithstanding the slight increase in the construction and manufacturing sectors.

Figure 36

New non-performing loan rates (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.

The process of reforming the cooperative credit sector was recently completed, resulting in the creation of two groups – headed by ICCREA and Cassa Centrale Banca respectively – which a total of more than 220 banks have opted to join. Following this reform, Cassa Centrale Banca became the twelfth significant group for supervisory purposes; some 143 banks opted to join the ICCREA group, which was already classified as significant before the reform.

Table 13

Main indicators for significant Italian banks (1)
(per cent)

	December 2018	March 2019	Change based on the homogeneous sample (2)
Non-performing loans (NPLs) (3)			
Gross NPL ratio	8.3	8.4	-0.3
Net NPL ratio	4.1	4.1	-0.2
Coverage ratio (4)	53.4	53.1	0.2
Regulatory capital			
Common equity tier 1 (CET1) ratio	12.7	13.0	-0.1
	Q1 2018	Q1 2019	
Profitability (2)			
Return on equity (ROE) (5)	8.7	7.7	
Net interest income (6)	2.2	-2.8	
Gross income (6)	3.1	-6.0	
Operating expenses (6)	-4.2	-1.6	
Operating profit (6)	19.6	-13.6	
Loan loss provisions (6)	-24.1	-8.2	

Source: Consolidated supervisory reports.
(1) Provisional data. Significant banks are those directly supervised by the ECB. Their perimeter changed in the first quarter of 2019 following a significant change in the size of the ICCREA cooperative group and the classification of the Cassa Central Banca group as a significant group. For the purposes of comparing the data for December 2018 with the data for March 2019, for NPLs and regulatory capital the table shows the change calculated on a sample of homogeneous significant banks over time, obtained by excluding the two groups. – (2) The figures do not include ICCREA and Cassa Centrale Banca. – (3) End-of-month data. Includes loans to customers, credit institutions and central banks. The NPL ratio is reported gross and net of loan loss provisions. – (4) The coverage ratio is measured as the ratio of loan loss provisions to the corresponding gross exposure. – (5) Net of extraordinary income. – (6) Percentage changes with respect to the year-earlier quarter.

A comparison of the data from the end of March and the end of December 2018 (which for comparability purposes refer to a homogeneous sample of significant banks that excludes the two newly-formed cooperative groups) shows a decline in the ratio of non-performing loans to total outstanding loans, both gross and net of loan loss provisions, in line with the NPL reduction plans; the coverage ratio also increased slightly (Table 13).

Capital ratios remain unchanged

In relation to the homogeneous sample of significant banks, profitability declined in the first quarter of 2019 compared with the year-earlier period on account of the fall in net fees, even though the banks continued to benefit from the reduction in operating costs and loan loss provisions. The average level of capitalization remained at the levels recorded at the end of December, well above the regulatory minimums.

2.8 THE FINANCIAL MARKETS

Share prices and government bond yields fluctuated widely. In May, conditions on the Italian financial markets were affected by the heightened trade tensions between the United States and China, the weaker economic cycle, and the uncertainty surrounding budget policies. Market conditions subsequently benefited from the generalized reduction in risk premiums fostered by the more accommodative monetary policy stance and, at the start of July, from the revision to the deficit forecast for this year and the resulting decision by the European Commission not to recommend the launch of an excessive deficit procedure against Italy.

Government bond yields fluctuate widely

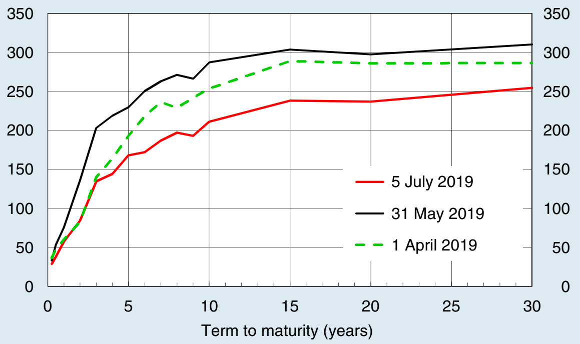
Italy's sovereign risk premium, measured by the spread between Italian and German ten-year bonds, increased markedly in response to the heightened uncertainty surrounding Italy's budget policies, reaching 287 basis points in May (Figure 37). During this phase, even the component of the spread linked to the debt redenomination risk returned to growth; this component is calculated as the difference between the premiums on credit default swaps (CDS) on Italian government bonds under the new ISDA 2014 rules and those on CDS contracts stipulated under the previous rules (Figure 38).

Expectations of a more accommodative monetary policy stance spurred a general reduction in long-term yields and risk premiums in the euro area. This reduction was coupled with a narrowing in the spread between Italian and German bonds

Figure 37

Term structure of sovereign spreads (1)

(basis points)

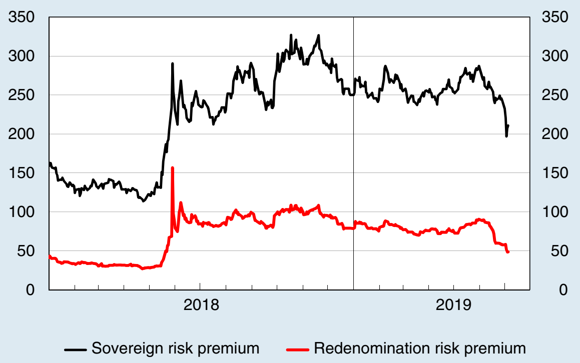


Source: Based on Bloomberg data.
(1) Term structure of the yield spreads between Italian and German government bonds.

Figure 38

Risk premiums on Italian government securities (1)

(basis points)



Sources: Based on Bloomberg and Refinitiv data.
(1) Sovereign risk premiums: spread between Italian and German 10-year government bonds. Redenomination risk premium: spread between the premiums on Italian sovereign CDS ISDA-2014 and ISDA-2003 contracts with 5-year maturities. Compared with ISDA-2003, ISDA-2014 contracts offer greater protection against a redenomination of the underlying debt.

prompted in early July by the revision to the deficit forecast for this year and the resulting decision by the European Commission not to recommend that an excessive deficit procedure be launched against Italy (see the box, 'The recent budget measures and the European Commission's assessments'). The spread on ten-year bonds narrowed to below 200 basis points in the second week of July, about 70 points higher than the level that prevailed in April 2018. The component of the spread linked to Italy's debt redenomination risk also declined. The volatility implied by derivatives on Italian ten-year bonds increased in the spring, although it remains below the peak levels recorded in 2018 (Figure 39).

Figure 39

Implied volatility of options on BTP futures (1)
(daily data; per cent)

Source: Based on Refinitiv data.
(1) Implied volatility of at-the-money options with a 1-month maturity on 10-year BTP futures traded on the Eurex.

THE RECENT BUDGET MEASURES AND THE EUROPEAN COMMISSION'S ASSESSMENTS

On 5 June 2019, the European Commission assessed that Italy did not satisfy the debt criterion in 2018, and concluded that an excessive deficit procedure was warranted for Italy.[1] According to its assessment,[2] the Commission did not find the presence of the 'relevant factors' that in previous years had made it possible to deem that Italy had met the debt criterion, even though its debt dynamics did not comply with the debt reduction benchmark set out in the Stability and Growth Pact. Specifically, the Commission argued that Italy violated the preventive arm of the pact in 2018 and indicated that there was a risk of significant deviation from the rules in 2019 as well. Moreover, according to the Commission's estimates, which did not include any revenue from the safeguard clauses, net borrowing would have exceeded 3 per cent of GDP in 2020.

On 1 July 2019, the Council of Ministers approved the mid-year budget for 2019, updating the projection for the public accounts under current legislation and revising downwards the deficit estimate by €6.1 billion compared with the estimate given in the Economic and Financial Document (DEF) in April.[3] Moreover, as a result of the discussions with European institutions, the Government issued a decree law that ensures a further reduction of at least €1.5 billion[4] in net borrowing; it assessed that, net of the effects of the economic cycle and the one-off measures, this year's budget balance as a ratio of GDP is expected to improve by more than 0.3 percentage points in relation to last year's figure (against a projected worsening of 0.1 points in the DEF). Finally, the Government

[1] For a description of the budget rules in the preventive and corrective arms of the Stability and Growth Pact, see the box 'European budget rules and the objectives for Italy's public finances', in *Economic Bulletin*, 1, 2015 and European Commission, '*Vade Mecum on the Stability & Growth Pact*', Institutional paper, 101, 2019. The excessive deficit procedure, governed by Article 126 of the Treaty on the Functioning of the European Union, defines the timelines for bringing that situation to an end and provides for sanctions in the case of inaction on the part of the country against which the procedure was launched.

[2] The week following the assessment, the Economic and Financial Committee of the European Union shared the opinion of the European Commission, indicating the possibility that any additional factors presented by Italy would be taken into account in deciding whether to launch the procedure.

[3] The Government revised its revenue projection under current legislation, increasing it by €6.2 billion, and lowered its spending projection by €1.0 billion; at the same time, it set aside about €1.2 billion for new expenses.

[4] This reduction would mainly come from the under-use of the resources set aside for the new minimum income scheme and the 'quota 100' pension reform. To ensure a reduction in net borrowing of at least €1.5 billion, the decree provides for a corresponding amount to be set aside, subtracted from allocations to the Ministries.

reiterated its commitment to achieve a structural improvement for 2020 that is consistent with the requirements of the Pact.

In light of these developments, on 3 July 2019 the Commission assessed that for 2019, Italy is broadly compliant with the preventive arm of the Pact[5] and that, as a result, an excessive deficit procedure against the country is not warranted at this time.

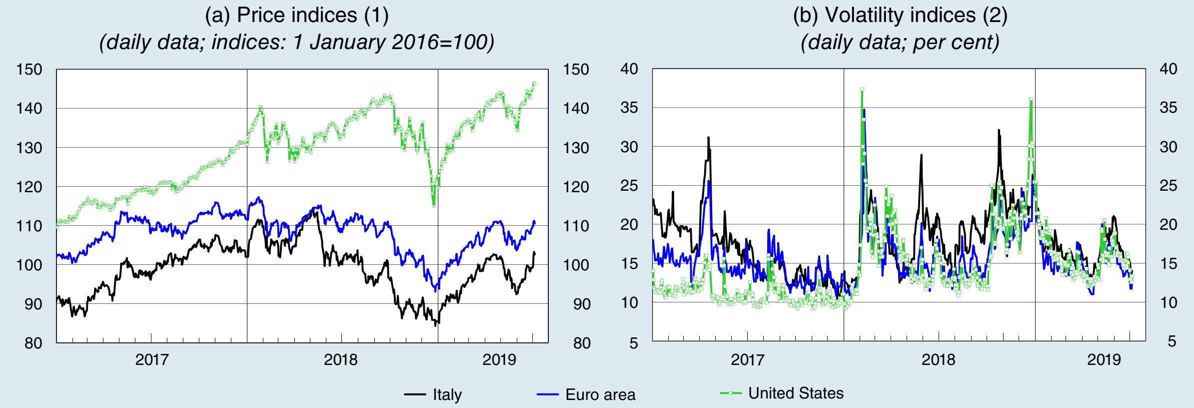
[5] In the Commission's report, the improvement in the structural balance as a ratio of GDP is estimated at 0.2 percentage points, compared with a projected worsening of 0.2 percentage points in the spring.

Share prices recover

In May, share prices were affected by the heightened trade tensions between the United States and China and by those surrounding Italian government bonds (Figure 40.a). The widespread increase in investors' risk aversion resulted in a portfolio rebalancing towards less risky assets. Share prices subsequently increased and their volatility declined (Figure 40.b), in line with international trends. The banking index recovered only some of the fall observed while Italy's sovereign risk was increasing, partly on account of the downward revision of the profitability expectations for the sector. The CDS premiums of the main credit institutions declined.

Figure 40

Share prices



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

Bond placements decline

In the first quarter of 2019, Italian banks and non-financial corporations made net bond redemptions (see Table A.8 in the Statistical Appendix). According to preliminary data from Dealogic on gross issues only, in the second quarter there was a decline in placements by banks (to about €9 billion, from €13 billion in the first quarter), while placements by non-financial corporations remained substantially unchanged (at about €8 billion).

The net outflow of savings from Italian and foreign open-end investment funds continued in the first quarter of 2019, though at a slower pace than at the end of 2018 (€0.4 billion against €8.9 in the fourth quarter of 2018, based on Assogestioni data). Investors continued to shift their portfolios towards assets considered to be safer; this rebalancing benefited bond and money market funds, while flexible, equity and hedge funds recorded net outflows.

2.9 PROJECTIONS

The projections for the Italian economy presented here update those prepared as part of the Eurosystem staff macroeconomic projections published on 7 June, which were based on information available up to 22 May.[1]

The scenario is based on a slowdown in world trade ...

In line with the assessments of the main forecasters, the projections assume that world trade will weaken this year, whilst international trade tensions run high and global economic activity slows (see Section 1.1); trade will recover gradually in 2020-21. Foreign demand for Italian products weighted by the outlet markets will expand at a much slower pace than in the recent past, by 2 per cent this year (from 3.3 per cent in 2018), before gradually speeding up in 2020-21 (see the box 'The assumptions underlying the macroeconomic scenario').

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published on the Bank's website at the start of June and December together with the euro-area projections[1] released by the European Central Bank. The macroeconomic projections for Italy presented here update those released on 7 June on the basis of the most recent data; these include the latest national quarterly accounts released by Istat on 31 May after the closing date of the previous projection exercise, which have revised down GDP growth in the first quarter of this year and, all other conditions being equal, project a smaller expansion of GDP for 2019 as a whole. The technical assumptions have also been updated in the light of changes in the exogenous variables at 5 July.

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

a) foreign demand, weighted by the outlet markets for Italian exports, slows to 2 per cent in 2019; it expands again at around 3 per cent on average in the two years 2020-21;

b) the euro/dollar exchange rate, which averaged 1.18 in 2018, stays at 1.12 in the three years 2019-21;[2]

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

	2018	2019	2020	2021
Potential foreign demand	3.3	2.0	2.9	3.2
Dollar/euro (1)	1.18	1.13	1.12	1.12
Nominal effective exchange rate (2)	-1.4	1.5	0.2	0.0
Crude oil prices (1) (3)	71.1	65.0	62.1	60.5
3-month Euribor (1)	-0.3	-0.4	-0.5	-0.4
1-year BOT yields (1)	0.2	0.0	-0.1	0.0
10-year BTP yields (1)	2.6	2.4	2.4	2.7

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.

1 See on 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 markets in the ten working days to 5 July.

1 See on the Bank of Italy's website '*Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)*', 7 June 2019.

c) the price of a barrel of Brent crude oil, equal to $65 on average this year ($71 in 2018), falls gradually in 2020-21;

d) three-month interest rates on the interbank market (Euribor), equal to -0.4 per cent this year, remain substantially unchanged in 2020 and 2021;

e) the yield on ten-year BTPs, equal to 2.4 per cent in 2019, rises gradually to 2.7 per cent in 2021, in line with the values of forward rates implied by the term structure of interest rates on government bond yields;

f) the scenario takes account of measures adopted in previous Budget Laws, including the one for the three years 2019-21, and of other measures set out by the Government in Decree Law 34/2019 of 30 April ('Growth Decree'). As in previous macroeconomic projection exercises and unlike the 2019 Economic and Financial Document published on 9 April, the technical hypotheses assume that the safeguard clauses relative to VAT and excise duty increases will not be activated in the two years 2020-21. 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.

... and accommodative monetary conditions, but still high yields on government securities

The scenario assumes that monetary conditions will remain highly accommodative, consistent with the communication of the ECB Governing Council (see Section 1.2). According to the expectations incorporated in the financial market prices of the ten business days ending on 5 July, the interest rates on ten-year Italian government bonds will average 2.4 per cent this year and rise gradually over the next two years. In line with the developments observed over the last twelve months, it is assumed that yields on government bonds will be transmitted gradually to private sector borrowing conditions (see Section 2.7).

The forecasting scenario takes account of measures adopted in previous Budget Laws, including the one for the three years 2019-21, and of further measures outlined by the Government in Decree Law 34/2019 of 30 April ('Growth Decree'). As in the past, in accordance with the guidelines underpinning the Eurosystem projections, the scenario is based on technical assumptions that exclude the VAT increases envisaged under the safeguard clauses and alternative measures for recouping any missing revenue; nor is account taken of measures that have not yet been defined in sufficient detail.

In this scenario economic activity slows in 2019 and then gradually recovers

Based on these assumptions and in light of the latest cyclical data, it is estimated that GDP, adjusted for calendar effects, will expand

Table 14

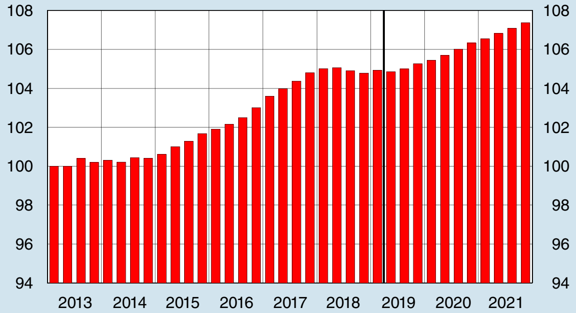
The macroeconomic scenario
(percentage changes on previous year unless otherwise indicated)

	2018	2019	2020	2021
GDP (1)	0.7	0.1	0.8	1.0
Household consumption	0.6	0.4	0.9	0.9
Government consumption	0.2	-0.2	0.3	-0.1
Gross fixed investment	3.2	1.3	0.8	1.8
of which: in capital goods	4.0	-1.3	-0.7	1.1
Total exports	1.4	2.7	2.8	3.4
Total imports	1.8	0.7	2.6	3.3
Change in stocks (2)	-0.1	-1.0	0.0	0.0
Memorandum item: GDP, raw data (3)	0.9	0.1	0.9	1.0
Prices (HICP)	1.2	0.7	0.9	1.4
HICP net of food and energy	0.6	0.6	0.9	1.3
Employment (standard units) (4)	0.8	0.5	0.3	0.6
Unemployment rate (5)	10.6	10.2	10.2	10.0
Export competitiveness (6)	-0.9	3.5	1.3	0.4
Current account balance (7)	2.5	3.0	3.3	3.4

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

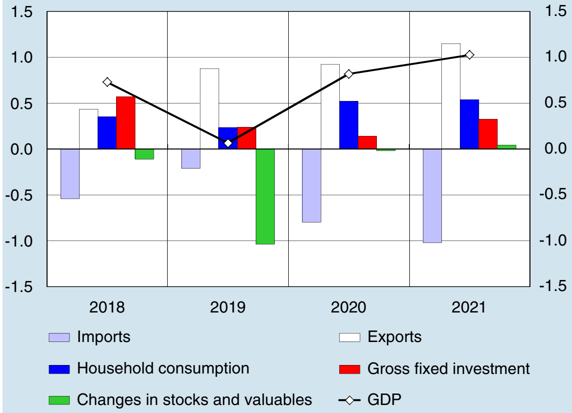
GDP projections: quarterly profile (1)
(levels; Q1 2013=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to Q1 2019; 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.

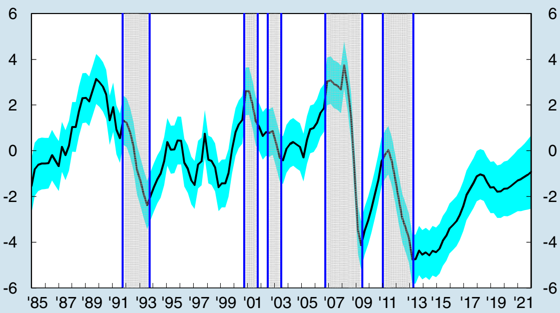
by 0.1 per cent on average in 2019, by 0.8 per cent in 2020 and by 1.0 per cent in 2021 (Table 14 and Figure 41). For the entire projection horizon, economic activity will primarily be driven by household expenditure and exports (Figure 42). The existing margin of spare production capacity is unlikely to be reabsorbed within the three-year forecasting period (see the box 'Italian output gap estimates').

ITALIAN OUTPUT GAP ESTIMATES

The Bank of Italy estimates potential output in the country by combining the results of different models: among these and based on their past performance, a prevalent role is given to reduced-form models and unobserved components models.[1]

According to our estimates, the gap between the actual level of output and its potential level, i.e. the output gap, is still broadly negative in Italy (the confidence bands shown in the figure capture the uncertainty surrounding the estimates). The average output gap for this year is estimated at between -2.9 and -0.5 per cent, with a central value of -1.7 per cent. Based on the macroeconomic projections presented here, the output gap will gradually narrow in 2020-21, reaching a central value of around -1 per cent at the end of 2021.

Output gap (1)
(percentage points)



Sources: Based on Istat data until 2018 and on our forecasts for the three-year period 2019-21.
(1) The output gap is measured as a percentage of potential output. The grey area represents recession periods as identified by Istat. The blue area shows the 90 per cent confidence bands calculated using the uncertainty intervals derived from the unobserved components model.

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

In the three years 2019-21 the still very negative output gap will contribute to the lasting weakness in core inflation.

Our central estimate of the output gap is broadly in line with that of the OECD and comparable to that of the IMF, which expects it to narrow progressively in the three years 2019-21, reaching a still slightly negative level in 2021. Our estimate is instead considerably broader than that of the European Commission, which predicts a lower level of potential output and accordingly the full reabsorption of the output gap as early as next year.

More structural approaches based on the production function usually encounter bigger methodological problems, owing to the difficulty of distinguishing underlying trends from cyclical fluctuations; this is why in the past a smaller weight was assigned to those trends when assessing the amount of unutilized resources in the economy. A recent methodological study conducted by the Bank of Italy aimed to take more adequate account of these phenomena when applying a production function approach, reaching conclusions that mostly confirm those obtained using the traditional indicator (see the box 'Methodological refinements of output gap estimates for Italy based on the production function').

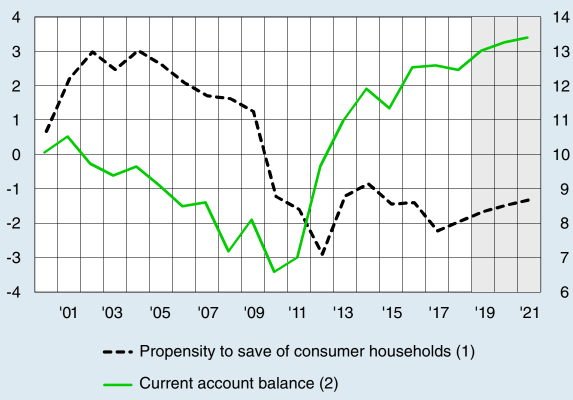
Consumption expands

Consumption is projected to keep expanding, though at a slower pace than in the past three years and, partly owing to income support measures, it will strengthen halfway through this year. The saving rate of consumer households will rise slightly, reaching 8.7 per cent in 2021 (Figure 43).

Employment, which in 2018 had regained pre-crisis levels in terms of the number of persons in employment, will increase further, but at a slower pace, especially between the second half of this year and in 2020. It will likely be affected by the greater numbers of people leaving the labour market as a result of the introduction of new forms of early retirement which, as observed in the past, will only partly be offset by new hires. The unemployment rate, which fell in the first half of 2019, is projected to remain at around 10 per cent during the three-year forecasting horizon.

Figure 43

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.

The scenario includes a slowdown in investment

Investment is expected to slow as a result of prolonged uncertainty about the outlook for demand, echoing the findings of our business surveys (see Section 2.2), and the gradual increase in borrowing costs. Expenditure on capital goods will decline both this year and next, in part owing to the expiry of tax incentives in 2020, and will start to rise again in 2021. Investment in construction will instead continue to expand, boosted by the gradual improvement in the real-estate market and the planned increase in public expenditure. The ratio of investment in capital goods to GDP, which last year had returned close to the level recorded prior to the double-dip recession, is expected to come down slightly during the three years; in the construction sector in 2021 this ratio is expected to remain about 2 percentage points below pre-crisis levels (Figure 44).

The external accounts continue to post a surplus

Exports of goods and services will be affected by the performance of world trade but, as in past years, Italian firms are expected to maintain their market shares: growth in exports amounting to about 3 per cent per year on average will just outpace that of foreign demand weighted by outlet markets. Growth in imports will be slower, owing to the weakness of investment in capital goods (the component of demand with the highest foreign input content). The current account surplus is expected to grow as a result, to over 3 per cent of GDP (Figure 43).

Inflation rises very gradually

Inflation, calculated based on the change in the harmonized index of consumer prices (HICP), is expected to fall to 0.7 per cent in 2019 (Table 14 and Figure 45), before rising gradually to 1.4 per cent in 2021, primarily driven by the core component. Domestic inflation, measured by the GDP deflator, should amount to 1.0 per cent this year and rise in 2020 and 2021 to 1.1 and 1.5 per cent respectively, mostly reflecting the gradual acceleration in private sector wages. Firms' profit margins will continue to fall a little during this year, before expanding again in 2020-21, thanks to the gradual improvement in cyclical conditions.

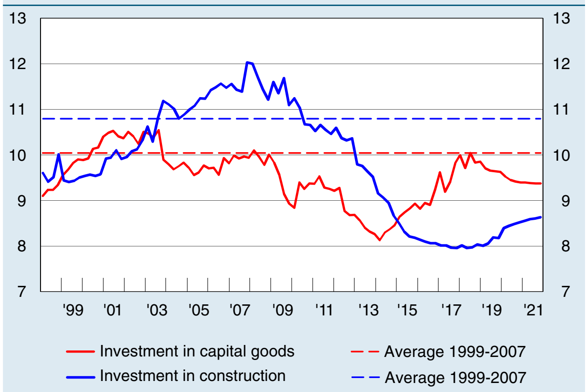
The projections have been revised downwards compared with January

Compared with the forecasting scenario published in last January's *Economic Bulletin*, GDP growth projections are now 0.6 percentage points lower overall in the three years 2019-21. The revision is mainly ascribable to the assumption of a more subdued expansion in international trade and ongoing highly uncertain conditions, amply offsetting the effects of a reduction in interest rates. The inflation forecasts have also been revised downwards by almost 1 percentage point over the three-year horizon, above all owing to the persistent weakness of the core component and lower growth in the volatile components.[2]

The GDP growth projections for this year are consistent with those of the main forecasters (Table 15). Our estimates for 2020 are slightly more favourable than those of the OECD, European Commission and the average of the analysts polled in June by Consensus Economics, and are in line with those

Figure 44

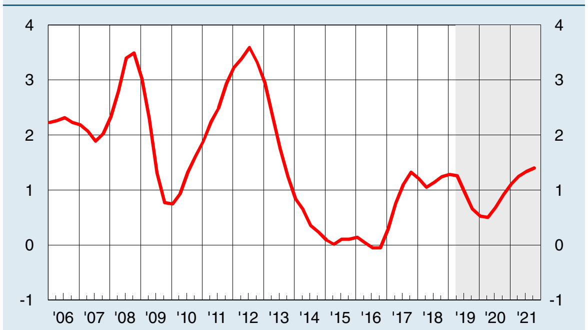
Investment as a percentage of GDP (1)
(quarterly data)



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

Figure 45

Consumer price inflation (1)
(percentage changes on year-earlier period; 4-term moving average)



Source: Based on Bank of Italy and Istat data.
(1) HICP.

[2] Compared with the projections published in June as part of the Eurosystem staff macroeconomic projections, based on information available in mid-May, the growth projections are 0.2 percentage points lower in 2019 and higher by 0.1 point in both 2020 and 2021. The adjustment for this year reflects the data on the quarterly accounts published by Istat on 31 May (which included a downwards revision of growth in the first quarter compared with the preliminary estimate released at the end of April), and the cyclical data released in June and at the start of July. The slight upwards revision of the growth projections for 2020-21 derives from more accommodative monetary conditions and the resulting fall in short and medium-long term interest rates. The inflation projections are 0.1 percentage points lower in each of the three years compared with the June estimates, owing to the slower pace of growth in both the core component and in commodity prices.

of the IMF. Our inflation projections for 2019 are slightly higher than the OECD estimates and a little lower than those of the other forecasters, while they are lower on average for 2020.

The risks to growth are still significant

These growth projections are subject to downside risks (Figure 46). Those of international origin reflect trade policy tensions: were they to escalate or become protracted, in addition to holding back global economic activity and, in particular, our European partners, they could trigger new episodes of financial volatility and have an adverse effect on firms' propensity to invest. In Italy, heightened uncertainty about the fiscal policy stance in the years to come could lead to renewed turbulence in the financial markets and dampen the confidence of households and firms, with repercussions on investment. A stimulus to economic activity could instead come from the establishment of a virtuous circle between fiscal policy and financial conditions.

The risks are balanced for inflation: the upside risks, stemming from pressures linked to increases in energy commodity prices, are offset by the effects of a possible further weakening of economic activity in Italy and around the world.

Table 15

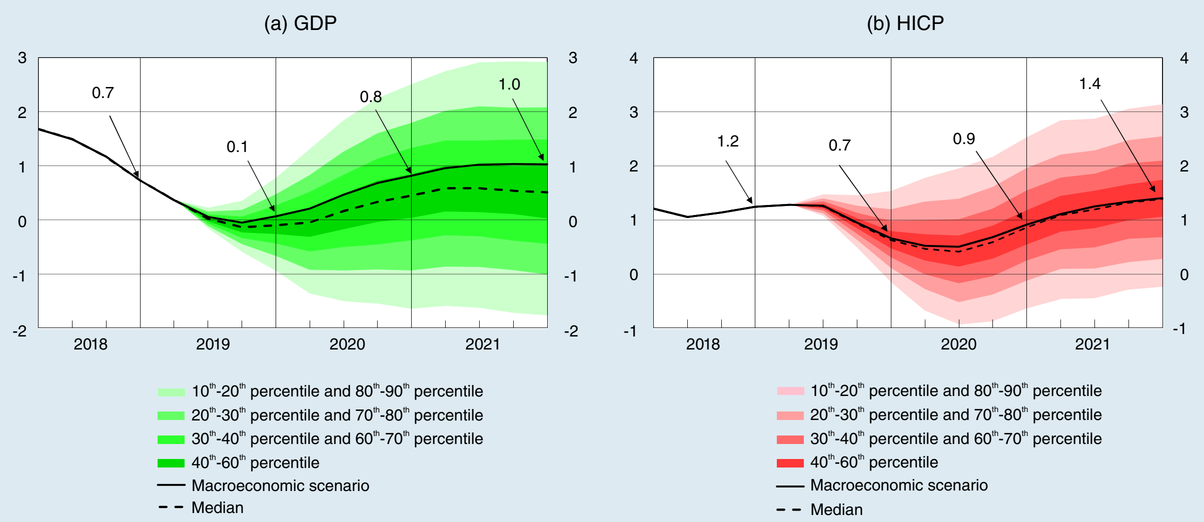
Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2019	2020	2019	2020
IMF (April)	0.1	0.9	0.8	1.2
OECD (May)	0.0	0.6	0.6	1.0
European Commission (July)	0.1	0.7	0.8	1.0
Consensus Economics (June)	0.1	0.5	0.9	1.2

Sources: IMF, *World Economic Outlook*, April 2019; OECD, *OECD Economic Outlook*, May 2019; European Commission, *European Economic Forecast – Summer 2019 Interim Forecast*, July 2019; Consensus Economics, *Consensus Forecasts*, June 2019.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP.

Figure 46

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



(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 described in C. Miani and S. Siviero, 'A non-parametric model-based approach to uncertainty and risk analysis o f 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.

METHODOLOGICAL REFINEMENTS OF OUTPUT GAP ESTIMATES BASED ON THE PRODUCTION FUNCTION

Leading international institutions normally use methods based on estimates of the aggregate production function to measure potential output: this is gauged by considering the actual availability of the factors of production (capital and labour) and their total factor productivity (TFP); these variables are assessed by adjusting for cyclical components. The resulting estimates largely depend on the assumptions and techniques used to trace the underlying developments in labour and capital inputs, net of short-term fluctuations.

Measures of potential output computed by the Bank of Italy are based on a combination of the estimates obtained using this method with those furnished via other approaches, aggregating the different assessments with weights that vary over time[1] (see the box 'Italian output gap estimates'). The importance of the estimates based on the production function has diminished over time: in recent years these have in fact been affected by heavy revisions and have shown a high degree of sensitivity to cyclical developments, pointing to clear issues of specification. This has translated into very small real-time measures of the output gap, even in periods of marked economic weakness, entailing a loss in the ability to track price developments. The results obtained using other methods, especially those based on unobserved components, have accordingly taken on a prevalent role.

A recent analysis[2] explored a different methodology for estimating the production function, introducing a number of innovations: (a) to obtain estimates of TFP adjusted for cyclical factors, account is taken of the degree of utilization of capital and labour as well as of the effects of investment activities on the technical efficiency of the capital installed; (b) a new medium-term measure of the rate of activity on the labour market was developed based on an analysis of the data on transitions between the statuses of unemployment, employment and inactivity, broken down by gender and age class; and (c) a new estimate of the rate of unemployment, which corresponds to the non-accelerating wage rate of unemployment (NAWRU), was made by taking into account the analysis of flows between different labour market statuses.

Taken together, these innovations entail a marked attenuation in the procyclicality of the estimates of potential output compared with those obtained with the production function specification used to date, and a consequent greater capacity of the corresponding output gap estimates to capture inflation developments. The cyclical fluctuations of TFP are realistically less marked, in line with the indications inferred from the estimates based on individual data on firms.[3]

Overall, according to the new assessments, the contraction in potential output during the double-dip recession computed using the production function method is much smaller compared with the estimates that do not take account of the recent methodological innovations (around -0.1 per cent a year between 2008 and 2013, against -1.0), while the recovery in the last three years is more gradual (with average growth of close to 0.5 per cent, compared with 1.1 per cent).

The new specification of the production function suggests a broader output gap in recent years than that estimated using the old specification: it is close to the central values of the estimated interval obtained using the alternative approaches (see the box 'Italian output gap estimates'), thereby confirming that in recent years the shares of unutilized capital and labour in Italy have remained high.

1 The weighting scheme varies over time depending on the ability of the different methods to capture inflation dynamics.

2 R. Torrini and F. Zollino (eds.), 'Reassessing the production function approach to potential output in Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers, forthcoming.

3 D. Fantino, *'Potential output and microeconomic heterogeneity'*, Banca d'Italia, Temi di Discussione (Working Papers), 1194, 2018.

SELECTED STATISTICS

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

CONTENTS

Table A1

Price competitiveness indicators based on producer prices in manufacturing (1)

(period averages; indices: 1999=100)

	Belgium	Canada	China	South Korea	France	Germany
2013	116.8	117.6	124.6	91.1	94.5	88.7
2014	115.2	112.6	124.2	94.8	94.5	89.7
2015	106.1	105.1	132.3	93.5	91.0	87.5
2016	105.7	103.8	126.1	90.1	91.4	89.6
2017	111.9	105.3	126.4	93.3	90.9	89.2
2018	117.1	104.5	127.8	93.1	91.8	89.9
2018 – Q1	116.2	105.7	130.8	93.4	92.2	90.5
Q2	116.6	104.9	130.1	93.2	91.7	89.6
Q3	117.7	104.2	125.1	93.0	92.0	89.9
Q4	117.7	103.1	125.1	92.9	91.1	89.5
2019 – Q1	116.1	102.3	128.3	91.2	90.6	89.2
2018 – Jan.	116.1	107.6	130.2	94.5	92.1	90.4
Feb.	116.2	105.8	131.3	92.7	92.1	90.6
Mar.	116.2	103.7	130.8	93.1	92.3	90.7
Apr.	116.5	105.3	130.0	92.8	92.2	90.3
May	116.5	105.4	130.5	93.7	91.7	89.2
June	116.8	104.1	129.7	93.1	91.2	89.1
July	117.2	103.9	125.7	92.2	91.7	89.7
Aug.	117.4	104.4	124.6	93.3	92.0	89.8
Sept.	118.6	104.3	125.0	93.5	92.2	90.1
Oct.	118.5	104.5	124.5	92.8	91.6	89.1
Nov.	117.9	103.1	124.9	93.0	90.9	89.3
Dec.	116.9	101.8	125.9	92.9	91.0	90.0
2019 – Jan.	116.0	102.2	127.4	91.5	90.7	89.7
Feb.	116.3	102.8	128.4	91.4	90.7	89.1
Mar.	116.0	102.0	129.1	90.8	90.5	88.6
Apr.	116.4	102.3	129.2	90.1	90.4	88.5

(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, 10 July 2019. 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
2013	65.1	98.3	113.3	81.5	108.8	90.8
2014	62.8	99.0	113.8	86.0	108.7	93.7
2015	60.3	96.2	107.8	89.9	106.0	102.6
2016	67.9	97.3	109.5	81.7	106.7	104.6
2017	64.0	97.2	111.2	77.8	108.0	103.4
2018	62.9	97.9	112.5	79.4	109.3	103.1
2018 – Q1	62.8	98.5	112.5	79.5	109.6	99.4
Q2	62.5	97.7	112.4	79.9	109.5	102.0
Q3	63.1	98.1	113.2	79.0	109.6	104.9
Q4	63.1	97.4	112.0	79.4	108.6	106.0
2019 – Q1	64.0	96.7	112.6	79.8	107.5	104.3
2018 – Jan.	61.7	98.5	112.3	79.3	109.7	99.5
Feb.	62.9	98.4	112.5	79.5	109.5	99.2
Mar.	63.9	98.6	112.7	79.7	109.6	99.6
Apr.	62.6	98.3	112.9	80.7	109.9	99.5
May	62.2	97.5	112.1	79.7	109.3	102.6
June	62.6	97.3	112.1	79.5	109.2	104.0
July	62.8	97.9	112.9	79.1	109.4	104.5
Aug.	63.5	98.1	113.0	78.4	109.5	105.2
Sept.	62.9	98.4	113.7	79.4	109.8	105.1
Oct.	62.8	97.6	113.2	80.0	109.3	106.1
Nov.	62.9	97.1	111.8	79.8	108.5	106.5
Dec.	63.7	97.4	111.2	78.3	107.9	105.6
2019 – Jan.	65.0	97.2	113.0	78.9	107.4	103.8
Feb.	63.8	96.7	112.5	79.7	107.5	103.9
Mar.	63.2	96.3	112.5	80.8	107.7	105.2
Apr.	63.1	95.9	113.2	80.5	107.9	105.5

(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, 10 July 2019. Rounding may cause discrepancies between monthly, quarterly and annual data.

Table A2

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2016	-0.3	0.4	2.1	1.7	-0.8
2017	-0.1	1.9	3.5	1.6	-1.9
2018	1.4	0.4	1.8	1.4	1.0
2016 – Q1	-0.5	0.4	3.1	2.8	-0.9
Q2	-0.3	-0.7	1.5	2.1	0.3
Q3	-0.9	0.6	2.2	1.6	-1.5
Q4	-0.5	2.3	3.7	1.4	-2.8
2017 – Q1	-0.1	1.5	2.0	0.5	-1.6
Q2	-0.7	2.5	4.1	1.5	-3.2
Q3	0.0	2.2	4.8	2.5	-2.1
Q4	0.0	1.7	4.4	2.6	-1.6
2018 – Q1	0.7	2.5	3.7	1.2	-1.8
Q2	2.4	0.8	2.2	1.4	1.6
Q3	2.4	-0.7	0.4	1.1	3.1
Q4	1.5	-1.6	-1.1	0.5	3.2
2019 – Q1	2.4	-2.6	-0.2	2.6	5.2
		Services			
2016	-0.1	-0.6	0.9	1.5	0.6
2017	0.3	0.4	1.4	1.0	-0.1
2018	1.8	-0.5	0.6	1.1	2.3
2016 – Q1	-0.7	-1.4	0.8	2.3	0.7
Q2	-0.1	-0.9	1.0	2.0	0.8
Q3	0.0	-0.1	1.0	1.1	0.1
Q4	0.8	-0.1	1.0	1.1	0.9
2017 – Q1	0.6	1.1	1.6	0.6	-0.5
Q2	-0.2	0.5	1.4	0.9	-0.7
Q3	0.0	-0.2	1.3	1.6	0.3
Q4	0.4	-0.2	1.2	1.4	0.5
2018 – Q1	1.0	-0.1	0.9	1.0	1.1
Q2	2.3	-0.7	0.8	1.5	3.0
Q3	2.0	-0.6	0.4	1.0	2.6
Q4	2.0	-0.2	0.3	0.5	2.3
2019 – Q1	1.8	-1.2	-0.3	0.9	3.0
		Total economy			
2016	-0.2	-0.4	1.1	1.6	0.2
2017	0.1	0.7	1.7	1.0	-0.5
2018	1.7	-0.2	0.9	1.1	1.8
2016 – Q1	-0.8	-1.1	1.3	2.4	0.3
Q2	-0.3	-0.8	1.1	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	1.0	1.6	0.6	-0.7
Q2	-0.3	0.8	1.8	0.9	-1.1
Q3	0.0	0.4	1.8	1.4	-0.4
Q4	0.3	0.1	1.8	1.7	0.1
2018 – Q1	0.9	0.8	1.4	0.6	0.1
Q2	2.2	-0.2	1.1	1.3	2.4
Q3	2.1	-0.6	0.6	1.2	2.7
Q4	1.8	-0.4	0.0	0.4	2.2
2019 – Q1	2.0	-1.5	0.0	1.5	3.5

Source: Based on Istat data.
(1) Based on hours effectively worked. Annual figures are unadjusted; quarterly data are adjusted for seasonal and calendar effects. For Italy, Istat revised the data from 2017 onwards in order to take account of a change in the general government perimeter (see Istat 'GDP and General Government Net Borrowing: Updating,' Note 9 April 2019). – (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)

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2016	1.1	2.4	3.3	0.9	-1.3
2017	1.7	1.8	3.0	1.1	-0.1
2018	1.8	-0.2	1.2	1.4	2.0
2016 – Q1	1.3	2.1	3.2	1.0	-0.8
Q2	0.7	1.9	2.9	1.0	-1.2
Q3	1.3	1.8	2.6	0.8	-0.5
Q4	1.2	3.5	4.4	0.9	-2.2
2017 – Q1	1.1	0.9	2.0	1.1	0.2
Q2	1.2	1.8	3.0	1.2	-0.6
Q3	0.8	2.5	4.3	1.8	-1.6
Q4	1.1	1.9	3.9	1.9	-0.8
2018 – Q1	1.6	1.6	3.1	1.4	0.0
Q2	2.0	0.6	2.3	1.7	1.4
Q3	2.1	-0.6	0.7	1.3	2.7
Q4	1.4	-2.5	-1.2	1.4	4.0
2019 – Q1	2.1	-1.7	-0.3	1.4	3.8
			Services		
2016	1.1	-0.2	1.5	1.7	1.3
2017	1.9	0.9	2.2	1.3	1.0
2018	2.2	0.5	2.0	1.5	1.6
2016 – Q1	0.8	-0.5	1.5	2.0	1.4
Q2	0.8	-0.3	1.5	1.8	1.0
Q3	1.1	0.1	1.5	1.4	1.0
Q4	1.5	0.3	1.5	1.3	1.2
2017 – Q1	1.7	0.7	2.0	1.3	1.0
Q2	2.0	0.8	2.2	1.4	1.2
Q3	1.8	0.7	2.4	1.7	1.1
Q4	1.7	0.7	2.4	1.7	1.0
2018 – Q1	2.1	0.9	2.4	1.5	1.2
Q2	1.8	0.3	2.2	1.8	1.5
Q3	2.1	0.1	1.8	1.8	2.1
Q4	2.1	0.1	1.7	1.6	2.0
2019 – Q1	1.8	-0.1	1.4	1.5	1.9
			Total economy		
2016	1.1	0.4	1.8	1.4	0.7
2017	1.8	1.2	2.4	1.2	0.6
2018	2.0	0.4	1.9	1.6	1.7
2016 – Q1	0.9	0.1	1.8	1.7	0.9
Q2	0.8	0.3	1.7	1.5	0.5
Q3	1.2	0.5	1.7	1.2	0.7
Q4	1.4	1.0	2.0	1.1	0.4
2017 – Q1	1.5	0.8	2.0	1.2	0.7
Q2	1.8	1.2	2.4	1.3	0.6
Q3	1.5	1.2	2.9	1.6	0.3
Q4	1.6	1.1	2.8	1.7	0.5
2018 – Q1	2.0	1.1	2.6	1.4	0.8
Q2	1.8	0.4	2.2	1.9	1.4
Q3	2.1	-0.1	1.7	1.8	2.2
Q4	1.9	-0.4	1.2	1.6	2.3
2019 – Q1	1.8	-0.4	1.2	1.6	2.3

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

Table A4

Consumer prices: Italy, euro area and main economies

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

	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
2016	-0.1	0.5	0.3	0.6	0.4	1.0	0.2	0.8
2017	1.3	0.8	1.2	0.5	1.7	1.3	1.5	1.0
2018	1.2	0.6	2.1	0.9	1.9	1.3	1.8	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	-0.1	0.9	-0.1	0.9
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	0.6	-0.3	0.7
May	-0.3	0.6	0.1	0.6	-0.1	1.0	-0.1	0.8
June	-0.2	0.5	0.3	0.6	0.1	1.0	0.0	0.8
July	-0.2	0.5	0.4	0.6	0.3	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	0.6	1.0	0.4	0.8
Oct.	-0.1	0.2	0.5	0.6	0.7	1.0	0.5	0.7
Nov.	0.1	0.4	0.7	0.6	0.8	1.1	0.6	0.8
Dec.	0.5	0.7	0.8	0.4	1.6	1.3	1.1	0.9
2017 – Jan.	1.0	0.5	1.6	0.7	1.7	0.9	1.7	0.9
Feb.	1.6	0.7	1.4	0.3	2.1	1.0	2.0	0.8
Mar.	1.4	0.6	1.4	0.5	1.5	0.8	1.5	0.7
Apr.	2.0	1.3	1.4	0.6	2.0	1.6	1.9	1.3
May	1.6	0.9	0.9	0.5	1.3	1.0	1.4	0.9
June	1.2	1.0	0.8	0.6	1.7	1.8	1.3	1.2
July	1.2	0.9	0.8	0.6	1.7	1.6	1.3	1.2
Aug.	1.4	1.2	1.0	0.6	1.9	1.7	1.5	1.2
Sept.	1.3	1.1	1.1	0.6	1.9	1.6	1.6	1.2
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	1.7	1.3	1.5	0.9
Dec.	1.0	0.5	1.2	0.6	1.5	1.2	1.3	0.9
2018 – Jan.	1.2	0.7	1.5	1.0	1.5	1.2	1.3	1.0
Feb.	0.5	0.5	1.3	0.8	1.2	1.3	1.1	1.0
Mar.	0.9	0.7	1.7	1.0	1.7	1.6	1.4	1.1
Apr.	0.6	0.2	1.8	0.9	1.3	0.9	1.2	0.7
May	1.0	0.6	2.3	1.1	2.5	1.9	2.0	1.2
June	1.4	0.7	2.3	0.8	2.1	1.1	2.0	1.0
July	1.9	0.9	2.6	1.0	2.2	1.4	2.2	1.1
Aug.	1.6	0.6	2.6	1.0	2.1	1.3	2.1	1.0
Sept.	1.5	0.5	2.5	0.7	2.2	1.4	2.1	1.0
Oct.	1.7	0.7	2.5	0.8	2.6	1.8	2.3	1.2
Nov.	1.6	0.7	2.2	0.7	2.2	1.1	1.9	0.9
Dec.	1.2	0.5	1.9	0.6	1.7	1.2	1.5	0.9
2019 – Jan.	0.9	0.6	1.4	0.6	1.7	1.8	1.4	1.1
Feb.	1.1	0.4	1.6	0.6	1.7	1.6	1.5	1.0
Mar.	1.1	0.3	1.3	0.3	1.4	1.0	1.4	0.8
Apr.	1.1	0.7	1.5	0.5	2.1	2.0	1.7	1.3
May	0.9	0.5	1.1	0.3	1.3	0.9	1.2	0.8
June	(0.8)	(0.4)	(1.4)	....	(1.3)	....	(1.2)	(1.1)

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

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						
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	155.4	133	-16	148
2018	583	1,378	833	545	72	530	133	2,696	153.5	11	-80	91
2018 – Q1	566	1,419	871	549	72	516	125	2,698	155.4	12	-34	46
Q2	577	1,423	874	549	74	532	127	2,732	156.5	35	12	23
Q3	576	1,453	895	559	71	536	124	2,760	157.6	28	-7	34
Q4	583	1,378	833	545	72	530	133	2,696	153.5	-64	-52	-12
2019 – Q1	586	1,443	882	561	77	536	138	2,781	158.0	85	66	18
						Liabilities						
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	456	1,295	250	1,045	119	925	..	2,795	161.8	70	-27	97
2018	480	1,135	203	932	113	1,037	..	2,765	157.4	-30	-91	61
2018 – Q1	457	1,335	258	1,077	114	938	..	2,843	163.8	48	3	45
Q2	461	1,215	243	971	115	1,025	..	2,815	161.2	-28	-50	22
Q3	468	1,189	242	948	108	1,046	..	2,812	160.6	-3	-20	17
Q4	480	1,135	203	932	113	1,037	..	2,765	157.4	-47	-24	-23
2019 – Q1	483	1,193	234	959	123	1,026	..	2,826	160.6	61	48	13
						Net position						
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	-110	-6.4	63	11	51
2018	103	243	630	-387	-40	-508	133	-69	-3.9	41	11	30
2018 – Q1	109	84	613	-528	-42	-422	125	-146	-8.4	-36	-37	1
Q2	116	208	630	-422	-41	-494	127	-83	-4.8	63	62	1
Q3	108	264	653	-389	-38	-510	124	-52	-3.0	31	14	17
Q4	103	243	630	-387	-40	-508	133	-69	-3.9	-17	-28	11
2019 – Q1	104	250	648	-398	-46	-490	138	-45	-2.6	24	18	6

(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.

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
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	22,200	51,105	-3,159	-10,423	-15,324	6,247	-1,183	7,431
2016	42,920	57,662	-3,414	5,432	-16,759	-3,069	-1,973	-1,097
2017	44,864	54,987	-4,347	9,292	-15,068	614	-1,188	1,801
2018	44,042	47,085	-2,729	17,273	-17,588	-611	-1,482	871
2018 – Q1	4,344	9,491	-3,351	3,401	-5,197	-347	-363	16
Q2	10,577	13,388	594	-372	-3,033	-222	-372	151
Q3	15,686	11,050	3,033	5,889	-4,287	-50	-324	274
Q4	13,435	13,156	-3,005	8,355	-5,070	7	-423	430
2019 – Q1	4,527	10,732	-3,525	4,146	-6,826	-396	-361	-35
2018 – Jan.	-1,149	472	-980	607	-1,248	-98	-123	26
Feb.	2,282	3,731	-1,070	1,332	-1,711	-97	-113	17
Mar.	3,211	5,289	-1,302	1,462	-2,238	-153	-126	-26
Apr.	3,134	3,694	-233	659	-987	-136	-116	-20
May	1,860	3,953	148	-1,526	-715	-158	-132	-26
June	5,583	5,741	679	495	-1,332	72	-124	196
July	7,281	6,099	1,063	1,415	-1,295	3	-112	115
Aug.	5,319	3,154	1,269	2,348	-1,452	17	-90	106
Sept.	3,086	1,797	701	2,126	-1,539	-70	-123	53
Oct.	5,456	4,470	-647	3,010	-1,377	56	-150	207
Nov.	3,858	4,445	-1,570	2,404	-1,422	27	-141	169
Dec.	4,122	4,241	-788	2,941	-2,272	-76	-131	55
2019 – Jan.	-1,046	1,087	-1,145	641	-1,629	-131	-138	6
Feb.	2,413	4,126	-1,173	1,725	-2,265	-114	-110	-3
Mar.	3,161	5,519	-1,207	1,780	-2,931	-151	-112	-38
Apr.	(3,914)	(4,140)	(-274)	(994)	(-947)	(-159)	(-142)	(-17)

(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)

(12-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
2013	-3.7	-3.6	-5.2	-1.3	-2.4	-1.6	-3.2	-0.3
2014	-1.6	-1.6	-2.3	-0.5	-0.3	-0.6	-1.6	0.1
2015	-0.3	0.0	-0.6	0.7	0.7	1.0	0.6	1.4
2016	1.1	1.0	0.3	1.9	2.4	2.2	2.4	2.0
2017	1.8	1.3	0.2	2.8	2.9	3.0	3.1	2.9
2018	1.9	1.9	1.2	2.6	3.4	3.6	4.1	3.2
2017 – Jan.	1.2	1.4	0.8	2.2	2.5	2.3	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	0.2	2.4	2.7	2.4	2.4	2.4
Apr.	0.7	1.1	0.1	2.3	2.6	2.5	2.5	2.5
May	1.0	1.2	0.2	2.5	2.7	2.5	2.4	2.6
June	1.1	1.1	-0.1	2.6	2.5	2.3	2.0	2.6
July	1.4	1.4	0.4	2.7	2.6	2.5	2.3	2.6
Aug.	1.1	1.2	0.0	2.7	2.6	2.6	2.4	2.7
Sept.	0.7	0.8	-0.7	2.6	2.7	2.6	2.5	2.7
Oct.	1.0	0.9	-0.5	2.8	2.8	2.8	2.8	2.7
Nov.	1.4	1.5	0.4	2.8	2.9	2.9	3.1	2.8
Dec.	1.8	1.3	0.2	2.8	2.9	3.0	3.1	2.9
2018 – Jan.	2.7	2.3	1.9	2.8	3.3	3.1	3.4	2.9
Feb.	2.3	1.8	1.1	2.8	3.1	3.0	3.2	2.9
Mar.	2.3	1.8	1.1	2.8	3.0	3.1	3.3	2.9
Apr.	2.9	2.5	2.1	2.9	3.1	3.1	3.3	2.9
May	2.4	1.9	1.1	2.8	3.3	3.2	3.7	2.9
June	2.4	1.5	0.5	2.8	3.5	3.4	4.1	2.9
July	2.4	1.8	1.0	2.8	3.4	3.5	4.1	3.0
Aug.	2.5	1.8	1.1	2.7	3.4	3.5	4.2	3.1
Sept.	2.8	2.1	1.7	2.7	3.4	3.6	4.3	3.1
Oct.	2.6	2.0	1.4	2.8	3.2	3.5	3.9	3.2
Nov.	2.2	1.7	1.0	2.7	3.2	3.6	4.0	3.3
Dec.	1.9	1.9	1.2	2.6	3.4	3.6	4.1	3.2
2019 – Jan.	0.9	0.8	-0.7	2.6	3.0	3.3	3.4	3.2
Feb.	1.2	1.1	-0.2	2.6	3.3	3.5	3.8	3.3
Mar.	0.9	0.8	-0.6	2.6	3.2	3.4	3.7	3.3
Apr.	0.8	0.8	-0.6	2.6	3.4	3.6	3.9	3.3
May	1.0	1.0	-0.2	2.6	3.3	3.6	3.9	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, see 'Monetary Developments in the Euro Area' on the ECB website. – (2) Loans to Italian residents. – (3) Loans to euro-area residents. – (4) The series are based on the new definitions for monetary aggregates and counterparties adopted by the ECB in September 2012, which exclude repo transactions with central counterparties (for the euro area, starting with the June 2010 data).

Table A8

Net bond issues: Italy and euro area (1)

(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2017	-64.9	15.6	21.6	-27.8
2018	-29.5	10.7	-4.6	-23.4
2017 – Q1	-13.8	0.6	4.6	-8.5
Q2	-12.5	-5.0	2.8	-14.7
Q3	-15.2	1.9	3.4	-9.9
Q4	-23.5	18.1	10.7	5.3
2018 – Q1	-15.8	-5.6	-2.9	-24.3
Q2	-16.9	1.2	-0.1	-15.8
Q3	1.1	3.6	1.8	6.6
Q4	2.0	11.6	-3.4	10.2
2019 – Q1	-4.9	-0.5	-1.1	-6.5
		Euro area		
2017	-47.2	1.9	63.4	18.0
2018	84.6	80.2	42.2	207.0
2017 – Q1	6.6	-11.6	11.2	6.3
Q2	5.0	41.1	17.3	63.4
Q3	-36.3	-14.5	19.8	-31.0
Q4	-22.5	-13.2	15.0	-20.7
2018 – Q1	31.0	17.7	22.9	71.5
Q2	-18.4	32.8	3.2	17.6
Q3	46.4	9.2	16.5	72.0
Q4	25.7	20.6	-0.4	45.8
2019 – Q1	58.9	14.3	16.3	89.5

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:* liquidity operations	Borrowing requirement	*of which:* in connection with financial support to EMU countries (3)
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	63.4	0.8	-0.3	51.0	-7.4	-3.0	43.6	0.0
2017	0.0	-1.9	-0.5	41.1	3.6	1.2	45.5	13.8	10.5	59.2	0.0
2018	7.1	-0.2	0.8	42.4	-4.6	0.3	46.1	-5.8	19.5	40.4	0.0
2017 – Jan.	2.4	-1.4	7.3	24.0	-1.3	0.1	32.4	-34.3	-2.9	-2.0	0.0
Feb.	-1.9	0.5	0.2	-10.9	1.1	-0.2	-11.7	20.7	-0.1	9.0	0.0
Mar.	2.4	0.2	-0.2	18.5	0.8	-0.1	21.5	2.2	-0.2	23.7	0.0
Apr.	1.1	0.0	0.5	7.4	0.1	0.2	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	3.6	-1.0	0.2	-0.5	5.4	0.7	9.4	6.3	-5.8	15.7	0.0
July	-0.1	0.1	0.3	21.5	-1.9	0.2	19.9	-32.9	0.3	-13.0	0.0
Aug.	1.9	0.0	-0.1	-22.9	0.0	-0.1	-21.2	22.2	-0.2	1.0	0.0
Sept.	2.2	-0.4	-0.8	3.3	0.8	-0.2	5.2	11.3	0.0	16.6	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.	-11.5	-0.1	-6.8	-0.9	0.0	0.9	-18.2	3.8	-4.6	-14.4	0.0
2018 – Jan.	6.8	0.4	6.3	12.6	-2.2	0.0	23.5	-25.2	-9.1	-1.6	0.0
Feb.	-0.9	-0.3	0.0	1.6	0.6	-0.4	0.9	6.2	16.0	7.1	0.0
Mar.	2.4	-0.2	0.0	15.2	0.0	-0.1	17.6	3.5	5.5	21.0	0.0
Apr.	-2.3	-0.1	0.0	12.4	0.4	0.1	10.6	-7.3	2.0	3.3	0.0
May	-0.8	-0.5	-0.1	13.3	0.1	0.1	12.6	-5.4	0.0	7.2	0.0
June	-2.4	0.3	0.7	-5.7	1.3	0.8	-5.2	9.2	-4.8	3.9	0.0
July	5.6	-0.2	-0.2	17.0	-4.2	-1.2	17.0	-31.6	-2.5	-14.6	0.0
Aug.	-2.4	0.4	-0.6	-13.8	0.2	0.0	-16.6	14.9	-1.0	-1.7	0.0
Sept.	-1.1	-0.6	0.2	5.5	0.3	-0.1	4.7	15.4	-5.6	20.2	0.0
Oct.	-1.2	0.2	0.0	4.6	-0.6	-0.7	2.1	1.0	-1.4	3.1	0.0
Nov.	0.2	-0.5	0.5	6.4	0.8	1.0	8.9	-3.3	2.1	5.6	0.0
Dec.	3.1	1.1	-5.9	-26.6	-1.2	0.7	-29.9	16.9	18.4	-13.1	0.0
2019 – Jan.	5.4	0.3	8.0	29.4	-0.4	-0.6	41.9	-44.0	-14.0	-2.2	0.0
Feb.	-3.6	0.0	-0.1	4.0	-0.4	-0.1	-0.1	9.8	-2.0	9.6	0.0
Mar.	0.4	-1.9	0.6	-3.2	-0.1	-0.1	-2.4	22.4	1.4	19.9	0.0
Apr.	1.0	1.4	0.7	12.7	-0.2	0.3	14.4	-11.6	-1.4	2.8	0.0

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

Table A10

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:* liquidity operations	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
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	1,766.1	130.1	43.7	33.9	2,220.4	43.1	33.0	29.9	58.2
2017	172.3	14.3	106.6	1,806.8	136.1	47.3	33.9	2,269.0	29.3	22.5	32.2	58.2
2018	179.4	14.1	107.4	1,856.0	131.6	47.6	33.9	2,322.0	35.1	3.0	31.4	58.2
2017 – Jan.	174.7	14.8	114.3	1,790.9	131.1	46.1	33.9	2,257.1	77.4	35.9	29.9	58.2
Feb.	172.8	15.2	114.5	1,781.0	132.3	45.9	33.9	2,246.4	56.8	36.0	31.4	58.2
Mar.	175.2	15.5	114.3	1,798.4	133.1	45.8	33.9	2,266.8	54.6	36.2	32.6	58.2
Apr.	176.3	15.5	114.8	1,806.8	133.2	46.0	33.9	2,277.2	58.5	35.4	33.9	58.2
May	177.6	16.0	115.5	1,813.4	133.0	46.7	33.9	2,286.1	58.9	30.3	35.3	58.2
June	181.1	15.0	115.7	1,813.0	138.4	47.4	33.9	2,295.6	52.6	36.2	35.3	58.2
July	181.0	15.1	116.0	1,833.4	136.5	47.6	33.9	2,314.5	85.6	35.9	37.0	58.2
Aug.	182.9	15.1	115.9	1,810.4	136.5	47.4	33.9	2,293.2	63.4	36.1	36.7	58.2
Sept.	185.1	14.6	115.2	1,813.0	137.3	47.2	33.9	2,297.8	52.1	36.1	35.2	58.2
Oct.	184.1	15.0	114.3	1,822.2	135.6	46.5	33.9	2,302.6	53.3	35.3	34.7	58.2
Nov.	183.7	14.5	113.3	1,808.3	136.1	46.4	33.9	2,287.9	33.1	17.9	35.3	58.2
Dec.	172.3	14.3	106.6	1,806.8	136.1	47.3	33.9	2,269.0	29.3	22.5	32.2	58.2
2018 – Jan.	179.1	14.7	112.9	1,819.2	133.9	47.3	33.9	2,292.4	54.5	31.6	33.5	58.2
Feb.	178.2	14.4	112.8	1,821.1	134.5	46.9	33.9	2,293.6	48.3	15.6	34.4	58.2
Mar.	180.7	14.2	112.8	1,835.1	134.5	46.8	33.9	2,309.9	44.8	10.1	33.2	58.2
Apr.	178.4	14.1	112.8	1,847.1	134.9	46.9	33.9	2,320.1	52.1	8.1	34.8	58.2
May	177.5	13.6	112.7	1,862.0	135.0	47.0	33.9	2,334.3	57.6	8.1	35.9	58.2
June	175.2	13.8	113.4	1,857.6	136.3	47.8	33.9	2,330.4	48.4	12.9	33.8	58.2
July	180.8	13.6	113.2	1,876.5	132.1	46.7	33.9	2,349.3	80.0	15.4	35.1	58.2
Aug.	178.4	14.0	112.6	1,863.4	132.3	46.7	33.9	2,333.4	65.1	16.4	34.8	58.2
Sept.	177.3	13.4	112.8	1,869.0	132.5	46.6	33.9	2,338.2	49.6	22.0	33.6	58.2
Oct.	176.1	13.6	112.8	1,874.5	132.0	45.9	33.9	2,341.3	48.7	23.4	33.7	58.2
Nov.	176.3	13.0	113.3	1,882.1	132.8	46.9	33.9	2,351.3	51.9	21.4	33.1	58.2
Dec.	179.4	14.1	107.4	1,856.0	131.6	47.6	33.9	2,322.0	35.1	3.0	31.4	58.2
2019 – Jan.	184.8	14.5	115.4	1,885.2	131.1	47.0	33.9	2,363.5	79.1	17.0	32.6	58.2
Feb.	181.2	14.4	115.3	1,889.1	130.8	46.9	33.9	2,363.3	69.3	19.0	33.4	58.2
Mar.	181.6	12.5	115.9	1,883.5	130.7	46.8	33.9	2,358.5	46.9	17.6	32.1	58.2
Apr.	182.5	13.9	116.6	1,896.6	130.4	47.1	33.9	2,373.3	58.5	19.0	32.2	58.2

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