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SYMBOLS AND CONVENTIONS

Unless otherwise specified, Bank of Italy calculations; for Bank of Italy data, the source is omitted.

In the tables:

–	the phenomenon does not exist;
....	the phenomenon exists but its value is not known;
..	the value is nil or less than half of the final digit shown;
::	not statistically significant;
()	provisional.

In the figures with different right- and left-hand scales, the right-hand scale is identified in the notes.

OVERVIEW

The global slowdown continues and monetary policy is more accommodative

International trade has continued to contract and global economic growth has slowed. There are still significant risks associated with trade tensions, the economic slowdown in China and the uncertainty surrounding the timeframe and the arrangements for the United Kingdom's withdrawal from the European Union (Brexit). Global financial conditions are now highly expansionary; greater uncertainty about the outlook for growth and the very accommodative stance adopted by the central banks have led to a sharp fall in long-term yields.

The ECB Governing Council introduces new expansionary measures

In the euro area, there has been a marked contraction in German industrial production, which is particularly vulnerable to world trade conditions, but the slowdown has spread to other sectors and countries. There is a growing risk that the unfavourable cyclical situation will determine a prolonged decline in the inflation expectations of the financial markets, firms and households. The ECB Governing Council, confirming the assessments made in previous months, adopted an ample package of expansionary measures with broad consensus, although with differing views on the individual instruments. The Bank of Italy's analyses confirm that the measures taken are necessary and appropriate to counter the cyclical risks and the weak outlook for prices.

In Italy, the industrial cycle is holding down growth ...

Economic activity in Italy increased only slightly in the second quarter and, in the light of the available data, it could have remained almost stationary in the third: like other countries, Italy has also been affected, above all, by a slowdown in manufacturing while there has been slightly positive growth in the service sector and a modest recovery in construction. There is still the risk that the unfavourable developments in industry will be transmitted to the other sectors of the economy.

... but investment increases

In the second quarter, however, investment in capital goods increased, also thanks to the reintroduction of the tax incentives in force since April. In the Bank of Italy surveys carried out in September, firms reported slightly more expansionary investment plans, with more positive assessments of investment conditions, the economic situation and of the trend in demand for their own products.

Exports grow ...

Exports continued to increase in the second quarter, despite the contraction in international trade. The current account surplus rose further, to 2.8 per cent of GDP; foreign sales may have faltered in the following months. The new tariffs applicable to the European Union, announced by the United States administration, will affect a relatively limited share of Italian exports to the US but the indirect effects could be significant.

... and inflows of foreign capital pick up

From June to August, non-resident investors made substantial purchases of Italian government securities; the inflows helped to improve the Bank of Italy's negative balance on the TARGET2 European payment system, which then widened slightly in September because of the technical effect of high net redemptions of government securities concentrated in that month. Italy's net international investment position is close to balance.

The number of persons in work is stable and the number of hours falls

In the second quarter, the number of people in employment increased, thanks to growth in services, whereas industry stagnated; the number of hours worked fell, however. According to the available indicators, employment appears to have stabilized in the third quarter. Growth in contractual earnings slowed, following an increase in the number of contracts which, following expiry, are still waiting to be renewed.

Cyclical weakness affects actual and expected inflation

Cyclical weakness continues to hold down price growth and inflation expectations. In the third quarter, inflation was held back, mainly as a result of the fall in energy prices, to stand at 0.3 per cent; the figure for core inflation was 0.5 per cent. The Bank of Italy's own surveys indicate that firms' expectations of an increase in their own prices remain weak, well below a 2 per cent increase.

The fall in government bond yields is significant …

On the Italian securities markets, conditions have become significantly more expansionary: in the third quarter, the yields on ten-year government securities reached their lowest level since the introduction of the euro and they have remained very low by historical standards (0.94 per cent). The spread in relation to the corresponding German Bund (down to 138 basis points) has returned close to the level prevailing in the first few months of 2018. This is in part attributable to the reduction in the uncertainty perceived by market participants as regards the economic policy stance and the stance vis-à-vis the European institutions. Premiums for public debt redenomination risk returned to the levels recorded in the first half of 2018.

… and has spread to the cost of funding the economy

The fall in the yields on government securities has significantly lowered the cost of bank wholesale funding (which has returned to the levels seen at the start of 2018) and of corporate bond yields. The cost of loans to firms and households has gone down slightly.

The Government estimates that net borrowing will remain unchanged this year …

The Government estimates net borrowing at 2.2 per cent of GDP this year, the same as in 2018. The debt-to-GDP ratio is expected to rise from 134.8 to 135.7 per cent of GDP.

… and it is planning higher net borrowing for next year than under the current legislation scenario

For 2020, the Government programmes net borrowing almost one percentage point of GDP higher than in the current legislation scenario; the deficit is expected to remain unchanged at the level estimated for this year; the expected fall in interest payments should offset the reduction in the primary surplus. The fiscal policy stance appears to be slightly expansionary, reflecting the sterilization of the safeguard clauses – only partly offset by other measures – and further interventions, including a lower tax wedge on labour costs and higher investment. These budget decisions are motivated by a less favourable macroeconomic climate than expected and by non-negligible downside risks. The Government's plans indicate a pathway that will gradually reduce the weight of the debt on Italy's economy.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The slowdown in the world economy and the contraction in global trade have continued. There are still significant risks attributable to the tensions over protectionism, the economic slowdown in China and the timeframe and arrangements for the United Kingdom leaving the European Union. The main central banks have adopted a highly expansionary monetary policy.

The global economy is slowing down

In the second quarter, GDP decelerated in the United States and in Japan (Table 1); it contracted in the United Kingdom, as a result of the decrease in the inventories accumulated for precautionary reasons ahead of the date originally scheduled for Brexit at the end of last March. Based on the latest assessments from the purchasing managers' index (PMI) data for the manufacturing sector, cyclical conditions weakened further in the third quarter (Figure 1).

In China, economy activity lost momentum again in the spring, and in the summer months too, according to the latest indicators. Growth in the second quarter declined sharply in India, while it recovered slightly in Brazil and Russia, but nonetheless remained low.

World trade continues to contract ...

According to our estimates, the decline in international trade, ongoing since autumn 2018, continued in the second quarter of 2019 (-0.8 per cent on an annualized basis; Figure 2). Despite a modest recovery in imports from the emerging economies, the imports of the advanced countries decreased overall, especially those of the United Kingdom. The outlook for international trade is still unfavourable and the

Table 1

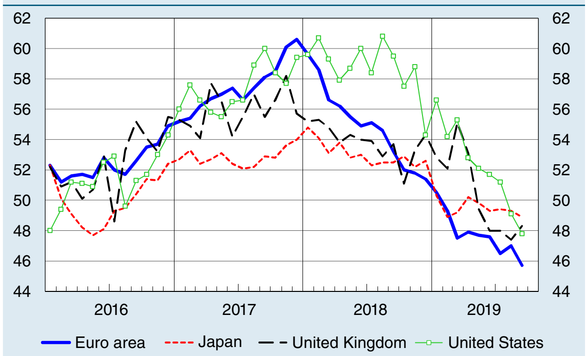
GDP growth and inflation
(percentage points)

	GDP growth (1)			Inflation (2)
	2018	2019 Q1	2019 Q2	September 2019
Advanced countries				
Japan	0.8	2.2	1.3	0.3
United Kingdom	1.4	2.3	-0.9	1.7
United States	2.9	3.1	2.0	1.7
Emerging countries				
Brazil	1.1	0.5	1.0	2.9
China	6.6	6.4	6.2	3.0
India	7.4	5.8	5.0	4.0
Russia	2.3	0.6	0.9	4.0
Memorandum item:				
World trade (3)	**4.1**	**-0.8**	**-0.8**	

Sources: National statistics and 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. The figure for Japan refers to the month of August. – (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; diffusion indices)



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

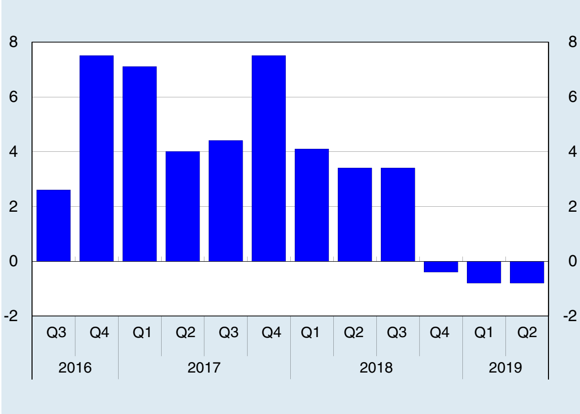
global PMIs for foreign orders have in fact remained below the threshold compatible with expansion.

... and protectionist tensions escalate

In August, trade tensions intensified between the United States and China; they have been affecting global trade, business confidence and firms' propensity to invest since early 2018. The US administration has raised tariffs on imports from China, extended the range of products that will gradually become subject to new tariffs and increased them for goods already affected in previous months. The Chinese government has in turn increased tariffs on about $75 billion worth of imports from the United States. Recent developments in trade negotiations have led to an agreement in principle that includes the suspension of some of the tariff increases previously envisaged; nevertheless, uncertainty remains high over the final outcome of the negotiations. The full application of the measures announced in August, scheduled for mid-December, will bring the average tariff on Chinese goods imported to the United States to 24.3 per cent from around 3 per cent at the beginning of 2018; the average tariff applied by China on American goods will rise from 8 to 26 per cent.

Figure 2

World trade (1)
(quarterly data; percentage changes)



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

In the early days of October, the US administration also announced new tariffs of between 10 and 25 per cent, which from 18 October will be imposed on $7.5 billion of imports of specific products from the European Union as a compensatory measure, authorized by the World Trade Organization (WTO), to offset the state subsidies given to Airbus, the aerospace consortium (see Section 2.4). The United States has not yet taken a decision on a possible increase in tariffs on imports of cars and car components, which could have even more serious effects on exports of EU countries.

Inflation remains moderate

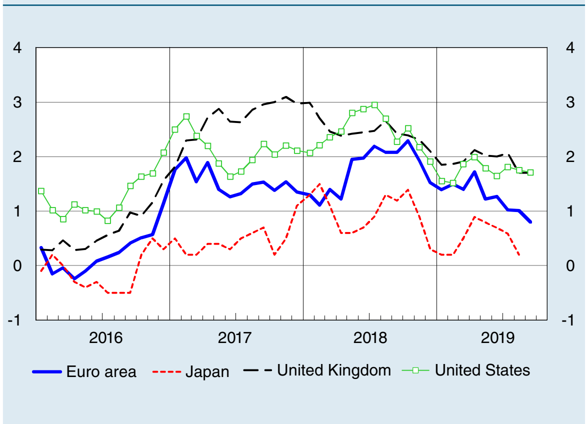
Inflation remains weak in the leading advanced economies (Figure 3). The long-term inflation expectations derived from financial market yields remain low in the United States, Japan and the euro area (see Section 1.2); they are higher in the United Kingdom, standing above the historical average.

The forecasts for global economic activity and trade are revised downwards ...

In its latest forecasts, the International Monetary Fund (IMF) revised its estimate for global GDP growth downwards by 0.3 percentage points overall for the two years 2019-2020 compared with its July forecast, bringing it to 3.0 per cent for the current year and 3.4 per cent for 2020 (Table 2). The revision mainly reflects the impact of greater

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.

trade tensions, which is only partly counterbalanced by the effects of the demand stimulus measures put in place by the leading countries. Our estimate for global trade growth in 2019 is 0.6 per cent (4.1 per cent in 2018), revised downwards by almost one percentage point compared with July.

... and risks increase

The risks for the world economic outlook stem above all from developments in trade policies at global level and from future economic relations between the EU and the United Kingdom. Unfavourable developments on these fronts could have strong repercussions on trade and economic activity, especially if coupled with a deterioration in investors' confidence and turbulence in the financial markets. In addition, there remains the risk of a greater than expected slowdown in China, where the authorities have been called upon to strike a balance between the need to stabilize domestic demand and to rebalance the economy and limit the high private sector debt.

Crude oil prices fluctuate widely

Oil prices fell sharply at the beginning of August after trade tensions heightened and the global demand for crude oil was revised downwards (Figure 4). In recent weeks, there have been new outbreaks of tension in the Middle East, culminating in mid-September with an attack on Saudi Arabia's oil plants, which led to a temporary reduction in overall production capacity of about 6 per cent. The immediate rise in prices was reabsorbed relatively quickly thanks to the Saudi authorities' assurances over the stability of the oil supply, ensured by using their stockpiles of crude oil and gradually resuming production. The outlook for oil prices over the next few months is very uncertain, as shown by the increase in the volatility implied by crude oil option prices.

The Fed lowers its benchmark interest rates

In each of its last two meetings, in July and September, the Federal Reserve lowered the target range for the federal funds rate by 25 basis points (now at 1.75-2.0 per cent), in response to the global economic slowdown and to the uncertainty created by trade policies, at a time of moderate inflation. Financial market prices signal expectations of

Table 2

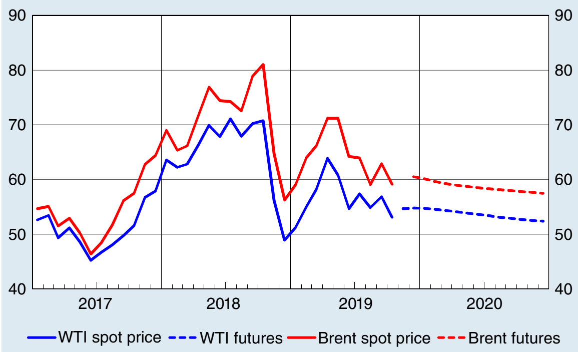
Macroeconomic projections
(changes and percentage points)

	2018	Forecasts (1) 2019	Forecasts (1) 2020	Revisions (2) 2019	Revisions (2) 2020
GDP (2)					
World	**3.6**	**3.0**	**3.4**	**-0.2**	**-0.1**
Advanced countries					
of which: Euro area	1.9	1.2	1.4	-0.1	-0.2
Japan	0.8	0.9	0.5	0.0	0.1
United Kingdom	1.4	1.2	1.4	-0.1	0.0
United States	2.9	2.4	2.1	-0.2	0.2
Emerging countries					
of which: Brazil	1.1	0.9	2.0	0.1	-0.4
China	6.6	6.1	5.8	-0.1	-0.2
India (3)	6.8	6.1	7.0	-0.9	-0.2
Russia	2.3	1.1	1.9	-0.1	0.0
World trade (4)	**4.1**	**0.6**	**....**	**-0.9**	**....**

Sources: IMF, *World Economic Outlook*, October 2019 and Bank of Italy for the data on world trade.
(1) For GDP, forecasts taken from IMF, *World Economic Outlook*, October 2019; percentage changes. – (2) Revisions compared with the forecasting scenario of July, taken from IMF, *World Economic Outlook Update*, July 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 October 2019; the revisions are calculated on the July 2019 forecasts published in *Economic Bulletin*, 3, 2019.

Figure 4

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

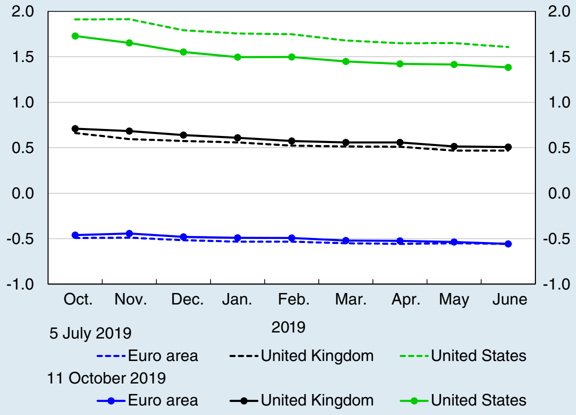


Source: Refinitiv.
(1) For the spot prices, average monthly data through September 2019; the latest figure is the average of the daily data from 1 to 11 October 2019.

further interest rate reductions over the next few months (Figure 5). As a result of tensions in the interbank market, which have highlighted shortages in the circulation of liquidity that presumably stem from it being concentrated on some banks' balance sheets, the Federal Reserve has undertaken a purchase programme for short-term government bonds that should ensure a sufficiently ample level of bank reserves is maintained.

Figure 5

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



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

At its September meeting, the Bank of England kept its monetary stance unchanged, underlining the ample margins of uncertainty over the economic outlook and future monetary policy action, given the longstanding unknowns surrounding the timeframe and arrangements for Brexit. In the same month, the Bank of Japan confirmed a high degree of monetary accommodation, together with its readiness to adopt further stimulus measures in the future, if necessary. The People's Bank of China has reduced its required reserve ratios again and launched a reform of the mechanism for defining the prime loan rate to encourage a gradual decrease in the interest rates applied to firms and households. The central banks of several emerging countries, including Brazil, India and Russia, have also lowered their key interest rates over the last three months.

1.2 THE EURO AREA

In the euro area, global tensions affected economic activity and increased the risks of a reduction in inflation, which is projected to again fall short of 2 per cent at the end of the next three-year period. The ECB Governing Council adopted a broad package of expansionary measures deemed appropriate given the growth and inflation prospects.

Growth in the euro area slows ...

In the second quarter of 2019, euro-area GDP expanded by 0.2 per cent compared with the previous period (Table 3), driven by domestic demand, although sales outside the area stagnated and the contribution of net exports was slightly negative. As regards the main economies, GDP continued to grow in Spain, France and, to a lesser degree, Italy, while it declined in Germany.

Table 3

Euro-area GDP growth and inflation
(percentage changes)

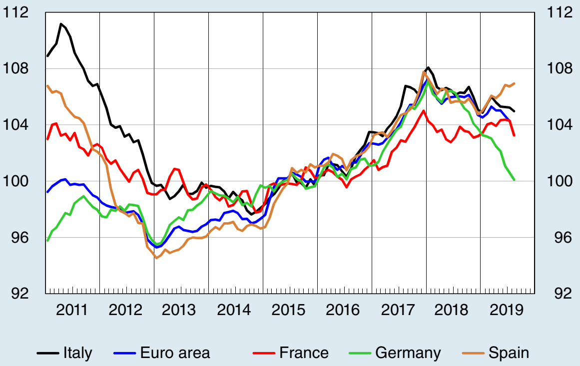
	GDP growth			Inflation
	2018	2019 Q1 (1)	2019 Q2 (1)	2019 September (2)
France	1.7	0.3	0.3	1.1
Germany	1.4	0.4	-0.1	0.9
Italy	0.8	0.1	0.1	0.2
Spain	2.6	0.7	0.5	0.2
Euro area	1.9	0.4	0.2	0.8

Sources: Based on national statistics and Eurostat data.
(1) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous quarter. – (2) Year-on-year percentage change in the harmonized index of consumer prices (HICP).

Industrial activity contracted owing to the sharp drop in production recorded in Germany, in capital goods especially, and the smaller decline registered in Italy (Figure 6). This was offset by the growth in value added in the service sector, both in the euro area as a whole and in the other

Figure 6

Industrial production in the euro area and in the main economies (1)
(monthly data; indices: 2015=100)



Sources: Based on Eurostat and Istat data.
(1) Data adjusted for seasonal and calendar effects; 3-term moving averages.

Figure 7

Correlation between the value added in manufacturing and in services in the euro area (1)
(quarterly data)

Source: Based on Eurostat data.
(1) Contemporaneous correlation coefficient, using a 5-year rolling window, between the cyclical rate of growth of value added in manufacturing and that in services.

three major economies. The correlation between the change in value added in manufacturing and that in services, which is usually high in the euro area, fell sharply over the last three years, especially in conjunction with the slowdown in world trade (Figure 7). However, there is the risk that, if protracted, the cyclical weakness in manufacturing could be transmitted to services, owing both to the direct production ties between the two sectors and, possibly, some indirect effects via the employment and consumption channels.

... and appears to remain modest in the third quarter

The latest cyclical indicators suggest that, during the summer months, euro-area GDP grew moderately. It was held back mainly by the weakness of the German manufacturing sector. Industrial production fell on average by 1.0 per cent in the two months July and August compared with the previous quarter. In September, the Bank of Italy's €-coin indicator, which estimates the underlying GDP trend in the euro area, dropped further, reaching very low levels (Figure 8). The purchasing managers' indices continue to point to a contraction in economic activity in the manufacturing sector and to modest growth in the service sector. Firms' expectations regarding foreign sales remain pessimistic, especially in Germany.

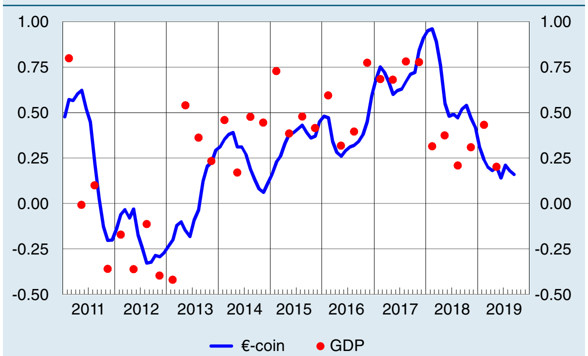
ECB staff projections released in September revised GDP growth downwards compared with the June projections by a combined 0.3 percentage points for the three years 2019-21, to 1.1 per cent in 2019, 1.2 per cent in 2020 and 1.4 per cent in 2021.

Inflation declines

During the summer, the twelve-month inflation rate declined, mainly owing to the fall in energy prices, reaching 0.8 per cent in September (Figure 9). The

Figure 8

€-coin coincident cyclical indicator and euro-area GDP (1)
(monthly and quarterly data; percentage changes)

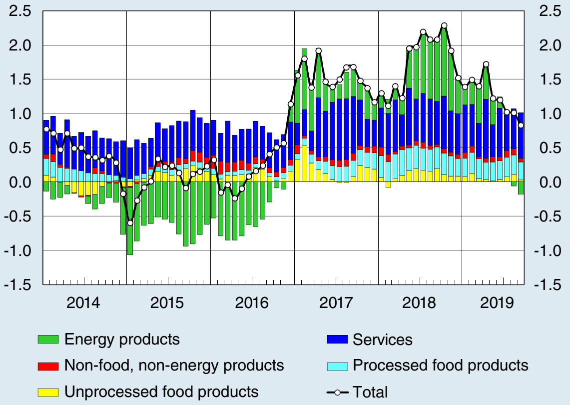


Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The Bank of Italy's €-coin indicator and the economic situation in the euro area', in *Economic Bulletin*, July, 2009. Further details are available on the Bank of Italy's website: '€-coin: September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

Figure 9

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

(monthly data; per cent and percentage points)



Sources: Based on Eurostat and ECB data.
(1) Twelve-month percentage change in the harmonized index of consumer prices (HICP).

Figure 10

Inflation expectations implied by derivatives contracts (1)

(daily data; per cent)

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

core component continued to be at low levels (1.0 per cent in September), mainly owing to the sluggish performance of the prices of non-energy industrial goods.

The ECB staff projections indicate that inflation will average 1.2 per cent in 2019 as a whole and come down to 1.0 per cent in 2020, before rising to 1.5 per cent in 2021.

Between July and October, short-term inflation expectations as implied by inflation swap yields decreased to 0.8 and 0.9 per cent over the two- and five-year horizons respectively (Figure 10). Five-year, five years forward inflation expectations, which fell in the first half of the year, have stabilized at around 1.2 per cent, very close to their historical minimum and well below the ECB's medium-term aim (see the box 'Downside risks to inflation expectations according to the Bank of Italy's analyses').

DOWNSIDE RISKS TO INFLATION EXPECTATIONS ACCORDING TO THE BANK OF ITALY'S ANALYSES

Long-term inflation expectations in the euro area, which had begun to rise in 2015, decreased over the course of last year, according to a wide range of metrics derived from data obtained from the financial markets and from surveys of observers.

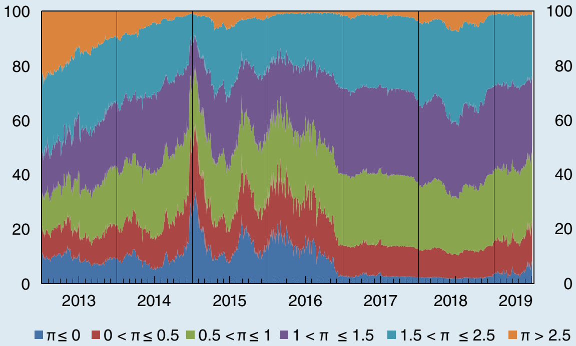
The expectations derived from the financial markets, for example those based on the prices of financial derivatives such as inflation-linked swaps (ILSs) and inflation options, have dropped significantly since mid-2018. At the end of August, five-year, five years forward inflation expectations stood at 1.3 per cent, 0.4 percentage points lower than in June 2018. Since the second half of last year, the probability that inflation will remain below 1.5 per cent on average over the next five years, based on the prices of inflation options, has risen by 20 percentage points, to 78 per cent (Figure A).

Survey-based inflation expectations showed similar dynamics. For example, the expectations reported in the ECB Survey of Professional Forecasters (SPF) fell in the first nine months of this year to 1.6 per cent over the five-year horizon (Figure B), lower by between 0.1 and 0.2 percentage points compared with end-2018 and by between 0.2 and 0.3 percentage points

Figure A

Distribution of five-year inflation expectations implied by inflation options (1)

(daily data; per cent)

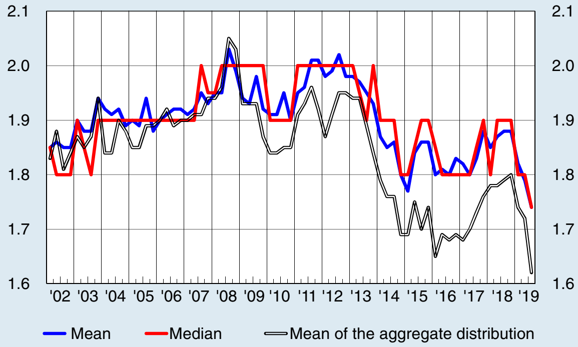


Source: Based on Bloomberg data. Latest estimate calculated on data referring to 10 October 2019.
(1) The distribution of expected inflation (π) is calculated based on the prices of zero-coupon inflation options in the euro area over a 5-year horizon. The underlying inflation rate is calculated based on the harmonized index of consumer prices excluding tobacco.

Figure B

Five-year inflation expectations (1)

(quarterly data; per cent)



Source: Based on SPF data. The latest data available refer to the July 2019 survey.
(1) The mean and median are built based on the point estimates provided by individual respondents; the mean of the aggregate distribution is the mean of the probability distribution built using data from forecasters that provide the full distribution of their forecasts.

compared with the beginning of 2013, before the prolonged period of low inflation.

These dynamics have drawn renewed attention to the risks of a possible de-anchoring of inflation expectations from the policy target. These risks can be quantified by using indicators based on the co-movement of short- and long-term expectations. One such indicator, based on the expectations implied by ILSs,[1] shows that the risk of a de-anchoring of inflation expectations in the euro area has increased since November 2018 (Figure C), reflecting a slowdown in economic activity.

Similar indications come from a recent study on the long-term expectations collected by the SPF.[2] The findings suggest that in the last five years the whole distribution of

Figure C

Indicator of downside de-anchoring of inflation expectations (1)

(daily data; per cent)

Source: Based on Bloomberg data. Latest estimate based on data referring to 10 October 2019.
(1) Indicator estimated based on a logistic regression in which: (a) the dependent variable is binary and takes the value of 1 when the daily changes in inflation expectations, approximated by 5-year, 5 years forward ILSs, are below the 10th percentile and lie in the left tail; and (b) the regressor is also a binary variable taking the value of 1 when the daily changes in short-term inflation expectations, approximated by 1-year, 1 year forward ILSs lie in the left tail. The indicator is obtained as the odds ratio of the logistic regression and varies between zero and infinity: an increase signals an intensification of the link between sharp drops in short- and long-term expectations, while low values suggest a stronger anchoring of long-term expectations. The estimate was conducted using a rolling window of 250 observations.

[1] Short-term inflation expectations are approximated by one-year, one year forward ILSs, long-term inflation expectations by five-year, five years forward ILSs (F. Natoli and L. Sigalotti, 'An indicator of inflation expectations anchoring', Banca d'Italia, Temi di Discussione (Working Papers), 1103, 2017).

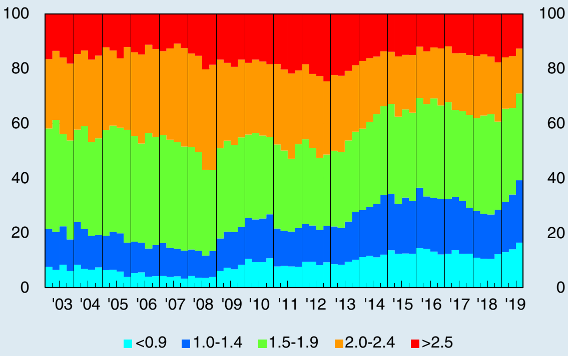
[2] F. Corsello, S. Neri and A. Tagliabracci, 'Anchored or de-anchored? That is the question', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 516, 2019.

expectations has shifted to significantly lower values, and this trend has strengthened since the end of last year (Figure D). Moreover, the study shows that long-term inflation expectations are affected, more so than in the past, by negative surprises on current inflation, but not by positive surprises, showing once again the persistent risks of downside de-anchoring.[3]

Overall, these analyses suggest that the deterioration in growth prospects under way since the end of 2018 could translate, if not countered, into a permanent reduction in inflation expectations to levels not consistent with the ECB's definition of price stability. The package of measures adopted by the ECB Governing Council on 12 September is designed to counter this risk (see the box 'The monetary policy measures adopted in September 2019').

Figure D

Distribution of five-year nflation expectations
(quarterly data; per cent)



Source: Based on SPF data. Latest data available refer to the July 2019 survey.

[3] Similar findings emerged using ILS yields, see M. Miccoli and S. Neri, 'Inflation surprises and inflation expectations in the euro area', *Applied Economics*, 51, 6, 2019, 651-662.

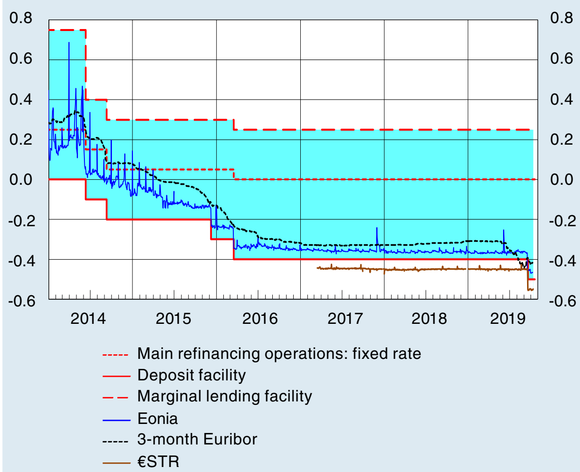
The ECB Governing Council introduces expansionary measures to counter risks

At its 12 September 2019 meeting, as announced in the previous meetings, the ECB Governing Council adopted, with a high degree of consensus, a package of expansionary measures deemed appropriate to counter the downside risks to inflation stemming from the weakening of the economic outlook.

The Council lowered the Eurosystem deposit facility rate by 10 basis points to -0.50 per cent (Figure 11), and expects the key interest rates to remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to 2 per cent. In addition, the Council decided to restart net purchases under the expanded asset purchase programme (APP) beginning in November and continuing for as long as necessary. The Council relaxed the terms of its new series of targeted longer-term refinancing operations (TLTRO III) and introduced a new remuneration system for the reserves held with the Eurosystem (see the box 'The monetary policy measures adopted in September 2019').

Figure 11

Official interest rates and money market rates in the euro area (1)
(daily data; per cent)



Sources: ECB and Refinitiv.
(1) As of 2 October 2019, €STR is a new overnight benchmark rate for the euro-area money market. For the period prior to 2 October, the figure shows the pre-€STR. Starting on 2 October and until the end of 2021, the Eonia is calculated as the €STR plus a fixed spread of 8.5 basis points.

THE MONETARY POLICY MEASURES ADOPTED IN SEPTEMBER 2019

At its 12 September meeting, the ECB Governing Council adopted a broad package of measures: (a) it lowered the Eurosystem deposit facility rate by 10 basis points to -0.50 per cent and expects the key interest rates to remain at their present or lower levels until the inflation outlook robustly converges to a level sufficiently close to 2 per cent within its projection horizon; (b) it decided to restart net asset purchases under the expanded asset purchase programme (APP) at a monthly pace of €20 billion;[1] (c) it reduced by 10 basis points the cost of the new series of targeted longer-term refinancing operations (TLTRO III) and extended their maturity from two to three years;[2] and (d) it introduced a two-tier system for reserve remuneration whereby part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate and will be remunerated at 0.0 per cent.[3]

In addition, the Governing Council confirmed that reinvestments of the principal payments from maturing securities purchased under the APP will continue for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Council's decisions were taken in response to an inflation rate that continues to be markedly lower than the inflation aim, against the backdrop of a still weak euro-area economy and growing downside risks to inflation (see the box 'Downside risks to inflation expectations according to the Bank of Italy's analyses'). The Council had already announced in July that it was determined to act if the inflation outlook did not improve.

The possibility of providing additional monetary stimulus had been anticipated by market operators since the beginning of the summer, and had gradually been reflected in the prices of financial assets. Between mid-June and end-of-day 12 September 2019, long-term inflation expectations (those implied by five-year, five years forward inflation swaps) rose by about 20 basis points, to 1.3 per cent. The yields on euro-area risk-free assets decreased: that on ten-year overnight indexed swaps (OIS) fell by more than 30 basis points. The euro depreciated by 1.7 per cent against the dollar. In the wake of the Governing Council's meeting, the euro recorded a further slight weakening vis-à-vis the dollar (-0.3 per cent).

In line with its commitment to symmetry in assessing both positive and negative deviations from the inflation aim, both of which conflict with the definition of price stability, the Council confirmed the need to maintain a highly accommodative monetary policy stance for a prolonged period of time and reiterated that it stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner.

The Council also highlighted that, in view of the weakening economic outlook and the continued prominence of downside risks, fiscal policy should contribute more decisively to supporting aggregate demand. In particular, in the current phase of cyclical weakness, fiscal policy can play

[1] For the details concerning some of the operational changes to the asset purchase programme, see ECB, 'ECB provides additional details on purchases of assets with yields below the deposit facility rate', press release of 12 September 2019.

[2] For details of the TLTRO III operations and their cost for banks, see the ECB, 'ECB announces changes to new targeted longer-term refinancing operations (TLTRO III)', press release of 12 September 2019.

[3] For the details of the functioning of the tiering system, see the ECB, 'ECB introduces two-tier system for remunerating excess liquidity holdings', press release of 12 September 2019.

a significant stabilizing role in those countries that have fiscal space to act. Countries where public debt is high should pursue a rebalancing of expenditure to achieve a more growth-friendly composition of public finances.

All members of the Governing Council agreed on the need for monetary action to address the persistent weakness of inflation. A broad consensus emerged within the Council with respect to the package of measures adopted, albeit with differing views on the single instruments and some of their characteristics.[4] The Bank of Italy's analyses confirm that the measures taken are necessary and appropriate to counter the cyclical risks and the weak inflation outlook, and fully in line with the Council's previous decisions.[5]

[4] See the ECB website: 'Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 11-12 September 2019'.

[5] 'The euro-area economy and the recent monetary policy decisions', speech by Ignazio Visco, Governor of the Bank of Italy, Giornate di economia 'Marcello De Cecco', Lanciano (Italy), 28 September 2019.

Euro-area banks made very limited recourse to the first of the seven scheduled TLTRO III operations, which was settled on 25 September 2019: a total of €3.4 billion were allocated to 28 counterparties. The low demand for liquidity in this auction is likely a reflection of the fact that it is to banks' advantage to wait for the next rounds of TLTRO III, also in light of the large amount of funds borrowed through the TLTRO II programme that have not yet reached maturity.

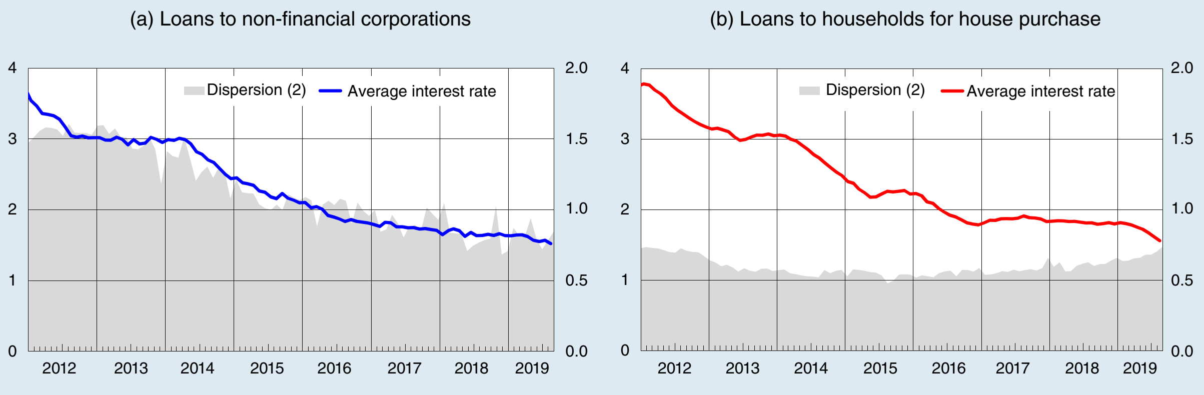
Starting in October 2019, the euro short-term rate (€STR), calculated on the basis of the wholesale unsecured overnight borrowing costs of banks located in the euro area (including non-bank counterparties), was introduced alongside the Eonia as a benchmark rate for indexing financial instruments and contracts (see *Financial Stability Report*, 1, 2019).

Lending continues to grow

Adjusted for seasonal factors and the accounting effect of securitizations, lending to non-financial firms and households in the euro area continued to increase in August by an annualized quarterly rate of 5.6 and 3.5 per cent respectively. Credit to firms continued to be buoyed by lending in France and Germany.

Figure 12

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



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

The cost of borrowing and its dispersion across countries remained very low (Figure 12). Between May and August, the interest rates applied to new loans to households for house purchase and to new business loans decreased slightly, to 1.6 and 1.5 per cent respectively.

1.3 GLOBAL FINANCIAL MARKETS

Fears about growth prospects and the more accommodative stance of global monetary policies translated into a fall in long-term yields; this produced contrasting effects on share prices, whose volatility increased. The financial markets signal a slight prevalence of risks of a depreciation of the euro against the dollar.

Long-term interest rates continue to fall

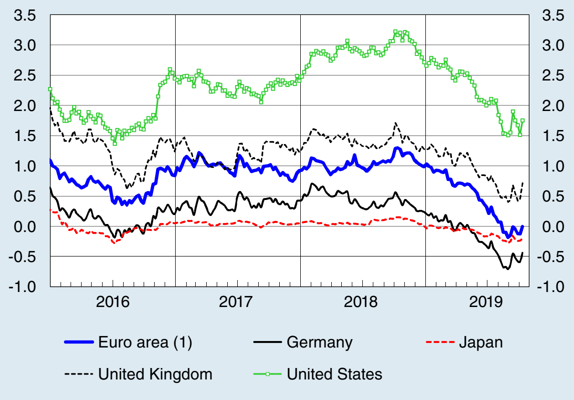
In the third quarter, long-term interest rates fell in all the main advanced economies (Figure 13), coinciding with an increase in the downside risks to growth as expectations grew regarding further monetary stimulus on the part of the main central banks (see Sections 1.1 and 1.2).

Between the start of July and mid-October, the yield on German ten-year government securities fell by about 10 basis points to -0.45 per cent. The yield spread with the corresponding German Bund narrowed by 73 basis points in Italy (see Section 2.8), by 15 basis points in Portugal and by a lesser amount in Belgium and Spain, whereas the spread widened slightly in France and Ireland (Figure 14).

Figure 13

Yields on 10-year government bonds

(end-of-week data; per cent)

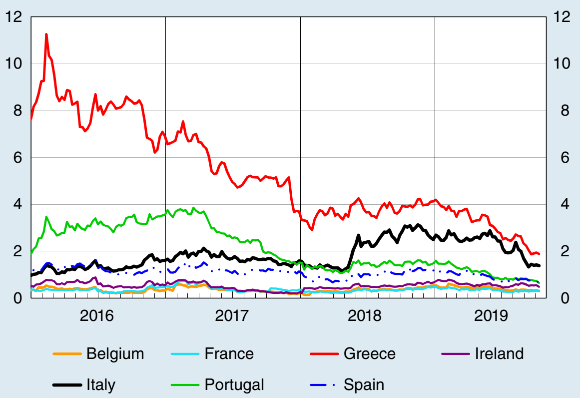


Source: Based on Refinitiv data.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government bonds of the euro-area countries, excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

Figure 14

Yield spreads between 10-year government bonds and the corresponding German Bund

(end-of-week data; percentage points)

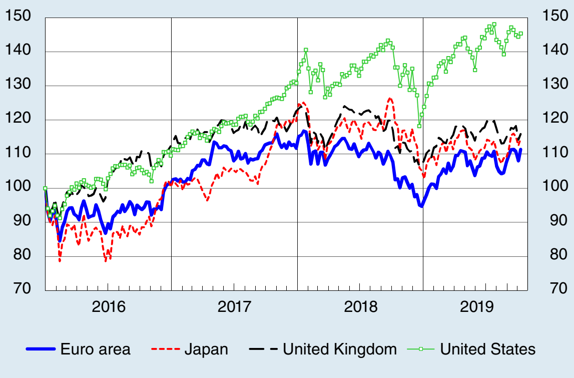


Source: Based on Bloomberg data.

Figure 15

Stock market indices (1)

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

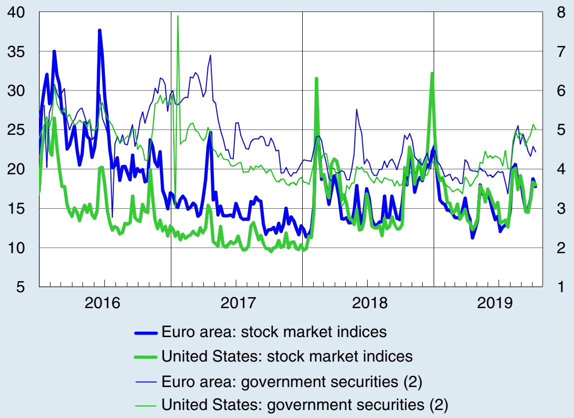


Source: Refinitiv.
(1) Indices: Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 16

Implied volatility of equity and government securities prices (1)

(average weekly data; percentage points)

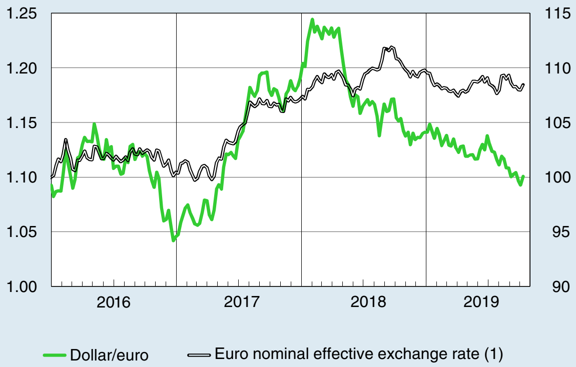


Source: Based on Refinitiv data.
(1) Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on German Bund futures for the euro area and on Treasury Notes for the United States. – (2) Right-hand scale.

Figure 17

Exchange rates

(average weekly data; dollars per euro and indices)



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

Share prices recover from August's decline

Share prices in the main advanced and emerging economies suffered heavy losses in August, owing to the introduction of new protectionist measures by the United States and China (see Section 1.1); share prices then rose again, reflecting the counter effect of expectations of more accommodative monetary conditions (Figure 15). With increased uncertainty about the evolution of trade tensions and the outlook for global economic conditions, the implied volatility of share prices increased (Figure 16).

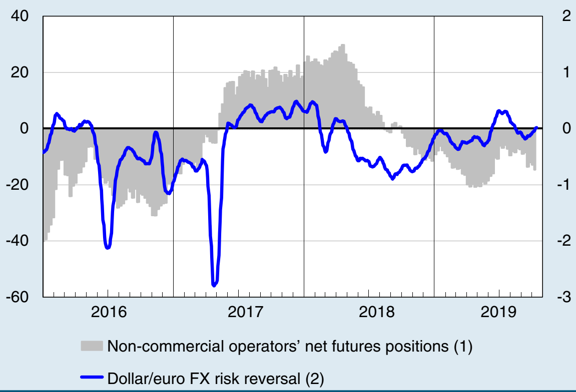
The euro depreciates against the dollar

The euro exchange rate against the dollar depreciated in the third quarter, while it remained basically unchanged in nominal effective terms (Figure 17). The derivatives markets signal that traders perceive a slightly higher risk of a further weakening in the exchange rate against the dollar; on the futures market, short positions in euros prevail among non-commercial operators. The one-month risk reversal indicates instead that the cost of hedging against a significant appreciation of the euro vis-à-vis the dollar is basically the same as that of hedging against a strong depreciation (Figure 18).

Figure 18

Dollar/euro exchange rates: net positions and risk reversal

(daily data; 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) One-month risk reversal (20-day moving average), which measures the skewness 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

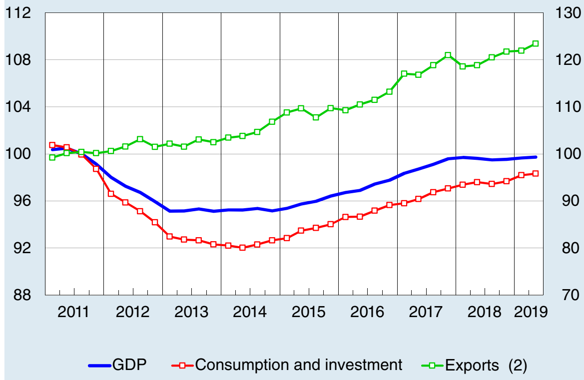
According to the latest cyclical indicators, economic activity in Italy seems to have remained almost stationary in the summer quarter, held back by the persistent weakness of the industrial cycle in the euro area as a whole but moderately buoyed by services and construction.

GDP barely rises in the second quarter ...

GDP grew in the spring months by 0.1 per cent, as in the first quarter (Figure 19 and Table 4). Domestic demand was sustained by household spending and above all by investment in capital goods, which also benefited from the renewal of tax incentives (super-amortization scheme) in April; spending on construction, however, contracted. Once again, the changes in stocks made a negative contribution. Net foreign demand was barely

Figure 19

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. – (2) Right-hand scale.

Table 4

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

	2018		2019		2018
	Q3	Q4	Q1	Q2	
GDP	-0.1	0.0	0.1	0.1	0.8
Total imports	1.1	1.6	-2.1	0.9	3.0
National demand (2)	-0.3	0.2	-0.6	-0.1	1.1
National consumption	0.0	0.3	0.0	0.1	0.7
Household spending (3)	0.1	0.4	-0.1	0.1	0.8
General government spending	-0.1	0.0	0.4	0.1	0.4
Gross fixed investment	-1.0	-0.1	2.7	0.4	3.2
Construction	1.1	0.5	2.9	-1.4	2.9
Capital goods (4)	-2.6	-0.6	2.6	1.9	3.4
Change in stocks (5) (6)	-0.1	-0.1	-1.1	-0.2	-0.1
Total exports	1.4	1.0	0.2	1.2	1.8
Net exports (6)	0.1	-0.1	0.7	0.1	-0.3

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) Include, as well as investment in plants, machinery and arms (which also includes transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

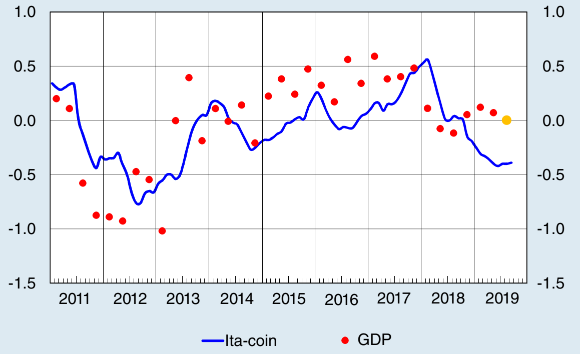
positive, owing to a greater increase in exports than in imports. Value added rose in the service sector, but fell in construction and in industry excluding construction.

... and has probably remained unchanged over the summer

According to the available data, GDP may have stagnated in the third quarter, held back by the weakness of the manufacturing sector (see the box 'Economic activity in the third quarter of 2019'), which is influenced by the production and trade ties between the economies of Italy and Germany (see Section 1.2). The Bank of Italy's Ita-coin indicator also suggests that the underlying growth in economic activity remained weak (Figure 20); in the last few quarters the indicator has been held back by the dip in manufacturing activity and by the unfavourable trend in the business confidence indicators, which are highly correlated with the underlying economic trends.

Figure 20

Ita-coin coincident cyclical indicator and GDP in Italy (1)
(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Istat.
(1) For the methodology used to construct the indicator, see the box 'Ita-coin: a coincident indicator of the Italian economic cycle', in *Economic Bulletin*, 2, 2015. Further details 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. For Ita-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components. The ITA-coin estimate and the GDP growth rate are calculated based on the version of the quarterly national accounts available before the Istat data were revised on 4 October.

ECONOMIC ACTIVITY IN THE THIRD 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 stagnated in the third quarter of 2019 (Figure A). GDP seems to have been held back again by the industrial sector, against a barely positive contribution from services and a modest recovery in the construction sector. The possibility remains that the weak cyclical conditions, which have so far been more marked in manufacturing, will transfer to other economic sectors to a greater extent than suggested by the data available so far.

Our estimates for September indicate a decline of 0.5 per cent in industrial production in the third quarter; the increase in electricity consumption was offset by a marked fall in goods transport (Figure B). The manufacturing confidence indicators declined (Figure C); the purchasing managers' index (PMI) remained below the expansion threshold (Figure 21.b).

Growth in services seems to have remained very limited, as suggested by both the PMI level for this sector, which is just above the expansion threshold (about 51 on average for the third quarter; Figure D) and by the data on the balance between company births and deaths, which has remained low.

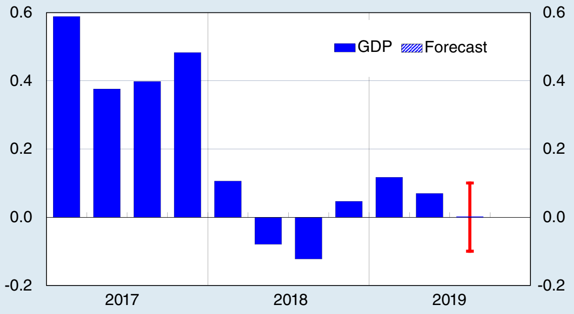
Valued added in construction seems to have returned to growth, albeit to a modest extent, as suggested by the weak recovery in production in July compared with the average for the second

[1] The assessment is based on a wide range of partial quantitative data (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 for GDP will be released on 31 October.

Figure A

GDP growth (1)

(percentage changes)

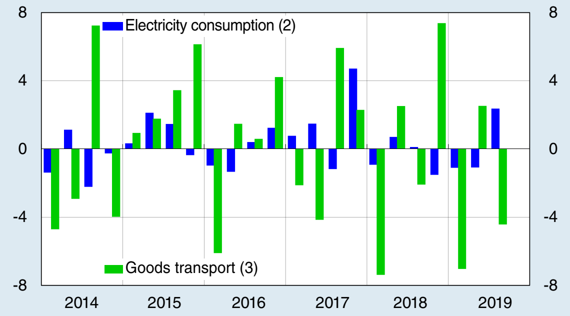


Source: Based on Istat data.
(1) For GDP and estimates, percentage changes on the previous period. The red line indicates the uncertainty of the estimates within a range of 0.1 percentage points above or below the central projection and is equal in width to twice the forecast root mean square error over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

Figure B

Cyclical indicators (1)

(seasonally adjusted percentage changes)

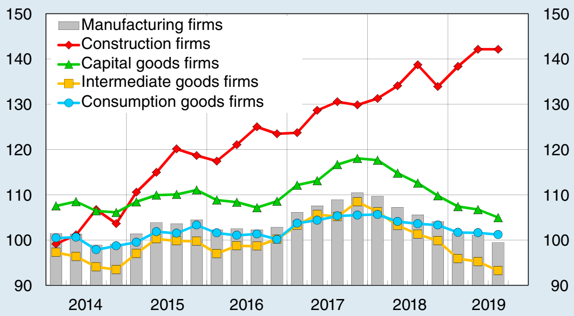


Sources: Based on data from Autostrade per l'Italia, Ferrovie dello Stato, Istat and Terna.
(1) Average change in the reference quarter compared with the previous quarter. – (2) The figure, adjusted for temperature effects, approximates energy consumption in the industrial sector. – (3) For goods flows, 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)

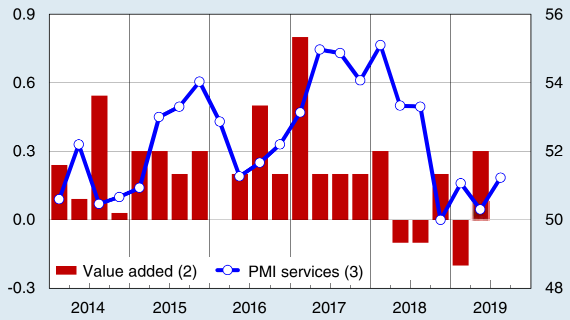


Source: Based on Istat data.
(1) Average level in the reference quarter.

Figure D

PMI and value added in services (1)

(diffusion indices 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 third quarter of 2019 is not yet available. – (3) Right-hand scale.

quarter. Favourable signals have come from the business confidence indicator for this sector, which remained high in Istat's survey (Figure C), and from the assessments of the general state of the economy reported in the Bank of Italy's latest Survey on Inflation and Growth Expectations (see the box 'The investment outlook according to business surveys').

In light of the most recent economic data, the leading private and institutional forecasters confirmed the projections that economic activity may remain stationary in 2019 as a whole. The analysts polled by Consensus Economics in September indicate an average change of nil in GDP in Italy in 2019, slightly below the assessments made in June.

2.2 FIRMS

Based on the latest cyclical indicators, industrial production is estimated to have continued to decline in the summer months, although at a slower pace than in the second quarter. The reintroduction of tax incentives since April has supported investment in capital goods. The Bank of Italy's surveys show that firms expect investment plans to be slightly more expansionary, with a modest improvement in assessments of investment conditions, general economic conditions and the trend in demand for their own products.

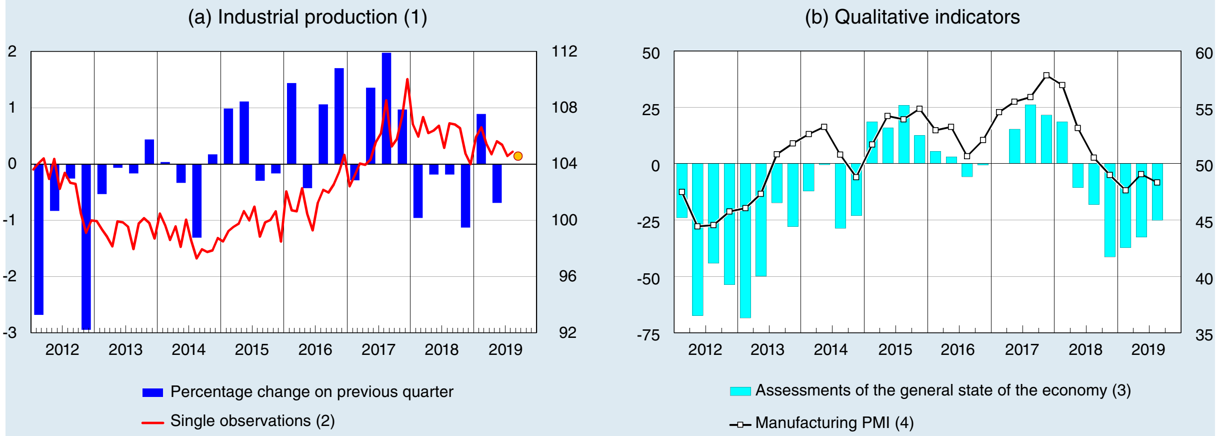
The decline in industrial production eases

In August industrial activity rose by 0.3 per cent compared with July, driven by the production of capital and consumption goods (Figure 21.a); according to our estimates for September, overall industrial production for the third quarter decreased by about half a percentage point.

Figure 21

Industrial production and qualitative indicators

(monthly and quarterly data)



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 September 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, 14 October 2019). – (4) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments; right-hand scale.

The purchasing managers' index (PMI) remained below the threshold compatible with an expansion in manufacturing (Figure 21.b); a modest increase in activity is instead expected in services. The assessments of the general economic situation by the firms interviewed for the Survey on Inflation and Growth Expectations (conducted in September by the Bank of Italy) are slightly more favourable than in the previous survey. Firms' assessments of demand for their own products over the next three months improved, although the stimulus provided by exports is expected to decline (see the box 'The investment outlook according to business surveys').

Tax incentives support investment

In the second quarter, investment decelerated (from 2.7 per cent in the previous period to 0.4 per cent) owing in particular to lower investment in construction. The capital goods component continued to grow strongly, likely benefiting from the tax incentives reintroduced since April.[1] According to the Bank of Italy's Survey on Inflation and

[1] Decree Law 34/2019 ('Growth Decree'), converted with amendments by Law 58/2019, reintroduced 'superamortization' for investments in producer goods, which allows firms to deduct 130 per cent of the cost of purchases made between 1 April and 31 December 2019.

Growth Expectations, the share of firms that expect to increase investment this year compared with 2018 rose, especially in the construction sector (see the box 'The investment outlook according to business surveys').

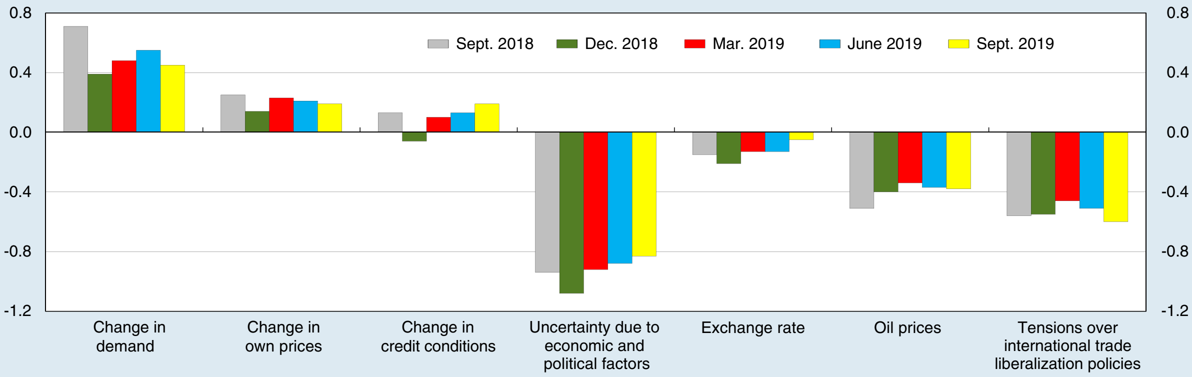
THE INVESTMENT OUTLOOK ACCORDING TO BUSINESS SURVEYS

Between 29 August and 19 September 2019, 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, 14 October 2019).

In the third quarter, the balance between opinions of an improvement and those of a deterioration in the general economic situation, while remaining negative, rose (see Figure 21.b) thanks to more favourable assessments by service and construction firms. Firms report that demand for their own products was slightly stronger than in the preceding three months, although foreign demand weakened, suffering above all from the decline in sales on the German market. Firms expect exports to slow in the final quarter of the year. Among the main stumbling blocks to economic activity in the short term, firms mostly cited economic and political uncertainties – albeit to a lesser extent than in the previous surveys – and international trade tensions (Figure A).

Figure A

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



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

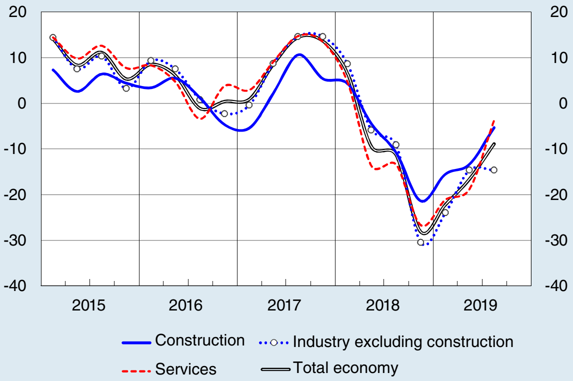
Firms' assessments of investment conditions are somewhat more favourable than they were three months previously, especially in services and the construction sector (Figure B). In the economy as a whole, the balance between opinions of an improvement and those of a deterioration rose to levels seen in the spring of 2018, although the share of firms expressing negative opinions continues to be greater in all sectors. Investment plans for the current year are more expansionary than in the previous survey (Figure C), especially in the construction sector, for which spending plans now point to an increase compared with 2018.

The assessments of the firms diverge based on the outlet markets for their sales; the spending planned by those that export to Germany has been scaled back, compared with a slight upward revision of investment plans for this year in the economy as a whole (Figure D).

Figure B

Firms' assessments of conditions for investing compared with the previous quarter (1)

(quarterly data; percentage points)

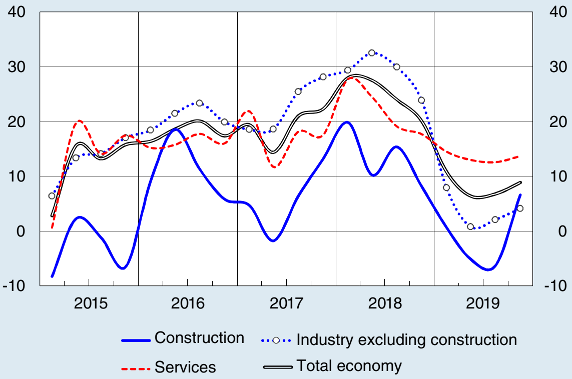


(1) Balance between expectations of an improvement and a deterioration by comparison with the previous quarter, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 October 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, 14 October 2019). The initial indications of the expectations for the reference year are surveyed in the fourth quarter of the preceding year.

Firms expect investment expenditure in the second half of the year to exceed that of the first; the higher planned investment likely also reflects the renewal of tax incentives for purchases of capital goods since April.

The moderately positive investment trend for this year is confirmed by the assessments of firms in the Business Outlook Survey of Industrial and Service Firms (Banca d'Italia, Statistics Series, forthcoming). The survey was conducted between September and October by the Bank of Italy's branches on a sample that was more representative of smaller firms (about 4,000 industry excluding construction and service firms with 20 or more employees and construction firms with 10 or more employees).

More than two thirds of firms believe that investment expenditure in 2019 will be in line with the slightly expansionary plans prepared at the end of 2018; of the remainder, a majority expects investment to be higher than had been planned.

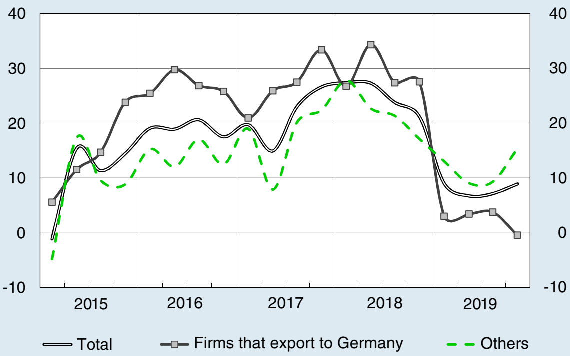
Compared with the previous survey, the rise in the share of firms that increased their demand for bank loans mainly to finance investment, in the first half of the year, also points to a favourable investment outlook.

Most firms are planning for investment expenditure next year to remain in line with that of this year; 22 per cent expect to increase

Figure D

Firms' expectations of investment trends by reference year: breakdown by outlet market (1)

(quarterly data; percentage points)



(1) Balance between expectations of an improvement and a 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, 14 October 2019). The initial indications of the expectations for the reference year are surveyed in the fourth quarter of the preceding year. Firms that export to Germany are those that have reported sales in this market in both the April and October 2019 surveys.

investment and only 16 per cent to reduce it. Firms cite expectations of a partial recovery in domestic demand, despite the ongoing uncertainty arising from economic and political factors, as among the factors having a favourable impact on planned investment.

Construction firms reported a rise in production this year compared with last year: the opinions of firms operating in the public works sector improved markedly. Firms expect production to increase further in 2020.

Activity increases moderately in the construction sector

In the spring months, the number of house sales remained essentially the same as at the start of the year, while the decline in house prices attenuated (Figure 22). In July, the increase in activity in the construction sector was barely up on the second quarter average (see the box 'Economic activity in the third quarter of 2019'); the business confidence indicators for the sector remain high. The Italian Housing Market Survey conducted in July by the Bank of Italy indicates that estate agents are more cautious regarding the outlook for the domestic property market in the third quarter, although it is still favourable.

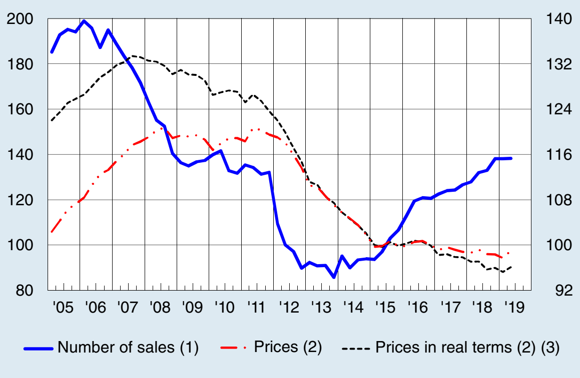
Firms' debt remains stable

Based on Istat data, on average in the four quarters ending in June 2019, the profit share of non-financial corporations (calculated as the ratio of gross operating surplus to value added) decreased again compared with the preceding period, reflecting the increase in labour costs. Their self-financing capacity (calculated as the ratio of gross saving to value added) also declined. In the second quarter of the year total corporate debt as a percentage of GDP was stable at 68.9 per cent (Figure 23), far below the euro-area average (105.6 per cent).

Figure 22

House prices and sales

(quarterly data; indices: 2015=100)

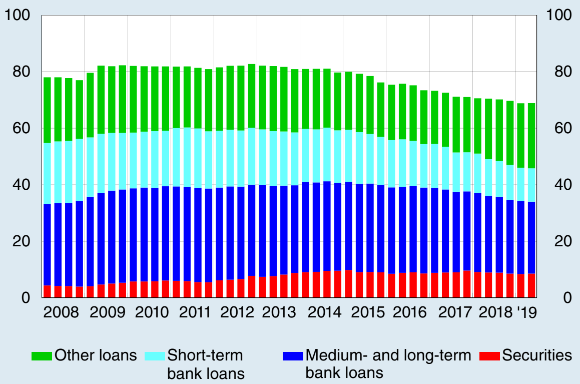


Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Adjusted for seasonal and calendar effects. – (2) Right-hand scale. – (3) House prices deflated by the consumer price index.

Figure 23

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

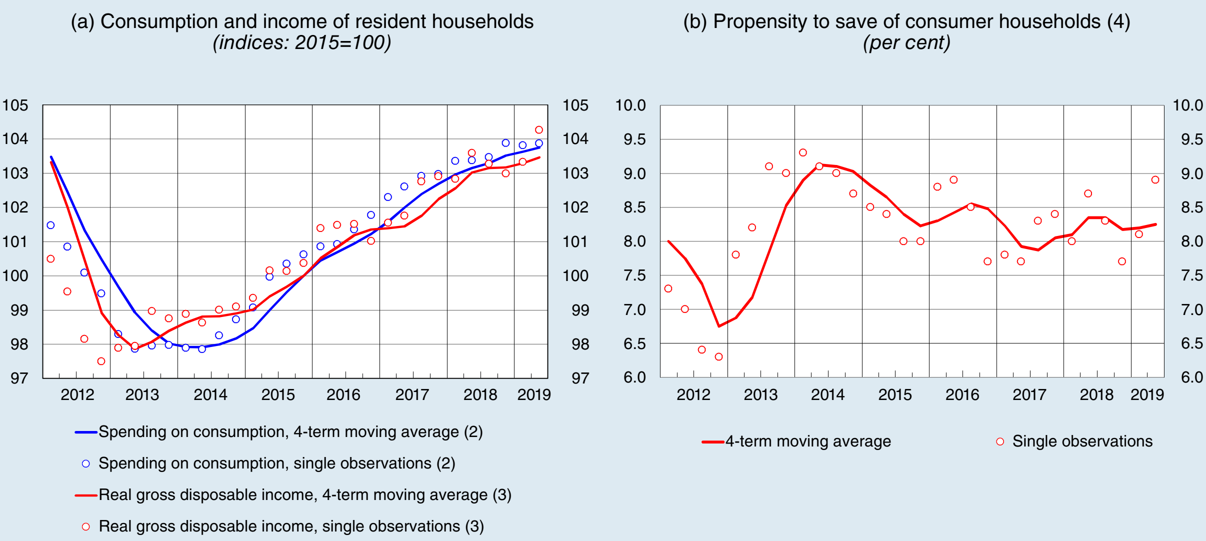
In the spring, household consumption barely rose compared with a more marked expansion in disposable income; the propensity to save increased again, probably due to greater uncertainty over the economic outlook revealed by the surveys. The latest cyclical indicators suggest that spending remains weak in the third quarter.

Consumption rises just barely in the second quarter ...

In the second quarter, household consumption rose by 0.1 per cent; the increase in spending on services and non-durable goods was partially offset by the decline in spending on durable and semi-durable goods. Real disposable income continued to rise (by 0.9 per cent compared with the previous quarter; Figure 24.a), buoyed by employment income and by social benefits which, since April also include the new minimum income scheme (*Reddito di cittadinanza* or RdC). The propensity to save rose further to 8.9 per cent (Figure 24.b). These trends were also probably affected by the rising uncertainty about the economic outlook, suggested by the greater dispersion in expectations about the general and personal economic situation found in the consumer confidence surveys.

Figure 24

Consumption, income and propensity to save (1)
(quarterly data)



Source: Based on Istat data.
(1) Seasonally adjusted data. – (2) Chain-linked volumes. – (3) Net of the variation in the final consumption expenditure deflator for resident households. – (4) Consumer households' savings as a percentage of gross disposable income.

... and also increases slightly in the summer

According to our estimates based on the latest cyclical indicators, consumption rose weakly in the summer, mainly as a result of greater spending on durable goods, consistent with the new increase in new vehicle registrations. The overall stabilization in the number of persons employed in July and August (see Section 2.5) was reflected in a slowdown in purchases of non-durable goods. The consumer confidence index remained essentially the same in September; the worsening in the assessments of the current economic situation was offset by more favourable employment expectations (Figure 25).

The ratio of debt-service to disposable income falls

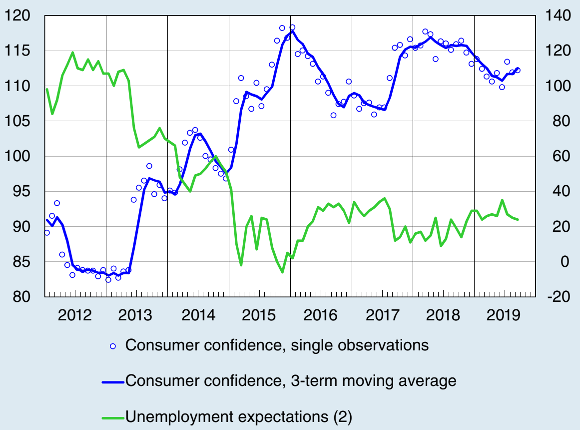
In the second quarter of 2019, the ratio of Italian household debt to disposable income increased slightly to 61.8 per cent (Figure 26), well below the euro-area average of 94.7 per cent. As a share of GDP, household debt rose to 41.3 per cent (58.0 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) fell to 9.7 per cent of disposable income (down from with 9.9 per cent), thanks to the reduction in average interest payments.

In the summer months, the average cost of new loans to households for house purchase declined slightly (1.7 per cent in August; see Section 2.7).

Figure 25

Consumer confidence (1)

(monthly data; indices: 2010=100 and percentage points)

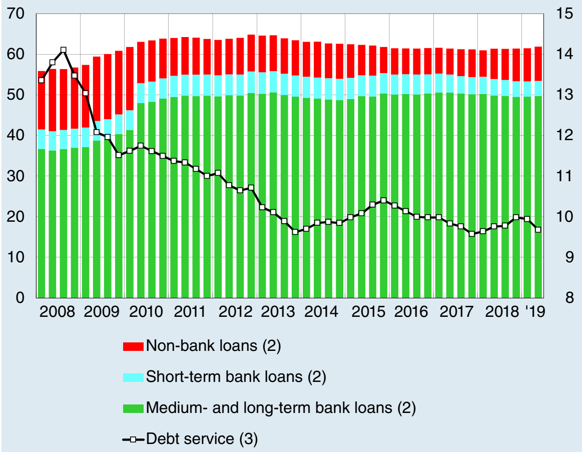


Source: Based on Istat data.
(1) Seasonally adjusted data. In June 2013, methodological changes were introduced such that the data since then are not directly comparable with the earlier data. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating 'a decrease'.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

Figure 26

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.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Following an acceleration in the second quarter despite the decline in international trade, the latest data point to a slowdown in exports. The current account surplus widened in the first seven months of the year and Italy's net international investment position moved even closer to balance. From June to August, foreign investors made substantial purchases of Italian government securities; these inflows improved the Bank of Italy's negative balance on the TARGET2 European payment system, which then widened in September – the technical effect of high net redemptions of government securities.

Exports grow despite the decline in international trade ...

In the second quarter, the volume of exports of goods and services grew by 1.2 per cent (Table 5), despite a drop in international trade. Developments in

Table 5

Italy's exports and imports (1)

(percentage change on previous period)

	2019 Q1	2019 Q2
Exports	**0.2**	**1.2**
Goods	0.5	1.1
EU countries	0.5	1.8
Non-EU countries	0.5	0.2
Services	-1.3	1.9
Imports	**-2.1**	**0.9**
Goods	-2.0	1.1
EU countries	-2.5	2.3
Non-EU countries	-1.4	-0.5
Services	-2.5	0.0

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

the goods component were favourable, especially in EU markets; the main boost to overall export growth came from the pharmaceutical, refined petroleum products, and clothing sectors.

The volume of imports of goods and services rose by 0.9 per cent, driven by purchases of goods from other EU countries.

... but the most recent indicators point to a weakening

The latest data show that goods exports, valued at current prices and seasonally adjusted, fell by 1.3 per cent on average in July and August compared with the second quarter as a whole; the fall was mainly concentrated in sales to non-EU countries. The manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI indicator were slightly more negative in the third quarter (Figure 27). The Bank of Italy's own surveys, conducted in September, indicated a worsening of firms' expectations for foreign demand in the third quarter (see the box 'The investment outlook according to business surveys').

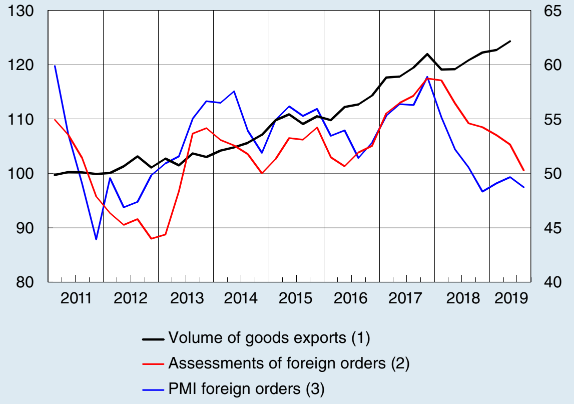
The US administration announced new tariffs on some specific imports from the EU (see Section 1.1). On the basis of the list published by the US authorities,[2] as regards Italy, only some products in the agri-food sector will be affected by the increase in tariffs although, given the fact that there are many different types of firms in this sector, the tariffs could have a significant impact for a limited number of exporters that draw a high share of their turnover from the sales of these products in the US market. In aggregate terms, the volume of Italian exports that will be directly hit by the new tariffs should amount to just under €400 million, which is less than 1 per cent of all our sales to the United States. Nevertheless, the indirect effects could be greater, i.e. those transmitted through trade with our partners in the euro area or as a result of European firms revising their plans.

The current account surplus widens

The current account surplus widened in the first eight months of 2019 compared

Figure 27

Manufacturing firms' assessments of foreign orders
(quarterly data)



Sources: Istat, Markit and Refinitiv.
(1) National accounts data. Chain-linked volumes; the data are adjusted for seasonal and calendar effects. Indices: 2011=100. – (2) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' and 'decreasing' number of orders, minus the average, plus 100. Seasonally adjusted data. – (3) Diffusion indices, quarterly averages. Right-hand scale.

Table 6

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

	2017	2018	Jan.-Aug. 2018	Jan.-Aug. 2019
Current account	**46.5**	**46.0**	**29.6**	**34.2**
Memorandum item: % of GDP	2.7	2.6		
Goods	56.7	47.3	33.0	39.5
Non-energy products (2)	88.1	86.4	57.9	64.1
Energy products (2)	-31.5	-39.1	-24.9	-24.7
Services	-4.6	-2.7	-0.3	0.4
Primary income	9.2	18.8	7.8	6.6
Secondary income	-14.8	-17.4	-10.9	-12.2
Capital account	**0.7**	**-0.6**	**-0.5**	**-0.9**
Financial account	**47.6**	**30.5**	**17.3**	**42.8**
Direct investment	0.4	-0.2	0.6	2.7
Portfolio investment	84.1	120.0	92.1	-71.5
Financial derivatives	-7.2	-2.7	-3.0	2.6
Other investment (3)	-32.3	-89.3	-74.2	107.1
Changes in official reserves	2.7	2.6	1.8	1.9
Errors and omissions	**0.5**	**-14.9**	**-11.8**	**9.5**

(1) Based on the international standards set out in the IMF's *Balance of Payments and International Investment Position Manual*, Sixth Edition (BPM6), 2009. For July and August 2019, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in the TARGET2 balance.

[2] Office of the United States, Trade Representative, Notice of Determination and Action Pursuant to Section 301: Enforcement of U.S. WTO Rights in Large Civil Aircraft Dispute, "Federal Register", 84, 196, 9 October 2019, 54245-54264.

with the year-earlier period (Table 6). An improvement in the non-energy product balance offset the slight increase in the deficit in secondary income. The current account balance, calculated on the basis of the moving averages of the four quarters ending in June, stood at 2.8 per cent of GDP (Figure 28).

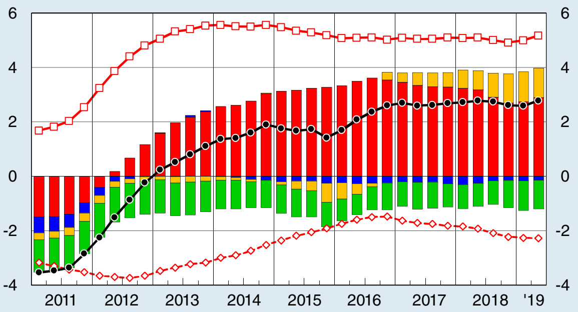
There is substantial foreign portfolio investment in Italian public securities ...

Between June and August there was a sharp increase in foreign demand for Italian securities, mainly for government bonds. This reflected the decision of the European Commission not to recommend an excessive deficit procedure against Italy and the prospect of monetary accommodation. In the first eight months of this year, foreign investors made net purchases of Italian securities for €98 billion, of which €81 billion in public sector securities (equivalent to the sum of Treasury net issues in the same period). On the asset side, residents' net purchases of foreign portfolio securities rose by €27 billion. Italian banks' net funding on international markets fell by €63 billion.

Figure 28

Current account balance and main components (1)

(quarterly data; per cent of GDP)



Source: For GDP, Istat; for the breakdown of energy and non-energy products, based on Istat foreign trade data.
(1) 4-quarter moving averages.

... benefiting the TARGET2 balance

Positive net capital flows benefited the Bank of Italy's negative position in the TARGET2 European payment system, which was basically stable at the start of the year (€486 billion at end-May). It improved in June to stand at €444 billion at the end of August. The widening in the negative balance, which reached €468 billion in September, was mainly as a result of the seasonal effect of substantial net redemptions of Treasury bonds (Figure 29 and Table 7).

The negative net international investment position improves

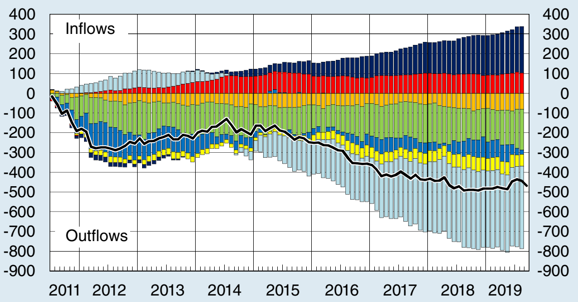
At the end of June, Italy's net international investment position was negative by €38.3 billion (2.2 per cent of GDP), 1.2 points less than in the previous quarter. The improvement is attributable in large part to the current account and capital account surpluses and, to a lesser extent, to positive valuation adjustments, in particular as regards foreign portfolio assets.

The time series for Italy's external statistics were revised to include new data sources at the same time as the general revision of the national accounts published by Istat at the end of September.

Figure 29

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, 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 (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	-11	-12	53	43	45	-21	46
2018 – Q1	-442	-3	31	-1	-2	-1	2	5	-5	30
Q2	-481	-38	-48	-8	-11	31	33	11	-12	2
Q3	-489	-8	-11	6	-2	16	-4	16	-5	29
Q4	-482	7	-24	-8	3	7	12	13	1	-15
2019 – Q1	-475	7	17	2	0	-5	-18	4	-10	1
Q2	-448	27	34	8	0	-20	-3	14	-3	7
Q3	-468	-20	....	....	....	....	....	....	....	....
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	5	1	-29	-19	4	1	-6
May	-486	-5	-6	3	0	2	1	4	0	8
June	-448	39	35	1	0	7	14	6	-4	5
July	-436	12	19	6	5	-29	-25	9	9	7
Aug.	-444	-8	11	-5	0	-8	-2	6	-1	11
Sept.	-468	-24	....	....	....	....	....	....	....	....

(1) A negative change in the TARGET2 balance indicates an increase in the Bank of Italy's liabilities in TARGET2. The data are available on the Bank of Italy's website in the Statistical Database (BDS), especially Table TBP60200. For July and August, provisional data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

Compared with previous data releases, Italy's negative net international investment position at the end of March 2019 widened by 0.8 percentage points of GDP.[3]

2.5 THE LABOUR MARKET

In the second quarter of 2019 the growth in employment was driven by new hires in the service sector, while the unemployment rate fell. However, the number of hours worked decreased – especially in industry, in which recourse to wage supplementation increased – and contractual earnings slowed.

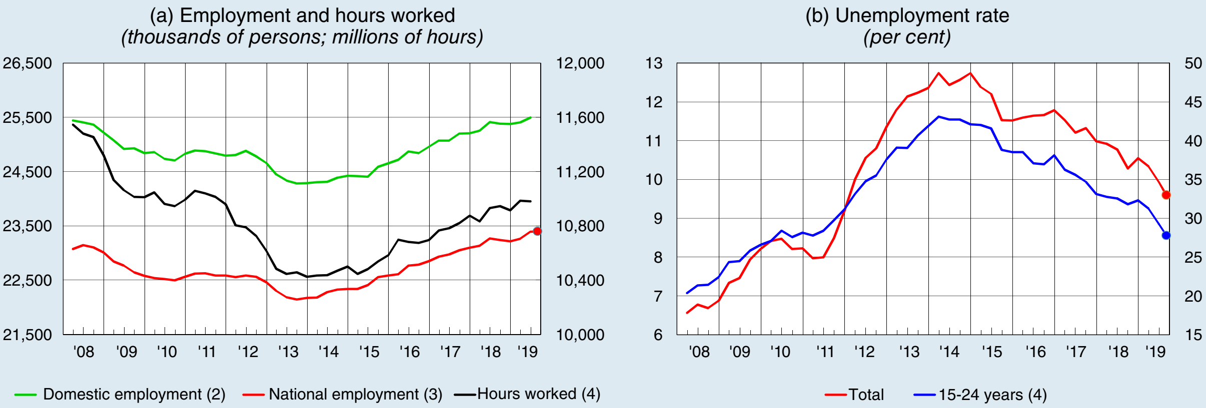
[3] See the Bank of Italy's website: 'Revision of Italy's external statistics – September 2019. Methodological Notes', 30 September 2019.

The number of hours worked decreases despite the growth in employment ...

During the spring quarter, employment rose (Figure 30.a) thanks to the contribution of private services (Table 8). In July and August, according to preliminary data from Istat's labour force survey, the number of persons employed appears to have stabilized. However, the number of hours worked decreased in the second quarter, especially in industry, in which the cyclical weakness was reflected in greater recourse to wage supplementation, while the number of persons employed held stable.

Figure 30

Employment and unemployment (1)
(quarterly data)



Sources: Istat's quarterly national accounts for employment and hours worked; Istat's labour force survey for employment and for the unemployment rate.
(1) Seasonally adjusted data. The dot indicates the average for the two-month period July-August. – (2) Includes any person engaged in production activity in the economic territory of the country (source: Istat's quarterly national accounts). – (3) Includes any resident person in employment, excluding workers living permanently in an institution and military personnel (source: Istat's labour force survey). – (4) 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			
	Q2 2019	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Total number of persons employed	**25,494**	**-0.1**	**0.0**	**0.1**	**0.3**
of which: industry excluding construction	4,308	0.1	-0.1	0.6	0.0
private services (1)	11,304	-0.3	0.1	0.3	0.7
Employees	19,443	-0.2	0.0	0.2	0.4
Self-employed	6,052	0.3	-0.3	-0.1	0.2
Hours worked	**10,967**	**0.1**	**-0.2**	**0.4**	**-0.1**
of which: industry excluding construction	1,902	0.9	-0.5	1.5	-0,3
private services (1)	5,089	-0.1	0.1	0.3	0.6
Employees	7,734	0.0	0.2	0.4	0.2
Self-employed	3,233	0.4	-1.0	0.3	-0.7

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).

... which is stronger for the payroll employment component

The expansion in employment recorded in the second quarter was attributable mainly to payroll employment. According to INPS data, the growth in permanent contracts continued to be driven by the high number of conversions of fixed-term contracts. The number of fixed-term contracts, while rising sharply in the quarter, nevertheless displayed slower growth compared with last year. This trend continued into the first part of the summer of this year.

The unemployment rate falls

In the spring quarter, against the backdrop of a virtually unchanged participation rate (65.7 per cent), the unemployment rate decreased by 0.4 percentage points, to 9.9 per cent (Figure 30.b). The youth employment rate (ages 15-24) fell even more markedly, by 2 percentage points to 29.3 per cent. According to preliminary data from Istat's labour force survey, in the two months July and August the unemployment rate continued to decline, while the participation rate decreased slightly, particularly among young people.

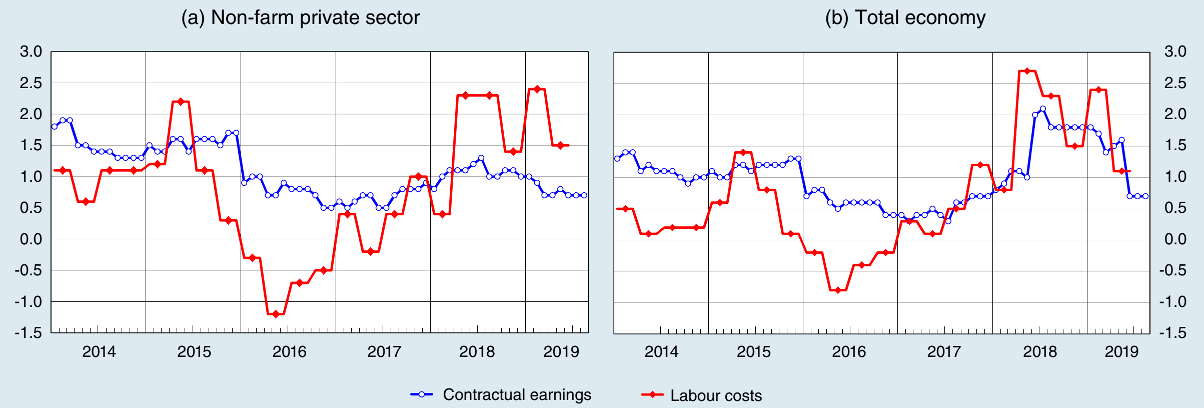
Contractual earnings slow further

The growth rate of contractual earnings held stable at 0.7 per cent year-on-year in August in the non-farm private sector, in line with the average for the second quarter (Figure 31.a). It instead halved for the economy as a whole (Figure 31.b). There was an increase in the share of employees whose contracts are regulated by collective bargaining agreements that either expired or were extended without wage increases, which came to 48 per cent in August.

Figure 31

Contractual earnings and labour costs per hour worked (1)

(monthly and quarterly data; 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.

In the second quarter, the increase in the cost of labour in the non-farm private sector slowed to 1.5 per cent on a twelve-month basis; it continued to grow robustly, buoyed by the effects of the expiry, at the end of last year, of the social security contribution relief introduced in 2015 and 2016. The slowdown was more marked for the economy as a whole (to 1.1 per cent), following the decrease in the cost of labour in the public sector caused by the sharp drop in the transitory components of wages, including outstanding payments.

2.6 PRICE DEVELOPMENTS

The cyclical weakness impacted real and expected inflation. The latest surveys indicate that the inflation expectations of firms remain well below 2 per cent, while those of households are also still weak. During the summer months, inflation was affected by the fall in energy prices.

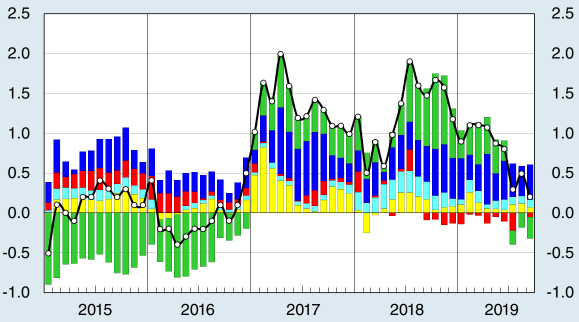
Consumer price inflation weakens ...

The twelve-month change in the harmonized index of consumer prices declined to 0.2 per cent in September (Figure 32); the seasonally adjusted annualized three-month inflation rate was -1.2 per cent (Figure 33).

Figure 32

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

(monthly data; per cent and percentage points)

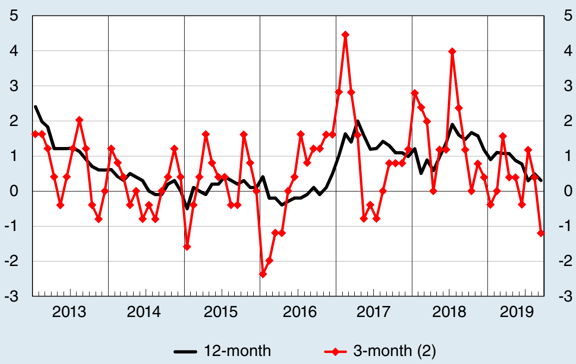


Source: Based on Eurostat data.
(1) 12-month percentage changes in the HICP.

Figure 33

Consumer price inflation (1)

(monthly data; per cent)



Source: Based on Eurostat data.
(1) Percentage change in the HICP. – (2) 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		Excl. energy and food	Overall index	
					at 1 month (5)			
2013	1.2	1.2	1.1	1.2	–	1.1	-1.2	1.1
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	0.9
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	1.1
2017	1.3	0.8	1.3	1.2	–	0.7	2.6	0.7
2018	1.2	0.6	1.2	1.2	–	0.5	3.9	0.9
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	3.6	–
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	1.9	–
June	0.8	0.4	0.7	0.7	0.1	0.5	1.1	–
July	0.3	0.4	0.2	0.4	0.0	0.5	-1.0	–
Aug.	0.5	0.6	0.4	0.4	0.1	0.5	-2.1	–
Sept.	0.2	0.5	0.2	0.3	-0.2	0.5	….	–

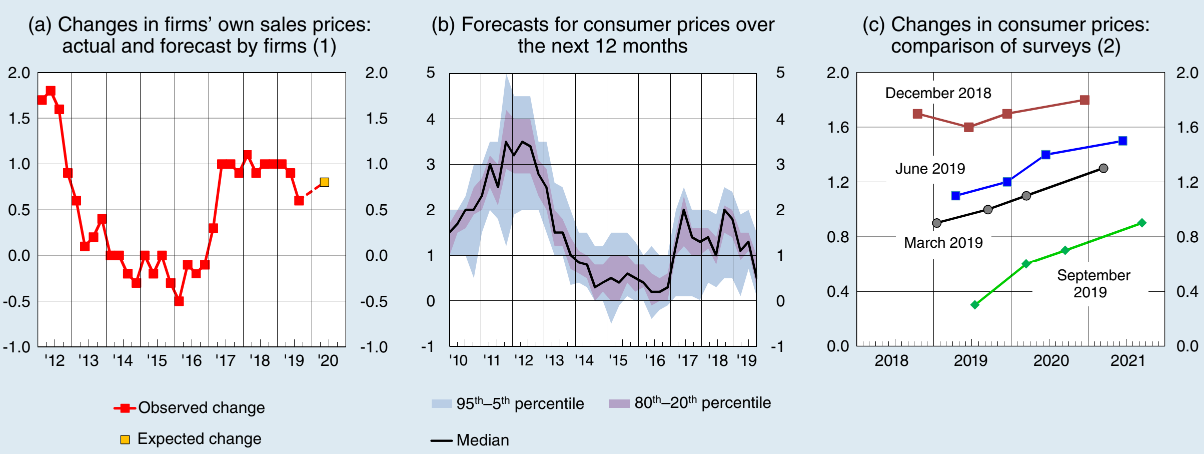
Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally owing to the different method of recording the prices of pharmaceutical 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) Overall index, seasonally adjusted.

... also in the core component

Even excluding the food and energy components, inflation declined slightly in September, to 0.5 per cent (Table 9). As economic activity all but stagnated, the exiguous fall in the prices of non-energy industrial goods and the modest growth in service prices both contributed to the persistent weakness of the core component.

Figure 34

Inflation expectations of industrial (excluding construction) and service firms
(quarterly data; percentage changes on previous period)



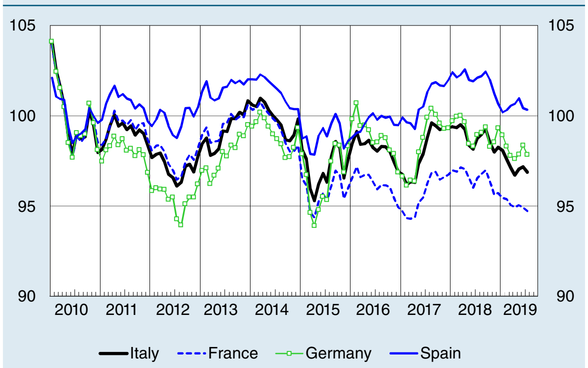
Source: Based on the findings of the Bank of Italy's quarterly Survey on Inflation and Growth Expectations. Up to October 2018 the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Robust average of responses to questions on the observed percentage change in firms' own sales prices over the past 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.

Producer price pressures diminish

In August, the producer prices of industrial products sold on the domestic market came down by a twelve-month rate of 2.1 per cent, owing to the sharp fall in the energy component. In the second quarter, the more moderate cyclical decline in productivity and the deceleration of hourly wages pushed up unit labour costs in the economy as a whole, by 1.2 per cent, significantly below the increase recorded in the previous quarter (3.5 per cent). In manufacturing this increase was stronger but was still not transmitted to prices, leading to a further compression of the profit margins of manufacturing firms.

Figure 35

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



Sources: Based on data from the ECB, CEPII, Eurostat, IMF, OECD, UN, and national statistics.
(1) Vis-à-vis 60 competitor countries; based on producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to July 2018. For the method of calculation, see A. Felettigh and C. Giordano, 'Rethinking prices and markets underlying price competitiveness indicators', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, 2018.

The inflation expectations of firms and households remain low

The firms interviewed in the quarterly survey conducted in September by the Bank of Italy expect to raise their list prices by a small amount over the next twelve months (0.8 per cent) and revised down their consumer price inflation expectations across all time horizons, to well below 2 per cent (Figure 34). Similar indications emerge from households' expectations surveyed by Istat.

The professional forecasters polled in September by Consensus Economics revised down their consumer price inflation expectations on average for 2019, to 0.8 per cent (from 0.9 per cent in June), half a percentage point below the level expected for the euro area as a whole.

According to our estimates, price competitiveness, as measured by the producer prices of manufactured goods and taking account of Italy's trade structure, deteriorated slightly in the summer compared with competitors outside of the euro area, following the appreciation of the nominal exchange rate of the single currency. By contrast, it improved very slightly vis-à-vis the other euro-area countries, thanks to lower growth in producer prices in Italy's manufacturing sector (Figure 35).

2.7 BANKS

The fall in government securities yields has significantly lowered the cost of bank wholesale funding, which has returned to the levels that prevailed at the start of 2018; the cost of credit has decreased slightly. Lending conditions on business loans have remained favourable overall. However, credit supply policies have tightened slightly in connection with the greater risk perceived by intermediaries on account of the weak cyclical conditions.

Lending to the private sector barely grows

In the three months ending in August, loans to the non-financial private sector increased by 0.2 per cent on a seasonally adjusted and annualized basis (Figure 36.a and Table 10). The robust expansion in lending to

Table 10

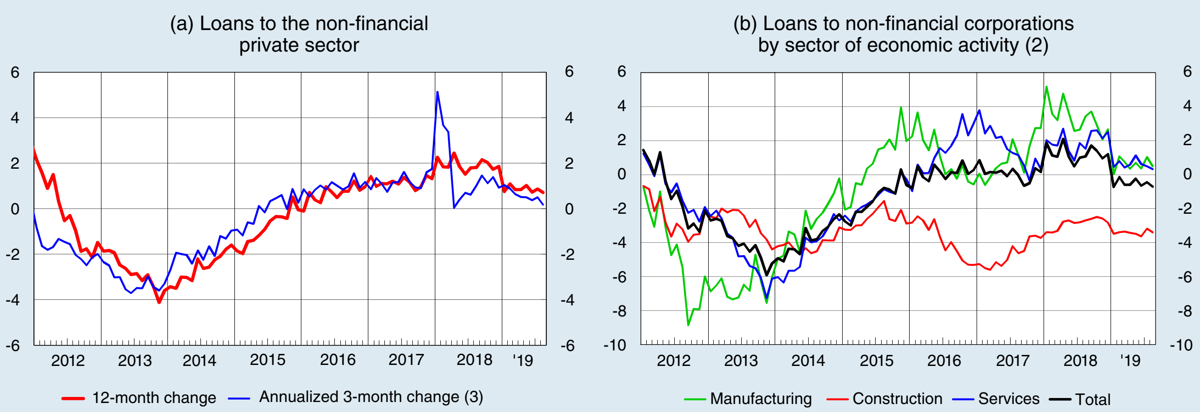
Bank lending as at August 2019 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**0.7**	**0.2**
Households	**2.4**	**2.2**
of which: loans for house purchase	2.5	....
consumer credit and other loans	2.2	....
Non-financial corporations	**-0.7**	**-1.5**
of which: manufacturing	0.5	....
services	0.3	....
construction	-3.4	....

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 36

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) 12-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.

households, in both the mortgage and consumer loan sectors, was offset by the decline in lending to non-financial firms.

Lending to firms decreased on a twelve-month basis too, especially for smaller firms. Lending continued to increase at a very moderate pace for manufacturing and service firms (Figure 36.b), while the marked contraction continued in the other sectors, especially in construction.

Deposits continue to grow

Between May and August, Italian banks' funding remained robust (Table 11). The strong expansion in resident deposits more than offset the contraction in net foreign funding, which was especially marked for repos handled by central counterparties. Bonds increased slightly on account of the wholesale component. At the end of June, the total amount of retail funding just exceeded that of loans to residents; accordingly, the funding gap was slightly below zero.

The cost of wholesale funding declines, as does the cost of credit

The marked reduction in yields on government securities (see Section 2.8) was reflected in the yields on bonds issued by Italian banks, which declined on the secondary market to levels that neared those recorded at the start of 2018 (1.4 per cent). The yield spread compared with the euro-area average stood at around 80 basis points in early October, approximately double the levels at the start of 2018. Should the decline in wholesale funding costs prove enduring, it would increase the chances of maintaining the expansive credit conditions and the lending capacity of banks. Between May and August, the average cost of new bank loans to the private sector declined slightly

Table 11

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

	End-of-month stocks		12-month percentage changes (2)	
	May 2019	August 2019	May 2019	August 2019
Assets				
Loans to Italian residents (3)	1,702	1,690	-2.9	-1.4
of which: firms (4)	667	650	-0.2	-0.7
households (5)	630	631	2.5	2.4
Claims on central counterparties (6)	97	100	21.8	36.8
Debt securities excluding bonds of resident MFIs (7)	526	536	9.2	1.0
of which: securities of Italian general government entities	399	409	9.5	1.8
Claims on the Eurosystem (8)	85	77	-3.8	13.3
External assets (9)	412	433	1.2	3.7
Other assets (10)	922	981	2.3	8.7
Total assets	**3,745**	**3,817**	**0.9**	**3.0**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,562	1,600	3.8	6.4
Deposits of non-residents (9)	335	330	6.7	3.9
Liabilities towards central counterparties (6)	131	121	7.6	-12.3
Bonds (12)	239	242	-6.9	-2.4
Liabilities towards the Eurosystem (8)	243	238	-2.1	-2.6
Liabilities connected with transfers of claims	112	112	-3.3	-5.9
Capital and reserves	373	368	-11.4	-5.8
Other liabilities (13)	751	806	2.7	8.3
Total liabilities	**3,745**	**3,817**	**0.9**	**3.0**

Source: Supervisory reports.
(1) The data for August 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) 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 Tables 3.3a and 3.3b in 'Banks and Money: National Data', Banca d'Italia, Statistics Series. – (9) In the period considered, these refer mainly to interbank transactions. – (10) 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) Bonds held by resident MFIs, deposits of resident MFIs, derivatives, and some minor items.

(Table 12 and Figure 37), reflecting the fall in market rates.

Credit standards tighten slightly due to the worsening cyclical conditions

According to the Italian banks interviewed in June and July for the euro-area bank lending survey, credit standards for business loans tightened slightly in the second quarter on account of the increase in risk caused by the deterioration in the economic outlook; banks expect this tightening to abate in the third quarter (see the box, 'Credit supply and demand'). Based on the business surveys carried out by Istat and the Bank of Italy in September, credit access conditions worsened slightly for small manufacturing firms and for construction in the third quarter.

Table 12

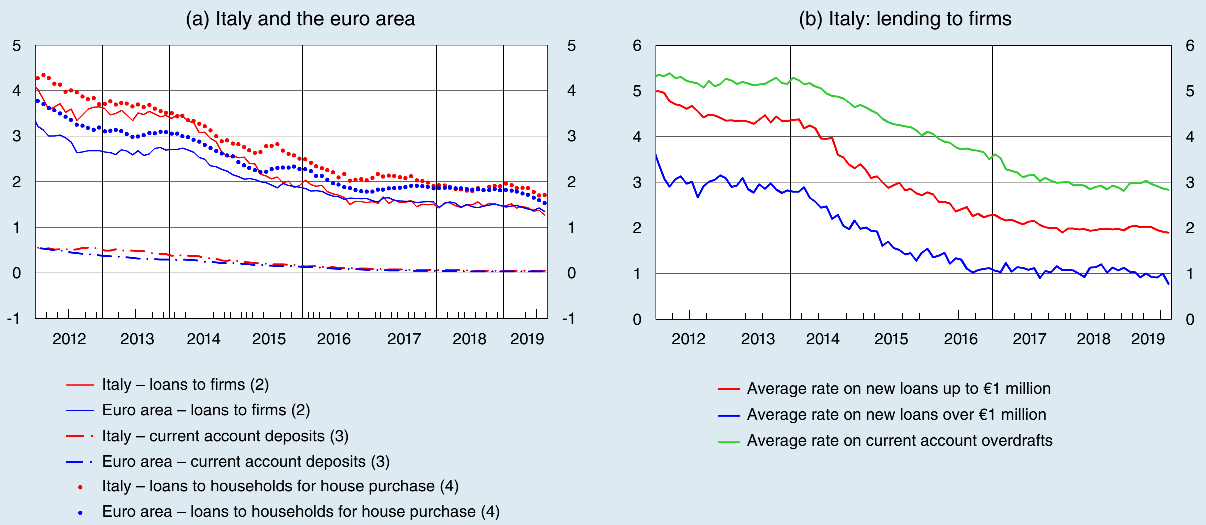
Bank interest rates (1)
(per cent)

	May 2019	August 2019
Loans to firms	**1.4**	**1.3**
of which: up to €1 million	2.0	1.9
over €1 million	0.9	0.8
Loans to households for house purchase	**1.9**	**1.7**
of which: fixed rate (2)	2.0	1.8
variable rate (3)	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 37

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 house purchase.

CREDIT SUPPLY AND DEMAND

According to the Italian banks interviewed for the euro-area bank lending survey,[1] credit standards for new loans to firms tightened slightly in the second quarter. Banks' higher risk perception, as a result of the economic weakness, and the decline in banks' risk tolerance were only partly offset by the increase

[1] Ten of the main Italian banking groups took part in the survey, which ended on 2 July 2019. The results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int.

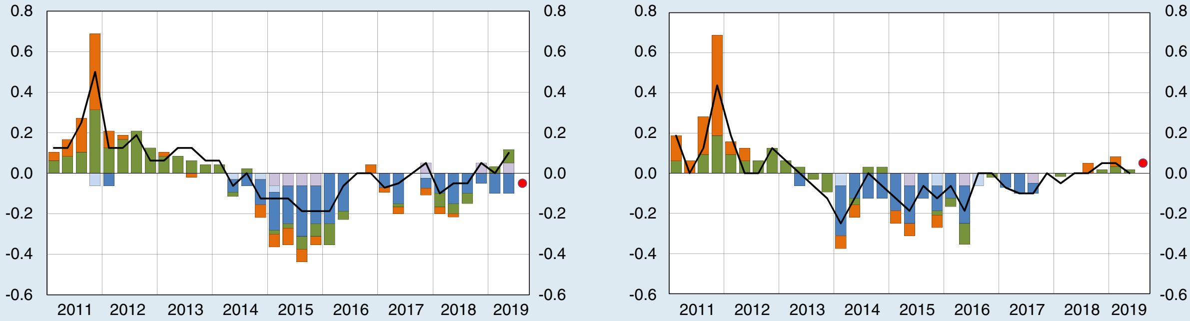
Figure A

Credit standards and demand for loans in Italy (1)

(quarterly data; diffusion indices)

(a) Firms | (b) Households for house purchase

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

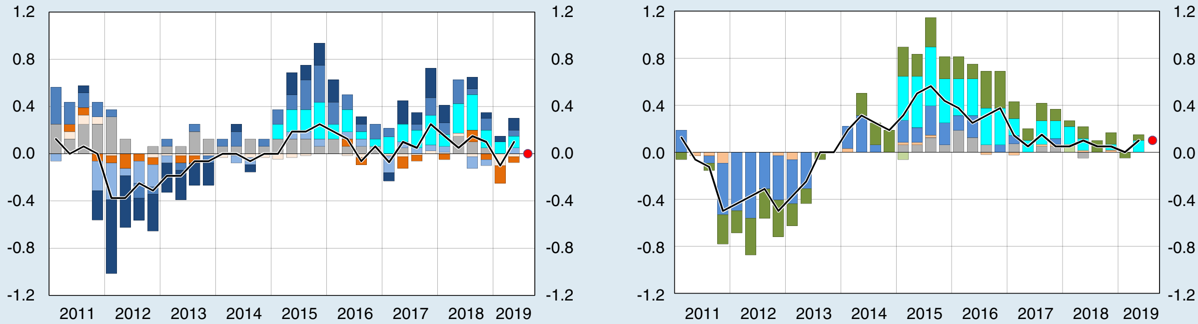


(a) Firms:
- Cost of funds and balance sheet constraints (2)
- Risk perception (3)
- Competition from other banks
- Competition from non-bank institutions and the market (4)
- Risk tolerance
- Index of supply tightening (realized) (5)
- Index of supply tightening (expected) (6)

(b) Households for house purchase:
- Cost of funds and balance sheet constraints
- Risk perception (7)
- Competition from other banks
- Competition from non-banks
- Risk tolerance
- Index of supply tightening (realized) (5)
- Index of supply tightening (expected) (6)

(a) Firms | (b) Households for house purchase

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



(a) Firms:
- Fixed investment
- Inventories and working capital
- General interest rate level
- Corporate mergers/acquisitions/restructuring
- Internal funds
- Other alternative sources of funding (8)
- Debt consolidation/restructuring or renegotiation
- Index of demand (realized) (5)
- Index of demand (expected) (6)

(b) Households for house purchase:
- Housing market prospects
- General interest rate level
- Consumer confidence
- Other sources of finance (9)
- Housing regulations or taxation
- Debt consolidation/restructuring or renegotiation
- Index of demand (realized) (5)
- Index of demand (expected) (6)

Source: Euro-area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand, 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Average of the following factors: bank's capital position; bank's ability to access market financing; and bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from other financing sources. – (5) For the quarter ending at the time of the survey. – (6) Forecasts prepared in the previous quarter; right-hand scale. – (7) Average of the following factors: general economic situation and outlook; housing market prospects; and borrowers' creditworthiness. – (8) Average of the following factors: loans granted by other banks; loans granted by non-banks; issues/redemptions of debt securities; and issues/redemptions of equity. – (9) Average of the following factors: self-financing of house purchase with savings; loans granted by other banks; and other sources of external funding.

in competitive pressures from other banks (see panel (a) of Figure A). The credit standards for loans to households for house purchase remained unchanged (see panel (b) of Figure A).

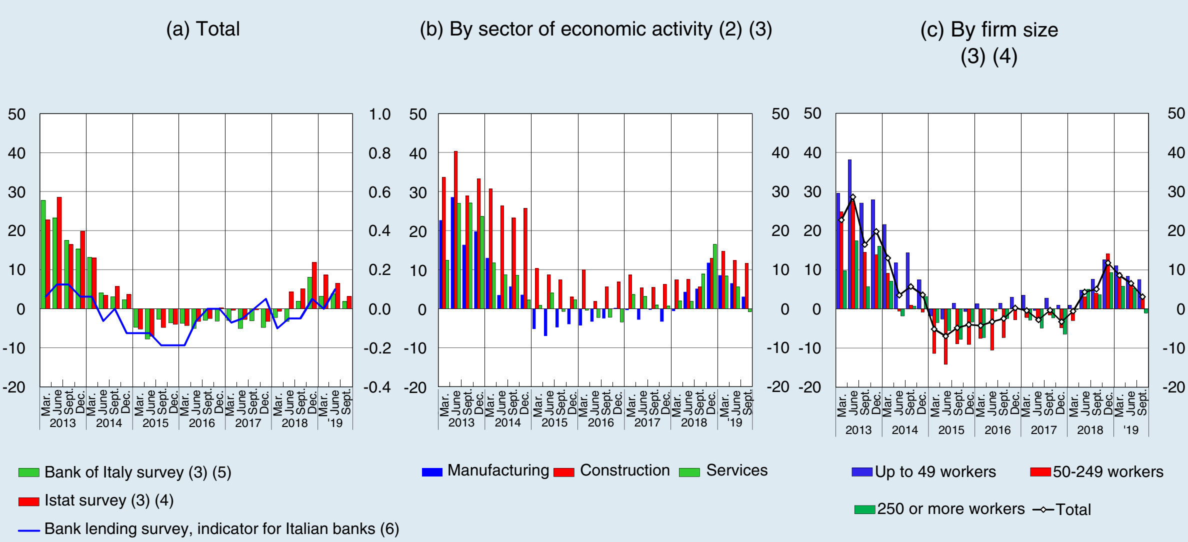
After having tightened in the previous three quarters, the terms and conditions applied to loans remained substantially unchanged, both for loans to firms and to households for home purchase.

The banks interviewed reported a moderate increase in the demand for credit, driven in large part by the low interest rates and by firms' greater need to finance their fixed investments (see panels (c) and (d) of Figure A).

According to the business surveys, credit access conditions worsened slightly in the third quarter, attributable to small manufacturing firms and construction companies (Figure B). In contrast, conditions improved for large manufacturing firms and for firms operating in the service sector, largely on account of the lower interest rates on loans.

Figure B

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. – (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.

The flow of new NPLs remains moderate

In the second quarter, the ratio of new non-performing loans (NPLs) to outstanding loans, which increased slightly on a seasonally adjusted annualized basis, remained contained (1.5 per cent; Figure 38). For business loans, the ratio rose by 0.3 per cent to 2.3 per cent, owing to the increase recorded in the service sector. For both the economy as a whole and firms, the ratio remains lower than the levels recorded in the period preceding the global financial crisis. Going forward, NPL dynamics may be affected by enduring cyclical weakness, albeit to a lesser extent than in the past (see Section 2.2, 'Banks', *Financial Stability Report*, 1, 2019).

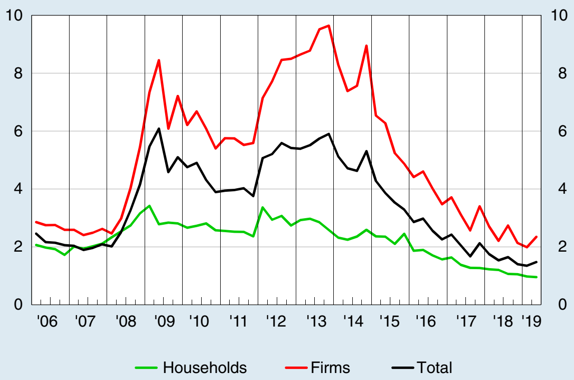
For the banking groups classified as significant, the ratio of NPLs to outstanding loans fell further, both gross and net of loan loss provisions, in line with the plans that the banks presented to the ECB and the Bank of Italy; the coverage ratio remained unchanged (Table 13).

Operating costs continue to fall

In the first half of the year, the return on equity (ROE) of the significant banking groups increased compared with the corresponding period in 2018, rising to 8.3 per cent, due to the sale of FinecoBank SpA by the UniCredit group. Net of this transaction, ROE amounted to 6.9 per cent, just under the level recorded in the first half of 2018. Gross income declined, following the fall in net interest income and net fees. Operating costs continued to decrease; loan loss provisions increased slightly, but the cost of risk (the ratio of loan loss provisions to the stock of loans) remained at historically low levels.

Figure 38

New non-performing loan rates (1)
(quarterly data; 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.

Table 13

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

	March 2019	June 2019
Non-performing loans (NPLs) (2)		
Gross NPL ratio	8.4	8.0
Net NPL ratio	4.1	4.0
Coverage ratio (3)	53.1	53.0
Regulatory capital		
Common equity tier 1 (CET1) ratio	13.0	13.3
	H1 2018	H1 2019
Profitability (4)		
Return on equity (ROE) (5)	7.6	8.3
Net interest income (6)	3.5	-4.8
Gross income (6)	2.2	-6.0
Operating expenses (6)	-2.8	-3.7
Operating profit (6)	12.6	-10.0
Loan loss provisions (6)	-58.4	11.1

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. – (2) 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. – (3) The coverage ratio is measured as the ratio of loan loss provisions to the corresponding gross exposure. – (4) For the purposes of comparing the profitability data for first half of 2019 with the data for the first half of 2018, the cooperative credit groups ICCREA and Cassa Centrale Banca were excluded; accordingly, the data refer to a sample of homogeneous significant banks over time (see *Economic Bulletin*, 3, 2019). – (5) Net of badwill, goodwill impairments, and government assistance relating to liquidations. – (6) Percentage changes with respect to the year-earlier semester.

Between March and June of this year, the average capitalization level improved, largely on account of the improvement in profitability during the period; in addition, our estimates suggest that, in the third quarter, the capital ratios benefited from the increase in the price of government securities assessed at fair market value in banks' portfolios.

2.8 THE FINANCIAL MARKETS

Government bond yields and sovereign spreads have fallen considerably, thanks in part to the significant reduction in uncertainty over Italy's planned budget policies and to the more accommodating monetary conditions. Share prices have mirrored global trends, affected on the one hand by concerns regarding the trade war's impact on growth, and on the other by the support provided by the decidedly more expansionary monetary policy stance.

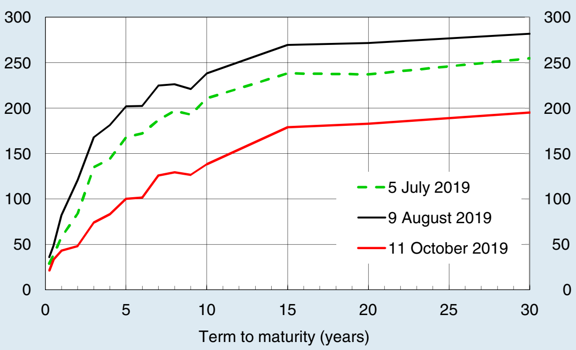
Sovereign risk premiums decline markedly

Italy's sovereign risk premium, measured by the spread between Italian and German ten-year bonds, stood at 240 basis points on 9 August (Figure 39); it decreased considerably on account of both the much lower level of uncertainty surrounding Italy's budget policies and the expansionary measures adopted by the ECB Governing Council (see the box 'The monetary policy measures adopted in September 2019' in Chapter 1). In mid-October, ten-year bond yields stood at 0.94 per cent and the spread between Italian and German ten-year bonds equalled 138 basis points.

The reduction in the sovereign risk premium was partly due to the fall in the component of the spread linked to the debt redenomination risk perceived by investors (Figure 40), which had already declined considerably in June and July following the European Commission's decision not to recommend the launch of an excessive deficit procedure against Italy (see *Economic Bulletin*, 3, 2019). In mid-October, this component stood at about 32 basis points, close to the level that prevailed at the start of 2018. The volatility implied by derivatives on Italian ten-year bonds began to decline again after having increased in August (Figure 41).

Figure 39

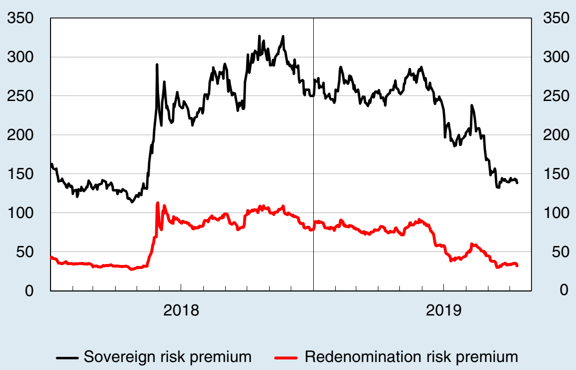
Term structure of sovereign spreads (1)
(basis points)



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

Figure 40

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.

Share prices fluctuate widely

In August, share prices fell sharply on account of global trends, especially the heightened trade tensions between the United States and China (Figure 42.a); the higher uncertainty led to greater volatility in the stock market indices (Figure 42.b). Share prices have since recovered, partly benefiting from the new accommodative monetary policy measures adopted by the ECB.

The increase in share prices was particularly marked in the banking sector. Moreover, the credit default swap (CDS) premiums of the main Italian banks have declined by an average of 22 basis points since the start of July.

Figure 41

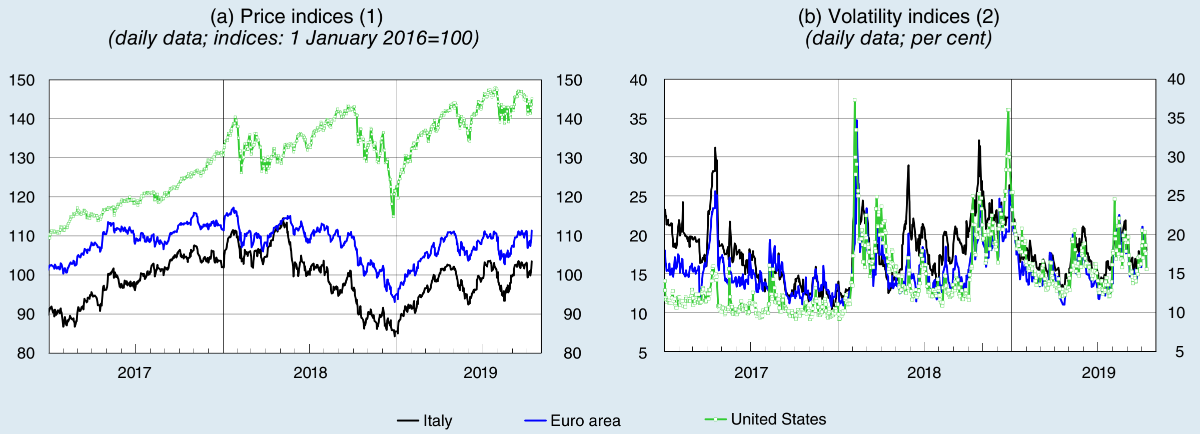
Implied volatility of options on BTP futures (1)

(daily data; per cent)

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

Figure 42

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 issues are positive

In the second quarter, Italian banks and non-financial corporations made net bond issues amounting to €1.4 billion and €2.1 billion respectively (see Table A.8 in the Statistical Appendix). According to preliminary data from Dealogic on gross issues only, placements by non-financial corporations remained unchanged during the summer (at about €8 billion), while placements by banks declined (to €8.2 billion from €9.4 in the preceding quarter). The average yields on bonds issued by Italian banks and non-financial corporations declined, falling by 26 and 17 basis points respectively since the start of July.

Net outflows from investment funds increase

In the second quarter, Italian investors continued to shift their portfolios towards assets considered to be safer. Overall, the net outflow of savings recorded by open-end investment funds placed in Italy was larger than in the first quarter. The net outflow concerned equity and flexible funds, and was only partly offset by net inflows from bond and money market funds.

2.9 THE PUBLIC FINANCES

The Government has revised the current legislation scenario and the budget objectives for the next three years. This year the ratio of general government net borrowing to GDP should remain at the same level as in 2018: the decline in the primary surplus is expected to be offset by lower interest payments. For 2020, the Government is planning a higher net borrowing objective than in the current legislation scenario, with measures that include the deactivation of the safeguard clauses; the deficit should remain unchanged from this year. In 2019, the debt-to-GDP ratio is expected to rise by more than in previous estimates (in part owing to the cancellation of planned privatizations), and to then decline in the subsequent three years.

The Government has estimated net borrowing for this year at 2.2 per cent of GDP

In the Update to the 2019 DEF,[4] the Government estimates general government net borrowing of 2.2 per cent of GDP for this year (Table 14), in line with last year's figure (Table 15). The fall in the primary surplus (€3.4 billion), which reflects the sharp increase in current expenditure following the introduction of the new minimum income scheme (*Reddito di cittadinanza* or RdC) and new pension requirements, is projected to be offset by the reduction in interest payments.

The trend in the public accounts is less favourable than estimated in July (see the box 'The recent budget measures and the European Commission's assessments', *Economic Bulletin*, 3, 2019), above all owing to the downward revision of revenue growth. Structural net borrowing – not counting the effects of the economic cycle and one-off measures – is estimated to fall by 0.3 percentage points, to 1.2 per cent of GDP.

According to the Update, the debt-to-GDP ratio is estimated to rise from 134.8 to 135.7 per cent in 2019.[5] The increase is almost half of a percentage point greater than that estimated in April's DEF, despite the fact that the projection for net borrowing is lower than the 2.4 per cent that was then

Table 14

Public finance objectives and estimates for 2019
(per cent of GDP)

	General government				*Memorandum items:*	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Objectives						
September 2018 (2)	2.4	1.7	1.3	-0.9	1.5	3.1
December 2018 (3)	2.0	1.3	1.7	-1.0	1.0	2.3
April 2019 (4)	2.4	1.5	1.2	0.4	0.2	1.2
September 2019 (5)	2.2	1.2	1.3	0.9	0.1	1.0
Estimates						
April 2019 (4)	2.4	1.6	1.2	0.6	0.1	1.2
September 2019 (5)	2.2	1.2	1.3	0.9	0.1	1.0

(1) Change in the debt-to-GDP ratio compared with the previous year. – (2) Update to the 2018 Economic and Financial Document. – (3) Update to the 2018 Macroeconomic Outlook and the Public Finances. – (4) 2019 Economic and Financial Document. – (5) Update to the 2019 Economic and Financial Document.

4 See the 'Preliminary hearing on the Update to the 2019 Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, L.F. Signorini, at the Senate of the Republic, Rome, 8 October 2019 (only in Italian).

5 Last September the Bank of Italy updated its estimates for general government debt for the years 2015-18, following the methodological changes agreed at European level. See the Bank of Italy's press release of 23 September 2019, 'Revised estimates of general government debt following the release of Eurostat's new Manual (MGDD)'. The revision, which has no impact on the assessment of the sustainability of the public finances, led to a higher debt-to-GDP ratio, but a more favourable overall trend in the ratio itself. As the estimates of interest payments did not change, this resulted in a downward revision of the average cost of public debt.

expected, above all owing to the absence of proceeds from privatizations planned by the Government but not carried out (amounting to 1.0 per cent of GDP in the DEF).

The available cash-basis figures are compatible with the projections in the Update

In the first eight months of 2019 the general government borrowing requirement net of privatization receipts amounted to €28.1 billion, surpassing the corresponding year-earlier amount (€23.2 billion); in the twelve months ending in August 2019 it came to €43.9 billion (Figure 43). The data observed during the year point to a reduction in net borrowing during the period, taking account of the main factors that link net borrowing to the borrowing requirement; this improvement could nonetheless be partially reabsorbed in the coming months, mostly as a result of disbursements relating to the RdC and to the new pension rules.

Again in the first eight months of 2019, general government debt expanded by €82.3 billion, primarily owing to the increase in the Treasury's liquid balance (which rose by €54.4 billion, to €89.5 billion) and in the borrowing requirement. In recent months, mainly thanks to the fall in the spread (see Section 2.8), the yield on new issues has come down considerably; the average cost of the debt fell to 2.7 per cent at the end of June, from 2.8 per cent at the end of 2018 (Figure 44). The average maturity of the debt declined slightly, from 7.3 years at the end of last year, to 7.2 years in August.

The tax revenue entered in the State's budget, net of lottery and gaming receipts, fell by more than €3.5 billion in the first nine months of 2019 compared with the same period of last year. The decline is almost entirely due to personal income tax, which during the summer months was affected by the extension to the autumn of self-assessment returns by taxpayers subject to the synthetic indicators of fiscal reliability.

Table 15

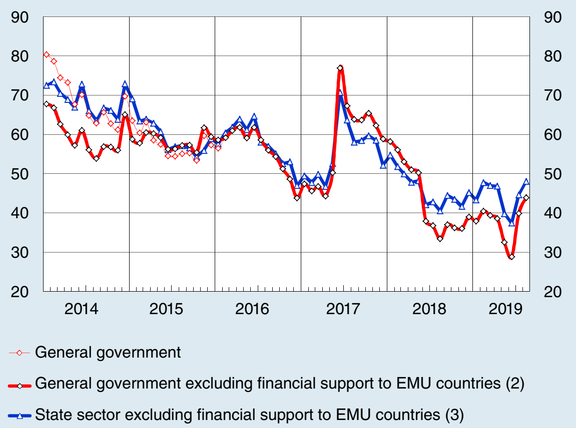
Outturns and official objectives of the main public finance indicators (1)
(per cent of GDP)

	2018	2019	2020	2021	2022
Net borrowing	2.2	2.2	2.2	1.8	1.4
Primary surplus	1.5	1.3	1.1	1.3	1.6
Interest payments	3.7	3.4	3.3	3.1	2.9
Structural net borrowing	1.5	1.2	1.4	1.2	1.0
Debt (2)	134.8	135.7	135.2	133.4	131.4

Source: Update to the 2019 Economic and Financial Document.
(1) Outturns for 2018 and official objectives for 2019-22. Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to euro-area countries.

Figure 43

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



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

The Government is planning a higher net borrowing objective in 2020 than in the current legislation scenario

According to the latest official assessments, the projection for the public finances under current legislation for the three years 2020-22 is significantly more favourable than had been expected in April (net borrowing is on average lower by 0.8 percentage points), mainly due to lower interest payments.

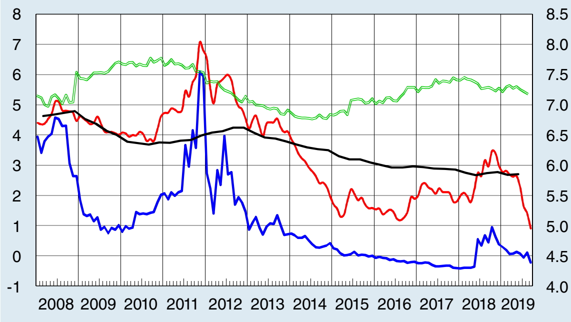
The target set by the Government for net borrowing in each year is higher than the current legislation scenario. In particular, for 2020 the Government is planning a net borrowing objective of 2.2 per cent, almost 1 percentage point of GDP higher than indicated in the current legislation scenario;[6] subsequently, the deficit is projected to decline, reaching 1.4 per cent in 2022. The policy scenario incorporates the elimination in 2020 of the increases in indirect taxation envisaged under the safeguard clauses (equal to 1.3 per cent of GDP) and their reduction in the subsequent two years.

Overall, the fiscal policy stance, as measured by the change in the cyclically adjusted primary balance, is expected to be slightly expansionary in 2020 and broadly neutral in the subsequent years. Structural net borrowing, which is set to rise slightly next year, should reach 1.4 per cent of GDP; it is estimated to decline by 0.2 percentage points of GDP in each of the two years 2021-22, as a result of lower interest payments.

Figure 44

Gross yield on BOTs and 10-year BTPs, average cost and average residual maturity of the debt

(monthly and quarterly data; per cent and years)



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

The debt-to-GDP ratio is expected to start declining from 2020

In the Government's plans the debt-to-GDP ratio should come down by half of a percentage point in 2020 and by a little less than 2 points per year on average in 2021-22, also thanks to the impact of the safeguard clauses (albeit smaller than expected under current legislation). The greater net borrowing expected in the three years should be partially offset by privatization receipts[7] and by faster growth in nominal GDP.

On 16 October, the Government sent the European Commission its 2020 Draft Budgetary Plan, setting out the measures it intends to include in the provisional budget. In addition to the measures relating to the safeguard clauses, the Government plans to allocate resources primarily to reduce the tax wedge on labour and to increase public and private investment. To cover these expansionary measures the Government expects to raise resources amounting to about 0.8 percentage points of GDP in 2020, including through measures to combat tax evasion and fraud.

In official assessments, the impact of the budgetary provisions on growth is estimated at 0.2 percentage points of GDP in each of the two years 2020-21, and at nil in 2022.

6 In the 2020 Draft Budgetary Plan published in mid-October, the difference between the objective and the current legislation estimate amounts to 0.9 per cent of GDP, against the 0.8 per cent indicated in the Update to the 2019 Economic and Financial Document. While the objective remained unchanged, the Government has revised down its current legislation estimate of the deficit in light of more favourable tax revenues than had been expected in September.

7 The Government estimates that privatization receipts will equal 0.2 percentage points each year in the three years 2020-22. These receipts are not included in the current legislation scenario.

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	128.0	91.2	90.6	89.1
Q2	116.2	102.0	127.3	88.4	90.2	88.8
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	93.2	92.0	89.8
Sept.	118.6	104.3	125.0	93.5	92.2	90.1
Oct.	118.5	104.5	124.6	92.8	91.6	89.1
Nov.	117.9	103.1	125.0	93.0	90.9	89.3
Dec.	116.9	101.8	125.8	92.9	91.0	90.0
2019 – Jan.	115.9	102.1	127.2	91.5	90.7	89.7
Feb.	116.3	102.8	128.1	91.3	90.6	89.1
Mar.	116.1	102.1	128.7	90.7	90.3	88.6
Apr.	116.3	102.2	128.8	89.9	90.2	88.5
May	116.3	101.7	126.9	87.5	90.3	88.7
June	116.1	102.2	126.1	87.7	90.2	89.1
July	115.3	103.0	126.8	87.1	90.0	88.7

(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, 2018 and 'Balance of Payments and International Investment Position', Banca d'Italia, Statistics Series, Methods and Sources: Methodological Notes, 30 September 2019. Rounding may cause discrepancies between monthly, quarterly and annual data.

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	106.1
2019 – Q1	63.9	96.7	112.6	79.8	107.5	104.1
Q2	64.4	96.1	113.6	79.6	107.9	105.6
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.	63.6	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.	64.8	97.2	112.9	78.9	107.4	103.7
Feb.	63.8	96.7	112.4	79.7	107.5	103.8
Mar.	63.2	96.3	112.5	80.8	107.7	104.8
Apr.	63.0	95.8	113.3	80.4	107.9	105.4
May	64.7	96.2	113.9	80.0	108.2	106.3
June	65.5	96.3	113.6	78.5	107.6	105.0
July	65.2	96.0	112.6	77.7	107.5	105.0

(1) Based on the producer prices of manufactures of 61 countries. 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 and 'Balance of Payments and International Investment Position', Banca d'Italia, Statistics Series, Methods and Sources: Methodological Notes, 30 September 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	Value added (2)	Hours worked	Unit labour costs
			Total industry excluding construction		
2016	-0.4	1.5	3.2	1.7	-1.9
2017	1.3	2.8	3.9	1.1	-1.5
2018	1.6	0.5	2.0	1.4	1.1
2017 – Q1	1.2	2.1	2.9	0.9	-0.8
Q2	1.0	3.1	4.5	1.4	-2.1
Q3	1.9	2.7	4.9	2.1	-0.8
Q4	1.3	3.1	4.5	1.4	-1.8
2018 – Q1	0.9	2.9	3.9	1.0	-2.0
Q2	2.6	1.2	2.5	1.3	1.3
Q3	1.3	-1.1	0.5	1.6	2.5
Q4	1.4	-1.9	-1.2	0.7	3.4
2019 – Q1	1.8	-3.1	-0.5	2.7	5.0
Q2	0.8	-2.5	-0.9	1.6	3.4
			Services		
2016	-0.3	-0.6	1.0	1.6	0.3
2017	0.2	0.3	1.6	1.4	-0.1
2018	2.0	-0.5	0.6	1.1	2.6
2017 – Q1	0.2	0.3	1.8	1.4	-0.1
Q2	-0.5	0.7	1.8	1.1	-1.2
Q3	0.0	-0.4	1.5	1.9	0.4
Q4	1.3	0.3	1.5	1.2	1.0
2018 – Q1	0.6	-0.2	1.0	1.2	0.8
Q2	2.9	-0.9	0.6	1.5	3.8
Q3	2.6	-0.5	0.3	0.8	3.1
Q4	1.7	-0.5	0.3	0.8	2.3
2019 – Q1	2.3	-0.9	-0.3	0.6	3.2
Q2	0.5	-0.4	0.2	0.6	0.9
			Total economy		
2016	-0.4	-0.2	1.4	1.6	-0.2
2017	0.5	0.8	1.9	1.0	-0.4
2018	1.9	-0.2	0.9	1.1	2.0
2017 – Q1	0.3	0.7	1.8	1.1	-0.4
Q2	0.1	1.2	2.1	0.8	-1.1
Q3	0.5	0.4	1.9	1.5	0.1
Q4	1.2	0.9	2.0	1.1	0.3
2018 – Q1	0.8	0.8	1.6	0.8	0.0
Q2	2.7	-0.3	1.1	1.4	3.0
Q3	2.3	-0.6	0.5	1.1	2.9
Q4	1.5	-0.7	0.0	0.7	2.2
2019 – Q1	2.4	-1.1	0.0	1.0	3.5
Q2	1.1	-0.2	0.1	0.2	1.2

Source: Based on Istat data.
(1) Based on hours effectively worked. Annual figures are unadjusted; quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices; volumes at chain-linked prices. Reference year 2015.

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	1.2	2.0	3.0	1.0	-0.8
2017	1.5	2.4	3.4	1.0	-0.9
2018	2.0	0.6	1.9	1.2	1.4
2017 – Q1	1.1	1.5	2.5	1.0	-0.5
Q2	1.2	2.3	3.5	1.2	-1.1
Q3	1.0	3.1	4.8	1.6	-2.1
Q4	1.3	2.4	4.1	1.7	-1.1
2018 – Q1	1.7	2.5	3.8	1.2	-0.8
Q2	2.1	1.4	3.0	1.6	0.7
Q3	2.2	0.2	1.3	1.1	2.1
Q4	1.7	-1.7	-0.6	1.2	3.5
2019 – Q1	1.9	-1.7	-0.3	1.4	3.7
Q2	1.8	-1.9	-1.3	0.6	3.8
		Services			
2016	1.0	-0.1	1.6	1.7	1.2
2017	2.0	1.0	2.3	1.3	1.0
2018	2.1	0.4	1.9	1.5	1.7
2017 – Q1	1.7	0.8	2.1	1.2	0.8
Q2	1.9	0.9	2.3	1.4	1.0
Q3	1.7	0.9	2.6	1.7	0.9
Q4	1.9	1.0	2.7	1.7	0.8
2018 – Q1	2.1	0.9	2.3	1.4	1.2
Q2	1.7	0.2	2.0	1.8	1.5
Q3	2.2	0.1	1.7	1.6	2.1
Q4	2.0	0.0	1.6	1.5	1.9
2019 – Q1	1.9	0.1	1.6	1.6	1.8
Q2	2.3	0.5	1.6	1.1	1.8
		Total economy			
2016	1.1	0.4	1.8	1.4	0.7
2017	1.9	1.4	2.5	1.2	0.5
2018	2.0	0.5	2.0	1.5	1.5
2017 – Q1	1.5	1.0	2.1	1.1	0.5
Q2	1.8	1.2	2.5	1.3	0.5
Q3	1.5	1.4	3.0	1.6	0.1
Q4	1.7	1.3	3.0	1.7	0.4
2018 – Q1	1.9	1.3	2.7	1.3	0.6
Q2	1.7	0.5	2.3	1.8	1.2
Q3	2.1	0.0	1.7	1.6	2.1
Q4	1.8	-0.3	1.2	1.5	2.2
2019 – Q1	1.8	-0.3	1.4	1.7	2.1
Q2	2.2	0.1	1.1	1.0	2.1

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 2015.

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
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	0.7	1.5	1.5	1.3	1.1
July	0.3	0.4	1.3	0.7	1.1	0.9	1.0	0.9
Aug.	0.5	0.6	1.3	0.6	1.0	0.8	1.0	0.9
Sept.	0.2	0.5	1.1	0.8	0.9	1.0	0.8	1.0

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

Table A5

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

(billions of euros; per cent)

	Stocks									Stock-flow reconciliation		
	Direct invest-ment	Portfolio investment			Financial deriva-tives	Other invest-ment	Official reserves	Total	Total as a percent-age of GDP	Change in total stocks	Valuation adjust-ments (2)	Financial account flows
		Total	Equity and invest-ment funds	Debt securi-ties						(a)=(b)+(c)	(b)	(c)
							Assets					
2014	510	1,057	608	449	128	508	117	2,320	143.0	220	87	133
2015	530	1,177	705	472	100	508	120	2,435	147.4	115	-7	123
2016	544	1,265	758	507	92	504	129	2,534	149.9	99	23	76
2017	558	1,391	864	527	76	523	126	2,675	154.8	141	-7	148
2018	594	1,354	821	533	76	551	133	2,707	154.1	33	-71	104
2018 – Q1	564	1,395	860	536	73	534	125	2,691	155.0	17	-33	49
Q2	578	1,400	863	536	75	552	127	2,732	156.5	41	14	27
Q3	583	1,431	885	546	73	556	124	2,767	158.0	35	-1	36
Q4	594	1,354	821	533	76	551	133	2,707	154.1	-60	-52	-9
2019 – Q1	594	1,421	872	549	81	557	138	2,791	158.6	84	66	18
Q2	596	1,448	887	561	85	566	145	2,842	161.3	50	32	18
							Liabilities					
2014	407	1,331	204	1,127	182	742	–	2,661	164.1	187	108	78
2015	423	1,394	254	1,140	141	797	–	2,755	166.8	94	10	84
2016	445	1,269	217	1,052	136	886	–	2,736	161.9	-19	-62	43
2017	456	1,308	263	1,045	107	938	–	2,808	162.6	72	-28	101
2018	482	1,146	216	930	107	1,055	–	2,790	158.8	-18	-92	73
2018 – Q1	456	1,347	270	1,076	102	954	–	2,859	164.6	50	2	49
Q2	464	1,225	255	970	105	1,039	–	2,832	162.2	-27	-49	22
Q3	470	1,201	254	947	100	1,057	–	2,828	161.5	-4	-23	19
Q4	482	1,146	216	930	107	1,055	–	2,790	158.8	-38	-21	-16
2019 – Q1	482	1,207	249	958	119	1,043	–	2,851	162.0	61	49	12
Q2	486	1,260	247	1,013	130	1,004	–	2,880	163.5	29	26	3
							Net position					
2014	103	-274	403	-678	-54	-233	117	-342	-21.1	34	-21	55
2015	107	-217	451	-668	-41	-288	120	-320	-19.4	22	-17	39
2016	98	-4	541	-545	-44	-381	129	-202	-12.0	118	85	33
2017	102	83	601	-518	-31	-415	126	-134	-7.7	68	21	48
2018	112	207	605	-398	-31	-504	133	-83	-4.7	51	20	31
2018 – Q1	108	49	590	-541	-30	-419	125	-168	-9.7	-34	-34	1
Q2	114	175	608	-434	-29	-486	127	-100	-5.7	68	63	5
Q3	113	230	631	-400	-27	-501	124	-60	-3.4	39	23	17
Q4	112	207	605	-398	-31	-504	133	-83	-4.7	-23	-30	8
2019 – Q1	112	214	624	-409	-38	-486	138	-60	-3.4	23	17	6
Q2	111	188	640	-452	-45	-437	145	-38	-2.2	22	6	15

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

Table A6

Balance of payments of Italy: current account and capital account (1)

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
2013	17,879	38,091	710	-2,842	-18,081	-667	-3,142	2,474
2014	30,904	49,346	-2,282	265	-16,425	2,830	-942	3,771
2015	23,529	54,144	-4,245	-11,413	-14,956	6,110	-1,183	7,294
2016	43,997	59,963	-4,082	4,794	-16,678	-2,645	-1,973	-673
2017	46,490	56,684	-4,637	9,201	-14,758	684	-1,188	1,872
2018	45,972	47,291	-2,711	18,802	-17,411	-604	-1,482	878
2018 – Q1	5,094	9,907	-3,386	3,727	-5,153	-359	-363	4
Q2	11,433	13,640	744	57	-3,007	-177	-372	196
Q3	16,169	11,359	3,097	6,020	-4,307	2	-324	326
Q4	13,275	12,386	-3,165	8,998	-4,943	-71	-423	352
2019 – Q1	4,791	10,874	-3,583	4,524	-7,025	-330	-361	30
Q2	14,861	16,459	1,303	-466	-2,436	-783	-469	-314
2018 – Jan.	-908	615	-991	711	-1,243	-101	-123	23
Feb.	2,524	3,860	-1,081	1,446	-1,701	-101	-113	13
Mar.	3,479	5,431	-1,315	1,571	-2,208	-158	-126	-32
Apr.	3,418	3,803	-183	781	-983	-123	-116	-7
May	2,152	4,011	197	-1,355	-701	-144	-132	-12
June	5,863	5,825	729	631	-1,322	90	-124	215
July	7,490	6,170	1,096	1,524	-1,301	20	-112	132
Aug.	5,563	3,277	1,281	2,457	-1,452	33	-90	123
Sept.	3,116	1,911	719	2,040	-1,554	-51	-123	71
Oct.	5,610	4,512	-690	3,127	-1,340	35	-150	186
Nov.	4,006	4,476	-1,614	2,524	-1,379	5	-141	147
Dec.	3,659	3,398	-861	3,346	-2,224	-111	-131	20
2019 – Jan.	-843	1,157	-1,158	869	-1,712	-109	-139	30
Feb.	2,476	4,164	-1,190	1,822	-2,320	-87	-109	22
Mar.	3,158	5,553	-1,235	1,833	-2,993	-134	-113	-21
Apr.	4,095	3,889	16	1,037	-847	-261	-154	-107
May	4,477	6,134	528	-1,739	-446	-282	-166	-117
June	6,289	6,436	759	236	-1,143	-240	-150	-90
July	(8,537)	(7,455)	(1,639)	(758)	(-1,316)	(116)	(49)	(66)
Aug.	(6,037)	(4,663)	(1,039)	(1,764)	(-1,428)	(85)	(26)	(59)

(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	3.2	2.9
2018	1.9	1.9	1.2	2.6	3.5	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	2.5	2.6
June	1.1	1.1	-0.1	2.6	2.5	2.3	2.1	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	2.9	2.7
Nov.	1.4	1.5	0.4	2.8	2.9	3.0	3.2	2.8
Dec.	1.8	1.3	0.2	2.8	2.9	3.0	3.2	2.9
2018 – Jan.	2.7	2.3	1.9	2.8	3.3	3.1	3.5	2.9
Feb.	2.3	1.8	1.1	2.8	3.1	3.0	3.3	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	3.4	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	3.5	4.2	2.9
July	2.4	1.8	1.0	2.8	3.4	3.5	4.2	3.0
Aug.	2.5	1.8	1.1	2.7	3.5	3.6	4.2	3.1
Sept.	2.8	2.1	1.7	2.7	3.5	3.7	4.4	3.1
Oct.	2.6	2.0	1.4	2.8	3.3	3.5	4.0	3.2
Nov.	2.2	1.7	1.0	2.7	3.3	3.6	4.1	3.3
Dec.	1.9	1.9	1.2	2.6	3.5	3.6	4.1	3.2
2019 – Jan.	0.9	0.8	-0.7	2.6	3.1	3.3	3.5	3.2
Feb.	1.2	1.1	-0.2	2.6	3.3	3.5	3.9	3.3
Mar.	0.9	0.8	-0.6	2.6	3.3	3.5	3.8	3.3
Apr.	0.8	0.8	-0.6	2.6	3.5	3.6	4.0	3.3
May	1.0	1.0	-0.2	2.5	3.4	3.6	3.9	3.3
June	0.4	0.7	-0.7	2.4	3.5	3.6	4.0	3.3
July	0.7	0.9	-0.5	2.5	3.7	3.7	4.0	3.4
Aug.	0.6	0.7	-0.7	2.4	3.8	3.8	4.3	3.4

(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	15.8	21.6	-27.6
2018		-29.5	10.6	-4.2	-23.1
2018	Q1	-15.8	-5.6	-2.9	-24.3
	Q2	-16.9	1.2	-0.2	-15.8
	Q3	1.1	3.6	2.3	7.0
	Q4	2.0	11.5	-3.4	10.1
2019	Q1	-4.9	-0.3	-1.1	-6.3
	Q2	1.4	-0.9	2.1	2.6
			Euro area		
2017		-47.2	2.6	63.4	18.7
2018		85.4	80.1	43.7	209.2
2018	Q1	30.9	17.6	22.9	71.4
	Q2	-18.4	32.8	3.2	17.6
	Q3	47.0	8.5	16.9	72.4
	Q4	26.0	21.2	0.7	47.9
2019	Q1	59.5	23.1	16.6	99.2
	Q2	16.5	17.5	17.5	51.5

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.

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: investment of liquidity	Borrowing requirement	of which: in connection with financial support to EMU countries (3)
2013	-3.1	-3.3	-11.1	91.9	-3.4	5.5	79.8	-3.2	-10.0	76.5	13.0
2014	14.3	-1.4	-16.0	82.3	-4.1	-1.3	75.2	-8.8	-28.0	66.4	4.7
2015	5.6	-1.1	-9.5	43.6	1.5	-1.1	40.1	10.7	8.0	50.7	-2.1
2016	-5.1	0.2	-8.0	63.3	0.5	-0.3	50.3	-7.4	-3.0	42.9	0.0
2017	-0.6	-2.4	-0.5	41.1	3.4	1.5	45.0	13.8	10.5	58.8	0.0
2018	5.2	-2.1	0.8	42.3	-4.5	0.8	44.7	-5.8	19.5	38.9	0.0
2017 – Jan.	2.1	-2.1	7.3	24.0	-1.4	0.2	32.3	-34.3	-2.9	-2.1	0.0
Feb.	-1.8	0.4	0.2	-10.9	1.1	-0.2	-11.7	20.7	-0.1	9.0	0.0
Mar.	2.4	0.3	-0.2	18.5	1.0	-0.1	21.6	2.2	-0.2	23.7	0.0
Apr.	1.2	0.1	0.5	7.4	0.2	0.2	9.5	-3.9	0.8	5.6	0.0
May	1.5	0.6	0.7	5.8	-0.3	0.7	8.3	-0.5	5.0	7.8	0.0
June	3.8	-0.9	0.2	-0.5	5.3	0.7	9.6	6.3	-5.8	15.9	0.0
July	0.1	0.2	0.3	21.5	-2.1	0.1	19.8	-32.9	0.3	-13.1	0.0
Aug.	2.0	0.1	-0.1	-22.9	0.3	0.1	-20.5	22.2	-0.2	1.6	0.0
Sept.	2.2	-0.3	-0.8	3.3	0.8	-0.2	5.3	11.3	0.0	16.6	0.0
Oct.	-0.6	0.4	-0.9	9.2	-1.8	-0.7	5.3	-1.3	0.8	4.0	0.0
Nov.	-0.8	-0.7	-1.0	-13.4	0.6	-0.1	-14.7	20.2	17.4	5.5	0.0
Dec.	-12.6	-0.5	-6.8	-0.9	-0.3	0.9	-19.7	3.8	-4.6	-15.9	0.0
2018 – Jan.	5.7	-0.8	6.3	12.6	-2.1	0.0	22.5	-25.2	-9.1	-2.7	0.0
Feb.	-1.1	-0.5	0.0	1.6	0.5	-0.4	0.6	6.2	16.0	6.8	0.0
Mar.	2.4	-0.2	0.0	15.2	-0.2	-0.1	17.2	3.5	5.5	20.7	0.0
Apr.	-2.3	-0.1	0.0	12.4	0.7	0.1	10.9	-7.3	2.0	3.6	0.0
May	-0.8	-0.5	-0.1	13.3	0.1	0.1	12.6	-5.4	0.0	7.1	0.0
June	-2.3	0.3	0.7	-5.7	0.8	0.8	-5.6	9.2	-4.8	3.6	0.0
July	5.6	-0.2	-0.2	17.0	-3.8	-1.3	17.3	-31.6	-2.5	-14.3	0.0
Aug.	-2.3	0.4	-0.6	-13.8	0.1	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	4.8	15.4	-5.6	20.2	0.0
Oct.	-1.2	0.2	0.0	4.6	-0.4	-0.7	2.2	1.0	-1.4	3.2	0.0
Nov.	-0.1	-0.8	0.4	6.4	0.8	1.0	8.6	-3.3	2.1	5.3	0.0
Dec.	2.7	0.7	-5.9	-26.6	-1.2	1.2	-29.8	16.9	18.4	-13.0	0.0
2019 – Jan.	4.0	-1.1	8.0	29.4	-0.5	-0.6	40.3	-44.0	-14.0	-3.7	0.0
Feb.	-3.9	-0.4	-0.1	4.0	-0.3	-0.1	-0.4	9.8	-2.0	9.4	0.0
Mar.	0.2	-2.1	0.6	-3.2	-0.2	-0.1	-2.7	22.4	1.4	19.6	0.0
Apr.	0.9	1.3	0.7	12.7	-0.2	0.3	14.3	-11.6	-1.4	2.8	0.0
May	-1.0	-0.6	0.3	-10.1	1.0	-0.5	-10.3	11.3	3.0	1.0	0.0
June	-1.8	-1.1	-0.4	23.1	-0.6	0.1	20.4	-20.5	-3.0	-0.1	0.0
July	5.8	1.6	-0.1	19.1	-2.3	1.3	23.9	-27.1	3.0	-3.2	0.0
Aug.	-0.1	-1.3	1.8	-4.5	0.0	-0.2	-3.0	5.3	-3.0	2.3	0.0

(1) For more information, see the Methodological Appendix in 'The Public Finances: Borrowing Requirement and Debt' in *Supplements to the Statistical Bulletin* for data up to December 2016 and for subsequent months 'The Public Finances: Borrowing Requirement and Debt' in the Statistics Series. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution 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:* investment of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
2013	218.2	79.2	140.6	1,594.9	134.2	48.0	34.1	2,135.8	37.6	10.0	24.7	55.6
2014	232.5	77.8	124.5	1,668.9	130.2	46.7	36.0	2,202.8	46.4	38.0	25.7	60.3
2015	238.1	76.7	115.0	1,708.5	132.2	45.6	33.9	2,239.3	35.7	30.0	26.9	58.2
2016	233.0	76.9	107.0	1,767.2	132.8	45.2	33.9	2,285.3	43.1	33.0	29.9	58.2
2017	232.4	74.4	106.6	1,806.7	136.3	46.8	33.9	2,328.7	29.3	22.5	32.2	58.2
2018	237.6	72.3	107.4	1,855.9	131.9	47.6	33.9	2,380.3	35.1	3.0	31.4	58.2
2017 – Jan.	235.1	74.8	114.3	1,790.9	131.5	45.4	33.9	2,317.2	77.4	35.9	29.9	58.2
Feb.	233.2	75.2	114.5	1,781.0	132.6	45.2	33.9	2,306.5	56.8	36.0	31.4	58.2
Mar.	235.6	75.4	114.3	1,798.3	133.6	45.1	33.9	2,326.9	54.6	36.2	32.6	58.2
Apr.	236.8	75.5	114.8	1,806.8	133.8	45.3	33.9	2,337.5	58.5	35.4	33.9	58.2
May	238.2	76.2	115.5	1,813.4	133.5	46.0	33.9	2,346.7	58.9	30.3	35.3	58.2
June	242.1	75.3	115.7	1,813.0	138.8	46.7	33.9	2,356.3	52.6	36.2	35.3	58.2
July	242.2	75.5	116.0	1,833.4	136.7	46.8	33.9	2,375.1	85.6	35.9	37.0	58.2
Aug.	244.2	75.6	115.9	1,810.4	137.0	46.9	33.9	2,354.5	63.4	36.1	36.7	58.2
Sept.	246.4	75.2	115.2	1,813.0	137.8	46.7	33.9	2,359.0	52.1	36.1	35.2	58.2
Oct.	245.7	75.7	114.3	1,822.1	136.0	46.0	33.9	2,364.2	53.3	35.3	34.7	58.2
Nov.	245.0	74.9	113.3	1,808.3	136.6	45.9	33.9	2,349.0	33.1	17.9	35.3	58.2
Dec.	232.4	74.4	106.6	1,806.7	136.3	46.8	33.9	2,328.7	29.3	22.5	32.2	58.2
2018 – Jan.	238.1	73.7	112.9	1,819.1	134.3	46.8	33.9	2,351.1	54.5	31.6	33.5	58.2
Feb.	237.0	73.2	112.8	1,821.1	134.8	46.5	33.9	2,352.1	48.3	15.6	34.4	58.2
Mar.	239.4	72.9	112.8	1,835.0	134.5	46.3	33.9	2,368.0	44.8	10.1	33.2	58.2
Apr.	237.1	72.8	112.8	1,847.0	135.3	46.4	33.9	2,378.6	52.1	8.1	34.8	58.2
May	236.3	72.3	112.7	1,861.9	135.3	46.5	33.9	2,392.7	57.6	8.1	35.9	58.2
June	234.0	72.6	113.4	1,857.5	136.1	47.3	33.9	2,388.4	48.4	12.9	33.8	58.2
July	239.6	72.4	113.2	1,876.4	132.3	46.1	33.9	2,407.6	80.0	15.4	35.1	58.2
Aug.	237.3	72.9	112.6	1,863.3	132.4	46.1	33.9	2,391.7	65.1	16.4	34.8	58.2
Sept.	236.2	72.3	112.8	1,868.9	132.7	46.0	33.9	2,396.7	49.6	22.0	33.6	58.2
Oct.	235.0	72.5	112.8	1,874.4	132.3	45.3	33.9	2,399.8	48.7	23.4	33.7	58.2
Nov.	234.9	71.7	113.2	1,881.9	133.1	46.3	33.9	2,409.6	51.9	21.4	33.1	58.2
Dec.	237.6	72.3	107.4	1,855.9	131.9	47.6	33.9	2,380.3	35.1	3.0	31.4	58.2
2019 – Jan.	241.6	71.3	115.4	1,885.0	131.4	47.0	33.9	2,420.4	79.1	17.0	32.7	58.2
Feb.	237.7	70.9	115.3	1,888.9	131.1	46.8	33.9	2,419.8	69.3	19.0	33.6	58.2
Mar.	237.8	68.8	115.9	1,883.4	130.9	46.8	33.9	2,414.8	46.9	17.6	32.2	58.2
Apr.	238.7	70.1	116.6	1,896.4	130.8	47.1	33.9	2,429.5	58.5	19.0	32.3	58.2
May	237.7	69.4	116.9	1,887.9	131.7	46.5	33.9	2,420.8	47.2	16.0	34.3	58.2
June	235.9	68.3	116.5	1,912.0	131.1	46.7	33.9	2,442.2	67.7	19.0	34.5	58.2
July	241.8	69.9	116.4	1,930.9	128.9	48.0	33.9	2,465.9	94.8	16.0	35.5	58.2
Aug.	241.7	68.6	118.2	1,926.1	128.9	47.8	33.9	2,462.6	89.5	19.0	35.8	58.2

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