BANCA D'ITALIA
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Economic Bulletin

January 2020

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Number 1 / 2020
January

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

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

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

Based on data available on 10 January 2020, unless otherwise indicated

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

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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

World trade returns to growth, but global risks remain on the downside

The risks to global growth remain tilted to the downside. International trade has returned to growth and there have been signs that the tariff disputes between the United States and China have eased, but the outlook remains uncertain and geopolitical tensions are on the increase. Less pessimistic growth expectations, buoyed by the accommodative stance of the central banks, have nonetheless driven up share prices and have facilitated a moderate recovery in long-term yields.

Monetary accommodation is still necessary in the euro area

Economic activity in the euro area has been held back by the weakness of the manufacturing sector; particularly so in Germany despite a better-than-expected performance there in November. While growth in the service sector has been stronger up until now, there is the risk that it could also be affected. Developments in the economy have an impact on inflation, which according to Eurosystem projections is being sustained by monetary stimulus but is expected to remain below 2 per cent over the next three years. The ECB Governing Council has reaffirmed the need to maintain its current accommodative stance.

In Italy the industrial cycle held back GDP, while orders are stabilizing

The latest available data suggest that economic activity in Italy, which expanded slightly in the third quarter of last year, remained more or less unchanged in the fourth quarter and continued to be affected above all by the weakness of the manufacturing sector. In the surveys conducted by Istat and the Bank of Italy, firms have expressed slightly more favourable assessments of orders and foreign demand, but continue to view uncertainty and trade tensions as factors hindering their activity. Firms are planning to increase investment in 2020, albeit to a lesser extent than in the previous year.

Inflows of capital from abroad continue

In recent months, there has been substantial net foreign investment in Italian public securities (€90 billion between January and November 2019). The Bank of Italy's negative balance on the TARGET2 European payment system has improved significantly, owing in part to the effect of the increase in net funding for Italian banks from abroad on the repo markets, facilitated by the introduction of the new remuneration system for banks' reserves held with the Eurosystem. In 2019, the current account surplus remained large. Italy's net international investment position is close to balance.

Employment has risen

In the third quarter, the number of people in employment rose slightly, especially in the service sector; the data available point to an expansion in recent months as well. Contractual wage growth is positive (0.7 per cent year-on-year), although it is diminishing, reflecting the fact that significant sectors of the economy are still waiting for the renewal of collective bargaining agreements.

Inflation increases but remains very low

Inflation is low (0.5 per cent in December). The service sector is the biggest contributor to price growth, while growth in the prices of industrial goods remains modest. Core inflation strengthened slightly in the autumn, rising to 0.7 per cent. The latest business surveys registered a slight reduction in inflation expectations.

Sovereign yields and share prices increase

Italian government bond yields and Italian share prices have been rising since mid-October, reflecting a similar trend in other *euro-area countries, as well as the publication of some better-than-expected economic data for the euro area. Average yields on bonds issued by Italian non-financial corporations and banks remained substantially unchanged at more than 70 basis points below the average levels recorded in the first half of 2019.*

The cost of lending decreases

The cost of credit has fallen, considerably so for households, for whom growth in lending remains solid, while it is negative for firms. Based on the surveys, this mainly reflects weak demand for loans. According to the banks, the measures adopted in September by the ECB Governing Council will help bring about an improvement in credit conditions.

The ratio of net borrowing to GDP falls slightly

The preliminary data available for 2019 indicate a slight reduction in the ratio of general government net borrowing to GDP and an increase in the debt-to-GDP ratio. The budgetary provisions for the three years 2020-22, approved by Parliament last December, increase net borrowing by 0.7 percentage points of GDP on average per year compared with its current-legislation levels. After stabilizing in 2020, the Government's plans indicate that net borrowing and debt will decline in 2021 and 2022 as a percentage of GDP.

The projections for Italy …

This Bulletin includes the macroeconomic projections for the Italian economy in the three years 2020-22, which update those prepared in December as part of the Eurosystem staff macroeconomic projection exercise.

… conditional on a gradual global recovery and accommodative monetary conditions …

The projections assume: modest growth in world trade, although a gradual recovery is expected; accommodative monetary conditions, in line with the stance confirmed by the ECB Governing Council; and orderly developments in Italian financial markets, which translate into low credit costs for firms.

… indicate a return to moderate growth …

Based on these assumptions, the central projection indicates an increase of 0.5 per cent in GDP this year, of 0.9 per cent in 2021 and of 1.1 per cent in 2022. Economic activity is expected to be supported both by the gradual upturn in world trade and by moderate growth in domestic demand. Despite being affected by persistent uncertainty, investment is likely to be boosted by the gradual improvement in the outlook for global demand and by expansionary financing conditions; the decline in sovereign spreads observed since the beginning of last June is expected to support investment by about 3.5 percentage points overall in the three years 2020-22. Inflation will rise gradually, by 0.7 per cent in the current year to 1.3 per cent in 2022, above all thanks to a recovery in wages and profit margins, which are expected to benefit from the improved cyclical situation.

Compared with last July's projections, growth is predicted to be lower this year and essentially unchanged for 2021. The effects of the more pronounced weakness of the global economy are largely offset by those of the greater monetary stimulus and of lower risk premiums on Italian sovereign debt.

… but significant risks remain

Growth is still exposed to considerable risks, linked to increasing geopolitical uncertainty, trade conflicts that have only been partly resolved and the weak economic performance of our main European partners. Any delay in implementing the large increases in planned public investment, which have been incorporated in the forecasting scenario, or a renewal of tensions on the financial markets, could lead to growth being lower than projected.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Global growth has remained limited. International trade returned to growth in the third quarter, but there are still downside risks: the risk of tariff disputes escalating between the United States and China has abated, but the outlook remains uncertain and geopolitical tensions are on the increase. The stance of the central banks in the main advanced economies remains broadly accommodative.

The global economy is expanding, albeit to a limited extent

In the third quarter of 2019, GDP in the United States and Japan grew at rates similar to those of the previous quarter (Table 1); it rose in the United Kingdom. The purchasing managers' indices (PMI) suggest that in the fourth quarter the cyclical situation nevertheless remained unfavourable in the manufacturing sector (Figure 1).

Economic activity slowed in China in the summer months, but the latest indicators predict that it will stabilize. Growth decreased more markedly in India and remained modest in Russia and Brazil.

World trade returns to growth

According to our estimates, world trade increased in the third quarter of 2019 (by 2.6 per cent on an annualized basis; Figure 2); imports recovered in both the advanced and the emerging economies. However, the short-term outlook for international trade is unfavourable; the global PMIs for foreign orders remain below the threshold compatible with an expansion.

The US and China reach an initial trade deal

In December, the United States and China reached an initial trade agreement (phase-one deal), which will pave the way for a broader

Table 1

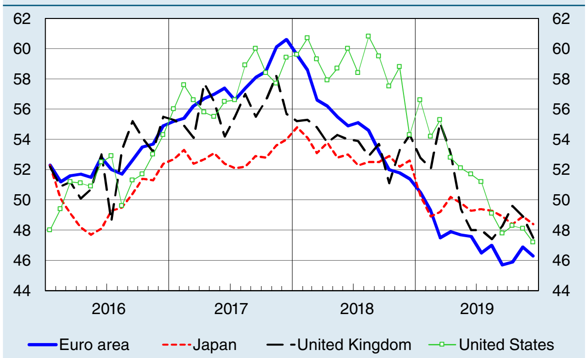
GDP growth and inflation
(percentage points)

	GDP growth (1) 2018	GDP growth (1) 2019 Q2	GDP growth (1) 2019 Q3	Inflation (2) December 2019
Advanced countries				
Japan (3)	0.3	2.0	1.8	0.5
United Kingdom	1.4	-0.7	1.7	1.3
United States	2.9	2.0	2.1	2.3
Emerging countries				
Brazil	1.3	1.1	1.2	4.3
China	6.6	6.2	6.0	4.5
India	7.4	5.0	4.6	7.4
Russia	2.3	0.9	1.8	3.0
Memorandum item:				
World trade (4)	**4.2**	**-0.3**	**2.6**	

Sources: National statistics; for the data on world trade, Bank of Italy.
(1) For the annual data, percentage changes. For the quarterly figures: annualized and seasonally adjusted quarterly percentage changes for the advanced countries; year-on-year percentage changes for the emerging economies. – (2) Consumer price index, year-on-year changes. – (3) For inflation, the data refer to November 2019. – (4) Based on national accounts and customs data. Seasonally adjusted quarterly data; annualized quarterly percentage changes.

Figure 1

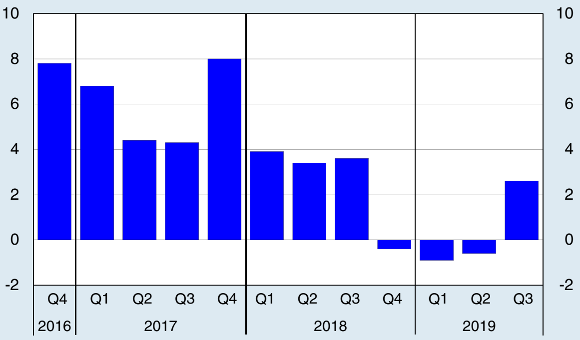
Manufacturing PMIs in the main advanced economies (1)
(monthly data; diffusion indices)



Sources: Markit, ISM and Refinitiv.
(1) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments. Each index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'.

Figure 2

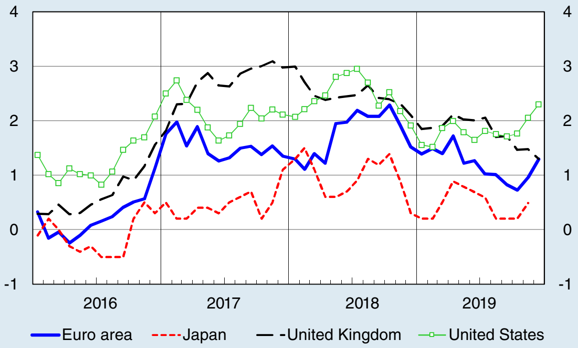
World trade (1)
(quarterly data; percentage changes)



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

Figure 3

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



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

discussion on economic relations between the two countries. The agreement has averted the US tariff increases initially expected in mid-December and has halved those introduced in September. The Chinese government has committed to increasing imports of agricultural and energy goods from the United States and has provided guarantees to protect intellectual property and for the exchange rate policy. The agreement has reduced the economic tensions between the two countries, ongoing since early 2018, but the tariffs in force are still much higher overall than they were two years ago. At the end of 2019, the US Congress approved the new trade agreement between the United States, Mexico and Canada (United States-Mexico-Canada Agreement, USMCA), which replaces that of 1994 (North American Free Trade Agreement, NAFTA) and tightens the rules on the origin of products and on production standards in the automotive sector. However, the decision on tariffs on imports of cars and car components from the European Union has been postponed.

Inflation is moderate

Consumer prices are growing moderately in the main advanced economies, at around 2 per cent in the United States and at an even lower rate in the other areas (Figure 3). The long-term inflation expectations derived from financial market yields have remained essentially stable at around 1.8 per cent in the United States (for the euro area, see Section 1.2).

The outlook for world trade and economic activity remains weak ...

According to the projections released by the OECD in November, the world economy will expand by 2.9 per cent this year, as it did in 2019 (Table 2), the lowest figure since the global financial crisis of 2008-09. The weakness of world

Table 2

Macroeconomic projections
(changes and percentage points)

	2018	Forecasts (1)		Revisions (2)	
		2019	2020	2019	2020
GDP (2)					
World	**3.6**	**2.9**	**2.9**	**0.0**	**-0.1**
Advanced countries					
of which: Euro area	1.9	1.2	1.1	0.1	0.1
Japan	0.8	1.0	0.6	0.0	0.0
United Kingdom	1.4	1.2	1.0	0.2	0.1
United States	2.9	2.3	2.0	-0.1	0.0
Emerging countries					
of which: Brazil	1.1	0.8	1.7	0.0	0.0
China	6.6	6.2	5.7	0.1	0.0
India (3)	6.8	5.8	6.2	-0.1	-0.1
Russia	2.3	1.1	1.6	0.2	0.0
World trade (4)	**4.2**	**0.6**	**1.4**	**0.0**	**....**

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

trade and manufacturing production will continue to weigh on economic activity. According to our estimates, international trade increased by barely 0.6 per cent in 2019 and will accelerate moderately in 2020.

... but some downside risks abate

The risks to global growth remain tilted to the downside; the risks of trade tensions escalating between the United States and China and of the United Kingdom withdrawing from the European Union without a deal have abated (see the box 'The United Kingdom's withdrawal from the European Union'). Geopolitical tensions are mounting, however, especially between the United States and Iran, and fears persist that China's economy will slow more markedly than was expected.

THE UNITED KINGDOM'S WITHDRAWAL FROM THE EUROPEAN UNION

The ratification of the agreement for the United Kingdom's withdrawal from the European Union, agreed on 17 October last year, is nearing completion. If, as seems likely, the ratification is concluded by the end of January, the United Kingdom will leave the EU on 31 January, the end of the last extension granted by the European Council on 29 October 2019. The main points of the agreement envisage the following:

a) a transition period, up until 31 December 2020, during which the status quo will be completely maintained, or rather the EU's legal system will continue to apply to, and in, the United Kingdom, except that the UK will no longer participate in the EU's institutional and representative organizations. Specifically, as regards banking and financial services, the current system of mutual recognition of authorizations and of the supervisory system (the single passport) will be extended. By 30 June 2020, the parties will be able to agree, on a one-off basis, to extend the transition period by one or two years;[1]

b) the confirmation of the rights arising from the free movement of persons within the EU, for British citizens already resident or that will move to the EU before the end of the transition period and likewise for European citizens in the United Kingdom. In addition, recognition of professional qualifications and access to social services are maintained on both sides;

c) the definition of the methods for calculating and settling the financial obligations undertaken by the United Kingdom during its membership of the EU, also in relation to the pension liabilities for the staff of EU institutions and to the commitments outstanding at the end of 2020;

d) governance arrangements for the agreement that include the immediate applicability of the measures therein and their supremacy over national rules in the United Kingdom too; the UK's recognition of the EU Court of Justice as having the final say on EU law; and setting up a Joint Committee for settling disputes;

e) a mechanism to ensure that an open border is maintained (with no border controls) between Ireland and Northern Ireland after the end of the transition period. The relative protocol confirms the existing common travel area between Ireland and the United Kingdom. It also establishes that Northern Ireland formally belongs to the United Kingdom's customs territory, especially as regards trade agreements with third countries, but it actually establishes a dual customs and regulatory system: goods from the rest of the United Kingdom or from third countries that are at risk of subsequently

[1] The UK government has included a provision in the draft law ratifying the withdrawal agreement, which can be modified by a successive law and which means it commits to not seeking to extend the transition period.

entering the EU[2] will be subject to EU duties and regulations upon entry into Northern Ireland; goods from the European Union will be exported freely to Northern Ireland and vice versa, with no duties or regulatory controls. Lastly, the protocol provides that Northern Ireland's legislative assembly will vote every four years to renew the application of this special system.[3]

The political declaration on the future relationship between the EU and the United Kingdom accompanying the Withdrawal Agreement expects no duties on trade in goods in the future either. For trade in services, however, the aim is to deliver a level of liberalization well beyond that envisaged by the World Trade Organization (WTO). As regards financial services, the declaration merely indicates some joint commitments of a general nature (preservation of financial stability, market integrity, investor protection and fair competition) while respecting the parties' autonomy, also regarding equivalence decisions,[4] together with a reciprocal interest in a close and structured cooperation on regulatory and supervisory matters. In any case, access for UK banking and financial intermediaries to the EU's internal market would not be direct as it is under the current system based on the single passport.

If the transition period – especially in the absence of any extension – were not sufficient to conclude the agreements set out in the political declaration, and in any case for the trade sectors not covered by such agreements, the regime envisaged by the WTO would be applied after the end of 2020, leading to a significant discontinuity in bilateral relations compared with those currently in force.

[2] The protocol defines 'goods that are at risk of subsequently entering the EU' as those that are subject to being processed in Northern Ireland. Goods that are only for local consumption in Northern Ireland will be exempt from all duties if they come from another part of the United Kingdom, but will be subject to British duties if they come from third countries.

[3] Should the assembly reject the renewal, the special system would end after two years, during which the Joint Committee would look for an alternative solution to maintain an open border.

[4] The equivalence decisions, through which the Commission recognizes that the regulatory and financial supervision regime of a third country is equivalent to that of the EU, are the frame of reference for the access of third-country intermediaries to the EU market. The political declaration includes the EU and the UK's intention to make their respective equivalence decisions by 30 June 2020.

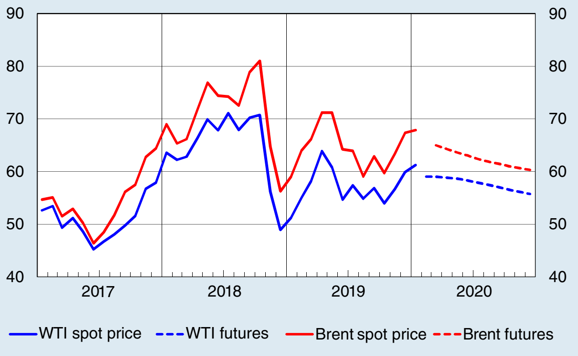
Oil prices are rising

Oil prices have risen over the last three months (Figure 4); they were initially buoyed by greater optimism in the markets thanks to an initial trade agreement being reached between the United States and China, and then by the agreement among OPEC+ countries to ration production.[1] Given the increase in the supply from non-OPEC countries and the fundamentally weak demand, at the beginning of December, the OPEC+ countries agreed to increase the cuts in production and to allow individual members to make further cuts on a voluntary basis; the agreement will be discussed again next March. In January, the heightening of tensions in the Middle East triggered a rise in oil prices, which was much lower than the

Figure 4

Oil prices (1)

(monthly data; dollars per barrel)



Source: Refinitiv.
(1) For the spot prices, average monthly data up to December 2019; the latest figure is the average of the daily data from 1 to 10 January 2020.

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

increase of last September in the wake of the attacks on the Saudi oil facilities and was rapidly reabsorbed. The volatility implied by crude oil option prices, which has gradually been falling from the peak levels reached in September, rose at the beginning of the year.

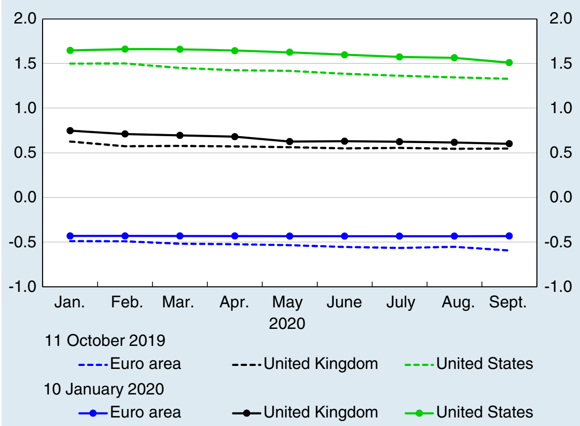
The Fed is not expected to change its benchmark rates

At the end of October, the Federal Reserve reduced the target range for the federal funds rate by 25 basis points for the third consecutive time, bringing it to 1.50-1.75 per cent. The projections of the Federal Open Market Committee, published in December, point to benchmark rates remaining unchanged for this year as a whole. The rates implied by prices for federal funds futures contracts are in line with this stance (Figure 5).

Figure 5

Overnight interest rates implied by derivative instruments (1)

(monthly values; percentage points)



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

The Bank of England and the Bank of Japan have not modified their monetary policy stance, which remains highly accommodative. The People's Bank of China reduced its medium-term lending facility rate and the required reserve ratio for commercial banks. The central banks of several emerging countries, including Brazil, India and Russia, have lowered their key interest rates further over the last three months.

1.2 THE EURO AREA

Economic activity in the euro area has been held back by the weakness of the manufacturing sector, which according to the available indicators continued in the final part of the year. The Eurosystem staff projections published in December indicate that inflation will remain well below 2 per cent over the next three years. The ECB Governing Council has confirmed its accommodative stance.

Table 3

Euro-area GDP growth and inflation

(percentage changes)

	GDP growth			Inflation
	2018	2019 Q2 (1)	2019 Q3 (1)	2019 December (2)
France	1.7	0.3	0.3	1.6
Germany	1.5	-0.2	0.1	1.5
Italy	0.8	0.1	0.1	(0.5)
Spain	2.4	0.4	0.4	(0.8)
Euro area	1.9	0.2	0.2	(1.3)

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 changes in the harmonized index of consumer prices (HICP).

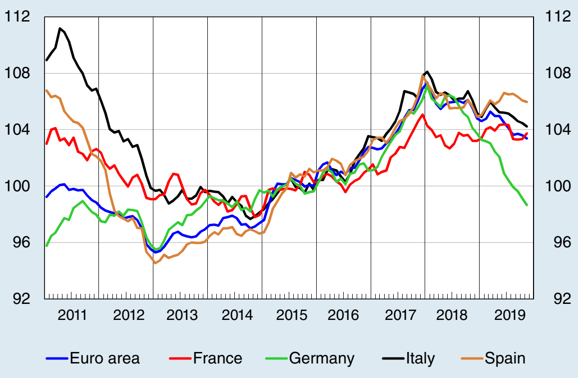
Euro-area growth is modest in the third quarter

In the third quarter, GDP growth in the euro area remained unchanged at 0.2 per cent on the previous quarter (Table 3). Economic activity was buoyed by domestic demand and by consumption in particular, which strengthened thanks to the positive developments in employment. Against a backdrop of weak world trade (see Section 1.1), the contribution of net exports was slightly negative. GDP

Figure 6

Industrial production in the euro area and in the main economies (1)

(monthly data; indices: 2015=100)

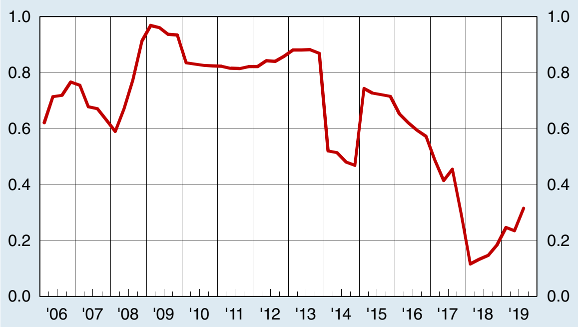


Sources: Based on Eurostat and Istat data.
(1) Data adjusted for seasonal and calendar effects; 3-term moving averages.

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 quarterly rate of growth of value added in manufacturing and that in services.

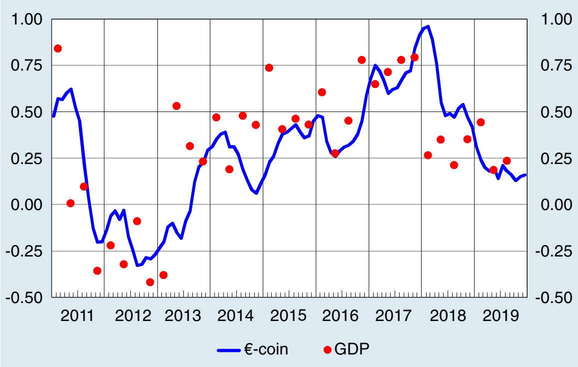
continued to grow in Spain, France and, to a lesser degree, Italy; it returned to growth in Germany, at a very low rate but slightly above expectations.

The industrial sector remained the weakest one, with economic activity contracting again in the summer quarter and with an especially sharp drop in Germany (Figure 6). Conversely, value added in the service sector grew both in the euro area as a whole and in the other three major economies. There remains the risk that, if it persists over time, the weakness of the industrial sector will be transmitted to the service sector more markedly: the correlation between the change in value added in manufacturing and that in services, which has fallen to low levels in recent years, rose slightly (Figure 7).

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 €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July, 2009. Further details are available on the Bank of Italy's website: '€-coin: December 2019'. For GDP, quarterly data, percentage changes on previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

In the fourth quarter of 2019, growth appears to have remained moderate: in December, the Bank of Italy's €-coin indicator, which estimates the underlying GDP trend in the euro area, stood at very low levels (Figure 8). In the two months October and November, the fall in industrial production attenuated slightly, also thanks to the performance of Germany's industrial sector, which was better than expected. For the quarter on average, the purchasing managers' index (PMI) for manufacturing points to a contraction in that sector in the euro area; the services PMI decreased slightly but remained above the threshold compatible with an expansion.

The Eurosystem staff projections published in December estimate GDP growth to have been 1.2 per cent in 2019; it is expected to decline to 1.1 per cent in 2020 and to reach 1.4 per cent in the following two years. Compared with the September release, the growth projection was revised upwards by 0.1 percentage points for 2019 and downwards by 0.1 points for 2020.

Inflation remains low, including the core component

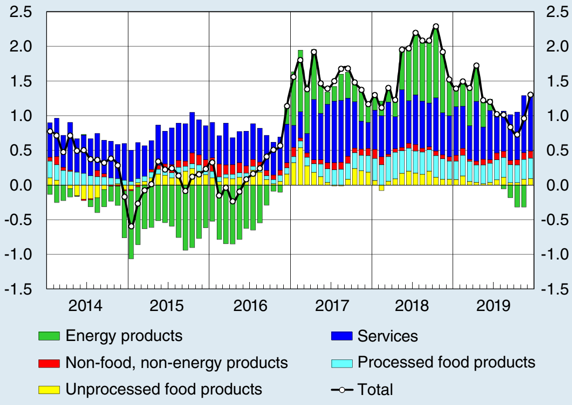
The twelve-month inflation rate held stable in the fourth quarter on average: the decline in the energy component was offset by the strengthening of the core component, which was buoyed by service prices (Figure 9). Based on preliminary data, inflation rose to 1.3 per cent in December, as did core inflation (the figures for the year on average were 1.2 and 1.0 per cent respectively).

According to the December Eurosystem projections, inflation is expected to remain low over the three years 2020-22, consistent with the moderate growth in economic activity, rising from 1.1 per cent in 2020 to 1.4 per cent in 2021 and to 1.6 per cent in 2022.

Figure 9

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

(monthly data; per cent and percentage points)



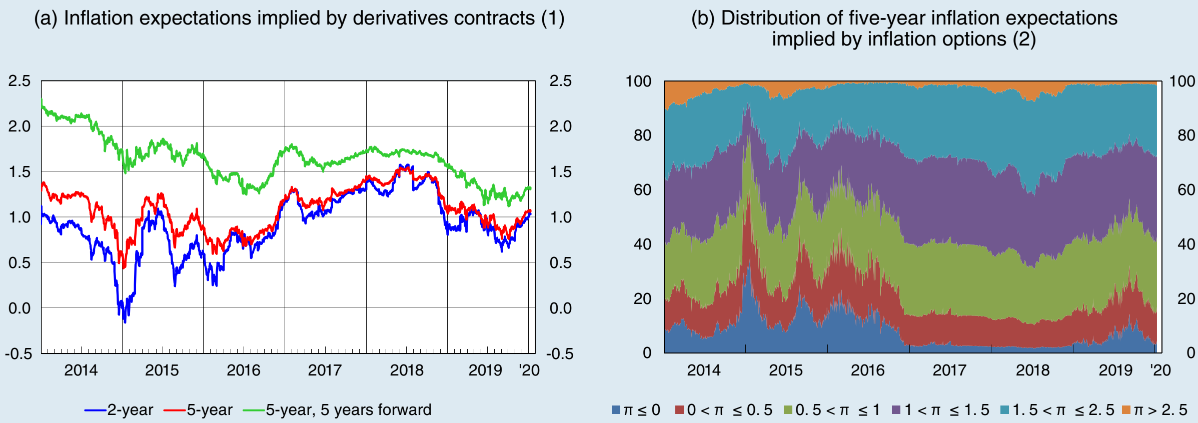
Sources: Based on Eurostat and ECB data.
(1) Twelve-month percentage change in the harmonized index of consumer prices (HICP).

After falling markedly between the end of 2018 and the summer of last year, inflation expectations rose slightly, but remain below the ECB's medium-term objective; five-year, five years forward expectations reached 1.3 per cent (Figure 10.a). The short-term expectations implied by inflation swap yields rose by about 20 basis points compared with mid-October, to 1.0 and 1.1 per cent over the two- and five-year horizons respectively. Based on the prices of inflation options, the probability that inflation will remain below 1.5 per cent on average over the next five years has decreased slightly (Figure 10.b).

Figure 10

Inflation expectations

(daily data; per cent)



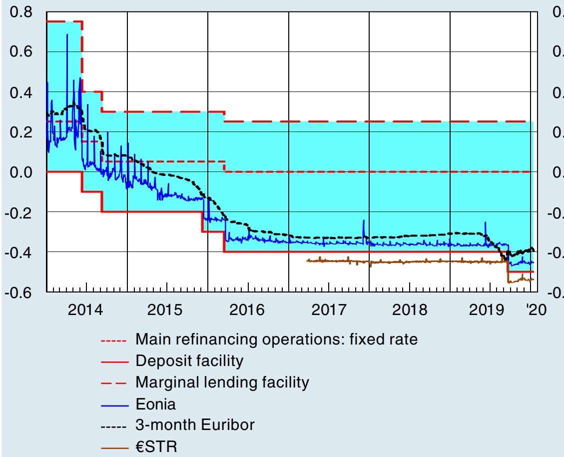
Source: Bloomberg.
(1) Expected inflation rates implied by 2-year, 5-year and 5-year, 5 years forward inflation swaps. – (2) The distribution of expected inflation (π) is calculated based on the prices of zero-coupon inflation options in the euro area over a 5-year horizon. The underlying inflation rate is calculated based on the harmonized index of consumer prices excluding tobacco.

The ECB Governing Council confirms its highly accommodative stance

At its 12 December 2019 meeting, the ECB Governing Council confirmed the monetary policy stance adopted in September. It expects the key interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to 2 per cent (Figure 11). It expects the net purchases made under the expanded asset purchase programme (APP), which since November have been proceeding at a monthly pace of €20 billion, to run for as long as necessary. Reinvestment of the principal payments from maturing securities purchased under the APP will continue for an extended period of time, past the date when the ECB starts raising the key interest rates.

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, the €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.

On 30 October 2019, the two-tier system for the remuneration of banks' reserves in excess of the minimum requirement came into effect. The system provides for remuneration at a zero interest rate for holdings up to six times the minimum reserve requirement, and negative remuneration for holdings in excess of that level. The new system has made it advantageous to redistribute liquidity between banks and national banking systems, leading to an inflow of funds to Italian intermediaries as a whole. The redistribution occurred without significant repercussions on either the euro short-term rate (€STR), which held virtually stable, or repo rates, indicating the absence of significant segmentations in this market.[2] The Bank of Italy's negative balance on the TARGET2 European payment system narrowed (see Section 2.4).

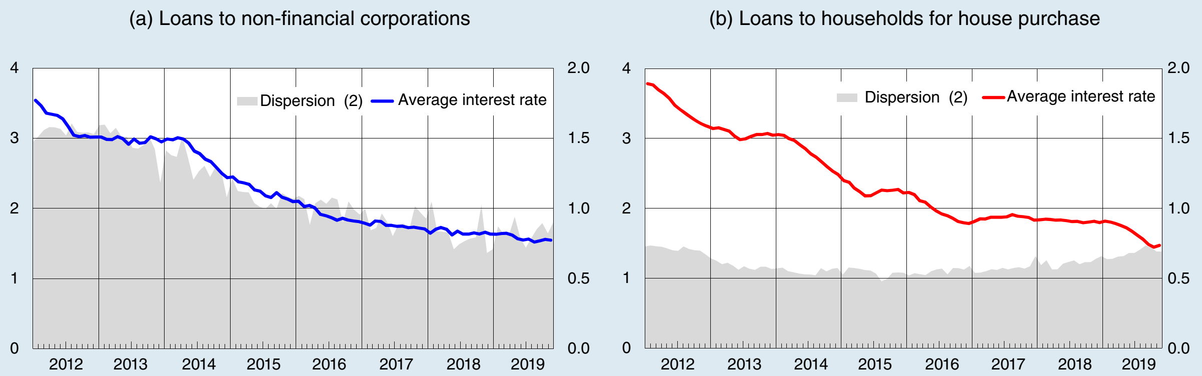
Net monthly purchases under the APP have resumed since the beginning of November: at the end of December, the book value of the public sector securities purchased by the Eurosystem stood at €2,103 billion, covered bank bonds at €264 billion, and asset-backed securities and corporate bonds at €28 billion and €185 billion respectively. The book value of Italian public sector securities amounted to €364 billion, of which €326 billion purchased by the Bank of Italy. The value of the assets that will be redeemed at maturity in the next twelve months and reinvested by the Eurosystem amounts to €258 billion, of which government securities make up 78 per cent.

With the second auction of the new series of targeted longer-term refinancing operations (TLTRO III), settled on 18 December, €98 billion were allocated to 122 counterparties, of which €33 billion to 37 Italian banks. On the same day, €147 billion borrowed in the previous series of these operations (TLTRO II) were repaid, of which €51 billion by Italian banks. Participation in the December auction, which was relatively low, may have been influenced by end-of-year effects. A more complete assessment of banks' recourse to TLTRO III funding will be possible after the next auctions.

[2] A. Secchi, 'A two-tier system for remunerating banks' excess liquidity in the euro area: aims and possible side effects', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 534, 2019.

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.

Lending expands

In November, lending to non-financial firms and households in the euro area grew by an annualized quarterly rate of 1.0 and 3.9 per cent respectively (adjusted for seasonal factors and the accounting effect of securitizations). Loans to firms grew faster in France and Germany and more slowly in Spain and Italy (see Section 2.7).

Between August and November, the interest rates applied to new loans to non-financial corporations held stable at 1.5 per cent, while those applied to new mortgage loans to households decreased by about 10 basis points, to 1.5 per cent (Figure 12). The dispersion of interest rates across countries remained low.

1.3 GLOBAL FINANCIAL MARKETS

Stronger expectations of a trade deal between the United States and China and the accommodative monetary policy stance of the main central banks encouraged a shift of investor interest from the bond to the equity segment and boosted share prices. Long-term yields rose slightly, reflecting less pessimistic assessments of future growth.

Long-term yields rise slightly

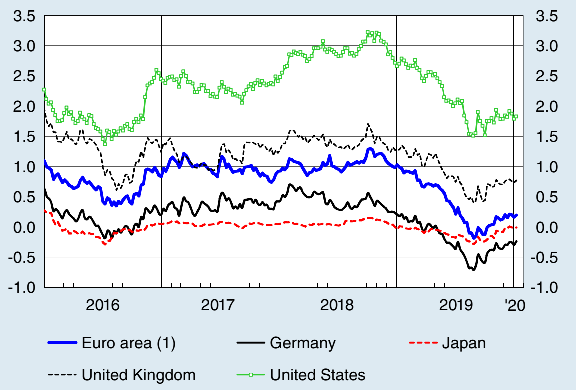
The long-term rates have increased in all the leading advanced economies since mid-October (Figure 13), as fears abated over the outcome of the trade negotiations between the United States and China and also over Brexit (see Section 1.1). The yield on German ten-year government bonds increased by 24 basis points, to -0.20 per cent. The yield spread with the corresponding German Bund narrowed by 33 basis points in Greece and by 22 basis points in Ireland, whereas it remained substantially unchanged in Belgium, France, Portugal and Spain (Figure 14); it widened by 14 basis points in Italy (see Section 2.8). The yield on ten-year Italian government bonds is almost the same as that on Greek bonds and about 90 basis points higher than the yields in Spain and Portugal.

Stock market indices go up

Share prices in the main advanced and emerging economies have risen (Figure 15), benefiting since October from greater optimism about the trade negotiations between the United States and China (see Section 1.1). The implied volatility of the stock market has declined (Figure 16).

Figure 13

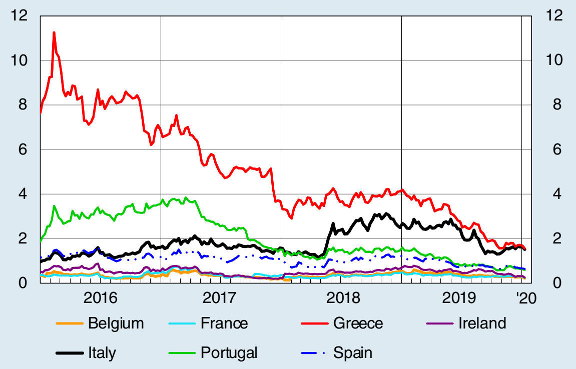
Yields on 10-year government bonds
(end-of-week data; per cent)



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)



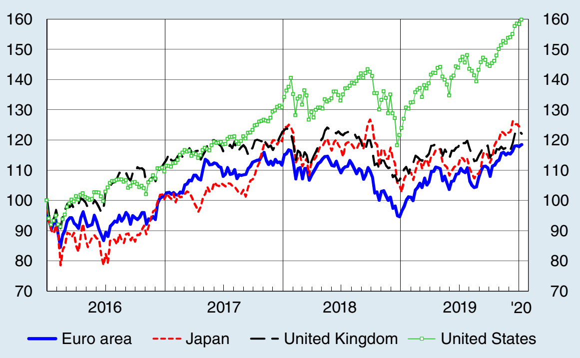
Source: Based on Bloomberg data.

The euro remains stable

Since mid-October, the euro exchange rate has remained basically unchanged both against the US dollar and in nominal effective terms (Figure 17). Short positions in euros prevail on the derivatives markets among non-commercial operators, suggesting expectations of a depreciation of the single currency. Among the risks, however, an appreciation of the euro against the dollar prevails, as indicated by the risk reversal at one month (Figure 18).

Figure 15

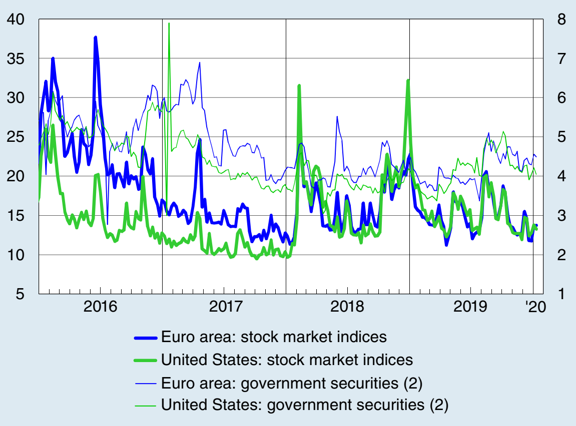
Stock market indices (1)
(end-of-week data;
1st week of January 2016=100)



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

Figure 16

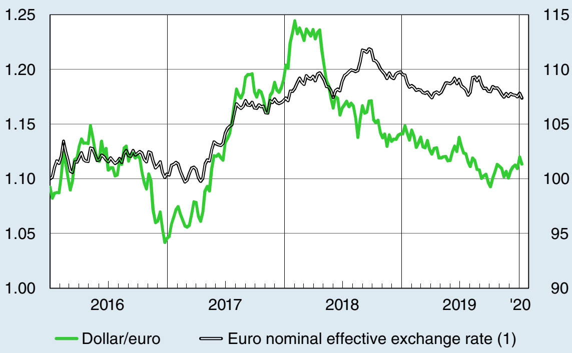
Implied volatility of equity and government bond prices (1)
(average weekly data; percentage points)



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

Figure 17

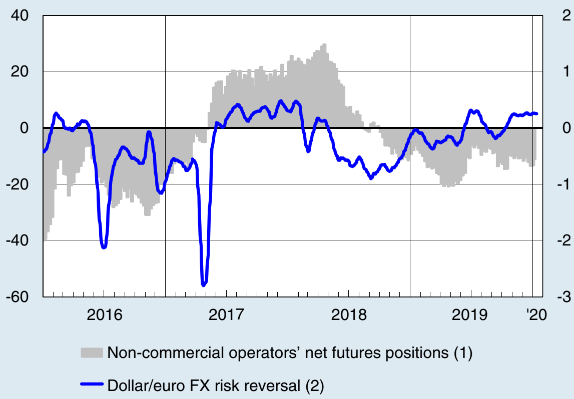
Exchange rates
(average weekly data; dollars per euro and indices)



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.

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

The latest available data suggest that GDP remained more or less unchanged in Italy in the last quarter of 2019, above all owing to the weakness of the manufacturing sector.

GDP is buoyed by consumption in the third quarter

GDP rose by 0.1 per cent in the third quarter (Figure 19 and Table 4), boosted by domestic demand and above all by household spending; growth was also driven by the changes in stocks. Investment declined, especially that in capital goods. The contribution of foreign trade was negative owing to a slight reduction in exports and a sizeable increase in imports. Value added decreased in industry excluding construction and in agriculture; it rose slightly in construction and services.

GDP appears to have remained stationary in autumn

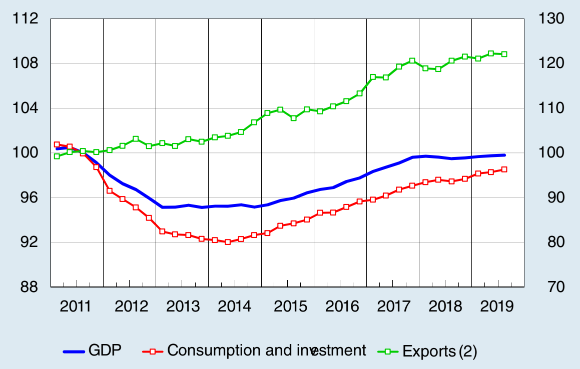
Based on the information available so far, GDP remained essentially unchanged in the fourth quarter; this assessment could be subject to downside risks if the persistent weakness of the industrial cycle were transmitted to services as well (see the box 'Economic activity in the fourth quarter of 2019'). The Bank of Italy's Ita-coin indicator[1] suggests that economic activity is basically stationary (Figure 20).

On the basis of these assessments, it is estimated that GDP growth in 2019 as a whole was around 0.2 per cent.

Figure 19

GDP and its main demand components (1)

(quarterly data; indices: 2011=100)

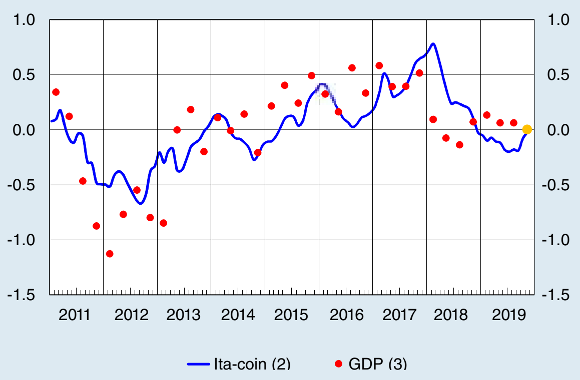


Source: Based on Istat data.
(1) Chain-linked volumes; the data are adjusted for seasonal and calendar effects. – (2) Right-hand scale.

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) Further details are available on the Bank of Italy's website: 'Ita-coin coincident cyclical indicator'. Since November 2019, the dataset used for the Ita-coin estimate has been expanded with new data on services, which has meant adjusting the indicator profile. – (2) Monthly estimates of changes in GDP on the previous quarter net of the most erratic components. – (3) Quarterly data; percentage change on previous quarter. The yellow dot shows the forecast for GDP growth based on bridge models (see 'Macroeconomic models' on the Bank of Italy's website).

[1] With the November 2019 release, the data used for the Ita-coin estimate were expanded to include new data on services (PMI indices, spending on purchases of services, and financial services). This led to a revision of the indicator starting from 2010.

Table 4

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

	2018	2019			2018
	Q4	Q1	Q2	Q3	
GDP	0.1	0.1	0.1	0.1	0.8
Total imports	1.6	-2.4	1.1	1.3	3.0
National demand (2)	0.3	-0.5	0.1	0.5	1.1
National consumption	0.3	0.1	0.1	0.3	0.7
Household spending (3)	0.3	0.0	0.1	0.4	0.8
General government spending	0.0	0.4	0.1	0.1	0.4
Gross fixed investment	0.1	2.4	0.2	-0.2	3.2
Construction	0.7	3.0	-1.3	0.2	2.9
Capital goods (4)	-0.4	1.9	1.4	-0.5	3.4
Change in stocks (5) (6)	0.1	-1.0	-0.1	0.3	-0.1
Total exports	0.8	-0.4	0.9	-0.1	1.8
Net exports (6)	-0.2	0.6	0.0	-0.4	-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 include transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

ECONOMIC ACTIVITY IN THE FOURTH QUARTER OF 2019

According to the latest data and based on the Bank of Italy's forecasting models,[1] Italy's GDP appears to have remained essentially unchanged in the fourth quarter of 2019 (Figure A). This assessment could be subject to downside risks, if the persistent weakness of manufacturing turns out to have had more significant repercussions on the other sectors of the economy, especially on the service sector, in relation to what the indicators currently available suggest.

Our estimates for December indicate that the fall in industrial production in the fourth quarter was similar to the fall in the third quarter. This estimate is supported by the reduction in electricity consumption, offset by the increase in goods transport (Figure B), and by the persistently low levels of manufacturing confidence indicators (Figure C). The purchasing managers' index (PMI) for the manufacturing sector remained well below the threshold compatible with an expansion (Figure 21.b).

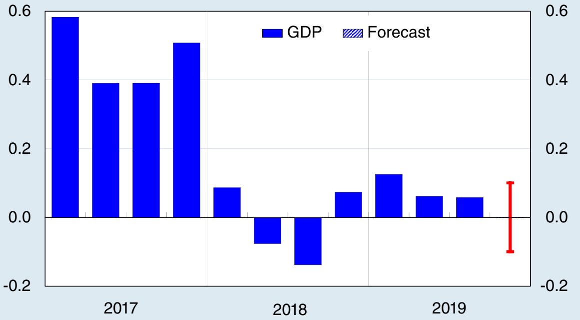
Value added in services seems to have remained at the same level as in the previous quarter. The PMIs for this sector also contribute to this assessment, as they are just above the expansion threshold (about 51 on average for the fourth quarter; Figure D), as does the balance between company births and deaths, which is approximately nil.

Our estimates indicate that there was a very small increase in value added in construction in the fourth quarter, as suggested by the performance of the construction sector in October and by the business confidence indicator for this sector, which remains high, despite having decreased (Figure C).

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

Figure A

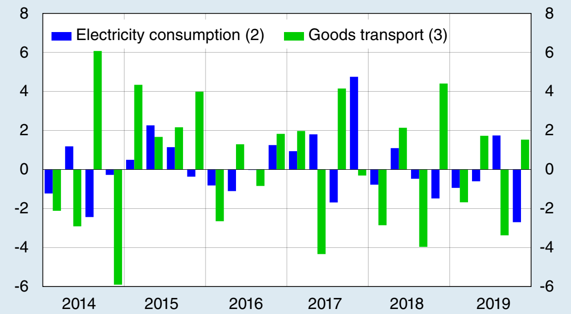
GDP growth (1)
(quarterly data; percentage changes)



Source: Based on Istat data.
(1) For GDP and estimates, percentage change 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

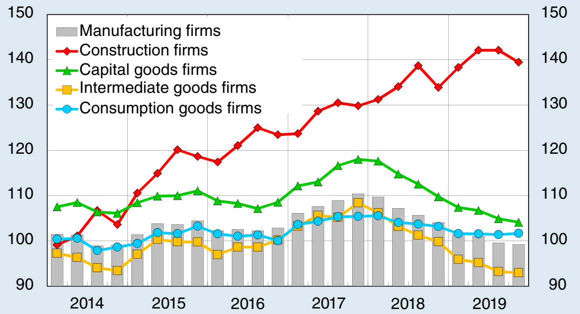
Cyclical indicators (1)
(quarterly data; percentage changes)



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; seasonally adjusted data. – (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

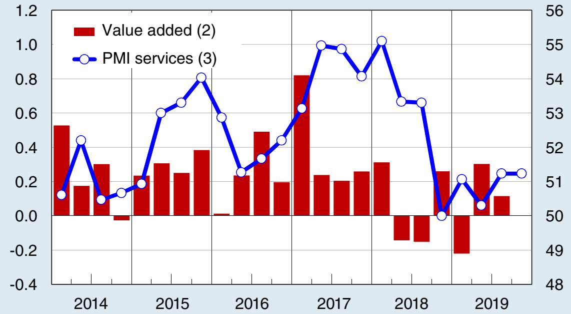
Business confidence indices (1)
(quarterly data; indices: 2010=100)



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

Figure D

PMI and value added in services (1)
(quarterly data; diffusion indices and percentage changes)



Sources: Based on Istat and Markit data.
(1) For the PMI, average level in the reference quarter. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) The figure for value added in the fourth quarter of 2019 is not yet available. – (3) Right-hand scale.

2.2 FIRMS

Based on the latest cyclical indicators, industrial production is estimated to have fallen in the fourth quarter. Firms' assessments remain cautious, although they do point to an improvement in expectations for orders in the current quarter. The firms participating in the Bank of Italy's survey reported a slight expansion in their investment plans for 2020.

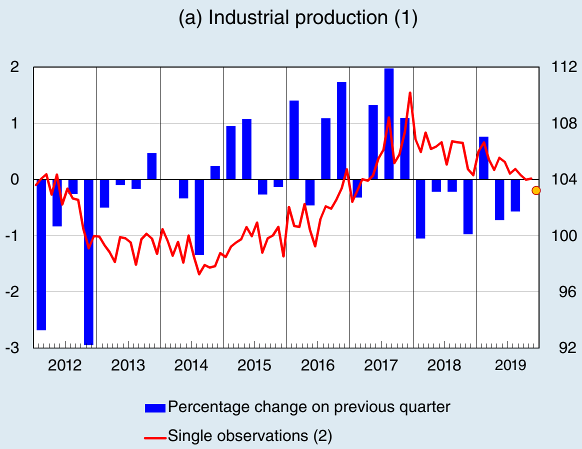
Industrial production falls

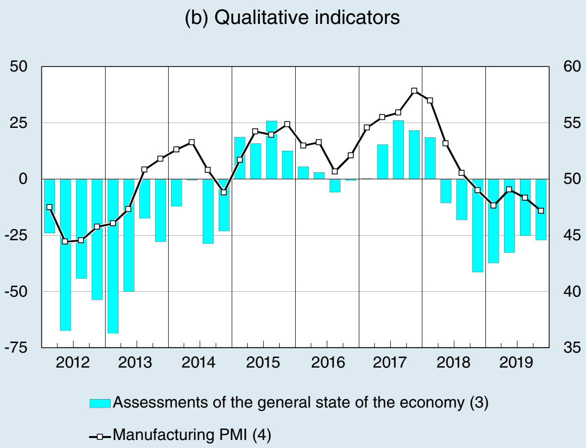
In November, industrial activity was almost stationary (Figure 21.a), held back by the particularly pronounced downturn in the energy sector; excluding this component, it rose by 0.4 per cent. According to our estimates for December, the

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 adjusted for seasonal and calendar effects. – (2) Indices: 2015=100. The dot represents the estimate for December. 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, 15 January 2020). – (4) Diffusion index of economic activity in the manufacturing sector based on purchasing managers' assessments. Right-hand scale. The index is obtained by adding the percentage of responses 'better' to half of the percentage of responses 'the same'.

decline in manufacturing activity in the fourth quarter was analogous to the one recorded in the summer months.

The surveys carried out by Istat and the Bank of Italy reveal that firms are still cautious: expectations about developments in demand signal an expansion in sales in the current quarter and an improvement in foreign demand – especially in industry excluding construction – which stands in contrast with the still unfavourable assessments of the general state of the economy, especially by service firms and in the South and Centre of Italy (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations'). The purchasing managers' index (PMI) for service firms remained stable above the threshold compatible with an expansion; the manufacturing PMI remained below the threshold (Figure 21.b).

Investment declines in the summer

In the third quarter, investment fell slightly because of the decline in purchases of capital goods, although investment in construction increased. The firms interviewed in the Bank of Italy's survey plan to increase investment in 2020, albeit to a lesser extent than in the previous year (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations').

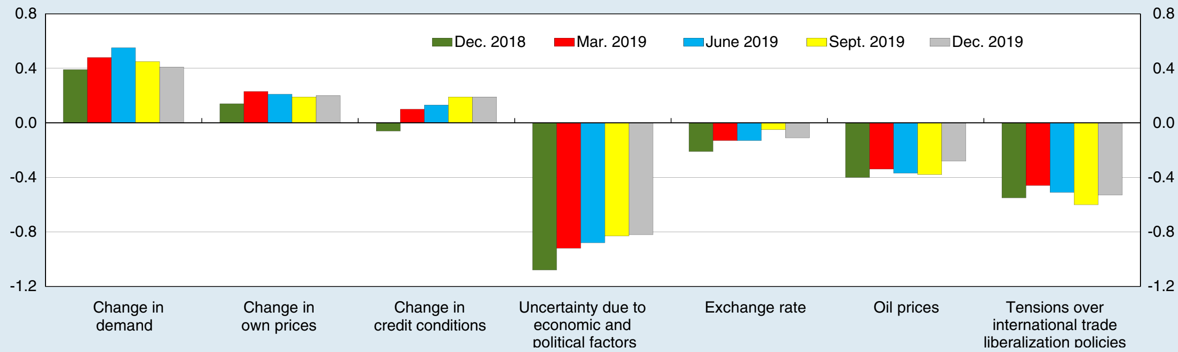
ITALIAN FIRMS' INVESTMENT ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

Between 25 November and 16 December 2019, the Bank of Italy conducted its quarterly survey on a sample of 1,261 industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 15 January 2020).

In the fourth quarter, the balance between the number of firms that expect an improvement and those expecting a deterioration in the general economic situation fell slightly (see Figure 21.b).

Figure A

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



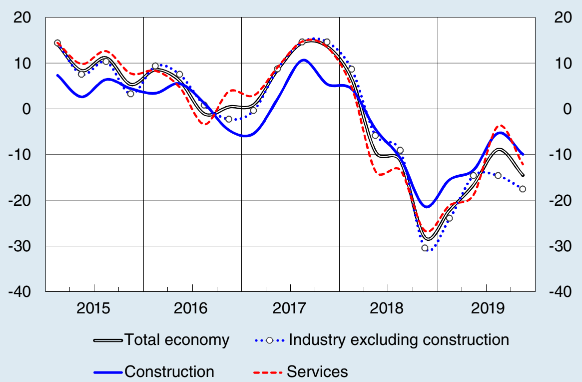
(1) Firms in industry excluding construction and in services were asked to assess how each factor will influence their business in the next 3 months. The responses in terms of direction (increase or decrease) or intensity (strong/medium/modest) are coded on a scale ranging from -3 to 3 (where 0 indicates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

The decline is entirely attributable to the service sector, and mostly ascribable to the less favourable assessments of firms in the south and, to a lesser extent, in the centre of Italy. Firms' assessments of their own operating conditions improved in industry excluding construction and in the construction sector, but worsened in services.

According to most firms, demand for their products rose in the fourth quarter, despite a weak start. This was mainly attributable to the strong trend for foreign orders reported by manufacturing firms (notwithstanding the slowdown in orders from the German market).

Figure B

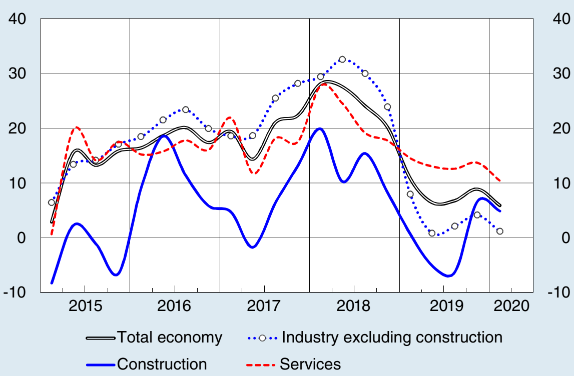
Firms' assessment of conditions for investing compared with the previous quarter (1)
(quarterly data; percentage points)



(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, 15 January 2020).

Figure C

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



(1) Balance between expectations of an improvement and a deterioration 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, 15 January 2020). The initial indications of expectations for the reference year are shown in the fourth quarter of the prior year.

The slightly more favourable assessments of demand conditions have continued into the current quarter, with the number of firms expecting an expansion still exceeding that expecting a reduction (by around 7 percentage points, 10 points in the previous survey). The balance rose for those firms that focus more on exports, especially in the industrial sector. According to the firms, however, uncertainty stemming from economic and political factors and from tensions surrounding trade policies are still the main hindrances to their activity (Figure A).

Firms continue to signal an increase in planned investment: the balance between the number of firms that expect to raise nominal expenditure on investment and those that plan to cut it remains positive, although still far below the highest levels reached in the last five years (Figure C). The majority of the assessments, however, suggest that investment conditions are slightly less favourable than in the previous quarter (Figure B).

The real estate market struggles to pick up

House sales returned to growth in the third quarter, while prices remain practically unchanged (Figure 22). The Bank of Italy's Italian Housing Market Survey conducted in November suggests signs of a slowdown; the percentage of estate agents reporting a drop in prices increased.

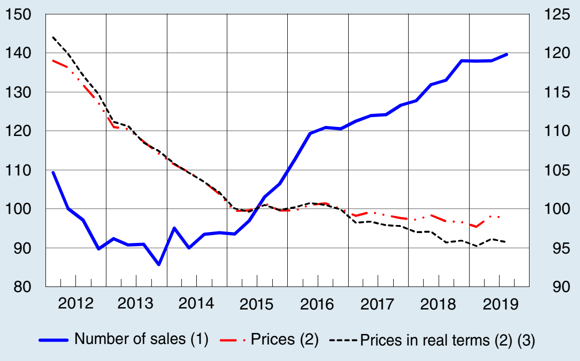
In the fourth quarter, activity in the construction sector expanded very moderately, in line with the change in output in October and with the confidence indices that fell, although they remain at high levels (see the box 'Economic activity in the fourth quarter of 2019').

Firms' debt is stable

Based on Istat data, on average in the four quarters ending in September 2019, the profit share of non-financial corporations (calculated as the ratio of gross operating surplus to value added) decreased slightly compared with June, coinciding with an increase in labour costs. Their self-financing capacity (calculated as the ratio of gross saving to value added) also declined slightly. Total corporate debt as a percentage of GDP remained stable at just above 69 per cent (Figure 23), far below the euro-area average (108.5 per cent).

Figure 22

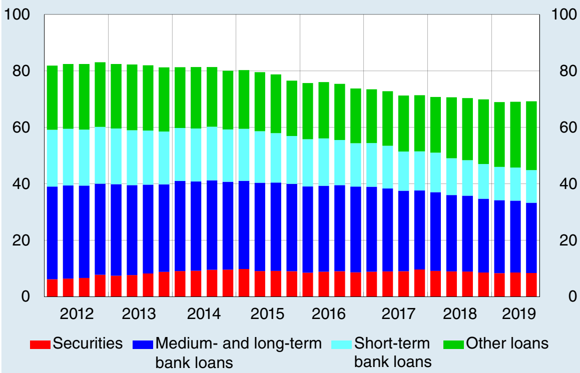
House prices and sales
(quarterly data; indices: 2015=100)



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

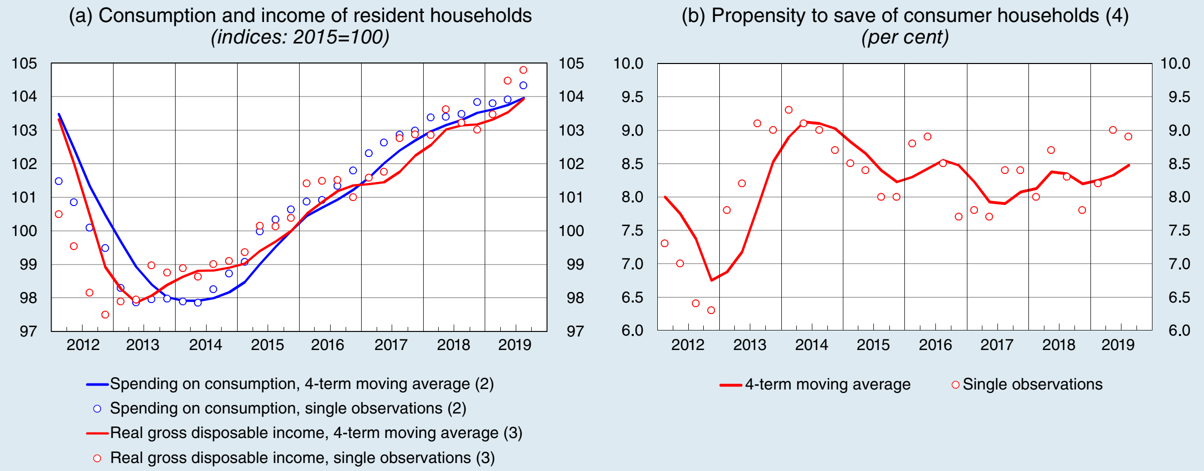
The increase in disposable income recorded in 2019 boosted household spending in the summer months; the propensity to save remained essentially unchanged. The decline in consumer confidence in the autumn could, however, signal a slowdown in consumption in the fourth quarter.

Consumption accelerates in the summer months ...

Spending by resident households in the third quarter accelerated to 0.4 per cent. There was an increase in spending across all components, in particular on durable and semi-durable goods. Consumption benefited from the favourable trend in disposable income, which had also been helped somewhat since April by the new minimum income scheme (*Reddito di cittadinanza* or RdC). Households' purchasing power rose by 0.3 per cent (Figure 24.a), a smaller increase than in the spring months owing to lower growth in employment income (see Section 2.5). The propensity to save remained at around 9 per cent (Figure 24.b).

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 is estimated to have increased slightly in the fourth quarter too

According to our estimates based on the latest cyclical indicators, consumption continued to rise in the fourth quarter, although more moderately. These estimates are supported by the household surveys that point to a decline in the consumer confidence index, coinciding with the net deterioration in the assessments of and the expectations for the general state of the economy, as well as the employment outlook (Figure 25); uncertainty about developments in the interviewees' own personal financial situations began to rise again. By contrast, new vehicle registrations increased, pointing to possible growth in the durable goods component, which nevertheless accounts for less than 10 per cent of total spending.

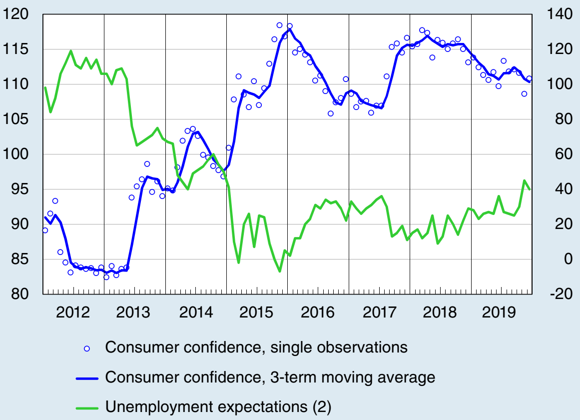
The ratio of debt-service to disposable income is unchanged

In the third quarter of 2019, the ratio of Italian household debt to disposable income decreased very slightly compared with the previous quarter (to 61.7 per cent; Figure 26), well below the euro-area average (equal to 94.9 per cent). As a share of GDP, household debt stayed the same at 41.3 per cent

Figure 25

Consumer confidence (1)

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

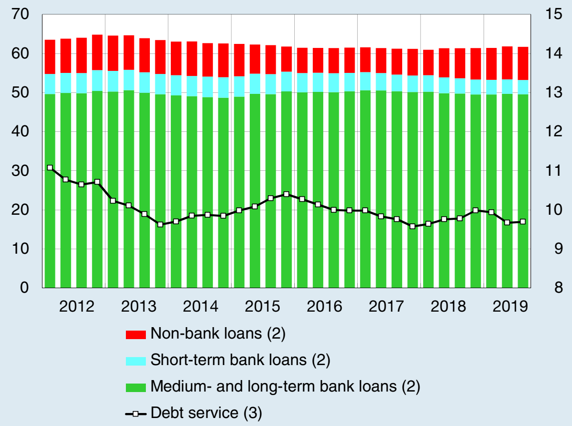


Source: Based on Istat data.
(1) Seasonally adjusted data. In June 2013, methodological changes were introduced such that the data since then are not directly comparable with the earlier data. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating 'a decrease'. 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.

(compared with 57.9 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) amounted to around 9.7 per cent of disposable income, almost the same as in the preceding quarter.

In the autumn months, the average cost of new loans to households for house purchase fell sharply (to 1.4 per cent in November; see Section 2.7).

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Italian exports reflected weak growth in international trade in the third quarter of 2019. Nevertheless, the current account surplus remains large and Italy's net international investment position is still close to balance. In recent months, there has been substantial foreign investment in Italian public sector securities, improving the Bank of Italy's negative balance on the TARGET2 European payment system, which was further reduced by the introduction of the new remuneration system for banks' reserves held with the Eurosystem.

Exports weaken in the third quarter ...

In the third quarter, the volume of exports of goods and services declined by 0.1 per cent (Table 5), in the face of persistently weak international trade. The biggest decline was in exports of services, while goods exports remained stationary in the EU but increased modestly to non-EU countries, benefiting from a slight improvement in price competitiveness (see Section 2.6). Transport equipment, metal products and food products contributed the most to the growth in goods exports, hit by the fall in the mechanical machinery sector and – following strong growth in the preceding quarters – the pharmaceutical sector.

Table 5

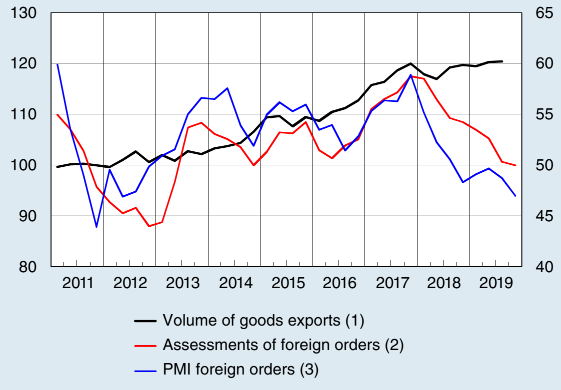
Italy's exports and imports (1)
(percentage change on previous period)

	2019	
	Q2	Q3
Exports	**0.9**	**-0.1**
Goods	0.7	0.1
EU countries	1.5	0.0
non-EU countries	-0.3	0.2
Services	2.1	-1.0
Imports	**1.1**	**1.3**
Goods	1.3	1.1
EU countries	2.5	0.2
non-EU countries	-0.5	2.5
Services	0.3	2.2

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

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 index, quarterly averages. The index is obtained by adding half the percentage of replies of 'stable' to the percentage of replies of 'increasing'. Right-hand scale.

The volume of imports increased by 1.3 per cent, driven by the services component and by goods purchased from non-EU countries.

... but appear to recover in the fourth

The most recent data shows that compared with the third quarter's average, there was an increase in exports to other EU countries in October and, in the two-month period October-November, a rise in those to non-EU countries.[2] Business surveys conducted by the Bank of Italy at the end of last year point to an improvement in expectations for foreign demand (see the box 'Italian firms' investment according to the Survey on Inflation and Growth Expectations'). However, manufacturing firms' assessments of foreign orders (as surveyed by Istat) and the purchasing managers' indices regarding foreign orders both worsened in the fourth quarter (Figure 27). In the last two years, and in particular since mid-2018, the significant deterioration of these qualitative indicators has not, however, encountered a parallel weakening of Italian export growth, which has remained robust overall.[3]

There is still a large current account surplus

The current account surplus widened in the first 11 months of 2019 compared with the same period a year earlier (Table 6), mostly thanks to a larger goods surplus. Exports actually grew more than imports, despite a weak performance in the third quarter. The current account balance remained stable at around 2.7 per cent of GDP (Figure 28).

[2] Although if one particularly high-value sale on the part of the shipbuilding sector is excluded, exports did in fact decline.

[3] C. Giordano, 'Goods exports and soft export indicators: is a disconnect under way?', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

Table 6

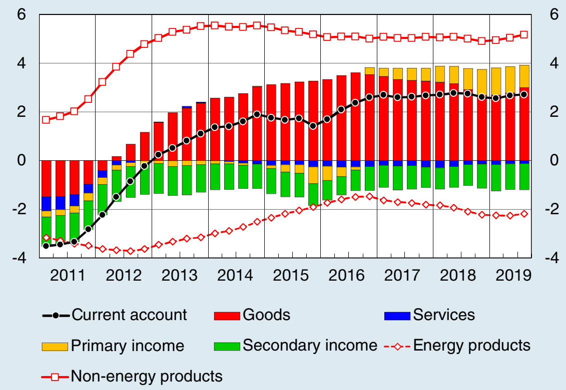
Italy's balance of payments (1)
(balances; billions of euros)

	2017	2018	Jan.-Nov. 2018	Jan.-Nov. 2019
Current account	**46.5**	**46.0**	**42.4**	**48.7**
Memorandum item: % of GDP	2.7	2.6		
Goods	56.7	47.2	43.9	55.2
Non-energy products (2)	88.1	86.5	79.5	88.3
Energy products (2)	-31.5	-39.3	-35.6	-33.1
Services	-4.6	-2.6	-1.7	-0.7
Primary income	9.2	18.8	15.5	11.7
Secondary income	-14.8	-17.4	-15.2	-17.5
Capital account	**0.7**	**-0.6**	**-0.5**	**-0.9**
Financial account	**47.6**	**30.5**	**31.1**	**53.2**
Direct investment	0.4	-0.2	6.2	-1.3
Portfolio investment	84.1	120.1	109.4	-62.9
Financial derivatives	-7.2	-2.7	-4.2	1.8
Other investment (3)	-32.3	-89.3	-82.6	113.2
Changes in official reserves	2.7	2.6	2.2	2.5
Errors and omissions	**0.5**	**-14.8**	**-10.8**	**5.4**

(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 the two-month period October-November 2019, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in the TARGET2 balance.

Figure 28

Current account balance and its main components (1)
(quarterly data; per cent of GDP)



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

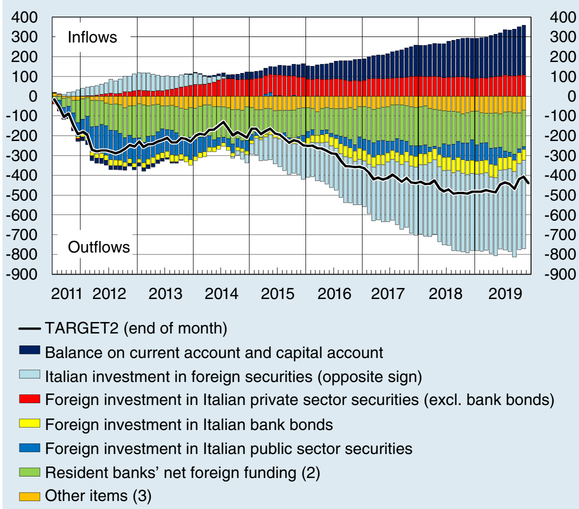
Foreign demand for Italian public sector securities is high ...

Foreign investors continued to show interest in Italian debt securities in the fourth quarter. Between January and November, foreign investors made net purchases of €108 billion overall, of which €90 billion in public sector securities, a sum greater than Treasury net issues in the same period. Net investment by Italian residents in foreign portfolio securities amounted to €55 billion.

In the two-month period October-November, Italian banks' net funding from abroad, especially on the repo market, increased by €23 billion, mainly in relation to arbitrage transactions under the new two-tier system for remunerating banks' reserves held with the Eurosystem (see Section 1.2).

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 improvement in the Bank of Italy's debtor 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 (lower assets) or a current account and capital account surplus. Cumulative 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 investment, financial derivatives, other investment, 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	2	-15
2019 – Q1	-475	7	17	1	0	-5	-18	4	-9	1
Q2	-448	27	34	9	0	-20	-3	13	-2	7
Q3	-468	-20	22	3	7	-40	-27	17	4	33
Q4	-439	29	….	….	….	….	….	….	….	….
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	3	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	8
Aug.	-444	-8	11	-5	0	-8	-2	5	1	12
Sept.	-468	-24	-8	1	2	-3	0	3	-7	13
Oct.	-420	48	12	2	2	28	14	9	0	4
Nov.	-406	13	4	3	0	-5	-3	5	15	9
Dec.	-439	-33	….	….	….	….	….	….	….	….

(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 the two-month period October-November 2019, provisional data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

… helping to reduce the negative balance on TARGET2

Again in the two-month period October-November, the Bank of Italy's negative balance on the TARGET2 European payment system improved by almost €62 billion, benefiting from foreign investment in Italian portfolio securities, the current account surplus, and banks' net funding on the international market (see also Section 1.2). At the end of the year, the balance was negative by €439 billion, which was €29 billion smaller than at the end of September (Figure 29 and Table 7) and there was a further reduction in the first half of January.

The net international investment position is barely negative

At the end of September, Italy's net international investment position was negative by €55.3 billion (3.1 per cent of GDP), from 2.2 per cent at the end of June. The valuation adjustments, which were particularly large on the liabilities side, mainly linked to price rises on the Italian public sector securities market, more than offset the current account surplus.

2.5 THE LABOUR MARKET

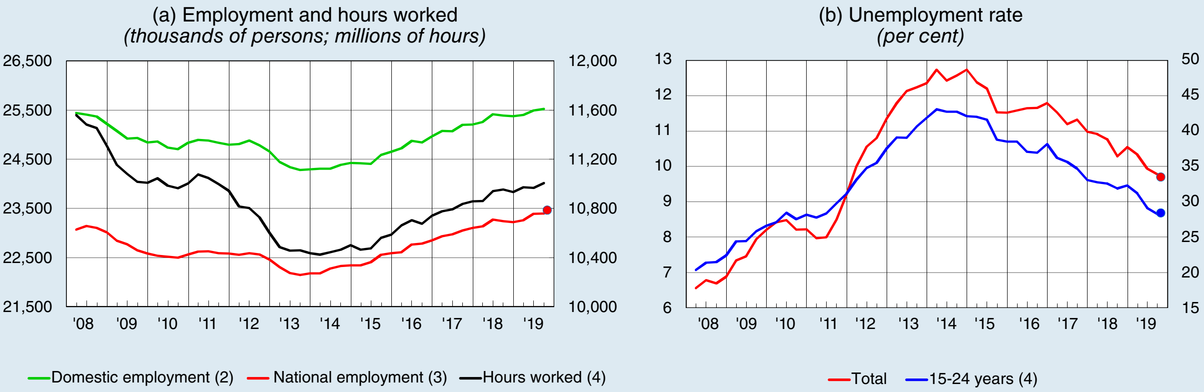
Employment grew in the third quarter of 2019. The unemployment rate fell while labour costs slowed.

Employment continues to grow, but is slowing

The number of people in employment rose in the third quarter (Figure 30.a): while it decreased in industry excluding construction, it increased in private services, though at a slower pace than in the first half of the year (Table 8). Hours worked per capita increased, above all in construction.

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 October-November. – (2) Includes all persons engaged in production activity in the economic territory of the country (source: Istat's quarterly national accounts). – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel (source: Istat's labour force survey). – (4) Right-hand scale.

Employment slowed among both payroll employees and the self-employed. According to INPS administrative data on private sector payroll employment, permanent contracts continued to grow at a positive rate but slowed compared with 2018, mainly reflecting the conversions of pre-existing fixed-term contracts. The creation of new fixed-term positions also tailed off. Preliminary data from Istat's labour force survey point to an upswing in the number of people in employment in the final months of the year.

The unemployment rate falls

In the summer quarter, the employment rate rose to 59.2 per cent and the unemployment rate fell to 9.8 per cent (Figure 30.b), while the labour market participation rate remained stable at 65.7 per cent. According to preliminary data, the improvement in the labour market in the two months October-November led to a further reduction in the unemployment rate, to 9.7 per cent.

The growth in earnings slows

Over the same period, the growth rate of contractual earnings diminished for the economy as a whole, to 0.7 per cent year-on-year (Figure 31.b). The still moderate performance in the non-farm private sector (0.7 per cent; Figure 31.a)

Table 8

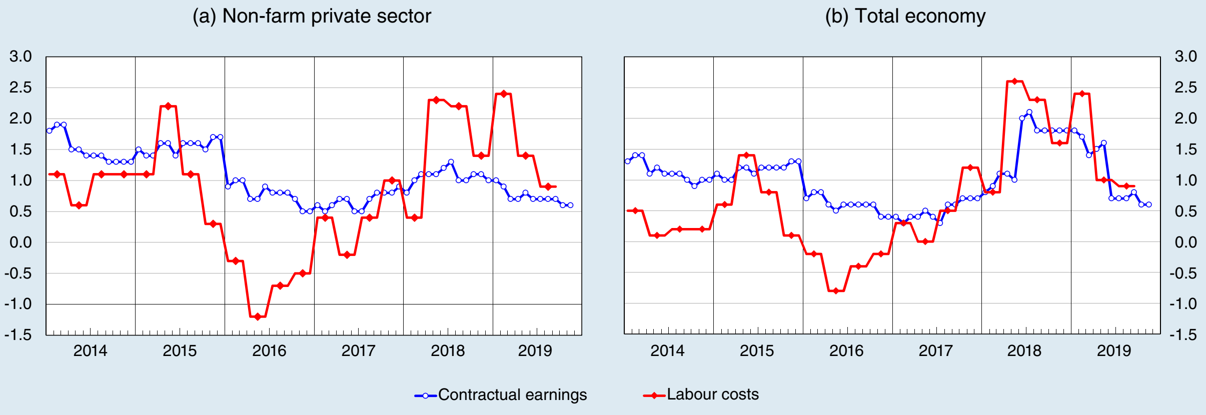
Employment and hours worked
(seasonally adjusted quarterly data; thousands of persons, millions of hours and percentage changes on the previous quarter)

	Stocks	Changes			
	Q3 2019	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Persons employed	**25,522**	**0.0**	**0.1**	**0.3**	**0.1**
of which: industry excluding construction	4,296	-0.2	0.6	0.0	-0.3
private services (1)	11,317	0.1	0.4	0.7	0.1
construction	1,468	0.6	-3.6	-1.4	-0.1
Employees	19,466	0.0	0.2	0.4	0.1
Self-employed	6,056	-0.3	-0.1	0.2	0.1
Hours worked	**11,006**	**-0.2**	**0.4**	**-0.1**	**0.4**
of which: industry excluding construction	1,899	-0.7	1.5	-0.4	0.0
private services (1)	5,108	0.1	0.3	0.6	0.3
construction	679	0.2	-3.1	-2.4	1.4
Employees	7,766	0.2	0.4	0.2	0.4
Self-employed	3,240	-1.1	0.3	-0.7	0.3

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).

Figure 31

Contractual earnings and labour costs per hour worked (1)
(monthly and quarterly data; year-on-year percentage changes)



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

was accompanied by a marked slowdown in the public sector, whose employees have all been waiting for the renewal of the collective bargaining agreements since the beginning of 2019. The growth in economy-wide earnings slowed slightly in the two months October-November, to 0.6 per cent year-on-year compared with 2018, and is expected to stabilize at around this level in the coming months, also pending the renewal of some significant private sector collective bargaining agreements that expired at the end of 2019.

The cost of labour slowed in the third quarter (to 0.9 per cent year-on-year), in part owing to the gradual waning of the effects tied to the expiry at the end of 2018 of the relief on social security contributions introduced in 2015 and 2016.

2.6 PRICE DEVELOPMENTS

Inflation remained very low, above all due to energy prices; the core component instead strengthened a little during the autumn. The latest business surveys registered a slight reduction in inflation expectations.

Inflation picks up in December but remains weak

Consumer price inflation rose to a twelve-month rate of 0.5 per cent in December, after food product prices accelerated and the negative contribution of energy prices dissipated (Figure 32). Service prices continue to record steady growth. The seasonally adjusted annualized three-month inflation rate was 1.2 per cent (Figure 33). Core inflation in December reached 0.6 per cent (Table 9): service prices increased by 1.1 per cent, while those of non-energy industrial goods were unchanged.

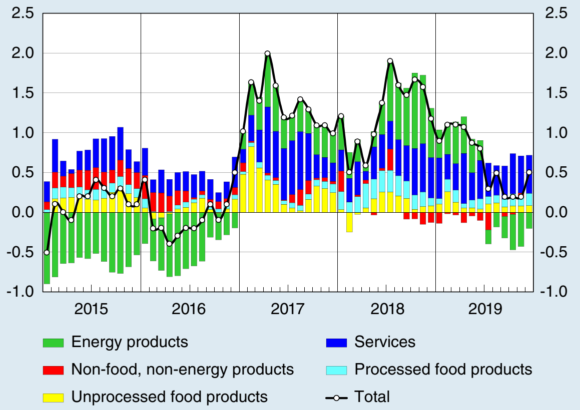
Producer price pressures are still moderate ...

Unit labour costs slowed slightly in the third quarter, reaching 1.1 per cent; the deceleration was most pronounced in manufacturing. The decline in the producer prices of industrial products sold on the domestic market eased a little (-3.6 per cent in November year-on-year) but continues to be affected by the sharp fall in the energy component. Not counting energy prices, producer price inflation was positive but low (0.3 per cent).

Figure 32

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

(monthly data; per cent and percentage points)

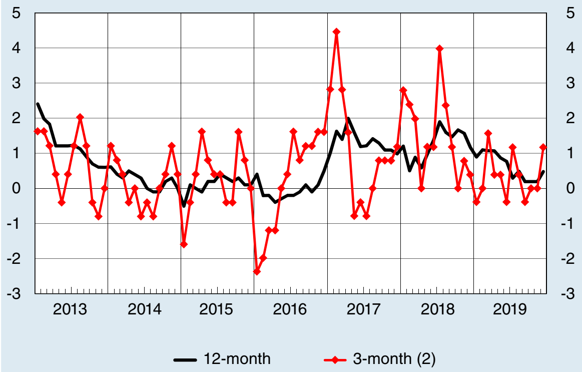


Source: Based on Eurostat data.
(1) Twelve-month percentage change in the harmonized index of consumer prices (HICP).

Figure 33

Consumer price inflation (1)

(monthly data; per cent)



Source: Based on Eurostat data.
(1) Percentage change in the HICP, during the periods indicated. – (2) Annualized and seasonally adjusted.

Table 9

Indicators of inflation in Italy
(year-on-year percentage changes)

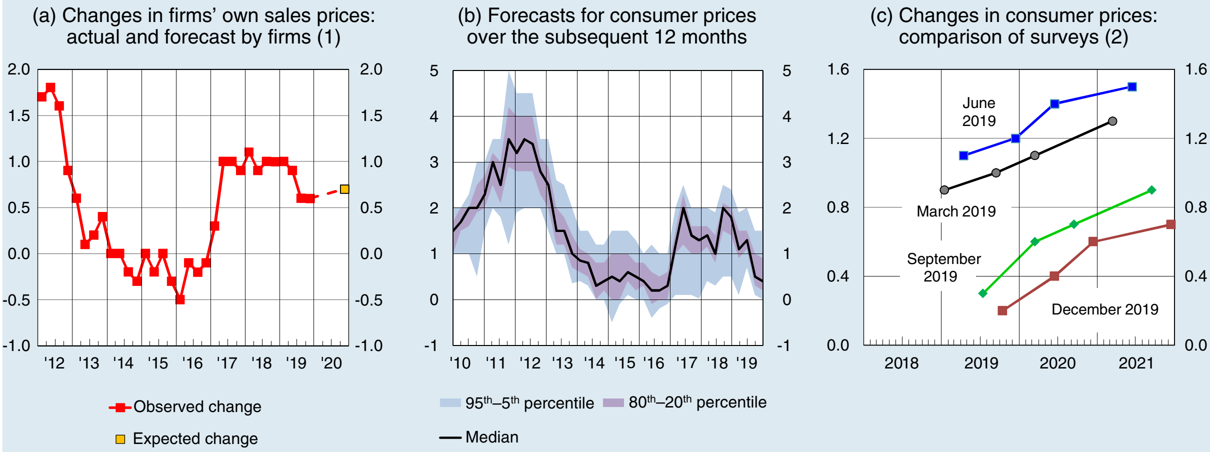
	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index		Excl. energy and food	Overall index	
					at 1 month (5)			
2013	1.2	1.2	1.1	1.2	–	1.1	-1.2	1.1
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	0.9
2015	0.1	0.7	0.0	0.1	–	0.5	-3.4	0.9
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
2019	(0.6)	(0,5)	....	(0.6)	–	(0.5)	....	....
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	-2.4	–
Oct.	0.2	0.7	0.1	0.2	0.2	0.6	-4.1	–
Nov.	0.2	0.7	0.1	0.2	0.0	0.7	-3.6	–
Dec.	(0.5)	(0.6)	....	(0.5)	....	(0.6)	....	–

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 on account of the different method for 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 the impact of indirect tax changes from sales prices, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

Figure 34

Inflation expectations of industrial (excluding construction) and service firms

(quarterly data; 12-month percentage changes)



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

… as are the inflation expectations of firms and households

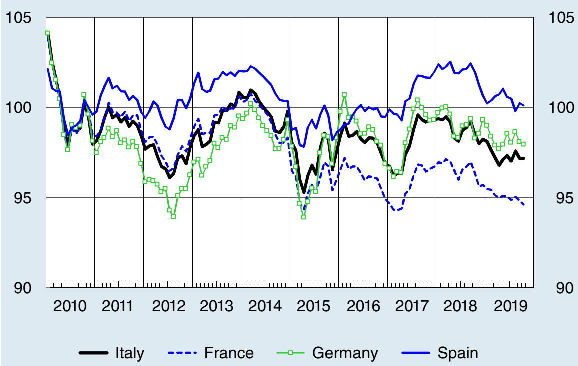
The firms interviewed in the Bank of Italy's quarterly survey conducted in December have revised their inflation expectations down very slightly across all time horizons; they now expect prices to rise by 0.6 per cent in the subsequent 12 months, and by 0.7 per cent in the subsequent 24 months (Figure 34). Household inflation expectations recorded by Istat weakened in December, after picking up briefly in October and November.

According to our estimates, price competitiveness – as measured by the producer prices of manufactured goods and taking account of the structure of Italy's trade – improved to a similar extent as in the other leading euro-area countries in the autumn months, thanks to the depreciation of the nominal exchange rate of the euro (Figure 35).

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 the producer prices of manufactures. An increase in the index indicates a loss of competitiveness; the latest data refer to October 2019. For the method of calculation, see A. Felettigh and C. Giordano, 'Rethinking prices and markets underlying price competitiveness indicators', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, 2018.

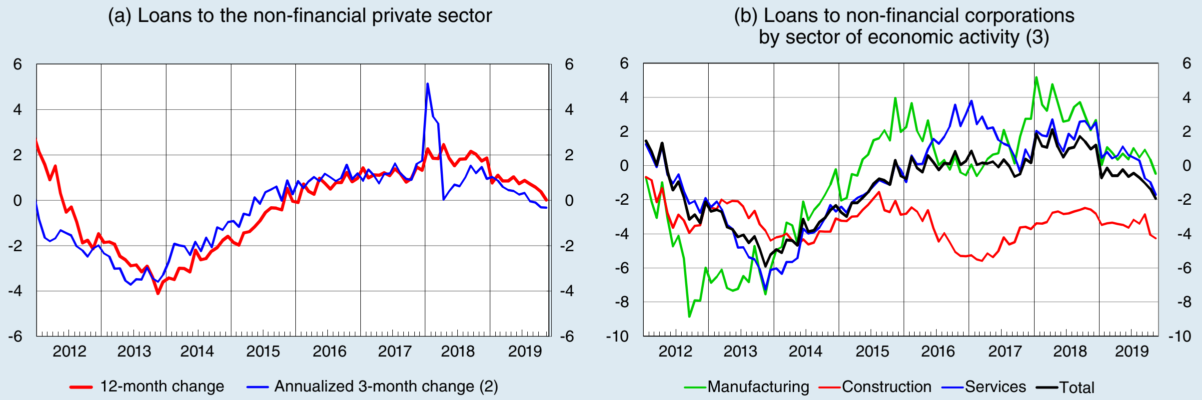
2.7 BANKS

Lending conditions remain relaxed: banks have reported an easing of credit standards and the cost of credit for households has fallen significantly. Business loans contracted slightly, consistent with the weakness in demand. The flow of new non-performing loans remains

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) The data are seasonally adjusted using a methodology that conforms with the guidelines of the European Statistical System. – (3) Twelve-month changes; until December 2013, the data for each sector are not corrected for value adjustments.

limited, notwithstanding the unfavourable cyclical phase.

Lending to firms contracts, while lending to households expands

In November, lending to the non-financial private sector fell by 0.3 per cent on a quarterly basis (adjusted for seasonal effects and annualized; Figure 36 and Table 10). The decline in lending to non-financial corporations was more marked, reflecting the effects of the weak cyclical conditions on the demand for loans; the growth in lending to households is still strong for both home purchase and consumer credit.

Lending to firms declined over the preceding twelve months, especially for smaller firms. Credit contracted across all sectors (Figure 36.b), most intensely in construction.

Table 10

Bank lending as at November 2019 (1)

(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**0.0**	**-0.3**
Households	**2.3**	**2.2**
of which: loans for house purchase	2.5	....
consumer credit	8.2	....
other loans (3)	-1.7	....
Non-financial corporations	**-1.9**	**-2.5**
of which: manufacturing	-0.5	....
services	-1.7	....
construction	-4.3	....

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. – (3) Includes all loans to households (consumer and producer) and to non-profit institutions other than mortgage loans and consumer credit.

Funding increases

Between August and November, Italian banks' funding increased (Table 11), both in the retail component, where the marked increase in deposits more than offset the slight decline in bonds held by households, and in the wholesale component, where bond issues benefited from the fall in sovereign spreads during the summer months (see Section 2.8). Net foreign funding increased on the repo market, also coinciding with the introduction of the two-tier system for the remuneration of banks' excess reserves (see Section 1.2). Liabilities towards the Eurosystem declined slightly following the early redemptions of the second series of targeted longer-term refinancing operations (TLTRO II), only partly offset by recourse to the second operation of the new series (TLTRO III; see Section 1.2). The total amount of retail funding was almost equal to

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)	
	August 2019	November 2019	August 2019	November 2019
Assets				
Loans to Italian residents (3)	1,690	1,682	-1.4	-1.8
of which: firms (4)	650	643	-0.7	-1.9
households (5)	631	632	2.4	2.3
Claims on central counterparties (6)	100	103	36.8	39.8
Debt securities excluding bonds of resident MFIs (7)	536	540	1.1	0.8
of which: securities of Italian general government entities	409	395	1.8	-3.7
Claims on the Eurosystem (8)	77	139	13.3	57.0
External assets (9)	433	436	3.8	6.7
Other assets (10)	981	912	8.7	7.9
Total assets	**3,817**	**3,813**	**3.0**	**4.0**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,600	1,628	6.4	7.8
Deposits of non-residents (9)	330	335	3.9	5.7
Liabilities towards central counterparties (6)	121	136	-12.3	-5.2
Bonds (12)	242	241	-2.4	2.3
Liabilities towards the Eurosystem (8)	238	234	-2.6	-3.9
Liabilities connected with transfers of claims	113	130	-5.7	13.5
Capital and reserves	368	370	-5.8	-4.0
Other liabilities (13)	806	737	8.3	3.6
Total Liabilities	**3,817**	**3,813**	**3.0**	**4.0**

Source: Supervisory reports.
(1) The data for November 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 the Bank of Italy's website, 'Banks and Money: National Data', Tables 3.3a and 3.3b, Statistics Series. – (9) In the period considered these refer mainly to interbank transactions. – (10) 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.

that of loans to households and firms. The funding gap, i.e. the share of loans not covered by retail funding, was practically nil.

Interest rates on mortgage loans fall markedly

After having benefited from the decline in sovereign spreads in the third quarter of 2019, yields on new issues of bank bonds have increased slightly since the end of September (see Section 2.8). In November, the average cost of new bank loans to firms remained practically unchanged at historically very low levels (Table 12 and Figure 37). The cost of new mortgage loans to households fell by 30 basis points compared with three months earlier, just under the euro-area average of 1.5 per cent. The decline was

Table 12

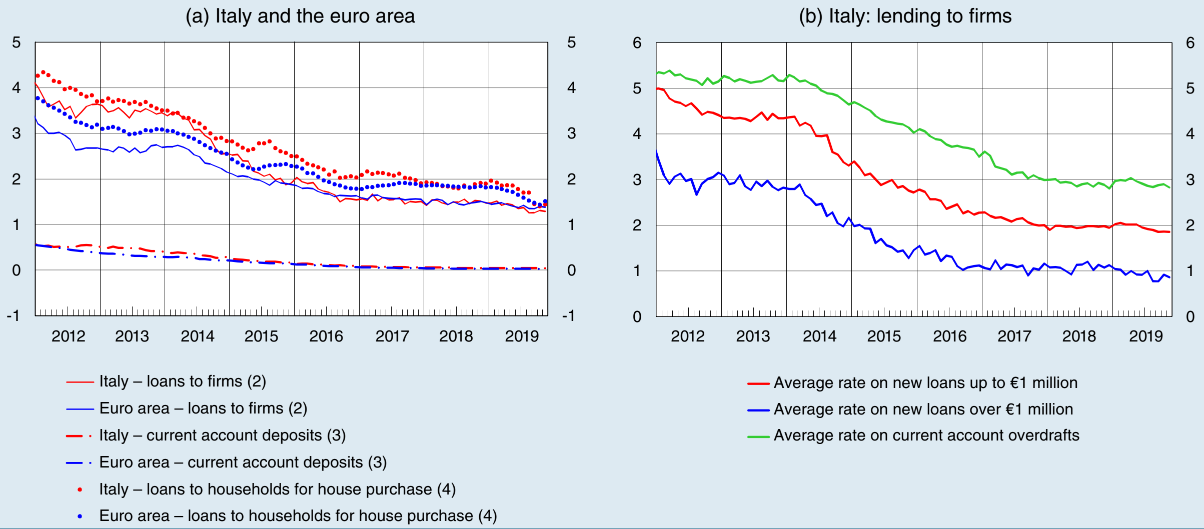
Bank interest rates (1)
(per cent)

	August 2019	November 2019
Loans to firms	**1.3**	**1.3**
of which: up to €1 million	1.9	1.9
over €1 million	0.8	0.9
Loans to households for house purchase	**1.7**	**1.4**
of which: fixed rate (2)	1.8	1.5
variable rate (3)	1.5	1.3

(1) Averages. 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.

largely on account of the decrease in the cost of fixed-rate mortgage contracts, which were influenced by the drop in market rates over the summer months.

Supply conditions ease According to the Italian banks interviewed in September for the euro-area bank lending survey, supply standards eased slightly in the third quarter on loans to households and firms (see the box 'Credit supply and demand'). In the following quarter, credit access conditions remained largely unchanged according to the firms interviewed in December by Istat and by the Bank of Italy; as in the preceding quarters, a slight worsening was reported by small manufacturing firms and by construction firms.

CREDIT SUPPLY AND DEMAND

Based on the responses of the Italian banks interviewed for the euro-area bank lending survey,[1] credit standards for new loans to firms and households eased slightly in the third quarter of 2019, mainly reflecting the stronger competitive pressures from other banks. With regard to business loans, banks' higher risk tolerance also contributed to the easing, despite the perception – in connection with the weak economic environment – that risks are increasing (see panels (a) and (b) of Figure A).

The terms and conditions applied to business loans remained virtually unchanged; those on loans to households for home purchase became more favourable.

Based on the responses provided by the banks interviewed, the demand for business loans declined due to firms' lower funding needs for productive investments, inventory and working capital; the

[1] Ten of the main Italian banking groups took part in the survey, which ended on 30 September 2019. The results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int.

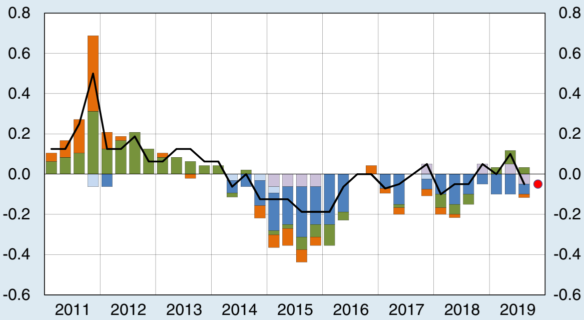
Figure A

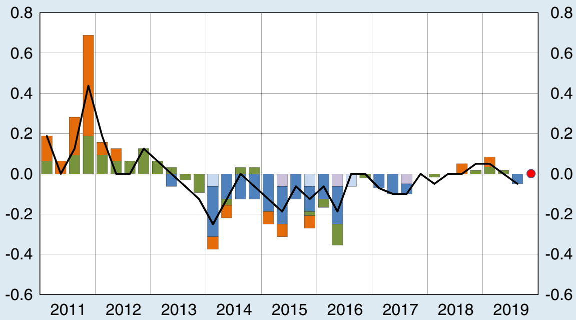
Credit standards and demand for loans in Italy (1)

(quarterly data; diffusion indices)

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

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



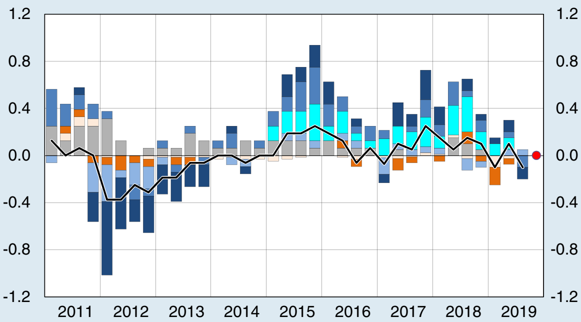


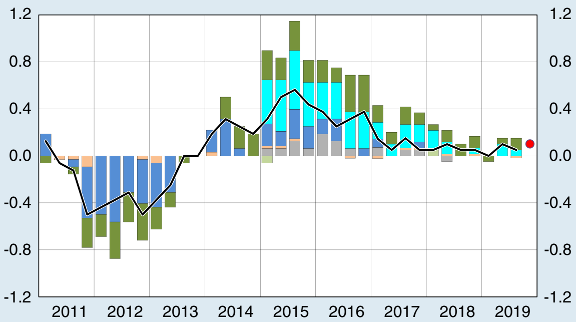
Cost of funds and balance sheet constraints (2)
Risk perception (3)
Competition from other banks
Competition from non-bank institutions and the market (4)
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)

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)

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

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





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)

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 this 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 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 borrower's 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.

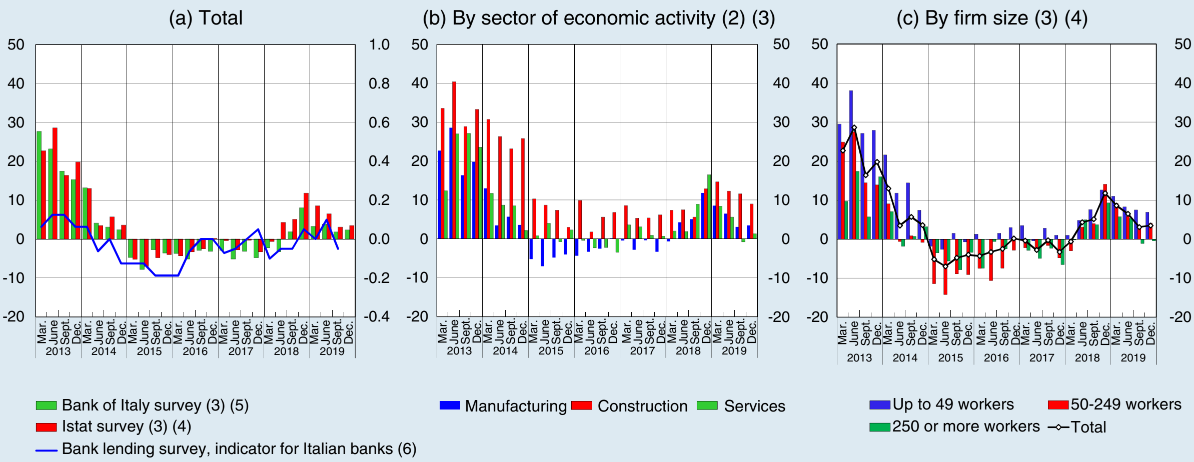
demand for loans to households for house purchase increased slightly, benefiting from the low interest rates and from housing market conditions considered favourable (see panels (c) and (d) of Figure A).

The survey also asked banks to assess the impact of some measures adopted by the ECB Governing Council in September (see the box 'The monetary policy measures adopted in September 2019', in *Economic Bulletin*, 4, 2019). For the current half of the year, banks expect that the resumption in net asset purchases by the ECB will have positive effects on their balance sheets and will help to ease the terms and conditions on loans to firms and households, and will also help to increase their volume; the negative rate on deposits with the ECB is expected to continue to facilitate a reduction in the cost of bank lending and to buoy loan volumes.

According to the business surveys conducted, in the last quarter of 2019 the conditions applied to business loans remained practically unchanged; as in the previous quarters, a slight worsening was reported by small manufacturing firms and construction firms (Figure B).

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 non-performing loans declines further

In the third quarter, the flow of new non-performing loans in proportion to total loans began to decline again (to 1.2 per cent, on a seasonally adjusted annualized basis; Figure 38). The reduction concerned business loans and was mainly concentrated in the service and construction sectors.

For the significant banking groups, the proportion of non-performing loans to total loans fell further in the same period (Table 13), by about one tenth both gross and net of loan loss provisions. The decline is consistent with the plans presented by the banks to the ECB and the Bank of Italy. The coverage ratio remained practically unchanged.

Profitability improves

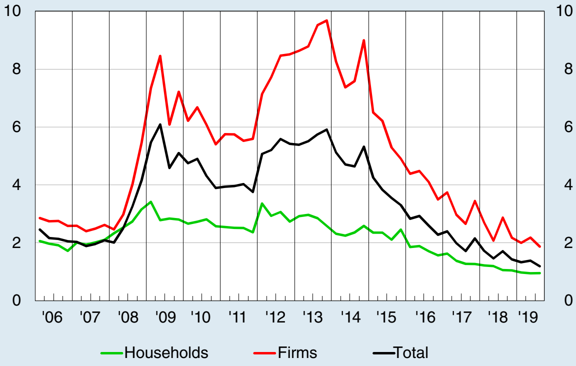
In the first nine months of 2019, the return on equity (ROE) of the significant banking groups rose to 7.9 per cent. The gain on the sale of FinecoBank by the UniCredit Group contributed significantly; however, even net of this transaction, ROE would have been higher (7.0 per cent) than in the corresponding period of 2018. The increase in profitability is ascribable to the reduction in operating expenses (-3.4 per cent). Net interest income declined (by 5.6 per cent), as did net fees (by 4.7 per cent); loan loss provisions remained stable.

Between June and September, the average capitalization level of the significant banking groups improved, buoyed by the profits recorded during the period. On 31 December 2019, the Interbank Deposit Protection Fund (FITD) intervened in the capitalization of Banca Popolare di Bari, the largest less significant bank in Southern Italy, placed under special administration on 13 December 2019. The intervention is part of the measures adopted by the Government on 15 December 2019 to support the credit system of Southern Italy and to establish an investment bank. Based on these measures, the public entity Banca del Mezzogiorno - MedioCredito Centrale SpA and the FITD will support a plan to relaunch Banca Popolare di Bari in the coming months.[4]

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)

(values and percentage changes)

	June 2019	September 2019
Non-performing loans (NPLs) (2)		
Gross NPL ratio	8.0	7.3
Net NPL ratio	4.0	3.6
Coverage ratio (3)	53.0	52.9
Regulatory capital		
Common equity tier 1 (CET1) ratio	13.3	13.6
	January-September 2018	January-September 2019
Profitability (4)		
Return on equity (ROE) (5)	6.2	7.9
Net interest income (6)	5.8	-5.6
Gross income (6)	4.3	-4.7
Operating expenses (6)	-3.7	-3.4
Operating profit (6)	21.7	-6.9
Loan loss provisions (6)	-41.0	-0.1

Source: Consolidated supervisory reports.
(1) Provisional data. Significant banks are those directly supervised by the ECB. – (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) The perimeter of significant banks 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 Centrale Banca group as a significant group. For the purposes of comparing the profitability data for September 2018 with the data for September 2019, the cooperative credit groups ICCREA and Cassa Centrale Banca were excluded; accordingly, the data refer to a sample of homogeneous significant banks over time. – (5) Net of badwill, goodwill impairments, and government assistance relating to liquidations. – (6) Percentage changes with respect to the year-earlier period.

[4] For more information, see the Bank of Italy's website: 'The supervision of Banca Popolare di Bari' and 'Questions and answers on Banca Popolare di Bari (BPB)'; see also 'Review of draft law (C. 2302) for the conversion into law of Decree Law 142/2019 containing urgent measures to support the credit system of Southern Italy and to establish an investment bank', Testimony by A. Perrazzelli, Deputy Governor of the Bank of Italy, before the Chamber of Deputies, Rome, 9 January 2020.

2.8 THE FINANCIAL MARKETS

Italian government bond yields have been rising since mid-October, reflecting a similar trend in other euro-area countries. Share prices have benefited from the easing of trade tensions and from the publication of better-than-expected euro-area macroeconomic data. Average yields on bonds issued by Italian non-financial corporations and banks remained substantially unchanged, at levels that were significantly lower than those recorded in the first half of 2019.

Sovereign yields increase…

As in other euro-area countries, yields on Italian government bonds have increased since mid-October; ten-year bond yields increased by 38 basis points to 1.32 per cent. The yield spread with respect to the corresponding German bonds widened to a lesser extent (by 14 basis points to 152 basis points); it is still much lower than the level recorded in the first ten days of August (Figures 39 and 40). The volatility implied by derivatives on Italian ten-year bonds increased in January but remains contained (Figure 41).

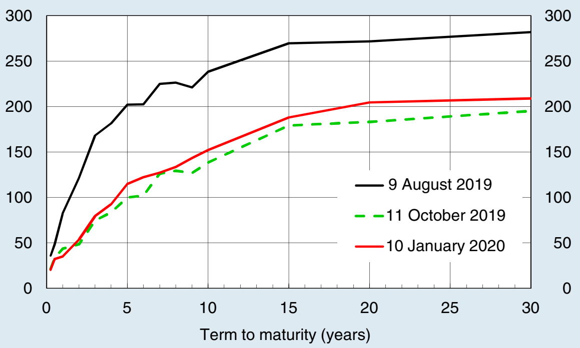
…as do share prices, especially for bank shares

Share prices have increased since mid-October (Figure 42.a), benefiting from less unfavourable cyclical signals stemming from the positive developments in the trade negotiations between China and the United States and from the publication of some macroeconomic data that exceeded expectations for the

Figure 39

Term structure of sovereign spreads (1)

(basis points)

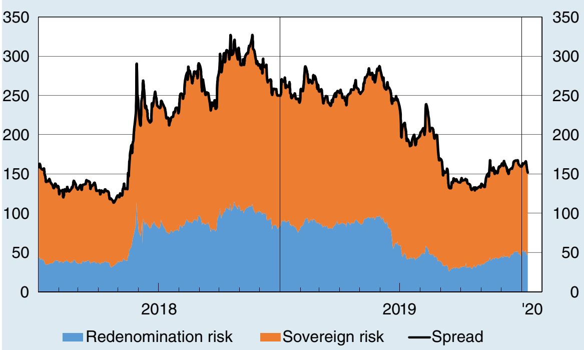


Source: Based on Bloomberg data.
(1) Term structure of the yield spreads between Italian and German government bonds.

Figure 40

Spread between Italian and German 10-year government bonds (1)

(basis points)



Sources: Based on Bloomberg and ICE data.
(1) The International Swaps and Derivatives Association (ISDA) defined the characteristics of CDS contracts in 2003 and in 2014; compared with the CDS-ISDA-2003 contracts, the CDS 2014-ISDA contracts offer greater protection against a redenomination of the underlying debt. The contribution of redenomination risk to the spread between Italian and German 10-year bonds is calculated by multiplying the spread by the ratio between the 10-year ISDA base (given as the spread between the premiums on CDS ISDA-2014 and ISDA-2003 contracts with 10-year maturities) and the premium on CDS ISDA-2014 contracts.

Figure 41

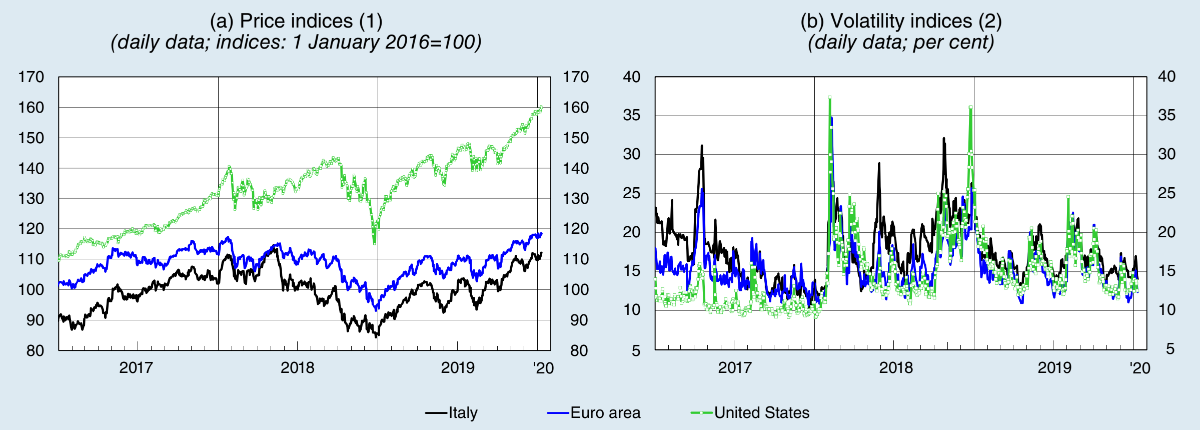
Implied volatility of options on BTP futures (1)

(daily data; per cent)

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

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.

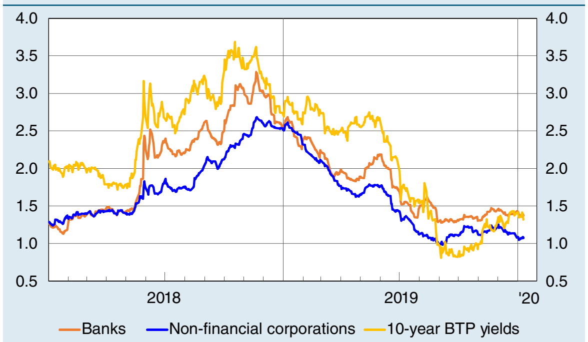
euro area as a whole; the increase was seen throughout the euro area (see Section 1.3). The index for the banking sector increased more than the general stock market index, coinciding with an average reduction of about 30 basis points in the CDS premiums of the main banks. The volatility of the stock market indices remained contained (Figure 42.b).

Non-financial corporations record net bond redemptions

In the third quarter, Italian non-financial corporations recorded net bond redemptions amounting to €5.4 billion, while net placements by banks amounted to €3.2 billion. According to preliminary data from Dealogic on gross issues only, placements increased in the fourth quarter compared with the third, rising from €8 billion to €9 billion for non-financial corporations, and from €8.4 billion to €11.3 billion for banks.

Figure 43

Yields on bonds issued by Italian banks and non-financial corporations (1)
(daily data; per cent)



Sources: ICE Bank of America Merrill Lynch (BofAML) and Bloomberg.
(1) The data refer to the average yields (to maturity) of a basket of bonds issued by Italian banks and non-financial corporations traded on the secondary market. Even if the basket contains bonds with different maturities, selected on the basis of an adequate level of liquidity, the figure shows, for comparison purposes, the 10-year BTP yields, which are especially representative of the yields offered on Italian government securities.

Since mid-October, yields on bonds issued by Italian non-financial corporations and banks have remained substantially unchanged at more than 70 basis points lower than the average levels recorded in the first half of 2019. In December, they averaged 1.2 per cent for non-financial corporations and 1.4 per cent for banks, and they fell slightly in the first half of January (Figure 43).

Investment funds register net inflows

According to Assogestioni data, in the third quarter there was a net inflow of savings towards open-end investment funds amounting to about €4 billion, wholly attributable to foreign investment funds. Investors favoured money market, bond and balanced funds.

2.9 THE PUBLIC FINANCES

The available preliminary data for 2019 point to a slight reduction in the ratio of general government net borrowing to GDP compared with 2018. It is likely that the debt-to-GDP ratio instead increased, as already indicated in the Government's official forecasts.

Official assessments indicate that the budgetary provisions approved in December for the three years 2020-22 raise the deficit by 0.7 percentage points of GDP on average per year compared with the level on a current legislation basis. After stabilizing in 2020, the Government expects the ratios of net borrowing and debt to GDP to decline in 2021 and 2022.

According to the quarterly account estimates released by Istat, in the first nine months of 2019 general government net borrowing came to 3.2 per cent of GDP, as against 3.4 per cent in the same period in 2018.

In 2019 the ratio of net borrowing to GDP is estimated to have declined slightly ...

In the first eleven months of 2019, the general government borrowing requirement was equal to €48.5 billion, €3.4 billion less than in the corresponding period in 2018. Taking account of the preliminary data for December and of the main factors linking the borrowing requirement to net borrowing (financial transactions and cash/accruals differences), it is estimated that in 2019 net borrowing as a share of GDP reached a slightly lower level than in the previous year and with respect to what had been indicated in the Government's plans (Table 14).

The state sector borrowing requirement stood at €41.8 billion in 2019, €3.5 billion lower than in 2018 (Figure 44).

Table 14

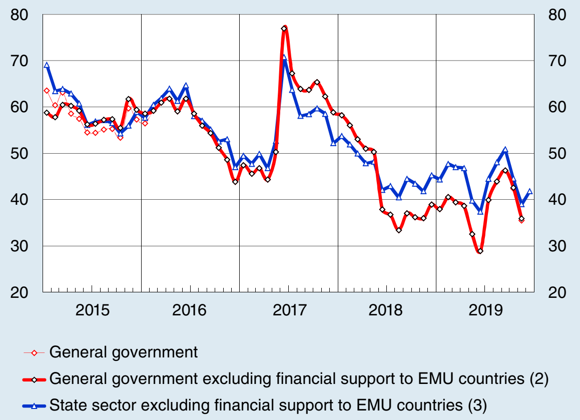
Outturns and official objectives of the main public finance indicators (1)
(per cent of GDP)

	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 expense	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 44

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 countries and Italy's capital contribution to the ESM; loans disbursed through the EFSF are not included in the state sector borrowing requirement.

... while debt is estimated to have increased

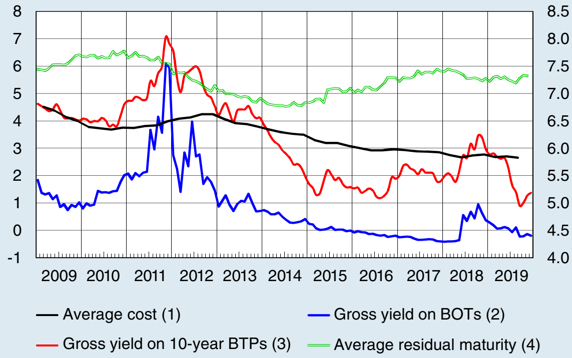
At the end of November, general government debt stood at €2,444.6 billion, up by around €35.0 billion compared with the same period in 2018. Considering the state sector net borrowing requirement and the change in the Treasury's liquid balances in December, it can be estimated that in 2019 the ratio of debt to GDP increased, as already forecast by the Government.

Last November the average residual maturity of Italy's public debt stood at 7.3 years, as at the end of 2018; the average cost of the debt instead declined slightly, to 2.7 per cent at the end of September, against 2.8 per cent at the end of the 2018 (Figure 45). In 2019, the average yields at issue fell with respect to the previous year, benefiting in the second half of the year from the marked reduction in the risk premiums on Italian government bonds. At the end of last December, yield spreads between ten-year government bonds and the corresponding German Bund were around 100 basis points below the levels observed in April. It can be estimated that, all other conditions being equal, a permanent reduction of 100 basis points in government bond yields would reduce interest payments by 0.15, 0.3 and 0.45 percentage points of GDP in the first, second and third years, respectively.[5]

Figure 45

Gross yields on BOTs and 10-year BTPs, average cost and average residual maturity of 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 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.

Parliament approves the budgetary provisions for 2020-22

The budgetary provisions for the three years 2020-22, approved by Parliament last December, increase general government net borrowing with respect to the current legislation projections by almost 1 percentage point of GDP in 2020, and by an average of around 0.6 points in each of the following two years. In 2020 the measures eliminate the increases in indirect taxation attributable to the safeguard clauses (equal to 1.3 per cent of GDP), and allocate resources primarily towards reducing the tax wedge on labour, increasing public and private investment, and to contractual renewals in the public sector. To partially cover these expansionary measures, the Government plans to raise resources amounting to about 0.8 percentage points of GDP, mostly through new measures to combat tax evasion, increased taxation on gambling and tobacco products, and spending cuts.[6]

The fiscal policy stance, as measured by the annual change in the cyclically adjusted primary balance, is expected to be slightly expansionary in 2020 and, if the residual safeguard clauses are activated, to remain broadly neutral in the subsequent two years. Although the measures approved in December did curtail these clauses, the amount involved is still significant (1.1 per cent of GDP in 2021, 1.4 points in 2022).

The EU Commission points to a risk of significant deviations from the Pact's objectives

In its opinion on the 2020 Draft Budgetary Plan published last November, the European Commission pointed to a risk of significant deviations from the budgetary objectives set out in the Stability and Growth Pact for both 2019 and 2020.[7] The Commission invited Italy to take all measures necessary to ensure the compliance of its budgetary plans with the European rules and, in the event of a

[5] 'Preliminary Hearing on the Update to the 2018 Economic and Financial Document', testimony by L.F. Signorini, Deputy Governor of the Bank of Italy, before the Chamber of Deputies, Rome, 9 October 2018.

[6] The structure of the measures has not changed significantly with respect to the draft budget law and Decree Law 124/2019 presented by the Government in October. For more information on the budgetary provisions, see 'Audizione preliminare all'esame della manovra economica per il triennio 2020-22', testimony by L.F. Signorini, Deputy Governor of the Bank of Italy, before the Senate of the Italian Republic, Rome, 12 November 2019 (only in Italian).

[7] European Commission, 'Commission opinion of 20.11.2019 on the Draft Budgetary Plan of Italy', C(2019) 9110 final, 2019. In addition to Italy, the European Commission indicated a risk of significant deviations for seven other countries in 2020 (Belgium, Finland, France, Portugal, Slovakia, Slovenia and Spain).

better-than-anticipated performance of its public finances, to allocate resources towards reducing the ratio of public debt to GDP.

2.10 PROJECTIONS

The projections for the Italian economy presented in this Economic Bulletin update those published on 13 December, which were prepared as part of the Eurosystem staff macroeconomic projection exercise.[8] The technical assumptions include the information available at 13 January. Compared with those released in July 2019, the projections incorporate the effects of the weaker international outlook, partly offset by the more expansionary monetary policy stance and better conditions in the Italian financial markets.

The macroeconomic scenario is based on weak growth in world trade ...

The prospects for world trade incorporated in the forecasting scenario remain modest in the next three quarters as well (see Section 1.1) and only gradually strengthen over the forecasting horizon. Foreign demand for Italian products weighted by the outlet markets expanded by 1.3 per cent in 2019 (by 3.6 per cent in the previous three years). It is expected to expand by 1.7 per cent this year and to then accelerate to 2.6 per cent on average in 2021 and in 2022 (see the box 'The assumptions underlying the macroeconomic scenario').

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by the Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published each June and December following the release of the euro-area projections.[1] The macroeconomic projections for Italy presented here update those released on 13 December 2019 and are based on the information available at 13 January.

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

a) foreign demand, weighted by the outlet market for Italian exports, increases by around 2.3 per cent each year on average in the period 2020-22;

b) the euro/dollar exchange rate, which averaged 1.12 in 2019, stays at the same level in the three years 2020-22;[2]

c) the price of a barrel of Brent crude oil, equal to $64 on average in 2019, falls gradually in the subsequent three years; the scenario also assumes a reduction in the regulated energy prices at the beginning of 2020;

d) three-month interest rates on the interbank market (Euribor), equal to -0.4 per cent in 2019, rise a little in the three-year period;

e) the yield on ten-year BTPs, equal to 1.9 per cent on average in 2019, falls to 1.6 per cent in 2020, then increases gradually to 2.2 per cent in 2022, in line with the values of forward rates implied by the term structure of interest rates on government bond yields. The spread with respect to the

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

2 The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days to 13 January.

8 See also the Bank of Italy's website: 'Macroeconomic projections for the Italian economy', 13 December 2019.

equivalent German bond, equal to around 160 basis points at the end of 2019, rises gradually by around 50 basis points across the entire forecasting horizon;

f) the scenario incorporates the measures set out in the budget for the three years 2020-22. As in previous macroeconomic projection exercises, for 2020-22 it is assumed that there are no increases in indirect taxes attributable to the so-called safeguard clauses. In accordance with the guidelines underlying the Eurosystem forecasts, which do not incorporate measures that have yet to be defined in sufficient detail, the macroeconomic scenario excludes alternative measures for recouping revenue.

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

	2019	2020	2021	2022
Potential foreign demand	1.3	1.7	2.6	2.7
Dollar/euro (1)	1.12	1.12	1.12	1.12
Nominal effective exchange rate (2)	0.9	-0.2	0.0	0.0
Crude oil prices (1) (3)	64.5	64.0	59.4	57.4
3-month Euribor (1)	-0.4	-0.4	-0.3	-0.2
1-year BOTs (1)	0.0	-0.2	-0.1	0.0
10-year BTPs (1)	1.9	1.6	1.9	2.2

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

... and highly accommodative monetary and financial conditions

The scenario assumes very accommodative monetary and financial conditions. Expectations based on market prices are for short-term interest rates to remain negative over the forecasting horizon; the yields on ten-year Italian government bonds are estimated to rise to 1.6 per cent in 2020, 1.9 per cent in 2021, and to 2.2 per cent in 2022. Medium- to long-term interest rates are expected to remain at below the average levels recorded in the two years 2018-19; the decline reflects the fall in sovereign risk premiums, which came down by around 120 basis points starting from last June, as well as the more accommodative monetary policy stance. The average cost of borrowing for firms (1.6 per cent; see Section 2.7) is estimated to remain low across the entire forecasting horizon.

The forecasting scenario takes into account the public finance package passed at the end of December; the Government's planning scenario incorporates a substantial increase in public investment, equal to around 20 percentage points over the three years as a whole. In accordance with the guidelines underpinning the Eurosystem

Table 15

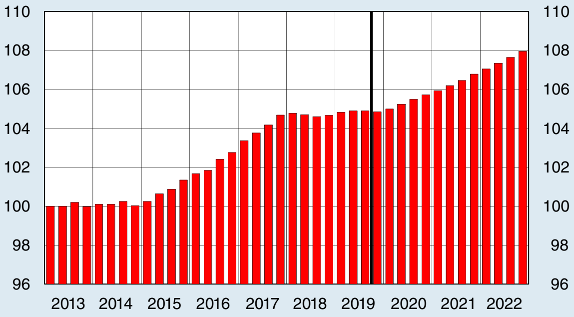
Macroeconomic scenario
(percentage change on previous year unless otherwise indicated)

	2019	2020	2021	2022
GDP (1)	0.2	0.5	0.9	1.1
Household consumption	0.6	0.8	0.8	0.9
Government consumption	0.1	0.3	0.3	0.2
Gross fixed investment	2.5	0.4	1.7	2.1
of which: in capital goods	1.8	0.4	1.6	2.3
Total exports	1.8	1.7	2.5	2.7
Total imports	1.1	2.3	2.4	2.6
Change in stocks (2)	-0.9	0.0	0.0	0.0
Memorandum item: GDP, raw data (3)	0.2	0.6	0.9	1.0
Prices (HICP)	0.6	0.7	1.1	1.3
HICP net of food and energy	0.5	0.7	1.1	1.4
GDP deflator	0.8	1.0	1.1	1.3
Employment (standard units) (4)	0.6	0.4	0.6	0.7
Unemployment rate (5)	9.9	9.7	9.6	9.4
Export competitiveness (6)	2.0	0.6	0.1	0.1
Current account balance of the balance of payments (7)	2.8	2.7	2.8	2.9

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

Figure 46

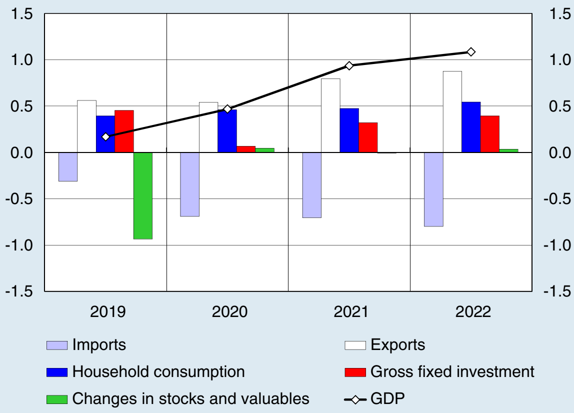
GDP projections: quarterly profile (1)
(quarterly data; indices: Q1 2013=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to Q3 2019; projections thereafter.

Figure 47

GDP growth and contributions of the main demand components and of imports (1)
(annual data; percentage changes and percentage points)



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

projections, the scenario excludes the VAT increases envisaged in 2021-22 under the safeguard clauses and alternative measures for recouping the revenue lost as a result.

GDP accelerates gradually during the three years

Based on these assumptions and in light of the latest data, it is estimated that GDP, adjusted for calendar effects, will expand by 0.5 per cent in 2020, 0.9 per cent in 2021 and 1.1 per cent in 2022 (Table 15 and Figure 46). Over the three-year forecasting horizon, economic activity is expected to be supported by domestic demand and by a gradual recovery in world trade (Figure 47). It is likely that the still ample margins of spare production capacity will be only partly reabsorbed over the next two years (see the box 'Italian output gap estimates').

ITALIAN OUTPUT GAP ESTIMATES

Our assessments indicate that the gap between the actual level of output and its potential level, i.e. the output gap, will continue to be broadly negative this year, at between -3 and -0.7 percentage points of potential output, with a central value of -1.9 (see the figure).[1] In 2021 and 2022, the gradual strengthening of economic activity is likely to bring about a partial reabsorption of the output gap, which nevertheless is estimated at around -1 per cent at the end of 2022.

Our central estimate for the output gap is broadly in line with that of the OECD (see the table); the IMF also expects it to remain negative both this year and next, but to a lesser extent.

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

Other organizations' forecasts for Italy

(percentage changes on previous year unless otherwise indicated)

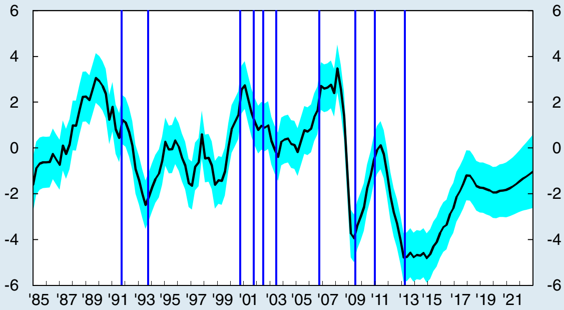
	Output gap (1)			GDP (2)			Inflation (3)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Bank of Italy	-1.8	-1.9	-1.6	0.2	0.5	0.9	0.8	1.0	1.1
IMF	-1.0	-0.8	-0.5	0.0	0.5	0.8	0.8	1.0	1.0
OECD	-2.3	-2.0	-1.6	0.2	0.4	0.5	0.6	0.7	1.1
European Commission	-0.2	-0.1	0.2	0.1	0.4	0.7	0.6	0.9	1.1

Sources: IMF, *World Economic Outlook*, October 2019; OECD, *OECD Economic Outlook*, November 2019; European Commission, *Autumn 2019 Economic Forecast*, November 2019.
(1) As a percentage of potential output. – (2) The growth rates forecast by the Bank of Italy and the OECD are adjusted for calendar effects but those of the European Commission and IMF are not. – (3) As measured by the percentage change in the GDP deflator.

The European Commission estimates that the output gap will be almost zero as early as this year and will probably turn positive in 2021. The marked difference between our estimates and those of the Commission mirrors the different methodologies for calculating potential output. The Commission takes a production function approach which, compared with other methods, tends to attribute to the potential output a broader portion of the fluctuations of the actual output and thus produces a smaller output gap (see the box 'Methodological refinements of output gap estimates for Italy based on the production function', in *Economic Bulletin*, 3, 2019).

Output gap (1)

(quarterly data; percentage points)



Sources: Based on Istat data until Q3 2019 and on our own forecasts up to 2022.
(1) The output gap is measured as a percentage of potential output. The grey area represents periods of recession as identified by Istat. The blue area shows the 90 per cent confidence bands calculated using the uncertainty intervals derived from the unobserved components model.

Consumption expands a little

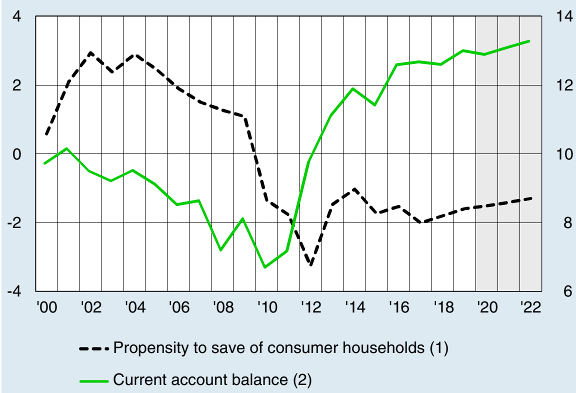
In the forecasting scenario, household consumption accelerates slightly (to around 0.8 per cent per year in the period 2020-22), partly thanks to income support measures; according to our assessments the new minimum income scheme (*Reddito di cittadinanza* or RdC) will raise household spending by around 0.3 percentage points in total between the second half of 2019 and 2020. The propensity to save is estimated to rise moderately (Figure 48), in line with the trend usually observed in a phase of progressive cyclical expansion.

Employment is likely to increase at a moderate pace, by a little more than half a percentage point per year in the period 2020-22. As observed in the past, our assessments indicate that the greater numbers of people leaving the labour market

Figure 48

Propensity to save of consumer households and current account balance

(quarterly data; percentage points)

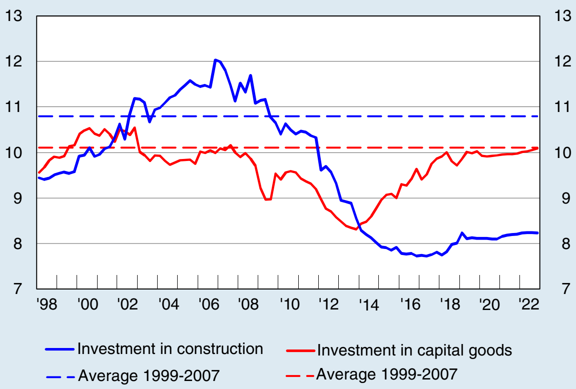


Sources: Based on Bank of Italy and Istat data.
(1) Right-hand scale. – (2) Per cent of GDP.

Figure 49

Investment as a percentage of GDP (1)

(quarterly data)

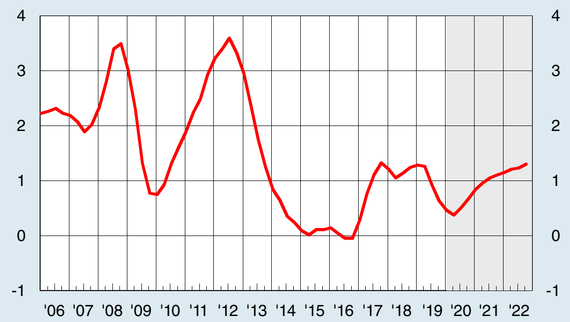


Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted.

Figure 50

Consumer price inflation (1)

(quarterly data; year-on-year percentage changes)



Sources: Based on Bank of Italy and Istat data.
(1) HICP; 4-term moving averages.

following the introduction of the *quota 100* early retirement scheme will only partly be offset by new hires; the impact of these measures on overall employment is expected to be in the order of -0.4 percentage points. The unemployment rate is estimated to decline gradually, reaching 9.4 per cent at the end of the three-year forecasting horizon.

Investment increases but is affected by uncertainty

Investment is likely to continue to increase, though at a slower pace than in the previous three years, driven by favourable lending conditions. The ongoing deep uncertainty surrounding trade policies and the outlook for demand will nonetheless continue to adversely affect firms' propensity to invest. It is estimated that investment will slow to 0.4 per cent in 2020, and then strengthen moderately in 2021 and 2022, thanks to the improved demand outlook and low interest rates. In particular, the decline in sovereign spreads observed since the beginning of last June is expected to support investment by around 3.5 percentage points overall in the three years 2020-22. Capital accumulation would also benefit from the acceleration of expenditure on the public investment planned in the next two years. The ratio of investment in capital goods to GDP, which at the end of 2017 had returned to levels close to those recorded prior to the double-dip recession, is expected to remain stable; for the construction component this ratio is expected to remain about 3.5 percentage points below pre-crisis levels (Figure 49).

The external accounts continue to post a surplus

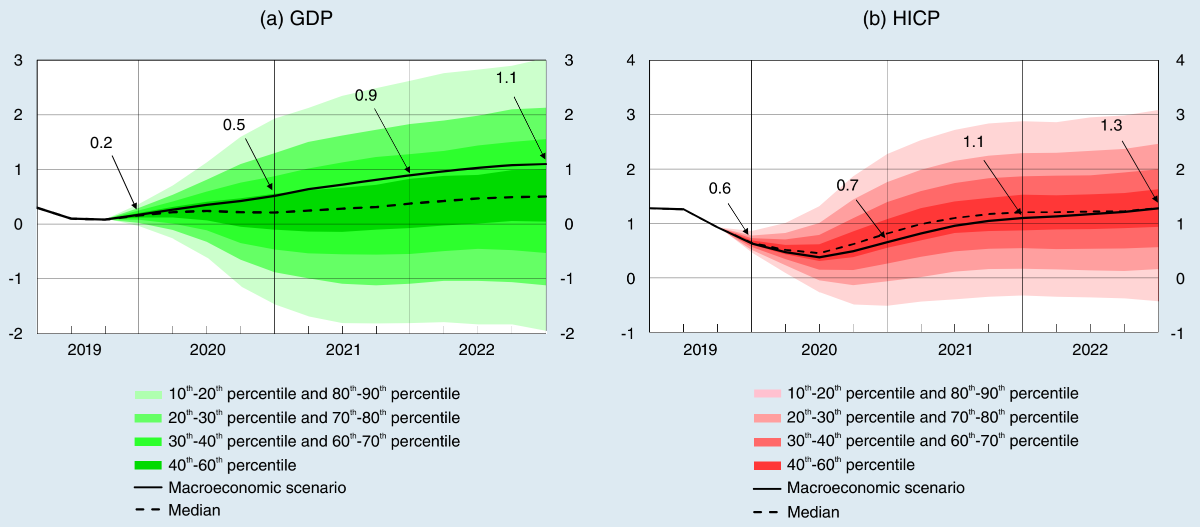
Exports of goods and services are expected to grow on average by around 2.3 per cent in each of the three years 2020-22, virtually in line with demand from the outlet markets; the market share of Italian goods is likely to remain basically unchanged. Imports are expected to increase at almost the same pace, held back by the slowdown in productive investment, the demand component with the highest foreign goods content. The contribution of net foreign demand to GDP growth is estimated to be slightly negative this year and positive in the two years 2021-22. The current account surplus should remain close to 3 per cent of GDP (Figure 48).

Inflation rises gradually

Inflation, calculated based on the change in the harmonized index of consumer prices, should pick up slowly over the next three years (Table 15 and Figure 50). It is expected to reach 0.7 per cent this year, 1.1 per cent in 2021 and 1.3 per cent in 2022, mostly reflecting the trend in the core component. Contributions to strengthening

Figure 51

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



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

inflation are expected from the acceleration in unit labour costs, driven by improved wage dynamics, and the gradual upturn in profit margins, thanks to better cyclical conditions.

Monetary stimulus is countering global weakness

Compared with the forecasting scenario published in last July's *Economic Bulletin*, GDP growth projections for 2020 and 2021 have been revised downwards by 0.3 and 0.1 percentage points. The revision is primarily attributable to the weaker international outlook; the effects of the latter are, however, mostly offset by the stimulus from lower interest rates determined by the more expansionary monetary policy stance and lower risk premiums on Italian sovereign debt. Inflation forecasts have been revised downwards by 0.2 percentage points for 2020 and by 0.3 percentage points for 2021. This is mainly attributable to the direct and indirect effects of the fall in commodity prices.

Table 16

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

	GDP (1)		Inflation (2)	
	2020	2021	2020	2021
IMF (October)	0.5	0.8	1.0	1.1
OECD (November)	0.4	0.5	0.6	1.2
European Commission (November)	0.4	0.7	0.8	1.1
Consensus Economics (December)	0.4	–	0.9	–

Sources: IMF, *World Economic Outlook*, October 2019; OECD, *OECD Economic Outlook*, November 2019; European Commission, *Autumn 2019 Economic Forecast*, November 2019; Consensus Economics, *Consensus Forecasts*, December 2019.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP.

Our growth projections are broadly in line with the latest estimates of the IMF, while they are higher than those of the European Commission and the OECD (Table 16). Our inflation projections for 2020 are practically in line with those of the European Commission and lower than those of the IMF and Consensus Economics; they are comparable to those of the other forecasters for 2021.

There are risks originating from the global context and the outlook for private and public investment

These projections are subject to downside risks – connected with global uncertainty, geopolitical tensions, trade conflicts (which have only partly subsided) and the performance of the economies of our main European partners – which could have adverse effects on exports and firms' investment propensity (Figure 51). Downside risks also stem from the large increases in public investment envisaged for the three years 2020-22, whose actual implementation could fall behind schedule, and from renewed tensions in the financial markets. The risks for inflation are balanced: the upside risks are mostly associated with increases in energy commodity prices. The downside ones are instead connected to a further weakening of the domestic and international growth outlook.

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	112.5	124.3	94.9	94.5	89.7
2015	106.1	105.1	132.3	93.5	91.0	87.5
2016	105.7	103.8	126.1	90.2	91.4	89.6
2017	111.8	105.3	126.4	93.3	90.9	89.2
2018	117.1	104.5	127.8	93.1	91.7	89.8
2018 – Q1	116.2	105.6	130.8	93.4	92.2	90.5
Q2	116.6	104.9	130.1	93.2	91.7	89.5
Q3	117.7	104.2	125.1	93.0	91.9	89.8
Q4	117.7	103.1	125.1	92.9	91.1	89.5
2019 – Q1	116.2	102.4	126.8	91.4	90.6	89.2
Q2	116.3	102.2	125.3	88.8	90.3	88.9
Q3	115.4	103.3	122.2	87.4	90.2	89.1
2018 – Jan.	116.1	107.6	130.3	94.4	92.1	90.4
Feb.	116.2	105.7	131.4	92.5	92.1	90.6
Mar.	116.2	103.6	130.8	93.2	92.3	90.7
Apr.	116.5	105.2	130.0	92.9	92.2	90.3
May	116.4	105.3	130.5	93.7	91.7	89.2
June	116.8	104.1	129.7	92.9	91.2	89.1
July	117.2	104.0	125.7	92.2	91.7	89.7
Aug.	117.4	104.4	124.6	93.3	91.9	89.8
Sept.	118.6	104.4	125.0	93.5	92.1	90.1
Oct.	118.4	104.4	124.5	92.9	91.6	89.1
Nov.	117.9	103.1	125.0	92.9	90.9	89.3
Dec.	116.9	102.0	125.8	92.9	90.9	90.0
2019 – Jan.	116.0	102.2	126.5	91.7	90.7	89.7
Feb.	116.4	102.9	126.9	91.5	90.7	89.2
Mar.	116.1	102.2	127.0	91.1	90.4	88.7
Apr.	116.4	102.3	127.1	90.4	90.3	88.6
May	116.4	101.9	125.1	87.9	90.4	88.8
June	116.3	102.4	123.7	88.0	90.3	89.3
July	115.5	103.3	123.8	87.7	90.1	88.9
Aug.	115.3	103.0	121.6	86.6	90.3	89.4
Sept.	115.4	103.5	121.1	87.8	90.1	88.9
Oct.	115.2	103.7	121.4	88.2	89.9	88.8

(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.

Table A1 cont.

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

(period averages; indices: 1999=100)

	Japan	Italy	Netherlands	United Kingdom	Spain	United States
2013	65.1	98.3	113.3	81.6	108.8	90.8
2014	62.7	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	63.9	97.1	111.2	77.9	108.0	103.4
2018	62.8	97.9	112.5	79.5	109.3	103.1
2018 – Q1	62.8	98.5	112.5	79.5	109.6	99.4
Q2	62.4	97.7	112.3	80.0	109.4	102.0
Q3	63.0	98.1	113.2	79.0	109.6	104.9
Q4	63.1	97.4	112.0	79.4	108.6	106.0
2019 – Q1	64.0	96.8	112.7	79.9	107.6	104.3
Q2	64.6	96.2	113.8	79.8	108.0	105.7
Q3	66.8	96.4	113.2	77.8	107.4	106.1
2018 – Jan.	61.6	98.5	112.3	79.4	109.7	99.5
Feb.	62.8	98.4	112.5	79.4	109.4	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	97.4	112.0	79.7	109.2	102.5
June	62.5	97.2	112.1	79.5	109.2	104.0
July	62.7	97.8	112.9	79.1	109.4	104.5
Aug.	63.5	98.0	113.0	78.4	109.5	105.1
Sept.	62.8	98.4	113.7	79.5	109.8	105.1
Oct.	62.9	97.6	113.2	80.0	109.3	106.0
Nov.	62.9	97.1	111.8	79.9	108.5	106.5
Dec.	63.7	97.3	111.1	78.2	107.9	105.6
2019 – Jan.	64.9	97.2	113.0	79.0	107.4	103.8
Feb.	63.8	96.8	112.5	79.8	107.6	104.0
Mar.	63.3	96.3	112.7	80.9	107.8	105.0
Apr.	63.2	95.9	113.4	80.4	107.9	105.7
May	64.8	96.2	114.0	80.3	108.3	106.3
June	65.9	96.4	113.9	78.7	107.8	105.2
July	65.5	96.2	112.9	77.9	107.7	105.1
Aug.	67.8	96.7	113.6	76.9	107.0	106.5
Sept.	67.1	96.3	113.1	78.8	107.4	106.6
Oct.	67.4	96.3	113.5	80.1	107.3	106.2

(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			Unit labour costs
			Value added (2)	Hours worked	
			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	0.8	-0.9
Q2	1.0	3.1	4.5	1.4	-2.1
Q3	1.9	2.7	4.9	2.2	-0.8
Q4	1.3	3.1	4.5	1.4	-1.8
2018 – Q1	0.9	2.9	3.9	1.0	-1.9
Q2	2.6	1.2	2.5	1.3	1.4
Q3	1.1	-1.2	0.5	1.7	2.3
Q4	1.5	-1.9	-1.2	0.7	3.4
2019 – Q1	1.8	-3.0	-0.4	2.7	5.0
Q2	0.8	-2.4	-0.8	1.6	3.2
Q3	0.9	-1.0	-0.7	0.3	1.9
			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	0.9
2018 – Q1	0.6	-0.2	1.0	1.2	0.8
Q2	2.9	-0.8	0.6	1.5	3.8
Q3	2.6	-0.5	0.3	0.8	3.2
Q4	1.8	-0.5	0.3	0.8	2.3
2019 – Q1	2.3	-0.9	-0.3	0.6	3.2
Q2	0.4	-0.4	0.2	0.6	0.8
Q3	0.6	-0.4	0.5	0.9	1.1
			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	0.0	1.2	2.0	0.8	-1.1
Q3	0.5	0.4	1.9	1.5	0.1
Q4	1.2	0.9	2.1	1.1	0.2
2018 – Q1	0.8	0.8	1.5	0.8	0.0
Q2	2.6	-0.3	1.1	1.4	2.9
Q3	2.3	-0.6	0.5	1.1	2.9
Q4	1.6	-0.7	-0.0	0.7	2.3
2019 – Q1	2.4	-1.0	-0.0	1.0	3.5
Q2	1.0	-0.2	0.1	0.2	1.2
Q3	0.9	-0.3	0.2	0.5	1.1

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	2.9	0.9	-0.8
2017	1.8	2.5	3.4	0.8	-0.7
2018	2.1	0.5	1.8	1.2	1.6
2017 – Q1	1.3	1.6	2.5	0.9	-0.3
Q2	1.4	2.3	3.4	1.1	-0.9
Q3	1.3	3.3	4.8	1.4	-1.9
Q4	1.6	2.7	4.1	1.4	-1.0
2018 – Q1	1.9	2.5	3.7	1.1	-0.6
Q2	2.2	1.3	2.9	1.5	0.9
Q3	2.1	-0.1	1.2	1.3	2.2
Q4	1.8	-1.8	-0.6	1.2	3.7
2019 – Q1	1.9	-1.8	-0.4	1.5	3.8
Q2	1.6	-1.7	-1.1	0.6	3.4
Q3	2.4	-1.8	-1.3	0.5	4.3
			Services		
2016	1.0	-0.1	1.6	1.7	1.1
2017	2.0	1.1	2.4	1.3	0.9
2018	2.2	0.5	1.9	1.4	1.7
2017 – Q1	1.7	0.8	2.2	1.3	0.9
Q2	1.9	1.0	2.5	1.4	0.9
Q3	1.8	1.0	2.7	1.7	0.8
Q4	2.0	1.1	2.8	1.6	0.8
2018 – Q1	2.0	1.0	2.4	1.4	1.0
Q2	1.9	0.3	2.0	1.7	1.6
Q3	2.3	0.1	1.7	1.6	2.2
Q4	2.1	0.0	1.6	1.5	2.1
2019 – Q1	2.0	0.2	1.7	1.5	1.8
Q2	2.5	0.7	1.7	1.0	1.8
Q3	2.2	0.8	1.7	0.9	1.5
			Total economy		
2016	1.0	0.4	1.8	1.4	0.6
2017	2.0	1.4	2.6	1.1	0.5
2018	2.1	0.5	2.0	1.4	1.6
2017 – Q1	1.6	1.0	2.2	1.1	0.6
Q2	1.8	1.4	2.6	1.2	0.5
Q3	1.6	1.5	3.1	1.6	0.1
Q4	1.9	1.5	3.1	1.5	0.4
2018 – Q1	2.0	1.4	2.7	1.3	0.6
Q2	1.9	0.5	2.2	1.7	1.4
Q3	2.2	0.0	1.6	1.6	2.2
Q4	2.0	-0.4	1.2	1.5	2.3
2019 – Q1	2.0	-0.2	1.4	1.6	2.1
Q2	2.4	0.3	1.2	0.9	2.1
Q3	2.3	0.4	1.1	0.7	1.9

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.

Table A4

Consumer prices: Italy, euro area and main economies

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

		Italy		France		Germany		Euro area (1)	
		Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
2016		-0.1	0.5	0.3	0.6	0.4	1.0	0.2	0.8
2017		1.3	0.8	1.2	0.5	1.7	1.3	1.5	1.0
2018		1.2	0.6	2.1	0.9	1.9	1.3	1.8	1.0
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
	Oct.	0.2	0.7	0.9	0.8	0.9	1.1	0.7	1.1
	Nov.	0.2	0.7	1.2	0.8	1.2	1.8	1.0	1.3
	Dec.	(0.5)	(0.6)	1.6	1.0	(1.5)	….	(1.3)	(1.3)

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

Table A5

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

(billions of euros; per cent)

	Stocks									Stock-flow reconciliation		
	Direct investment	Portfolio investment			Financial derivatives	Other investment	Official reserves	Total	Total as a percentage of GDP	Change in total stocks	Valuation adjustments (2)	Financial account flows
		Total	Equity and investment funds	Debt securities						(a)=(b)+(c)	(b)	(c)
							Assets					
2014	510	1,057	608	449	128	508	117	2,320	142.5	220	87	133
2015	530	1,177	705	472	100	508	120	2,435	147.1	115	-7	123
2016	544	1,265	758	507	92	504	129	2,534	149.4	99	23	76
2017	558	1,391	864	527	76	523	126	2,675	154.0	141	-7	148
2018	594	1,354	821	533	76	551	133	2,707	153.3	33	-71	104
2018 – Q1	564	1,395	860	536	73	534	125	2,691	154.0	17	-33	49
Q2	578	1,400	863	536	75	552	127	2,732	155.6	41	14	27
Q3	583	1,431	885	546	73	556	124	2,767	157.2	35	-1	36
Q4	594	1,354	821	533	76	551	133	2,707	153.3	-60	-52	-9
2019 – Q1	594	1,421	872	549	81	557	138	2,791	157.8	84	66	18
Q2	596	1,448	887	561	85	566	145	2,842	160.5	50	32	18
Q3	610	1,506	920	586	91	577	157	2,941	165.5	99	45	54
							Liabilities					
2014	407	1,331	204	1,127	182	742	–	2,661	163.5	187	108	78
2015	423	1,394	254	1,140	141	797	–	2,755	166.4	94	10	84
2016	445	1,269	217	1,052	136	886	–	2,736	161.4	-19	-62	43
2017	456	1,308	263	1,045	107	938	–	2,808	161.7	72	-28	101
2018	482	1,146	216	930	107	1,055	–	2,790	158.0	-18	-92	73
2018 – Q1	456	1,347	270	1,076	102	954	–	2,859	163.6	50	2	49
Q2	464	1,225	255	970	105	1,039	–	2,832	161.3	-27	-49	22
Q3	470	1,201	254	947	100	1,057	–	2,828	160.6	-4	-23	19
Q4	482	1,146	216	930	107	1,055	–	2,790	158.0	-38	-21	-16
2019 – Q1	482	1,207	249	959	119	1,043	–	2,851	161.2	61	49	12
Q2	486	1,261	247	1,013	130	1,004	–	2,880	162.7	29	25	3
Q3	499	1,348	259	1,089	145	1,004	–	2,996	168.6	116	77	39
							Net position					
2014	103	-274	403	-678	-54	-233	117	-342	-21.0	34	-21	55
2015	107	-217	451	-668	-41	-288	120	-320	-19.3	22	-17	39
2016	98	-4	541	-545	-44	-381	129	-202	-11.9	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	-9.6	-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	-410	-38	-486	138	-60	-3.4	23	17	6
Q2	111	188	640	-452	-45	-437	145	-38	-2.2	22	7	15
Q3	111	158	661	-503	-55	-427	157	-55	-3.1	-17	-31	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	45,974	47,184	-2,602	18,802	-17,411	-604	-1,482	878
2018 – Q1	5,119	9,866	-3,320	3,727	-5,153	-359	-363	4
Q2	11,508	13,698	760	57	-3,007	-177	-372	196
Q3	16,393	11,565	3,115	6,020	-4,307	2	-324	326
Q4	12,953	12,055	-3,157	8,998	-4,943	-71	-423	352
2019 – Q1	4,291	10,329	-3,584	4,528	-6,982	-313	-361	47
Q2	13,674	15,250	1,301	-482	-2,395	-674	-458	-216
Q3	17,269	15,563	3,320	3,358	-4,972	-316	-561	245
2018 – Jan.	-909	615	-992	711	-1,243	-101	-123	23
Feb.	2,535	3,870	-1,079	1,446	-1,701	-101	-113	13
Mar.	3,493	5,381	-1,250	1,571	-2,208	-158	-126	-32
Apr.	3,442	3,823	-178	781	-983	-123	-116	-7
May	2,178	4,031	203	-1,355	-701	-144	-132	-12
June	5,888	5,844	735	631	-1,322	90	-124	215
July	7,576	6,250	1,103	1,524	-1,301	20	-112	132
Aug.	5,630	3,338	1,287	2,457	-1,452	33	-90	123
Sept.	3,187	1,977	725	2,040	-1,554	-51	-123	71
Oct.	5,492	4,388	-683	3,127	-1,340	35	-150	186
Nov.	3,893	4,363	-1,615	2,524	-1,379	5	-141	147
Dec.	3,568	3,304	-859	3,347	-2,224	-111	-131	20
2019 – Jan.	-982	1,004	-1,158	871	-1,698	-102	-139	37
Feb.	2,308	3,981	-1,190	1,823	-2,306	-80	-109	28
Mar.	2,965	5,344	-1,235	1,834	-2,978	-131	-113	-18
Apr.	3,724	3,510	15	1,031	-834	-239	-150	-89
May	4,038	5,691	528	-1,749	-432	-263	-165	-98
June	5,912	6,049	758	235	-1,129	-172	-143	-29
July	9,399	8,266	1,882	851	-1,600	-103	-203	100
Aug.	4,621	3,674	946	1,693	-1,693	-58	-151	93
Sept.	3,250	3,623	492	813	-1,679	-155	-207	52
Oct.	(8,572)	(8,230)	(-455)	(2,345)	(-1,548)	(306)	(54)	(252)
Nov.	(4,921)	(5,865)	(-1,291)	(1,919)	(-1,573)	(89)	(-104)	(193)

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

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	-0.6	-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	0.1	2.8	2.9	3.0	3.2	2.9
2018	1.9	1.9	1.2	2.6	3.4	3.6	4.0	3.2
2017 – Jan.	1.2	1.4	0.8	2.2	2.5	2.3	2.4	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	2.5	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	2.6	2.5	2.6
June	1.1	1.1	-0.1	2.6	2.5	2.4	2.1	2.6
July	1.4	1.4	0.3	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	2.6	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	0.1	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	3.4	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	3.4	4.2	2.9
July	2.4	1.8	1.0	2.8	3.4	3.5	4.1	3.0
Aug.	2.5	1.8	1.1	2.7	3.4	3.6	4.2	3.1
Sept.	2.8	2.1	1.7	2.7	3.5	3.6	4.4	3.1
Oct.	2.6	2.0	1.4	2.8	3.3	3.5	3.9	3.2
Nov.	2.2	1.7	1.0	2.7	3.3	3.6	4.1	3.2
Dec.	1.9	1.9	1.2	2.6	3.4	3.6	4.0	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	3.7	3.3
Apr.	0.8	0.8	-0.6	2.6	3.5	3.6	3.9	3.3
May	1.0	1.0	-0.2	2.5	3.3	3.6	3.9	3.3
June	0.4	0.7	-0.7	2.4	3.5	3.6	3.9	3.3
July	0.7	0.9	-0.5	2.5	3.6	3.6	4.0	3.4
Aug.	0.5	0.7	-0.7	2.4	3.8	3.7	4.2	3.4
Sept.	0.5	0.6	-1.0	2.5	3.6	3.5	3.6	3.4
Oct.	0.3	0.4	-1.4	2.4	3.7	3.6	3.8	3.5
Nov.	0.1	0.0	-1.9	2.3	3.6	3.5	3.4	3.5

(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	-27.5
2018	-29.5	10.8	-4.1	-22.9
2018 – Q1	-15.8	-5.6	-2.9	-24.3
Q2	-16.9	1.2	-0.1	-15.8
Q3	1.1	3.5	2.3	6.9
Q4	2.0	11.6	-3.3	10.3
2019 – Q1	-4.9	-0.3	-1.6	-6.8
Q2	1.4	-0.8	2.1	2.6
Q3	3.2	-1.3	-5.4	-3.5
		Euro area		
2017	-47.2	2.4	63.6	18.8
2018	85.4	78.8	44.0	208.2
2018 – Q1	30.9	18.0	22.6	71.4
Q2	-18.4	32.2	3.9	17.7
Q3	47.0	8.3	17.0	72.3
Q4	26.0	20.4	0.5	46.9
2019 – Q1	59.4	21.6	15.9	96.9
Q2	16.9	28.0	16.7	61.7
Q3	21.8	40.1	23.2	85.1

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

Table A9

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which:* 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	40.4	-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	-0.5	0.1	20.5	-20.5	-3.0	-0.1	0.0
July	5.8	1.6	-0.1	19.1	-2.3	1.3	23.8	-27.1	3.0	-3.2	0.0
Aug.	-0.1	-1.3	1.8	-4.5	0.1	-0.2	-3.0	5.3	-3.0	2.3	0.0
Sept.	1.8	-0.3	1.0	-23.0	0.1	-1.0	-21.2	43.7	-10.0	22.6	0.0
Oct.	-0.2	1.2	1.2	7.5	0.1	0.5	9.1	-9.8	-3.4	-0.7	-0.2
Nov.	-5.2	-1.8	-0.0	3.6	0.3	-0.3	-1.7	0.1	2.0	-1.6	-0.2

(1) For more information, see the Methodological Appendix in 'The Public Finances: Borrowing Requirement and Debt' in *Supplements to the Statistical Bulletin* for data up to December 2016 and for subsequent months 'The Public Finances: Borrowing Requirement and Debt' in the Statistics Series. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution 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	31.5	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	33.2	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	31.5	58.2
2019 – Jan.	241.6	71.3	115.4	1,885.1	131.4	47.0	33.9	2,420.5	79.1	17.0	32.7	58.2
Feb.	237.7	70.9	115.3	1,889.0	131.2	46.8	33.9	2,419.9	69.3	19.0	33.6	58.2
Mar.	237.8	68.8	115.9	1,883.4	131.0	46.8	33.9	2,414.9	46.9	17.6	32.2	58.2
Apr.	238.7	70.1	116.6	1,896.5	130.8	47.1	33.9	2,429.6	58.5	19.0	32.3	58.2
May	237.7	69.4	116.9	1,888.0	131.8	46.5	33.9	2,420.9	47.2	16.0	34.3	58.2
June	235.9	68.3	116.5	1,912.1	131.2	46.7	33.9	2,442.4	67.7	19.0	34.5	58.2
July	241.8	69.9	116.4	1,931.0	128.9	48.0	33.9	2,466.0	94.8	16.0	35.6	58.2
Aug.	241.7	68.6	118.2	1,926.1	129.0	47.8	33.9	2,462.7	89.5	19.0	35.9	58.2
Sept.	243.5	68.4	119.2	1,900.8	129.0	46.7	33.9	2,439.2	45.8	29.0	36.5	58.2
Oct.	243.3	69.6	120.4	1,906.8	129.1	47.2	33.7	2,446.8	55.5	32.4	37.3	58.0
Nov.	238.1	67.7	120.4	1,909.8	129.4	46.9	33.5	2,444.6	55.4	30.4	38.7	57.8

(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.