BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

April 2020

2 | 2020

BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 2 / 2020
April

Other economic publications of the Bank of Italy:

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

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

Economie Regionali
A series of reports on the regional economies

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

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

Newsletter
News on recent research work and conferences

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

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

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

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

Address
Via Nazionale 91 – 00184 Rome – Italy

Telephone
+39 0647921

Website
http://www.bancaditalia.it

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

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

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

CONTENTS

LIST OF BOXES

SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

OVERVIEW

The pandemic has impacted the global economy

In the early months of 2020, the impact of the COVID-19 pandemic on production and aggregate demand was apparent in all economies; there will be a very sharp reduction in world trade this year. The deterioration in growth prospects has translated into a marked fall in stock market indices and into a sudden increase in volatility and risk aversion. In all the leading economies, the monetary and fiscal authorities have enacted strong expansionary measures to provide income support to households and firms, credit to the economy, and to bolster market liquidity.

Extraordinary monetary measures have been adopted in the euro area

After a more rapid start in Italy, the epidemic spread to all the euro-area countries. In line with the drop in production and aggregate demand, and the fear of permanent consequences for the economy, inflation expectations were markedly lower across all time horizons. The ECB Governing Council took decisive action to ease monetary conditions, adopting a comprehensive package of measures, including more expansionary refinancing operations to support firms' liquidity and a new pandemic emergency asset purchase programme that will counter the widening of yield spreads. It also declared that it stood ready to use all of its instruments and to do everything necessary to support the economy.

In Italy the pandemic has a marked impact in the first quarter ...

The spread of the epidemic in Italy from the end of February and the measures adopted to counter it had significant repercussions on economic activity in the first quarter. The available data suggest that industrial production fell by 15 per cent in March and by an average of about 6 per cent in the first quarter. Looking at the first three months of 2020, GDP can today be estimated to have fallen by around 5 percentage points. Some service sectors appear to have contributed significantly to this contraction. Extending the measures to contain the epidemic will likely cause GDP to contract in the second quarter as well, which is expected to be followed by a recovery in the second part of the year.

Firms' assessments of foreign orders worsened in March. The spread of the coronavirus has halted international tourism flows, which make up almost one third of Italy's large current account surplus.

... but wage supplementation attenuates the effects on employment

The epidemic is having serious spillover effects on employment in all countries. In March, recourse to the wage supplementation fund is expected to have mitigated the impact of the public health crisis on the number of people in employment. In the second quarter employment could, however, contract further, as a result of the non-renewal of some fixed-term contracts due to expire.

Inflation expectations weaken

The available indicators show a weakening in the inflation expectations of Italian firms, pointing to fears that the spread of coronavirus will lead primarily to a fall in aggregate demand.

Central banks have countered the tensions in the financial markets

In Italy, as in other European countries, share prices have fallen and the BTP-Bund spread has widened significantly, against a backdrop of a sharp rise in risk aversion and a deterioration in liquidity conditions on the markets; tensions eased following the *decisions of the ECB Governing Council and our sizeable intervention in the government securities market.*

The ECB's operations lower the cost of bank funding

A rapid increase in bank bond yields and CDS premiums has been recorded in the financial markets. However, the new refinancing operations decided by the ECB Governing Council are intended to help lower the cost of funding for banks and to bolster their liquidity. Italy's banks are facing this economic crisis with better capitalization and liquidity conditions and higher asset quality than in the past.

Broad measures have been taken to support the economy

In recent weeks, the Government has adopted a series of expansionary measures to support the healthcare system and the households and firms affected by the emergency by strengthening social safety nets, suspending tax payments, approving a debt moratorium on outstanding bank loans and increasing public guarantees on new loans to firms. Additional measures are expected to be announced in the weeks ahead.

The European institutions draw up significant measures

The European Commission has activated the general escape clause of the Stability and Growth Pact, which permits temporary deviations from the medium-term budgetary objective or from the adjustment path toward it. Furthermore, the European institutions have significantly broadened the range of instruments available to deal with the impact of the pandemic.

The speed of the recovery will depend on the effectiveness of the economic policies

All the current scenarios regarding developments in Italy's GDP incorporate a markedly negative performance in the first half of the year, followed by an improvement in the second half and a marked recovery in economic activity in 2021; however, analysts' assessments vary significantly. How quickly the economy will recover will depend, apart from the course of the pandemic in Italy and abroad, on developments in world trade and in the financial markets, on the impact on some segments of the service sector, and on the repercussions on consumer confidence and income. The timing and effectiveness of the economic policy measures that are being introduced in Italy and in Europe will be crucial.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The effects of the COVID-19 pandemic rapidly hit the global economy in the early months of 2020. A marked and progressive deterioration in the outlook for economic activity and in global trade flows for the current year has been accompanied by a considerable increase of risks shifting further to the downside. In response to these events, the fiscal and monetary authorities in the main economies have adopted very strong expansionary measures to support the income of households and firms, lending to the economy and market liquidity.

The advanced economies have been progressively hit by the epidemic ...

The epidemic, which began in China at the end of January, has spread worldwide in just a few months, and has been particularly intense in Europe and the United States. Most of the countries affected have introduced stringent measures, including closing schools, suspending public events, restricting the movement of persons and interrupting numerous production activities (see the box 'The impact of the spread of the COVID-19 pandemic on the world economy').

The available indicators point to a general deterioration in economic activity in the advanced economies, following a fourth quarter marked by differing trends (Table 1). In the manufacturing sector, the purchasing managers' index (PMI) had already shown an initial downturn in February in the United States and Japan, and it fell in all countries in March (Figure 1), with a particularly sharp drop in the service sector.

... which has had significant effects on the labour market

In the United States, new applications for unemployment benefits rapidly reached extraordinarily high levels, going over three million in the third week of March and up to 6.6 million the following week, a figure around ten times higher than the previous peak, recorded during the 2008-09 global financial crisis. The number of persons in employment decreased by 700,000 in March, recording its biggest drop since December 2008. This figure may also underestimate the actual worsening in the US labour market, as the statistical surveys were conducted in the first half of the month.

Table 1

GDP growth and inflation
(percentage changes)

	GDP growth (1)			Inflation (2)
	2018	2019 Q3	2019 Q4	March 2020
Advanced countries				
Japan (3)	0.3	0.1	-7.1	0.4
United Kingdom (3)	1.3	2.1	0.1	1.7
United States	2.9	2.1	2.1	1.5
Emerging countries				
Brazil	1.3	1.2	1.7	3.3
China	6.7	6.0	6.0	4.3
India	6.8	5.1	4.7	5.9
Russia	2.5	1.5	2.1	2.5
Memorandum item:				
World trade (4)	**4.2**	**3.1**	**-0.2**	

Sources: National statistics; for the data on world trade, Bank of Italy.
(1) For the annual data, percentage change. For the quarterly data: percentage changes on previous period, annualized and seasonally adjusted for the advanced countries; year-on-year percentage changes for the emerging economies. – (2) Consumer price index, year-on-year change. – (3) For inflation, the data refer to February 2020. – (4) Based on national accounts and customs data. Seasonally adjusted quarterly data; annualized quarterly percentage change.

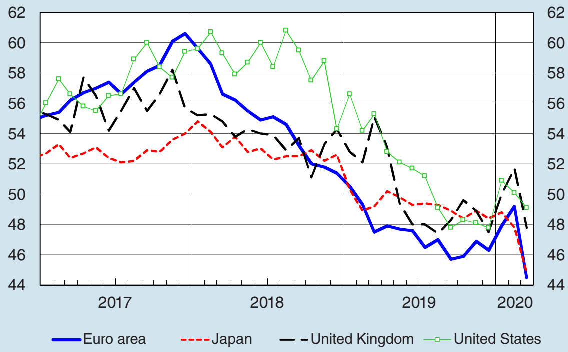
... has curtailed activity in China ...

The strict containment measures adopted in China brought production to a halt in entire regions of the country that are central to China's production system and to global supply chains. In February, the Chinese purchasing managers' index recorded a greater fall in both the manufacturing and in the service sector than that observed at the onset of the 2008-09 financial crisis. Industrial production and retail sales also declined considerably, far beyond the expectations formulated in the previous weeks. In March, as the rate of new cases of infection slowed, the situation began to return to normal.

Figure 1

Manufacturing PMIs in the main advanced economies (1)

(monthly data; diffusion indices)



Sources: ISM, Markit 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'.

... and is having strong repercussions on world trade

The contraction in international trade, already under way in the fourth quarter of 2019 (-0.2 per cent on an annual basis; Figure 2), was exacerbated at the beginning of 2020 by the sharp fall in tourism flows and by the reduction in trade connected with the global supply chains impacted by the partial halt in production in China.

Inflation expectations go down

In the main advanced economies, where consumer prices were already increasing at rates below the targets of the central banks (Figure 3), the long-term inflation expectations derived from financial market yields have fallen further; they have declined to 0.9 per cent in the United States (for the euro area, see Section 1.2).

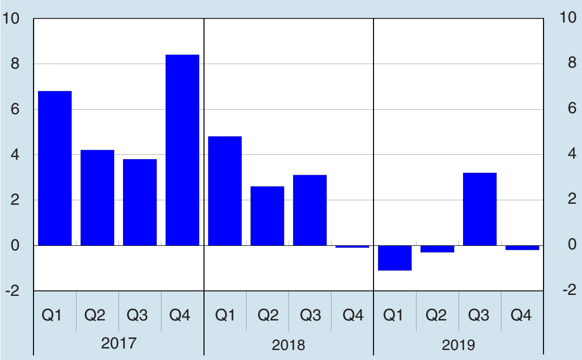
The risks to global growth are strongly to the downside

The impact of the COVID-19 pandemic on world economic growth is extremely difficult to quantify and will probably be highly significant (see the box 'The impact of the spread of the COVID-19 pandemic on the world

Figure 2

World trade (1)

(quarterly data; percentage changes)

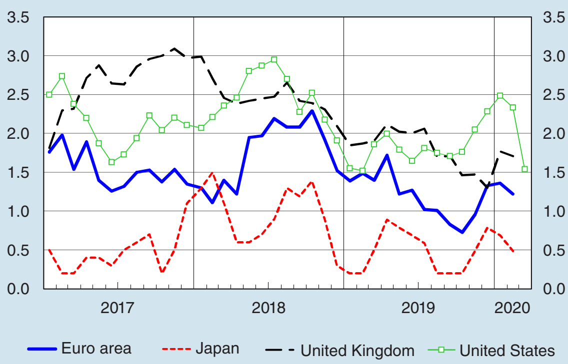


Sources: Based on national accounts and customs data.
(1) Seasonally adjusted data; annualized quarterly percentage changes.

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.

economy). The forecasts of the international institutions have been repeatedly and sharply revised downwards. Those released in April by the International Monetary Fund (IMF) point to a fall of 3.0 per cent in world GDP for the current year (6.4 percentage points below the previous growth forecasts; Table 2). The contraction is expected to be greater in the advanced countries, where the measures for containing the epidemic have been stricter and more wide-ranging on average so far. The risks for global economic growth and trade are still tilted to the downside.

According to our estimates, the effects of the coronavirus on international trade could lead to a fall in global trade of around 10 per cent in 2020, equal in intensity to that recorded in 2009; the IMF has made a similar forecast.

The medium-term outlook will also have to depend on the capacity of economic policies to act forcefully and promptly to prevent the impact of the pandemic from having long-lasting effects on confidence, investment and the soundness of the financial systems.

Table 2

Macroeconomic projections
(changes and percentage points)

	2019	Forecasts		Revisions (1)	
		2020	2021	2020	2021
GDP (2)					
World	**2.9**	**-3.0**	**5.8**	**-6.4**	**2.2**
Advanced countries					
of which: Euro area	1.2	-7.5	4.7	-8.8	3.3
Japan	0.7	-5.2	3.0	-5.9	2.5
United Kingdom	1.4	-6.5	4.0	-7.9	2.5
United States	2.3	-5.9	4.7	-7.9	3.0
Emerging countries					
of which: Brazil	1.1	-5.3	2.9	-7.5	0.6
China	6.1	1.2	9.2	-4.8	3.4
India (3)	4.2	1.9	7.4	-3.9	0.9
Russia	1.3	-5.5	3.5	-7.4	1.5
World trade (4)	**0.6**	**-10.0**	**....**	**-11.4**	**....**

Sources: IMF, *World Economic Outlook*, April 2020; for the data on world trade, Bank of Italy.
(1) Revisions compared with the forecasting scenario of January 2020. – (2) Forecasts taken from IMF, *World Economic Outlook*, April 2020; revisions compared with *World Economic Outlook Update*, January 2020. – (3) The data refer to the fiscal year starting in April. – (4) Based on national accounts and customs data; forecasts drawn up until April 2020; the revisions are calculated on the forecasts published in January 2020.

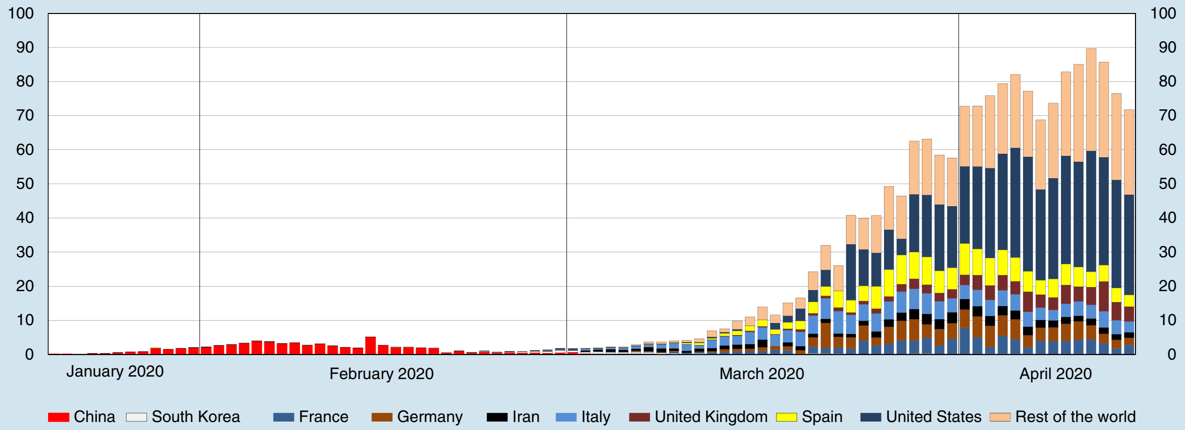
THE IMPACT OF THE SPREAD OF THE COVID-19 PANDEMIC ON THE WORLD ECONOMY

The spread of the infection – The COVID-19 epidemic spread in China at the beginning of the year and reached the rest of the world in just a few months: by mid-April, five countries had recorded over 100,000 confirmed cases and over 20 countries had more than 10,000 cases.[1] By 15 April, more than 2 million people worldwide had been infected with the virus, while more than 130,000 people had died. Infection spread first to neighbouring countries (mainly South Korea and Japan), and then affected Europe, the Middle East and the United States. Although COVID-19 has a lower mortality rate than diseases with similar respiratory symptoms (for example the 2003 SARS virus), it is considerably more contagious, and a sizeable percentage of cases require intensive care. This poses a serious threat to the ability of the health systems of the countries affected to deal with this emergency and at the same time to treat people suffering from other diseases.

Containment measures – The countries hardest hit so far have adopted increasingly tough measures to limit infection. In China, this has meant locking down huge areas of the country and imposing strict limits on mobility; the government has used advanced technology and clamped down on violations to monitor and enforce compliance with the rules. These measures have been effective in curbing the spread of the epidemic and have been partially relaxed since March.

[1] On 11 March, the World Health Organization (WHO) declared that the COVID-19 epidemic was now a pandemic.

Global evolution of the COVID-19 pandemic: confirmed new cases
(thousands of persons)



Sources: WHO, CEIC Data.

The controls and restrictions in neighbouring countries, initially limited to people arriving from China, were quickly extended and made more stringent. The containment policies adopted at the beginning of February in South Korea, Hong Kong and Singapore have been effective thanks to both their timeliness, severity and breadth and the help of innovative technology,[2] together with the diligence with which people complied with the social distancing rules in those countries, which had already been affected by the previous SARS epidemic in 2003.

Italy was the first country outside Asia to have a high number of cases and to apply very strict containment policies. Starting from 5 March, measures for restricting people's mobility, closing schools and universities and suspending all non-essential businesses were swiftly applied across Italy and their time frame extended.

One week after Italy, in parallel with the spread of the epidemic, similar measures were also introduced in France, Germany and Spain, and in the other main countries in western and central Europe. The Netherlands and the United Kingdom, which had initially decided not to impose such measures, reviewed their strategies and aligned them with those of the other European governments. In the United States, following the declaration of a national emergency, the measures for lockdown, social distancing and reduced mobility were extended and tightened; they had initially been adopted by the cities where infection had spread more rapidly. Public and private businesses have been heavily restricted.

Uncertainty is high as to how long the epidemic will last and the policies needed to tackle it, also taking account of the WHO's recommendation, according to which the restrictions will have to be maintained in the following phase too, albeit to a lesser degree.

[2] The main measures adopted include compulsory quarantine for people who are infected; identifying people at risk; widespread use of swabs for testing; selective restrictions on mobility; shutting down businesses; and systematically clamping down on violations. Such restrictions have been flanked in these countries by effective geolocalization technologies designed to track infection and ensure compliance with the measures.

The impact on the global economy – This uncertainty over the extent and intensity of the global diffusion of COVID-19 and over the time frame for containing it makes it extremely difficult to quantify its negative impact on world economic growth. Asynchronous infection cycles between countries could limit the capacity for recovery, including in countries where the public health emergency might end sooner. There are several channels for transmitting the economic effects of the pandemic: in the short-term, the interruption of production in the sectors subject to most restrictions is compounded by the halt in tourism flows and the fall in demand for goods and services at global level, the further reduction in consumption due to the loss of jobs and the decline in investment owing to the increase in uncertainty.

Unlike other shocks to the world economy, the current one is affecting the tertiary sector more than industry, above all in catering, entertainment and hospitality. Compared with the consumption of goods, which might only be deferred, the fall in demand for these services will probably last a long time because of the restrictions on people's mobility. The distribution of the economic impact of the crisis among the various countries will also be influenced by the different ways these sectors contribute to GDP growth.

In the medium-term, a rapid return to growth hinges on a number of factors: firstly, on the possibility that economic policies manage to prevent the effects of the crisis from being magnified by company bankruptcies and by the destruction of global value chains; and secondly, on the capacity of the economy to recover, which could be diminished by tensions in the financial markets. The risk that the deterioration in the confidence of households, the loss of income and jobs and the possible exit of firms from the market may lead to a lasting weakening of the market must be countered.

Economic policies – In response to the worsening of the outlook and to the sharp increase in market volatility, which has exceeded the peaks of 2008, the authorities in many countries have adopted highly expansionary policies. The People's Bank of China has cut the required reserve ratios (by up to 200 basis points), the interest rate on excess reserves (down for the first time since 2008 to 0.35 per cent), the seven-day reverse repo rate (30 basis points) and the medium-term lending facility rate, which is used as a benchmark for deciding the rate on loans to firms (30 basis points). In addition, the criteria for defining non-performing assets have been temporarily relaxed. The fiscal authorities have planned interventions to support firms, such as exemptions from paying social security contributions, cutting port fees and a substantial increase in infrastructure investment, including that connected with the new 5G digital technology. The stimulus measures introduced in the first quarter were in line overall with the extraordinary measures introduced during the 2008-09 global financial crisis, when the Chinese government set up a programme to support the economy that amounted to more than 12 per cent of GDP. Monetary and fiscal policies have also become strongly expansionary in South Korea, Japan, Indonesia, the Philippines and Australia.

The central banks of the other major countries have responded forcefully to the deterioration of the economic situation. At its meetings on 12 and 18 March, the ECB Governing Council announced a comprehensive package of support measures and declared it stood ready to introduce more measures and to do everything necessary, within its mandate, to support the euro area in this crisis.

The governments of Canada, the United Kingdom and the United States have approved fiscal stimulus packages. Among EU countries, interventions to support the income of households and firms (in the order of 1 to 2 per cent of GDP) have already been adopted, among others, by the governments of France, Germany, Italy and Spain. In addition to these measures, there are guarantee schemes for loans to firms for a total amount of more than 10 per cent of GDP. Upon a proposal of the European

Commission, the EU Council has approved the activation of general escape clause of the Stability and Growth Pact. This clause allows EU Member States to depart from the adjustment path towards the Pact's medium-term objective and to allocate the resources necessary to tackle the public health and economic emergency and support firms and households. The US administration has introduced an extraordinary package of around $2,200 billion (9.5 per cent of GDP) that includes allocation of funds for the health system, to local governments and for managing the emergency, direct payments to households, an extension of unemployment insurance benefits, and loans and guarantees on lending to non-financial firms of all sizes.

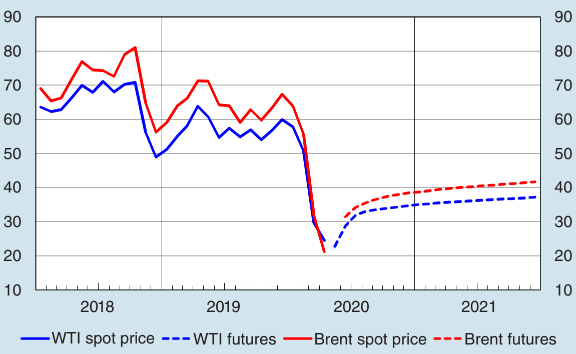
The international financial institutions are gradually increasing their level of involvement in supporting economies in difficulty. The International Monetary Fund is strengthening the instruments available to member countries for facing the costs of the health emergency and offering a moratorium on debts. It is also considering an extraordinary allocation of special drawing rights for $500 billion. Options for extending the use of the IMF's precautionary lending instruments are being examined. The World Bank has approved a $14 billion package to provide financial support to poor and developing countries in difficulty; the allocation could go up to a total of $150 billion over the next twelve months.

Oil prices fall

Oil prices have fallen by over 50 per cent in the last three months (Figure 4), going well below the minimum levels reached during the 2008-09 financial crisis. This fall has mainly been caused by fears of a slowdown in economic activity following the pandemic. At the beginning of March, the failure of the OPEC+ countries[1] to reach an agreement on the renewal of production cuts, as a result of clashes between Russia and Saudi Arabia, also played a part. In mid-April, also with the support of the G20 countries, the OPEC+ members reached an agreement to drastically reduce the supply of crude oil.

Figure 4

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



Source: Refinitiv.
(1) For the spot prices, monthly averages up to March 2020; the latest figure is the average of the daily data from 1 to 9 April 2020.

Central banks forcefully ease monetary conditions

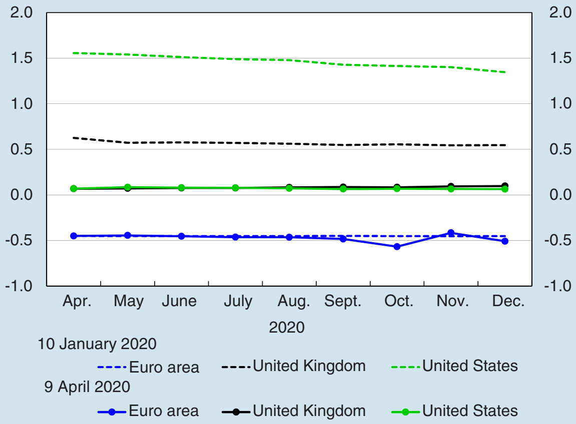
The authorities in the major economies have adopted highly expansionary measures in response to the spread of the pandemic (see the box 'The impact of the spread of the COVID-19 pandemic on the world economy). In a series of extraordinary meetings in the first half of March, the Federal Reserve lowered the target range for the federal funds rate by 150 basis points overall, bringing it to 0.00-0.25 per cent (Figure 5). It increased the liquidity available to intermediaries; it launched a new programme for purchasing assets and mortgage-backed securities, with no limits on the amount; and it activated a series of instruments to support lending to firms, consumers and local governments both indirectly, via the banking system, and directly, by granting loans and purchasing private securities in the secondary market. To ensure the availability of liquidity in US dollars in international markets, it has also set up swap lines with the central banks of the main advanced and emerging countries.

[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.

In two extraordinary meetings, the Bank of England reduced its reference rate by 65 basis points, bringing it to 0.1 per cent, the lowest level ever recorded; it also announced the purchase of a further £200 billion worth of government bonds to facilitate loans to small and medium-sized enterprises by commercial banks. In addition, it has agreed with the Treasury upon a temporary increase in the funds available via the overdraft held by the government at the central bank, with a commitment to repay any drawings by the end of the year. The Bank of Japan has raised the threshold for the purchase of exchange-traded funds (ETFs) and has kept its reference rate unchanged at negative values, announcing it stands ready to reduce it further in the future. The People's Bank of China has lowered 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 also reduced their key interest rates further over the last three months.

Figure 5

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



1.2 THE EURO AREA

The pandemic has gradually spread to all the euro-area countries, causing a sharp worsening in the outlook for the economy. Inflation expectations have fallen markedly across all time horizons. The ECB Governing Council has intervened decisively and stands ready to act further using all the instruments at its disposal.

Economic activity stagnates at the end of 2019

In the fourth quarter, GDP growth in the euro area was practically unchanged at 0.1 per cent on the previous quarter (Table 3). The positive contribution of domestic demand was offset by the negative contribution of net exports. GDP continued to expand in Spain and remained unchanged in Germany, while it contracted in France and, to a greater extent, Italy. In all of these countries, value added was held back mainly by the weakness of the industrial sector (Figure 6).

The pandemic has a significant impact in the first quarter ...

The cyclical indicators point to the consequences of the spread and heightening of the pandemic. Evidence of this can be inferred from the purchasing managers' indices (PMI); in February, manufacturing firms in the euro area reported a marked lengthening of delivery times, likely owing to interruptions in the distribution chains. In March, the composite PMI registered the sharpest contraction since its inception, reflecting above all the abrupt fall in the

Table 3

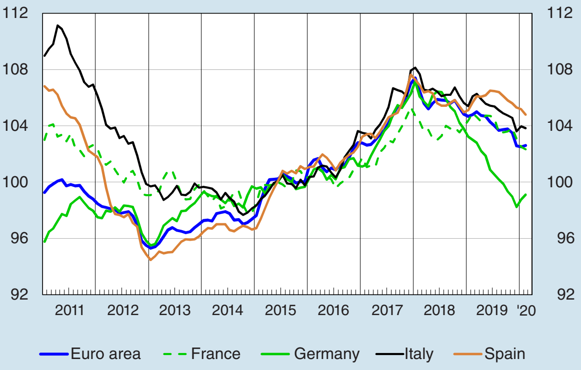
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2019	2019 Q3 (1)	2019 Q4 (1)	2020 March (2)
France	1.3	0.3	-0.1	0.8
Germany	0.6	0.2	0.0	(1.3)
Italy	0.3	0.1	-0.3	0.1
Spain	2.0	0.4	0.5	0.1
Euro area	1.2	0.3	0.1	(0.7)

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).

Figure 6

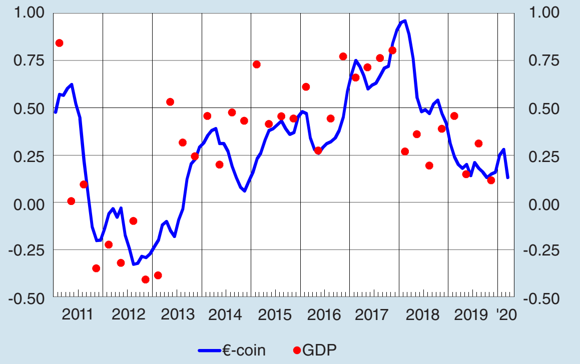
Industrial production in the euro area and in the main economies (1)
(monthly data; indices: 2015=100)



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

Figure 7

€-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: March 2020'. For GDP, quarterly data, percentage change on previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components.

service sector, which was much more pronounced than in manufacturing. The Bank of Italy's €-coin indicator, which estimates the underlying GDP trend in the euro area, worsened in March after increasing slightly in the first two months of the year (Figure 7). However, the indicator does not fully capture the scale of the impact of the ongoing pandemic on economic activity, as only a small subset of the available March data used for its construction refers to the latest developments.

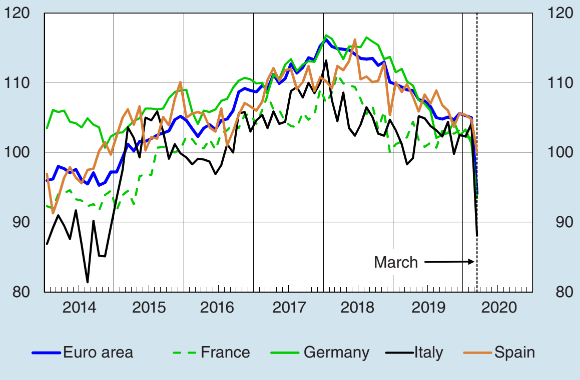
According to the data referring to March, the spread of the pandemic has had repercussions on economic activity in a large number of countries. According to European Commission surveys, the Economic Sentiment Indicator (ESI), a composite confidence indicator, fell sharply in the euro area as a whole. In France, the household and business confidence indicators published by INSEE declined in March, particularly in the forward-looking component. In Germany the ZEW indicator, which aggregates the sentiment of about 350 experts in economics and finance, fell in March to its lowest level since December 2011. The IFO indicator, which measures business confidence in Germany based on a survey of about 7,000 firms in several business sectors, in March reached its lowest level since July 2009.

... in particular on employment

According to the data released by the European Commission, in March the Employment Expectations Indicator (EEI), which reflects firms' employment plans, recorded a sharp drop in the euro area on average (10.9 points; Figure 8) as well as in the major countries

Figure 8

Employment Expectations Indicator (EEI) (1)
(monthly data; average 2000-2020 = 100)



Source: European Commission
(1) The EEI is a composite indicator constructed as the weighted average of the three-month employment expectations of firms in industry, services, retail trade and construction. Values above/below 100 indicate expectations of an increase /decrease.

(-9.0 points for France, -7.8 points for Germany and -16.0 points for Italy). In Spain, according to data from the Ministry of Inclusion, Social Security and Migrations, employment decreased by 1.8 per cent in March compared February.

The European institutions draw up broad measures to counter the impact of the pandemic

The European institutions have drawn up significant measures to respond to the spread of the pandemic. The European Commission proposed the Coronavirus Response Investment Initiative to unlock some of the cohesion funds already allocated, as well as a new lending scheme available to Member States to mitigate the unemployment risk connected with the emergency ('Support to mitigate unemployment risks in an emergency', SURE). The total available funding under SURE amounts to €100 billion. The European Investment Bank (EIB) proposed a €25 billion pan-European guarantee fund that would enable lending to small and medium-sized enterprises of up to €200 billion.

Furthermore, the European Commission activated the general escape clause of the Stability and Growth Pact, permitting temporary deviations from the medium-term budgetary objective or from the adjustment path toward it (see Section 2.9). Lastly, through some temporary changes to the rules on state aid, it has given more leeway to governments to alleviate firms' funding problems.

On 9 April, the Eurogroup approved the initiatives of the Commission and of the EIB; it also reached an agreement to provide the European Stability Mechanism (ESM) with an additional, enhanced precautionary credit line. Member states will be able to access the funding at the sole condition that the resources thus obtained be used to fund the direct and indirect costs of healthcare, treatment and prevention. Each country may borrow up to 2 per cent of its GDP. The Eurogroup has also begun discussion of the possibility of establishing a European recovery fund, to be financed through issuance of common debt or alternative solutions within the EU's multiannual financial framework, on which the European Council will need to provide further guidance.

Inflation expectations reach historical lows across all time horizons

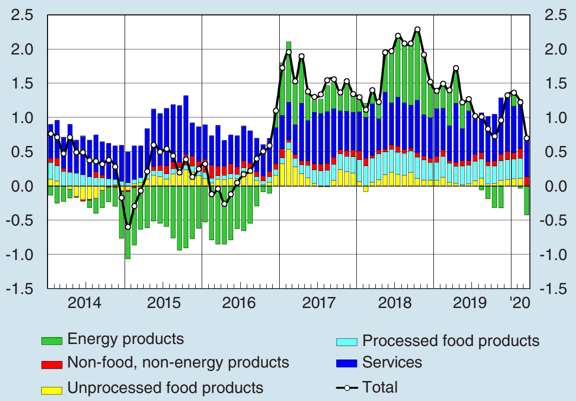
In the first quarter, inflation was held back by the fall in oil prices (see Section 1.1) and the weakness in demand (Figure 9). Based on preliminary data, inflation decreased to 0.7 per cent in March. The reduction in core inflation was less marked, reaching 1.0 per cent, and reflected the slowdown in service prices, given the stable growth in the prices of non-energy industrial goods.

The inflation expectations incorporated in the prices of financial assets fell markedly across all time horizons in the last ten days of February, in conjunction with the spread of the global health emergency, reflecting the growing fears of a significant deterioration in the outlook for aggregate demand. As at mid-April, the two-year expectations derived from inflation swap yields were slightly negative (-0.1 per cent); five-year, five years forward expectations, which have fallen to a historical low in the last ten days of March, turned upwards, reaching 1.0 per cent (Figure 10.a). Based on the prices of inflation options, the probability that inflation will remain negative or below 0.5 per cent on average over the next five years has increased significantly, surpassing the levels recorded in 2015 (Figure10.b).

Figure 9

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

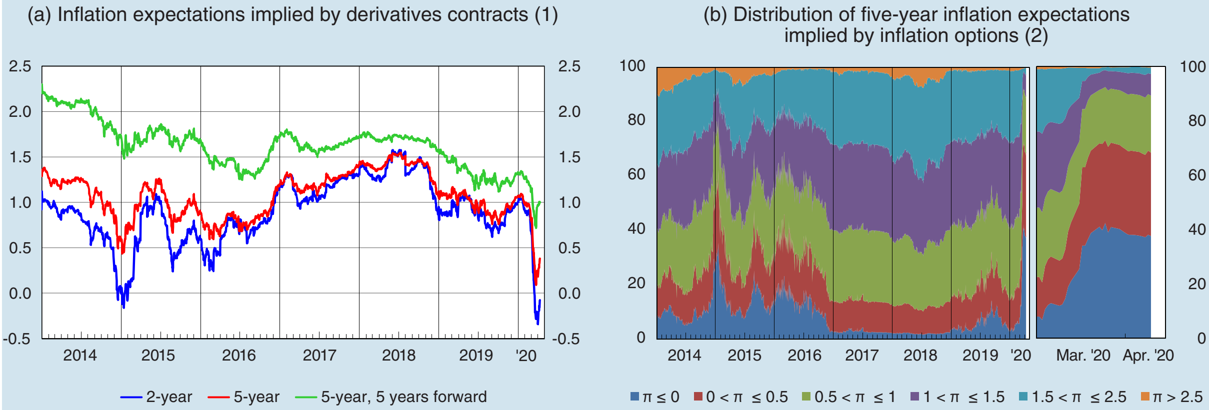
(monthly data; per cent and percentage points)



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

Figure 10

Inflation expectations
(daily data; per cent)



Sources: Refinitiv and based on Bloomberg data.
(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 has intervened ...

At its 12 and 18 March meetings, the ECB Governing Council introduced some highly expansionary monetary policy measures to support lending to households and firms, to guarantee relaxed liquidity conditions, and to intervene in the public sector securities market in a way that is flexible and focuses on the segments and countries most under strain by countering any widening in the spreads that could hinder monetary transmission (see the box 'The monetary policy measures adopted by the ECB in March 2020').

THE MONETARY POLICY MEASURES ADOPTED BY THE ECB IN MARCH 2020

At its 12 March meeting, the ECB Governing Council introduced new longer-term refinancing operations (LTRO), decided to apply more favourable conditions to the third series of targeted longer-term refinancing operations (TLTRO III), and strengthened the expanded asset purchase programme (APP).

The new LTROs seek to provide immediate support to the liquidity of the banking sector and to protect the functioning of the money markets. The operations are conducted weekly as fixed-rate tender procedures with full allotment; the cost of a given operation is equal to the average rate on the deposit facility as recorded over the duration of that operation. The deposit facility rate is currently negative (-0.5 per cent). These operations will all reach maturity in June 2020, coinciding with the settlement of the fourth operation of TLTRO III, to which counterparties will be able to transfer the refinancing they obtained.[1]

As part of the TLTRO III programme, the total amount of funds that counterparties can obtain was raised from 30 to 50 per cent of the stock of loans, corresponding to about €3 trillion, and its cost was reduced: between June 2020 and June 2021 the interest rate applied to these operations will be

[1] For details of the LTRO operations, see the ECB, 'ECB announces measures to support bank liquidity conditions and money market activity', press release of 12 March 2020.

25 basis points lower than the average rate on the main refinancing operations. For counterparties whose loans are equal to the benchmark net lending, the rate applied will be 25 basis points lower than the deposit facility rate and in any case no higher than -0.75 per cent.[2]

The eligibility criteria applicable to the assets that banks use as collateral in operations with the Eurosystem have been eased temporarily. This is to ensure that the counterparties are able to fully benefit from the financial support being provided.[3]

The Governing Council increased the envelope of the expanded asset purchase programme (APP) for an amount equal to €120 billion until the end of the year; further purchases will be carried out in a flexible manner in terms of timing and composition, and will be channelled towards the jurisdictions and market segments exposed to the most serious tensions.

Given the rapid spread of the epidemic and the emergence of significant turbulence on the financial markets, at the extraordinary meeting held on 18 March, the Governing Council introduced a new asset purchase programme, the pandemic emergency purchase programme (PEPP), with an overall envelope of €750 billion and under which both public and private sector securities will be purchased. The purchases, which will be conducted in a flexible manner over time, across asset classes and among jurisdictions, will continue at least until the end of this year and in any case for the duration of the pandemic emergency; they will involve all the financial assets eligible under the APP, including, for the first time, securities issued by the Greek Government. Moreover, the Governing Council decided to expand the range of eligible assets under the corporate sector purchase programme (CSPP) to include non-financial commercial paper of sufficient credit quality.

The new programme will make it possible to intervene across the whole yield curve, thereby avoiding fragmentation and distortions in the prices of financial assets, and is designed to respond flexibly to the spread of the pandemic and uncertainty and to the unfolding of its repercussions on certain market segments.[4] The Governing Council decided to consider revising some of its self-imposed limits regarding asset purchases in the market to the extent necessary to achieve its goals.

The Governing Council reiterated that it is fully prepared to increase the size of its asset purchase programmes and to adjust their composition for as long as necessary, and confirmed that it will not tolerate any risks to the smooth transmission of its monetary policy in all jurisdictions of the euro area.[5]

In the hours immediately following the announcement of these decisions, the yields on long-term government securities decreased significantly, by about 20 basis point for the euro area on average and by 60 basis points in Italy, to 0.4 and 1.8 per cent respectively. The yield spread between Italian ten-year government securities and the ten-year German Bund, which had risen to 320 basis points at the height of turbulence, returned to values of around 180 basis points; the euro depreciated by 1.2 per cent against the dollar; and share prices rose by more than 2 per cent in the euro area and in Italy.

Overall, the goal of the measures adopted is to support liquidity conditions and lending to the households and firms hardest hit by the crisis. The size and flexibility of the purchase programmes

[2] For the details of the changes made to TLTRO III operations, see the ECB, 'ECB announces easing of conditions for targeted longer-term refinancing operations (TLTRO III)', press release of 12 March 2020.

[3] For the details of the changes made to collateral eligibility criteria, see the ECB, 'ECB announces package of temporary collateral easing measures', press release of 7 April 2020.

[4] C. Lagarde, 'Our response to the coronavirus emergency', 19 March 2020.

[5] ECB, 'ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)', press release of 18 March 2020.

will make it possible to counter the widening of the yield spreads in the bond market and risks to monetary policy transmission.[6]

[6] 'Governor Visco on the ECB's new measures in support of the COVID-19 emergency', interview with Governor Ignazio Visco by Francine Lacqua (Bloomberg TV), 13 March 2020; Philip R. Lane, 'The monetary policy package: an analytical framework', 13 March 2020; 'BCE: per proteggere economia e famiglie, pronti 3mila miliardi', interview with Fabio Panetta, Member of the Executive Board of the ECB, by Daniele Manca (Corriere della Sera), 14 March 2020, also published on the ECB website.

The measures include new longer-term refinancing operations (LTRO); a further easing of the terms of the third series of targeted longer-term refinancing operations (TLTRO III); an envelope of €120 billion for additional net asset purchases under the APP; and the new pandemic emergency purchase programme (PEPP), under which both public and private sector securities will be purchased. The latter is designed to counter the tightening of financial conditions and has an overall envelope of €750 billion to carry out purchases of public and private sector securities in a flexible manner over time, across asset classes and among countries. The programme will continue until the end of the pandemic crisis and in any case for the whole of 2020.

... and stands ready to act further using all the necessary instruments

The Governing Council stated that it is fully prepared, if necessary, to increase the size of the asset purchase programmes and adjust their composition and to do everything necessary within its mandate to support the euro area.

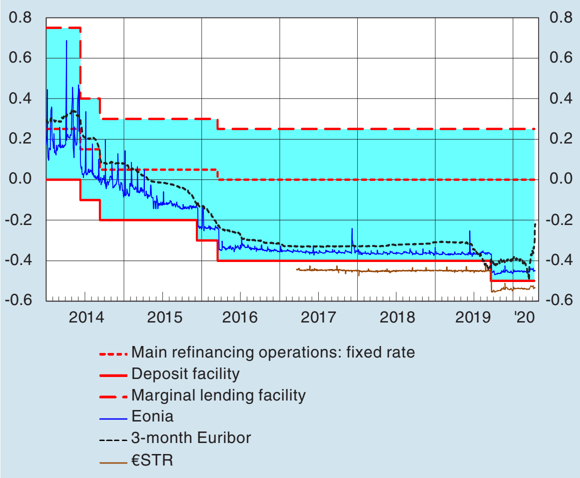
On 12 March the ECB Supervisory Board announced measures to ease the capital and liquidity requirements of the banks directly supervised by the ECB. It also stated that it considers that these temporary measures will be enhanced by the appropriate relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities .[2]

Purchases in the market are significant

Following the decisions of the Governing Council, there have been significant net purchases under the APP, concentrated in the markets of the countries most exposed to the tensions, including Italy. At the end of March, the book value of the public sector securities purchased by the Eurosystem under the APP stood at €2,160 billion, covered bank bonds at €274 billion, and asset-backed securities and corporate bonds at €31 billion and €202 billion respectively. The book value of Italian public sector securities purchased under the APP amounted to €382 billion, of which €346 billion purchased by the Bank of Italy. The purchases carried out in March totalled €12 billion. Since 26 March, purchases under the PEPP have also begun.

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.

[2] ECB, 'ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus', press release of 12 March 2020.

As of 13 April, the total book value of the securities issued in the euro area and purchased under that programme was equal to €50.7 billion.

Since the second half of March, the euro short-term rate (€STR) has shown a slight upward trend, reaching about -0.53 around mid-April (Figure 11); over the same period, repo rates have registered greater volatility in Italy and the other major euro-area economies, while remaining at levels close to the deposit facility rate overall.

With the third auction of TLTRO III, settled on 25 March, €115 billion were allocated to 114 counterparties, of which €36 billion to 30 Italian banks. On the same day, about €93 billion borrowed in the previous series of these operations (TLTRO II) were repaid, of which €35 billion by Italian banks. Furthermore, about €257 billion were allocated to euro-area counterparties in the first five auctions of LTROs, conducted between 17 March and 14 April, of which €54 billion to Italian banks.

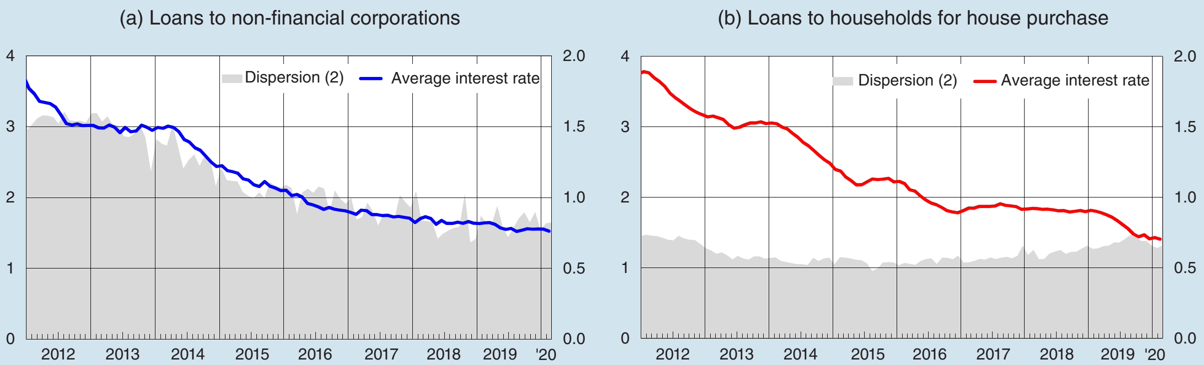
The growth in lending continues into February

Up to February, lending to non-financial firms and households continued to increase by an annualized quarterly rate of 1.3 and 4.3 per cent respectively (adjusted for seasonal factors and the accounting effect of securitizations). Among the major countries, lending to firms slowed in Spain. The expansion in lending to households was solid in all the main economies.

Between November and February, the interest rates applied to new loans to non-financial corporations held practically stable at 1.5 per cent, while those applied to new mortgage loans to households decreased by about 10 basis points, to 1.4 per cent (Figure 12).

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.

1.3 GLOBAL FINANCIAL MARKETS

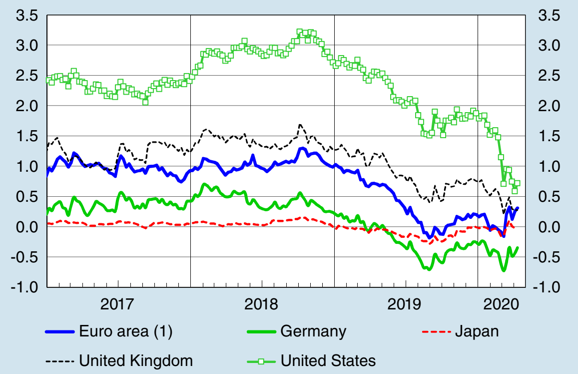
In a context of reduced liquidity, greater risk aversion and heightened volatility, strong turbulence on the financial markets has driven share prices down and caused wide fluctuations in government bond yields.

Tensions have been transmitted to long-term yields

In mid-January, long-term interest rates began to fall in all the main advanced economies (Figure 13), reflecting growing fears of a generalized slowdown of global activity (see Section 1.1). In March, following the progressive extension to the main

Figure 13

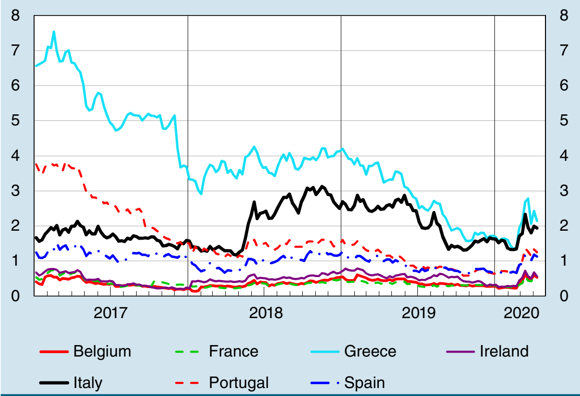
Yields on 10-year government bonds
(end-of-week data; per cent)



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)



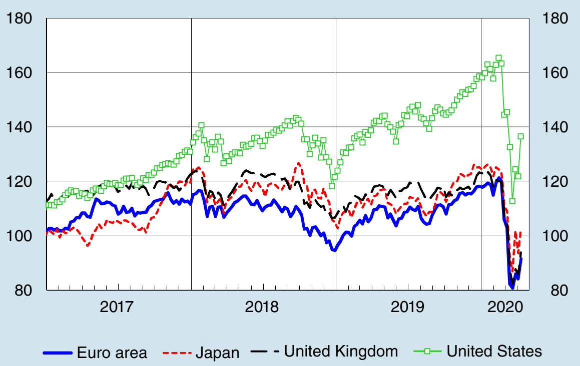
Source: Based on Bloomberg data.

advanced countries of measures to contain the epidemic, investors' preference for financial assets considered to be safer (flight to quality) was greatly accentuated. This led to a substantial reduction in yields in some jurisdictions and to an increase in others.

Between mid-February and mid-April, the yield on ten-year government bonds declined by around 90 basis points in the United States, to 0.7 per cent, while in Germany it increased by about 10 basis points to -0.3 per cent. In the euro area, as liquidity and market transactions began to dry up considerably, the spread with German bonds increased for all countries, most markedly in Greece, Italy (see Section 2.8)

Figure 15

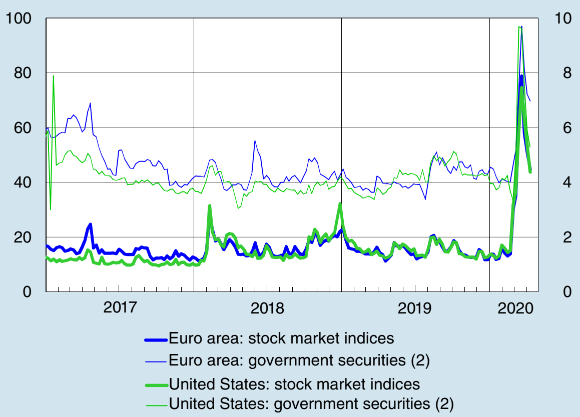
Stock market indices (1)
(end-of-week data;
1st week of January 2017=100)



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

Figure 16

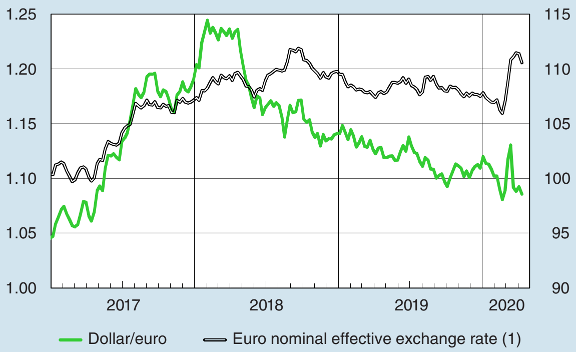
Implied volatility of equity and government bond prices (1)
(average weekly data; percentage points)



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

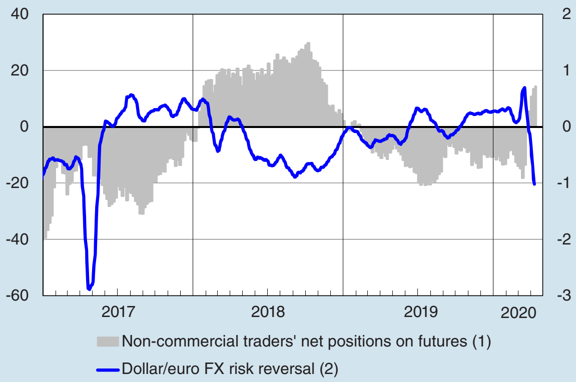
Exchange rates
(average weekly data; dollars per euro and indices)



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 2017=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.

and Portugal, and less so in Belgium, France, Ireland and Spain (Figure 14). Following the decision of the ECB Governing Council to set up a new asset purchase programme with an envelope of €750 billion, tensions in the euro area have eased (see the box 'The monetary policy measures adopted by the ECB in March 2020').

Stock market indices fall

At the global level, share prices dropped rapidly (Figure 15) following news of the spread of the coronavirus in Europe and in the other major advanced countries (see Section 1.1). Subsequently, prices recovered slightly, following the announcement of further measures by the main central banks and governments. The implied volatility of the stock market increased everywhere, surpassing the peak reached at the height of the 2008-09 financial crisis. The implied volatility of government bond prices also went up sharply (Figure 16).

Increased volatility of the euro

Since mid-January, volatility has increased on the foreign exchange markets. The exchange rate of the euro against the dollar, after initially strengthening, has depreciated again in the last few weeks, reaching levels that are slightly below those recorded at the start of this year. In nominal effective terms, the euro has appreciated (Figure 17). On the derivatives market, non-commercial operators' short positions in euros have gradually declined to a lower level than their long positions, suggesting expectations of an appreciation of the single currency (Figure 18).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

The available evidence indicates that, in the first quarter of 2020, GDP recorded a reduction that can today be estimated at around 5 percentage points in Italy. The estimate of a marked drop in some service sectors contributed to this assessment (see the box 'The transmission of the effects of the pandemic to the Italian economy'). Extending the measures to contain infection would lead to a fall in GDP in the second quarter too.

GDP falls in the fourth quarter of 2019

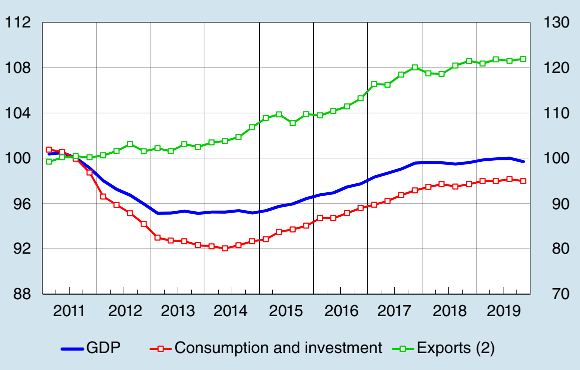
In the last three months of 2019, GDP decreased by 0.3 per cent (Figures 19 and 20; Table 4), with the negative contribution of domestic demand and a considerable decrease in stocks only partially offset by the positive contribution of foreign trade, mainly due to the sizeable fall in imports. Value added decreased in all sectors, excluding agriculture.

The effect of the spread of the epidemic is highly significant in the first quarter of 2020

The spread of the infection has had a strongly negative impact on economic activity since the end of February, and especially so in the service sector. The effect is visible in the traditional indicators available, but its magnitude can also be inferred from the information on the closure of businesses in various sectors (see the box 'Economic activity in the first quarter of 2020).

Figure 19

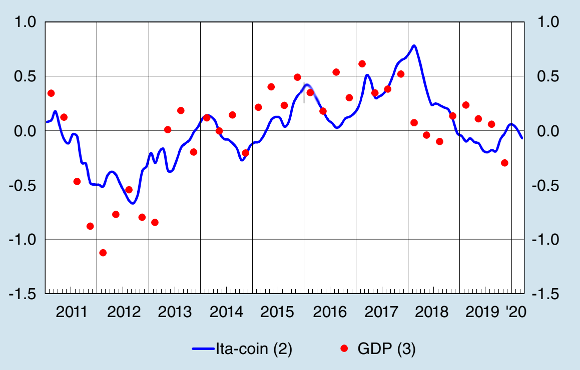
GDP and its main demand components (1)
(quarterly data; indices: 2011=100)



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 revising 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.

Table 4

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

	2019				2019
	Q1	Q2	Q3	Q4	
GDP	0.2	0.1	0.1	-0.3	0.3
Total imports	-2.7	0.7	1.1	-1.7	-0.4
National demand (2)	-0.4	0.1	0.4	-0.9	-0.2
National consumption	-0.1	0.0	0.2	-0.2	0.2
Household spending (3)	-0.1	0.0	0.3	-0.2	0.4
General government spending	-0.2	0.0	-0.1	-0.1	-0.4
Gross fixed investment	2.0	-0.2	0.0	-0.1	1.4
Construction	2.8	-1.7	0.6	-0.6	2.6
Capital goods (4)	1.3	1.1	-0.5	0.2	0.4
Change in stocks (5) (6)	-0.7	0.1	0.3	-0.7	-0.6
Total exports	-0.5	0.8	-0.2	0.3	1.2
Net exports (6)	0.6	0.0	-0.4	0.6	0.5

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 plant, machinery and arms (which also covers transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

The crisis has hit the production system at a time when there was already a slowdown in economic activity and a high level of public debt. Nevertheless, firms, whose financial leverage has declined considerably over the last few years, and households, whose indebtedness levels are very low by international standards, are facing these difficult economic times with a far more balanced financial structure than they had on the eve of the sovereign debt crisis. The country's external debt position is largely balanced. Italy's banks are facing this crisis with better capitalization and liquidity conditions than in the past.

ECONOMIC ACTIVITY IN THE FIRST QUARTER OF 2020

Italy was hit by the COVID-19 epidemic at the end of February. The containment measures were tightened in several steps to eventually cover the whole country.

The measures first adopted by the central and local governments, which were indispensable to limit the spread of the disease, have had immediate repercussions on economic activity, especially in the hotel and restaurant industry, in the travel and transport sectors, in recreational, cultural and personal services, and in non-food retail trade. All of these sectors together account for about 10 per cent of the country's value added; the production levels in these segments are also being affected by a contraction in demand.

Since 22 March, the containment measures have concerned all 'non-essential' economic sectors, accounting for about 28 per cent of value added (see the box 'The transmission of the effects of the pandemic to the Italian economy').

In addition to the provisions explicitly halting activity, overall supply in all sectors is being affected by barriers to the procurement of intermediate goods and services in the domestic and international markets as well as by limitations on firms on how they use their employees and how they conduct their business, due above all from the restrictions to personal mobility.

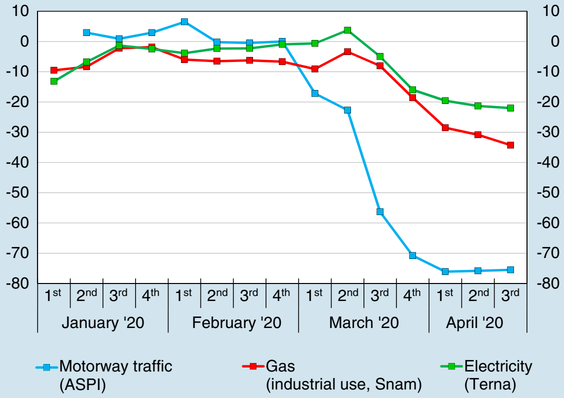
The data on the cyclical indicators usually employed to measure economic activity (electricity consumption, supply of gas to the industrial sector, and road and rail freight transport) signal a sharp drop in the period after the outbreak of the epidemic in Italy (Figure A).

In the last week of March, gas consumption for industrial use fell by 30 per cent compared with the same period in 2019. Electricity consumption also recorded a significant drop, of around 20 per cent, following the decrease that had already begun in the second week of March, when the containment measures were extended to the whole country. Since early March, traffic on motorways has diminished gradually; in the first week of April it was about 80 per cent lower than in the same period of last year.

Figure A

Cyclical indicators (1)

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



Sources: ASPI data available on Atlantia's website; based on data from Snam and Terna.
(1) Weekly change in the first quarter of 2020, year on year.

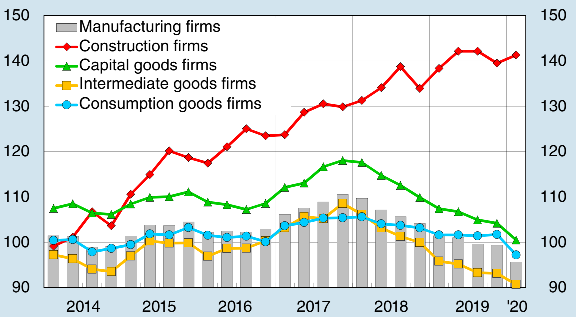
Business confidence indicators and purchasing managers' indices (PMI) registered very sharp drops in March in manufacturing and, especially, in services, which was the first sector to be affected by the suspension of economic activity (Figures B and C; see also Figure 21.b). The firms interviewed for the Bank of Italy's business surveys between 3 and 26 March reported a sharp deterioration in their business for both this and the next quarter, similar in magnitude to that reported in the aftermath of the global financial crisis and the euro-area sovereign debt crisis (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2020).

The data collected through the Bank of Italy's branch network show that in the tertiary sector, the containment measures have all but wiped out the turnover of most non-food retail trade, hotels, cafés and restaurants and firms in the tourism sector, and that activity in the construction sector has come to a halt. Similar indications regarding spending on services arise from Confcommercio's consumption indicator, which has decreased since February, following the sharp drop in demand in the hotel industry.

Figure B

Business confidence indices (1)

(quarterly data; indices: 2010=100)

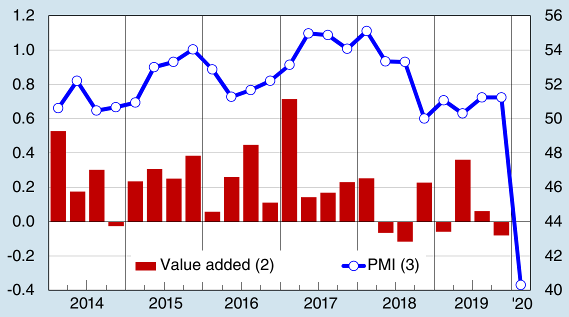


Source: Based on Istat data.
(1) Average level in the reference quarter.

Figure C

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 first quarter of 2020 is not yet available. – (3) Right-hand scale.

Based on an assessment combining the indications of forecasting models with the data collected by the Bank of Italy's branches regarding the shutdown of production plants, industrial production appears to have undergone a significant contraction of around 15 per cent in March. Taking account of the developments recorded in January and February, the fall in industrial production in the quarter appears to be around 6 percentage points.

Based on these data, in the first quarter of 2020 Italy's GDP can today be estimated to have fallen by around 5 percentage points. This assessment combines the estimates obtained from a wide range of forecasting models with those regarding the impact of the containment measures gradually introduced through national and local legislation, based on granular data on value added and employment broken down at geographical and sectoral level.[1]

[1] The underlying assumptions are compatible with the data reported by some business associations (Federalberghi, Federturismo, Federazione Italiana dei Pubblici Esercizi, Assomusica, SIAE, and Cinetel).

THE TRANSMISSION OF THE EFFECTS OF THE PANDEMIC TO THE ITALIAN ECONOMY

Extending the current measures for containing the COVID-19 pandemic will lead to a significant fall in GDP in Italy in the second quarter as well, which will probably be followed by a recovery that may be a sustained one. Its time frame and intensity will depend on the intensity, duration and geographical spread of infection, as to which there is still no certainty, on various domestic and international factors, and also on the effectiveness of economic policies.

At domestic level, the measures for containing the epidemic have brought activities in important service sectors to an almost complete standstill, including accommodation and catering, travel, recreational, cultural and personal services and non-food retail (see the box 'Economic activity in the first quarter of 2020'). The measures have been affecting the industrial sector since 28 March.[1] On the other hand, the epidemic has led to more activity in some sectors, including pharmaceuticals and e-commerce.

Table A shows the contribution in terms of value added and employment of the main economic sectors in Italy. Accommodation and catering services, amongst those hit hardest by the epidemic, produce almost 4 per cent of value added and employ around 1.6 million people (6.5 per cent of total persons employed). Industry excluding construction accounts for just under 20 per cent of value added and employs 4.2 million people (17 per cent of the total). Overall, the commercial and industrial activities considered non-essential and as such temporarily suspended by the DPCM of 22 March, contribute around 28 per cent of total value added. According to a mechanical calculation that does not consider indirect effects, for every week that there is a halt in economic activity for this week, annual GDP is likely to be reduced by around 0.5 percent.

The intensity of the subsequent recovery of domestic levels of activity will depend on a number of factors: on the repercussions on people's confidence and spending decisions; on the trend in

[1] The industrial activities that, in addition to trade activities, do not have to be suspended are listed in the Prime Minister's Decree (DPCM) of 22 March 2020, which contains urgent measures to contain the infection throughout Italy, later amended on 25 March by a decree of the Ministry for Economic Development. Previously, the DPCM of 11 March 2020 had only introduced the suspension of commercial activities, excluding the sale of food and basic necessities.

households' propensity to save, bearing in mind the need to recover the income and wealth levels undermined by the crisis; and on the capacity of firms to stay in the market despite the losses suffered while their activity was suspended. For some sectors, such as manufacturing, part of the production lost during the period in which containment measures were applied may subsequently be recovered, thereby attenuating the overall effects for the year; this possibility is less likely for most of the service sector.[2]

Table A

Sectors affected by the containment measures
(per cent; data at end-2017)

	Value added (1)	Non-essential activities (2)	Employment (3)
(A) Agriculture	2.2	5.6	3.7
(B) Industry (4)	19.5	55.9	16.8
(C) Construction	4.2	55.0	6.1
(D) Services	74.1	19.2	73.4
of which: accommodation and catering	3.9	63.6	6.5
recreational, cultural and personal services (5)	4.1	65.6	10.6
wholesale and retail trade (6)	11.9	51.8	14.9
transport and warehousing	5.6	0.0	4.7
various services (7)	22.8	9.0	17.9
Total economic activities	**100.0**	**27.6**	**100.0**

Source: Istat; for non-essential businesses, based on Istat data.
(1) As a percentage of total value added. – (2) Pursuant to the DCPM of 22 March 2020 and the Decree of the Minister for Economic Development of 25 March 2020; as a percentage of sectoral value added. – (3) As a percentage of total employed persons. – (4) Includes manufacturing, mining industries and public utilities (supply of electricity, gas, water, maintenance of sewage networks and waste management). – (5) Includes the activities of households as employers of domestic staff. – (6) Includes repair of motor vehicles and motorcycles. – (7) Includes, among other things, information, communication, and financial, insurance and professional services.

A significant number of the effects of the pandemic will depend on the performance of the global economy. According to the IMF's mid-April outlook, the fall in world trade, owing to the necessary containment measures adopted by a large number of countries, stands at 11 per cent.[3] Based on the elasticity of GDP to foreign demand GDP-to-foreign trade elasticities implied in the Bank of Italy's econometric model,[4] every point by which world trade shrinks will have a negative impact on Italy's GDP of about 0.10 percentage points in 2020. It should be borne in mind that Italy is one of the main beneficiaries of international tourism flows, which will probably remain limited for a considerable length of time (see Section 2.4).

The capacity for recovery at the end of the emergency will depend to a great extent on the response of the economic, fiscal, monetary and prudential policies being activated in Italy, at European and at global level and on the extent to which such policies will be able to offset the fall in income and counter financial tensions and greater uncertainty and also, looking ahead, to boost aggregate demand.

As an initial response, extraordinary interventions have been decided upon to mitigate the health, economic and social impact of this global shock, to support health infrastructures, households' income and the liquidity of firms hit by the crisis (see the box 'The measures adopted to deal with the health emergency in Italy'). Monetary policies, together with prudential and macroprudential policies, have so far countered the tensions surfacing in the financial markets and the risk of a credit crunch decisively (see the box 'The monetary policy measures adopted by the ECB in March 2020'). As the assessments of the main international institutions confirm, given the global nature of the health emergency and of its

2 R. Gambacorta, A. Rosolia, F. Zanichelli, 'Le condizioni finanziarie delle famiglie europee di fronte alla pandemia', Banca d'Italia, April 2020.

3 IMF, *World Economic Outlook*, April 2020.

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

consequences, the response of economic policies will be more effective the more it is coordinated at international level.[5]

All the scenarios for Italy's GDP growth include a strongly negative performance in the first half of the year, followed by a probable recovery in the second half and by a marked upturn in activity in 2021. For the whole of 2020, the range of current assessments by analysts is very broad (Table B): reductions of a few percentage points (some forecasters have formulated a reduction of around 6 percentages points) would be in line with the assumption of a rapid return to previous production levels in the second half of the year; more significant contractions (the IMF has forecast a decline of around 9 per cent) could result from a scenario in which developments in the international economy took a turn for the worse – also in light of what is happening in the United States – and should the effects on consumers' confidence and income and on activity in the trade, tourism and travel sectors be more prolonged. Similar assessments can be applied to other euro-area countries.

Table B

Growth forecasts for Italy

(percentage changes on previous period)

	GDP	
	2020	2021
Confindustria (1)	-6.0	3.5
Consensus economics (2)	-7.5	4.5
Goldman Sachs (3)	-11.6	7.9
IMF (4)	-9.1	4.8
JP Morgan (5)	-4.0	5.0
Prometeia (6)	-6.5	3.3

(1) Centro Studi Confindustria, 'Le previsioni per l'Italia. Quali condizioni per la tenuta ed il rilancio dell'economia?' March 2020. – (2) Consensus Economics, *Consensus Forecasts*, 9 April 2020. – (3) N. Dacic and S.J. Stehn, 'European daily: a deep downturn', Goldman Sachs, 24 March 2020. – (4) IMF, *World Economic Outlook*, April 2020. – (5) J.P. Morgan, *Global Data Watch*, Economic Research, 27 March 2020. – (6) Prometeia, *Rapporto di previsione*, March 2020.

[5] OECD, *OECD Interim Economic Outlook. Coronavirus: the world economy at risk*, 2 March 2020. G. Gopinath, 'Limiting the Economic Fallout of the Coronavirus with Large Targeted Policies', IMFBlog, 9 March, 2020; C. Biancotti, A. Borin, F. Cingano, P. Tommasino and G. Veronese, 'The case for a coordinated COVID-19 response: No country is an island', VoxEU.org, 18 March, 2020, also published on the Bank of Italy's website.

2.2 FIRMS

It is estimated that industrial production, after returning to growth in January and declining in February, fell sharply in March. The assessments of firms worsened in all sectors and components. However, firms find themselves facing the crisis from a stronger financial position than they had at the start of the previous recession.

The epidemic has affected industrial production ...

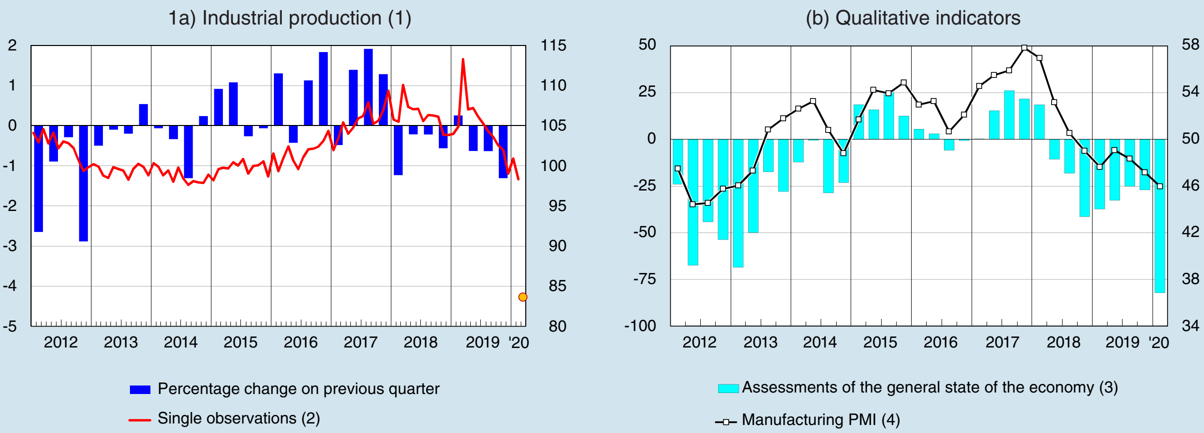
After rising in January, industrial production fell in February, presumably owing to the initial effects of the epidemic, which has spread quickly and more intensely in the areas with the highest concentration of industrial firms. According to our estimates, manufacturing dropped sharply in March, by around 15 per cent, and is estimated to have fallen by about 6 percentage points in the first quarter overall (Figure 21.a).

The surveys carried out by the Bank of Italy reveal that there has been a marked deterioration in firms' assessments (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). Those of the firms interviewed for Istat's survey worsened in March, especially for services and for expectations regarding the various components (orders, production and sales). That same month the purchasing managers' index (PMI) for service firms fell, recording its sharpest contraction since the survey was introduced, as a result of the steep drop in new orders and employment: the manufacturing PMI reached its lowest level since April 2009 (Figure 21.b).

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) Index 2015=100. Right-hand scale. The dot represents the estimate for March. – (3) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2020). – (4) Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments; Right-hand scale. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'.

... firms' investment outlook ...

The surveys also point to an abrupt scaling back in the outlook for investment; the firms surveyed in March by the Bank of Italy plan to significantly reduce their investment for 2020 (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations').

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

Between 3 and 26 March, the Bank of Italy conducted its quarterly survey on a sample of about 800 industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2020). The assessments were therefore formulated after the outbreak of the COVID-19 epidemic in Italy and the adoption of the initial measures to contain the contagion but, in almost all cases, before the announcement that production in sectors deemed 'non-essential' would be suspended.

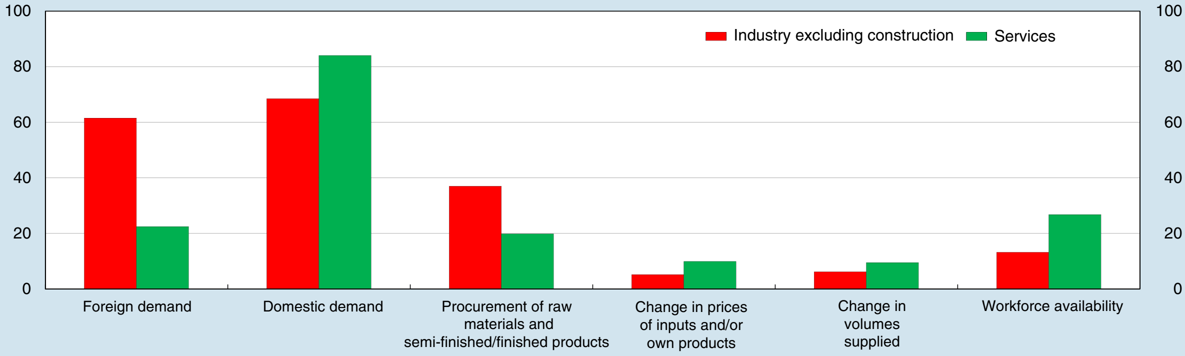
The opinions, current and forward-looking, about the general state of the economy and firms' operating conditions showed a marked deterioration across all sectors, reaching levels similar to those observed at the most critical moments of the global financial crisis of 2008-09 and the sovereign debt crisis of 2010-12.

About 65 per cent of firms in industry (excluding construction) and services have already reported that their activity has been affected by the public health crisis and 85 per cent expect an unfavourable impact in the second quarter of the year.

For more than three quarters of firms, especially service firms (Figure A), the current and expected negative effects of the epidemic are primarily transmitted through the decline in domestic demand. More than 40 per cent of firms, mainly industrial firms, point to the repercussions of the drop in foreign demand. A smaller, but non-negligible, share of firms identified, as among the principal channels of transmission, difficulties in procuring production inputs, especially in industry excluding construction, and decreased workforce availability, particularly in services.

Figure A

Channels of transmission of the COVID-19 epidemic to firm activity (1)
(percentage points)

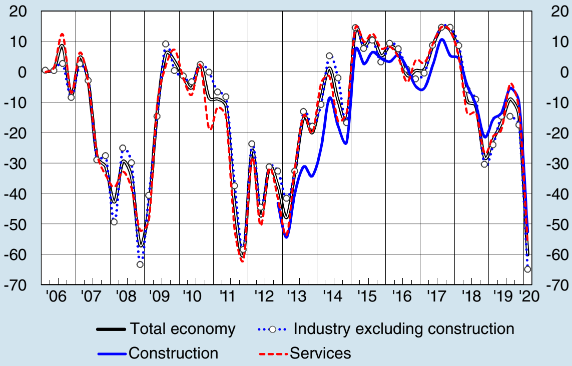


(1) Firms in industry (excluding construction) and in services were asked, in the quarterly survey conducted by the Bank of Italy on a sample of firms with at least 50 employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2020), to identify the two main channels through which the COVID-19 epidemic will affect their activity at present and over the next three months. The values on the y-axis represent the percentage of firms that reported a given channel. The responses are weighted by number of firms.

Assessments of investment conditions worsened considerably in all sectors (Figure B), reaching the lows recorded during the financial crisis of 2008-09 and the sovereign debt crisis of 2010-12. Investment plans for 2020 anticipate a decrease in spending (Figure C): the balance between expectations of an increase and those of a decrease in nominal investment expenditure this year compared to last year turned heavily negative (about 20 percentage points in all sectors), for the first time since early 2013. According to the firms, the decrease in investment is expected to be much greater in the first half of the year and could attenuate moderately in the second half.

Figure B

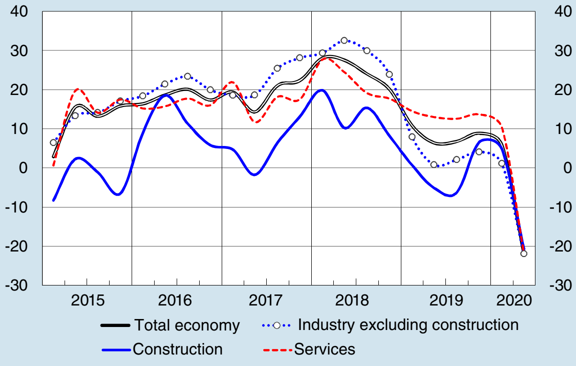
Firms' assessment of conditions for investing compared with the previous quarter (1)
(quarterly data; percentage points)



(1) Balance between expectations of improvement and deterioration by comparison with the previous quarter, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 14 April 2020). Constructions firms have been included in the total economy figure since the first quarter of 2013.

Figure C

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



(1) Balance between expectations of improvement and 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, 14 April 2020). The initial indications of the expectations for the reference year are surveyed in the fourth quarter of the preceding year.

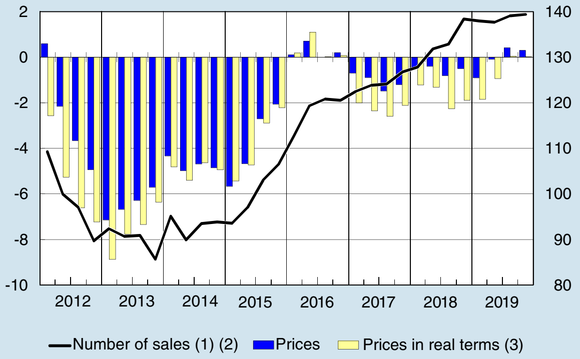
... and the real estate market

While house sales remained strong up until the end of last year (Figure 22), the real estate market has also been affected by the spread of COVID-19. According to our calculations, based on an ample dataset regarding notices of houses for sales on a digital

Figure 22

House prices and sales

(quarterly data; indices: 2015=100)

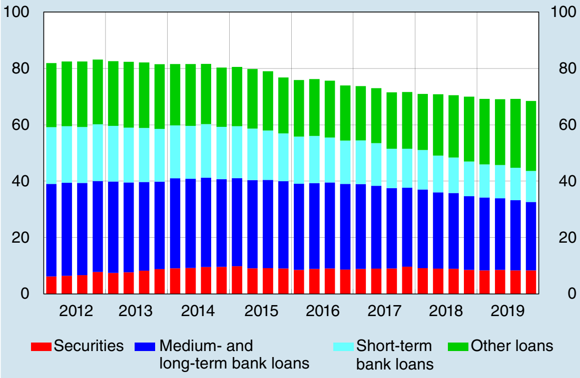


Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and Consulente Immobiliare.
(1) Adjusted for seasonal and calendar effects. – (2) Right-hand scale. – (3) House prices deflated by the consumer price index.

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.

platform (Immobiliare.it), between 9 and 30 March there was a substantial decrease in the flows of the number of homes offered for sale and those withdrawn from the market, as well as in online searches by potential buyers. These data point to a significant contraction in the volumes of house sales in the first half of the year; as of yet, we have not observed a noticeable impact on prices. In March there was a slight worsening in the assessments of firms interviewed for Istat's business confidence survey for the construction sector, especially in the forward-looking component (see the box 'Economic activity in the first quarter of 2020').

Firms find themselves facing the crisis from a stronger and more balanced financial position than they had at the start of the previous recession. Total corporate debt as a percentage of GDP decreased to 68.4 per cent (Figure 23), far below the euro-area average of 107.6 per cent.

Firms' debt decreases

It is expected that firm indebtedness will increase this year, driven in part by the financial support measures enacted to combat the COVID-19 emergency. The combination of government intervention (see the boxes 'The financial support measures for firms' and 'The measures adopted to deal with the public health emergency in Italy'), low interest rates and greater financial soundness on the part of firms should therefore contribute to helping them maintain their financial positions in the coming months (see *Financial Stability Report*, 1, 2020, which will be published on 30 April 2020).

2.3 HOUSEHOLDS

In the first three months of 2020, consumer confidence and household spending were affected by the greater uncertainty, the drop in demand for services and the restrictions on mobility arising as a result of the spread of the COVID-19 epidemic.

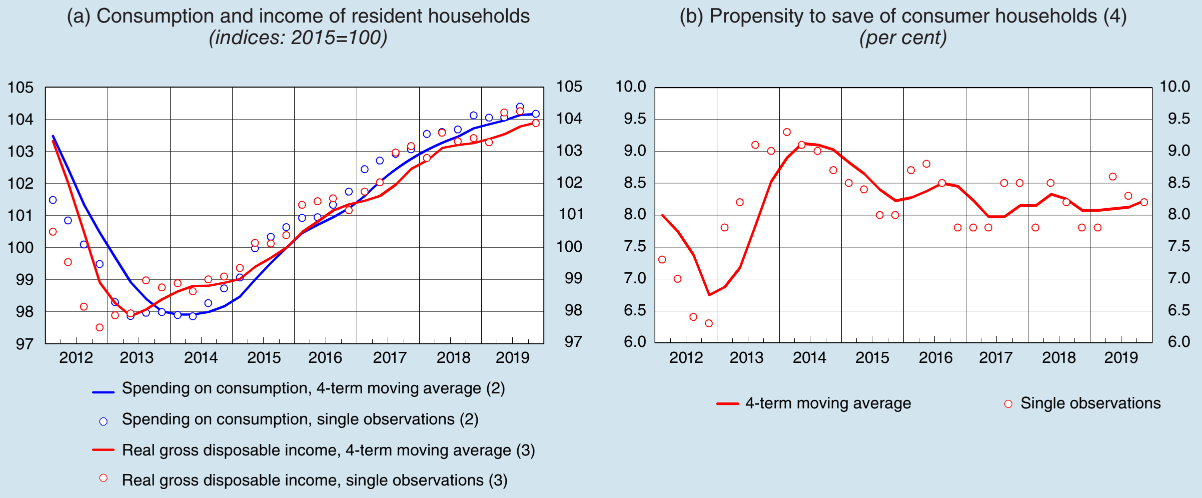
Consumption falls slightly in the autumn months

Spending by resident households in the fourth quarter of 2019 fell by 0.2 per cent. There was a decrease in spending across all components, except for services; the decline was particularly pronounced in semi-durable and durable goods. Households' purchasing power contracted by 0.4 per cent (Figure 24.a), in line with the weak growth in employment income (see Section 2.5). The propensity to save fell slightly to 8.2 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.

The decline appears to be pronounced in the first quarter of the year ...

The latest cyclical indicators suggest that there was a contraction in consumption in the first three months of 2020. New car registrations declined sharply in the winter months (-35 per cent compared with the end of 2019), as a result of the drop in March. Confcommercio's consumption indicator decreased, considerably so in March, when there was a steep decline in demand for the goods and services hit the hardest by the spread of COVID-19 (the hospitality, lodging and mobility sectors).

... in part owing to fears over employment

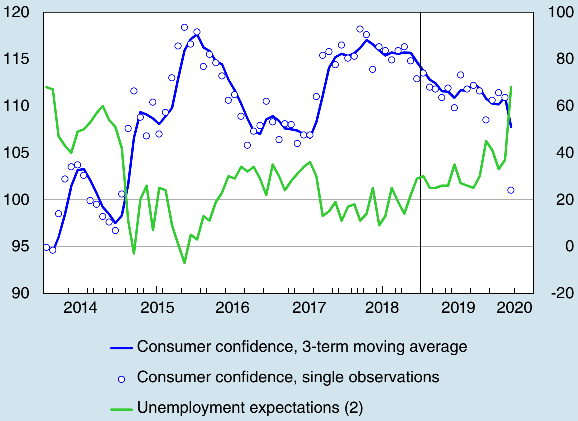
Consumer confidence indicators also fell in March; the decline affected all the main components, especially the forward-looking one regarding the interviewees' own personal financial situation and the general state of the economy; employment expectations deteriorated (Figure 25) and uncertainty about developments in the interviewees' own personal financial situations rose.

The household sector finds itself facing the current economic situation from a stronger financial position than it had on the eve of the sovereign debt crisis (see *Financial Stability Report*, 1, 2020, which will be published on 30 April 2020). The impact of the pandemic may be significant, but will be mitigated by very low interest rates and by measures enacted by the authorities to counteract

Figure 25

Consumer confidence (1)

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



Source: Based on Istat data.
(1) Seasonally adjusted 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.

it (see the box 'The measures adopted to deal with the public health emergency in Italy').

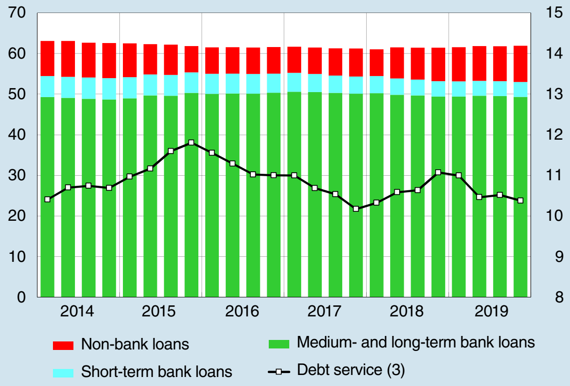
The ratio of debt-service to disposable income is low

In the fourth quarter of 2019, the ratio of Italian household debt to disposable income was equal to 61.9 per cent (Figure 26), well below the euro-area average (95.1 per cent). As a share of GDP, household debt was 41.2 per cent (compared with 57.9 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) remained nearly the same at 9.7 per cent of disposable income. This year debt servicing costs for loans to households for house purchase will be reduced through the expansion of the scope of the Solidarity Fund for loans for the purchase of a primary residence, a measure to help people cope with financial difficulties stemming from the spread of the epidemic.

Figure 26

Household debt (1)

(quarterly data; per cent 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) Estimated cost of debt service (interest plus repayment of principal) for consumer households only. Right-hand scale.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

The repercussions of the pandemic and the measures taken to contain it have affected world trade and Italian manufacturing firms' assessments of foreign orders in March. The sharp deterioration in Italy's tourism balance could lead to a reduction in the current account surplus, which up to now has been very high (last year it was equal to 3 per cent of GDP).

Exports increase at the end of 2019

In the last quarter of 2019 foreign sales marginally increased, driven by orders from non-EU markets. Net foreign demand made a positive contribution to GDP growth, mainly thanks to a sharp reduction in imports (-1.7 per cent; Table 5).

Table 5

Italy's exports and imports (1)

(percentage change on previous quarter)

	2019 Q3	2019 Q4
Exports	**-0.2**	**0.3**
Goods	-0.1	0.2
EU countries (2)	-0.9	-0.5
Non-EU countries	0.9	1.1
Services	-0.8	0.8
Imports	**1.1**	**-1.7**
Goods	1.0	-2.7
EU countries (2)	-0.3	-0.3
Non-EU countries	2.8	-6.0
Services	1.4	1.9

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

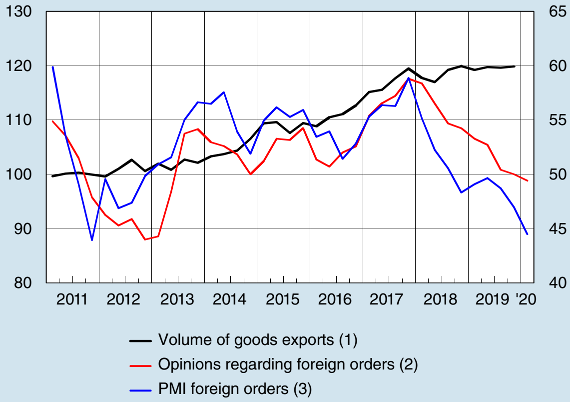
Goods exports, valued at current prices and seasonally adjusted, increased by 2.7 per cent last January compared with the previous month, thanks to sales in non-EU markets; increasing slightly in February as well. A significant contributory factor was the sale of ships in the US market, whereas exports to China fell markedly, especially in February (-21.6 per cent compared with the previous year) in response to the measures that had been taken by that country to contain the epidemic.

The public health emergency is affecting the outlook for trade …

Uncertainty over the extent and duration of the pandemic is affecting international trade. Manufacturing firms' assessments of foreign orders (as surveyed by Istat) and the purchasing managers' indices (PMI) regarding foreign orders worsened in the first quarter (Figure 27), entirely as a result of the spread of the public health emergency in March. The expectations of foreign demand on the part of the exporting firms interviewed by the Bank of Italy suggest a sharp deterioration in the second quarter. The difference between the percentage of firms expecting an increase and that of those expecting a reduction in orders declined to -41 points (compared with a positive balance of 14 points in the previous survey; see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations').

Figure 27

Manufacturing firms' assessments of foreign orders
(quarterly data)



Sources: Istat, Markit and Refinitiv.
(1) National accounts data. Data 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. Seasonally adjusted data. Right-hand scale.

... and the tourism balance ...

The spread of the epidemic is hitting international tourism flows particularly hard. The estimates for 2020 have been revised downwards substantially.[1] Provisional Istat data show that in February the number of foreign tourists staying in hotels and other accommodation in Italy went down by 18.5 per cent compared with the same month in 2019. In March, on the basis of Eurocontrol data, total air traffic declined drastically, by 66 per cent compared with last year (a fall of 41 per cent on average for all EU countries).[2] The same source also indicated that in the first seven days of April there was an even greater decline in air traffic of 93 per cent (89 per cent on average in the EU).[3]

... and weighs heavily on Italy

The tourism industry is a very important part of Italy's economy, greater than the average for the OECD countries. The estimates of the World Travel and Tourism Council (WTTC) in 2017 indicated that 5.5 per cent of GDP (and 6.5 per cent of jobs) stem directly from domestic and international tourism. Taking into account the indirect and the induced impacts in relation to consumption by workers in the sector, the share would rise to 13.2 per cent of GDP (14.9 per cent for those employed), comparable to that of Spain (14.6 per cent) and greater than that of France (9.5 per cent) and Germany (8.6 per cent).[4] On the basis of the 'Tourism Satellite Account' published by Istat, it is estimated that just over a third of these effects are attributable to international tourism alone. The Bank of Italy's 'Survey on International Tourism' found that in 2019 foreign tourists spent more than €44 billion in Italy, of which just over half that amount on accommodation (mostly hotels), a little over one fifth on food and drink, and about one sixth on personal shopping.

[1] On 27 March, the World Tourism Organization (UNWTO) envisaged a drop of between 20 and 30 per cent in the number of international travellers in 2020, against initial estimates of 3-4 per cent growth before the outbreak of the pandemic (UNWTO, 'Impact assessment of the COVID-19 outbreak on international tourism', 27 March 2020).

[2] Eurocontrol, the intergovernmental organization that coordinates air traffic at the European level, produces data on total national and international traffic (passengers and freight).

[3] February's data from the Bank of Italy's annual 'Survey on International Tourism', based on interviews conducted monthly, will not be released until May. There will be no data for March because tourists could not be interviewed at the Italian border as a result of the regulations to reduce the risk of infection.

[4] The data on the overall impact in Italy and in other countries, in relation to 2018, are available on the WTTC website; see also A. Petrella, R. Torrini [et al.], 'Turismo in Italia: numeri e potenziale di sviluppo', Banca d'Italia, Questioni di Economia e Finanza, 505, 2019.

Table 6

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

	2018	2019	Jan. 2019	Jan. 2020
Current account	**44.0**	**52.9**	**-1.0**	**-0.2**
Memorandum item: % of GDP	2.5	3.0		
Goods	45.4	57.1	0.8	2.0
Non-energy products (2)	85.0	93.2	4.2	5.2
Energy products (2)	-39.5	-36.1	-3.4	-3.2
Services	-2.7	-2.0	-1.2	-1.0
Primary income	18.8	14.9	1.0	0.5
Secondary income	-17.5	-17.0	-1.7	-1.7
Capital account	**-0.6**	**-1.9**	**-0.1**	**-0.2**
Financial account	**30.4**	**46.1**	**1.5**	**5.9**
Direct investment	-0.2	-1.5	-2.9	-4.6
Portfolio investment	119.9	-50.6	-28.5	-21.8
Financial derivatives	-2.7	2.5	0.1	0.3
Other investment (3)	-89.3	92.4	32.9	32.0
Changes in official reserves	2.6	3.2	-0.2	..
Errors and omissions	**-13.0**	**-4.9**	**2.6**	**6.3**

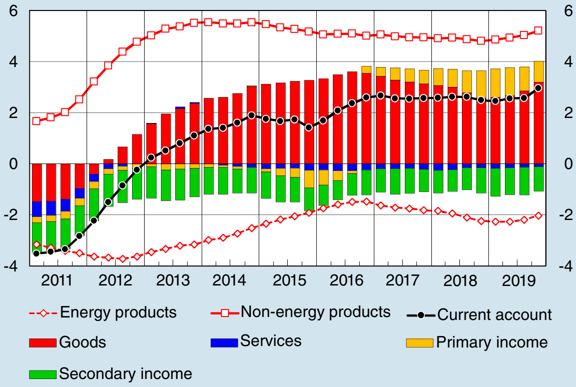
(1) Based on the standards set out in the IMF's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6), 2009. – (2) Based on Istat's foreign trade data. For January 2020, provisional data. – (3) Includes change in the TARGET2 balance.

The tourism balance recorded a surplus of €17 billion in 2019, equal to 1 percentage point of GDP (for comparison purposes, Spain's surplus was equal to 3.7 points).

The year 2019 closed with a large current account surplus, equal to 3.0 per cent of GDP (up from 2.5 per cent in 2018; Table 6 and Figure 28), to which the tourism balance contributed almost one third. The decline in the contribution of this item in 2020 could nevertheless be mitigated by a smaller deficit in the transport component (€10 billion in 2019), attributable to the sharp fall in passenger numbers and sea freight and volumes transported. The current account surplus could also benefit greatly from the sharp reduction in oil prices, especially if the decline were to persist (see Section 1.1).

Figure 28

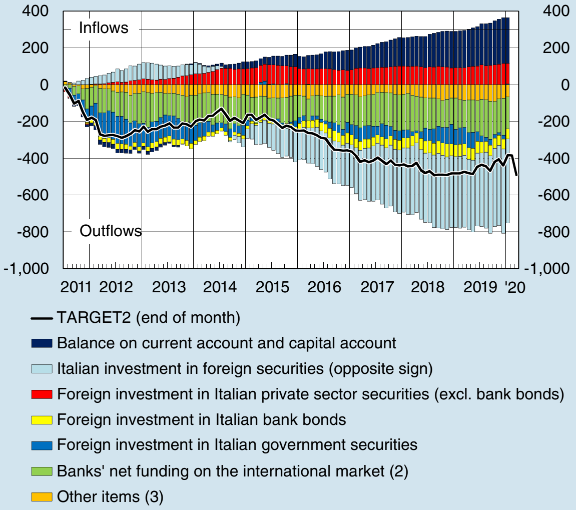
Current account balance and its main components (1)
(quarterly data; per cent of GDP)



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

Figure 29

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



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

Foreign demand for Italian securities was high in January

In 2019 demand by foreign investors for Italian portfolio securities was very high (€118 billion in total, of which €84 billion in public sector securities). Foreign investors bought large quantities of public sector securities (€23 billion) in January 2020 as well. In more recent weeks, data released by Emerging

Portfolio Fund Research (EPFR), relating to a portfolio of a sample of international funds, indicate a decline in the propensity to invest in Italian securities, given the uncertainty surrounding the global macroeconomic outlook and the tensions and search for liquidity on the financial markets, which partly subsided following the intervention by the European Central Bank (See Section 2.8). Italian residents' investment in foreign portfolio securities, which came to €67 billion in 2019, slowed in January.

In January, after reaching its lowest level since the start of 2017 and having stabilized at €385 billion at the end of February, the Bank of Italy's liabilities in the TARGET2 European payment system increased considerably in March, reaching €492 billion at the end of month (Figure 29 and Table 7). This was above all due to the creation of liquidity through higher lending to credit institutions and Eurosystem asset purchases for monetary policy purposes alongside the likely sales of Italian financial assets by non-resident operators and lower recourse by Italian banks to foreign funds. However, part of the expansion of the liabilities is linked with the seasonal fall of Treasury deposits at the Bank of Italy.

The net international investment position improves

At the end of 2019 Italy's net international investment position was negative by €29.7 billion (1.7 per cent of GDP compared with 4.7 per cent at the end of September). The improvement was due both to the current account surplus and to positive valuation adjustments.

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)
2019	-439	43	84	23	11	-58	-48	51	-1	67
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	..	-5	-18	4	-12	-2
Q2	-448	27	34	9	..	-20	-3	12	-2	7
Q3	-468	-20	22	4	6	-40	-27	16	-3	27
Q4	-439	29	10	9	4	7	1	19	15	36
2020 - Q1	-492	-52	….	….	….	….	….	….	….	….
2019 - Oct.	-420	48	12	2	2	28	14	9	-1	3
Nov.	-406	13	4	4	..	-5	-3	5	16	10
Dec.	-439	-33	-6	3	1	-16	-10	5	1	22
2020 - Jan.	-383	56	23	-1	1	26	21	..	8	1
Feb.	-385	-1	….	….	….	….	….	….	….	….
Mar.	-492	-107	….	….	….	….	….	….	….	….

(1) A negative change in the TARGET2 balance indicates an increase in the Bank of Italy's liabilities in TARGET2. Further details are available on the Bank of Italy's website: Statistical database (BDS), in particular in Table TBP60200. For January 2020, provisional data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

2.5 THE LABOUR MARKET

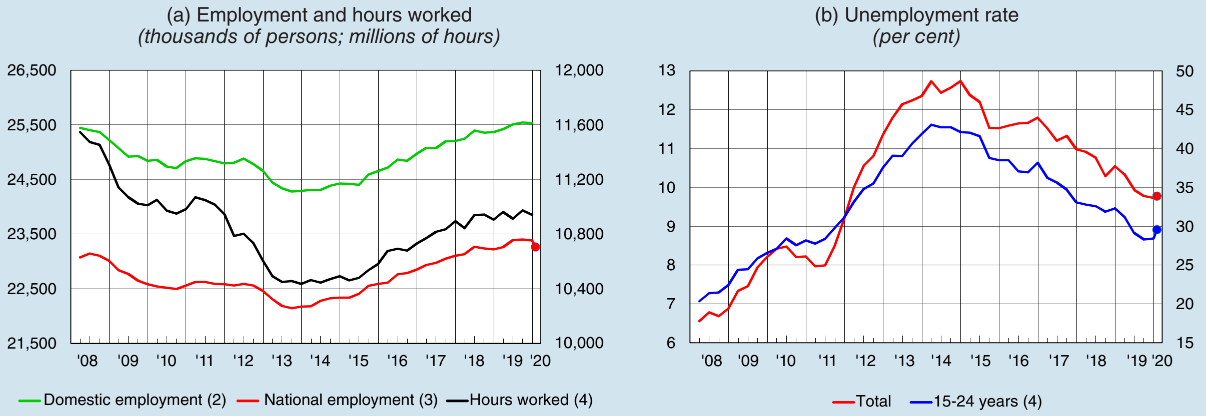
Employment and hours worked fell slightly in the fourth quarter of 2019. In March, recourse to the wage supplementation fund attenuated the impact of the health emergency on the number of people in employment. The deterioration in labour market conditions may be more pronounced in the spring months, especially in the fixed-term employment segment.

Employment falls in the fourth quarter

During the last quarter of 2019, employment decreased slightly (Figure 30.a) in both industry excluding construction and the private service sector (Table 8). Hours worked per capita also fell by 0.2 per cent. The INPS administrative data on private sector payroll employment point to a decline in fixed-term positions and a slowdown in permanent contracts, which continued into January of this year. However, the unemployment rate has fallen by one tenth of a percentage point, to 9.7 per cent (Figure 30.b), reflecting the lower number of active persons in the labour market.

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 the unemployment rate.
(1) Seasonally adjusted data. The dot indicates the average for the two months of January and February. – (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.

The labour market feels the effects of the health crisis

It is likely that in the coming months, the employment growth rate, which was already negative on average for January and February compared with the two previous months (-0.4 per cent), has been heavily impacted by the effects of the current public health emergency. In March, recourse to the wage supplementation fund, which has been extended on an exceptional basis[5] to all firms (see the box 'The measures adopted to deal with the public health emergency in Italy'), accelerated significantly, making it possible to protect permanent jobs[6]

[5] Decree Laws 9/2020 and 18/2020 allow firms to take advantage of an additional nine weeks of ordinary wage supplementation or, for those who are ineligible, the use of supplementary funding to be requested from the regional governments. The extension is not counted towards the cap on wage supplementation that can be granted and can also be used by firms that have sought recourse to extraordinary wage supplementation. Firms that receive the benefit are exempted from the co-financing requirement.

[6] The wage supplementation sought has been almost exclusively for permanent employees, while it has not been used to extend the term of those on fixed-term contracts. Workers receiving wage supplementation are considered to be employed, even if they do no actually engage in any work activity.

Table 8

Employment and hours worked

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

	Stocks	Changes			
	Q4 2019	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Persons employed	**25,530**	**0.2**	**0.3**	**0.1**	**-0.1**
of which: industry excluding construction	4,279	0.4	-0.1	-0.3	-0.2
private services (1)	11,297	0.3	0.6	0.0	-0.2
construction	1,569	-1.2	0.1	0.8	0.6
Employees	19,501	0.3	0.4	0.2	0.0
Self-employed	6,029	-0.2	0.0	0.1	-0.1
Total hours worked	**10,940**	**0.5**	**-0.4**	**0.6**	**-0.3**
of which: industry excluding construction	1,855	0.5	-0.7	-0.1	-0.8
private services (1)	5,041	0.5	-0.3	0.5	-0.5
construction	726	0.4	-1.4	1.8	0.3
Employees	7,702	0.5	-0.1	0.3	-0.1
Self-employed	3,238	0.6	-1.2	1.2	-0.7

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

despite a decline in hours worked.[7] The number of persons in employment could shrink more markedly in the fixed-term employment component if part of the more than 400,000 temporary contracts set to expire between March and April are not renewed, especially in the following sectors: hospitality and lodging, travel and transport, recreational, cultural and personal services, and non-food retail.

Veneto's administrative data from the mandatory reporting on employment[8] provided by the Veneto regional labour agency, indicate that between 24 February and 5 April the number of private sector payroll contracts decreased, compared with the same period a year earlier, by about 40,000 jobs,[9] three quarters of which were fixed-term positions. On average in the first quarter of 2020, this decline is estimated to have subtracted about 0.7 percentage points from Veneto's payroll employment growth rate compared with the year before. The decrease was caused by the drop in hiring associated with the containment measures and uncertainty concerning the public health and economic situation.

In March, Istat's business confidence surveys pointed to a sharp deterioration in firms' expectations regarding the employment trend in the second quarter.

Wage growth remains weak

In the first two months of 2020, the growth in contractual wages remained very modest both for the economy as a whole and for the non-farm private sector (to 0.6 per cent compared with a year earlier for both sectors; Figure 31). It could weaken further during the current year if the uncertainty arising from the health crisis discourages the renewal of the numerous collective bargaining agreements expiring in the coming months. In the final quarter of 2019, the growth rate for labour costs remained unchanged, both for the economy as a whole (at 1.1 per cent) and for the non-farm private sector (at 1.5 per cent).

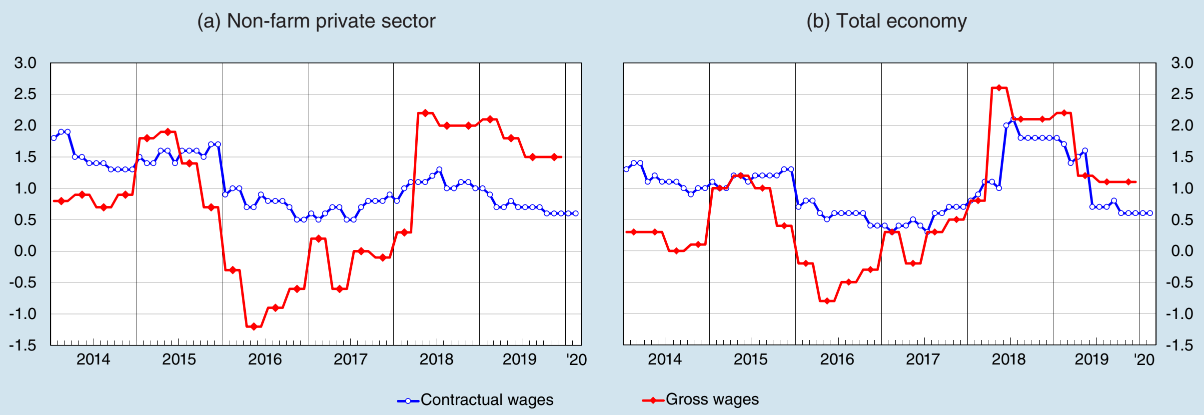
7 In Istat's labour force survey, a person receiving wage supplementation is recorded as employed, unless the person has worked zero hours, has been receiving wage supplementation for more than three months and has had a reduction in pay of more than 50 per cent.

8 In 2019, some 12.1 per cent of the new jobs created in Italy were in Veneto.

9 Taking into account only permanent and fixed-term contracts and apprenticeships.

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 its survey of contractual wages.
(1) Raw monthly data for contractual wages; seasonally adjusted quarterly data for labour costs.

2.6 PRICE DEVELOPMENTS

Inflation was very subdued in the first quarter, above all following the sharp decline in energy prices; the core component remains at very low levels. Firms' inflation expectations are especially moderate; expectations regarding their list prices in the next twelve months have been revised downwards, following the current and anticipated contraction in demand linked to the spread of the epidemic.

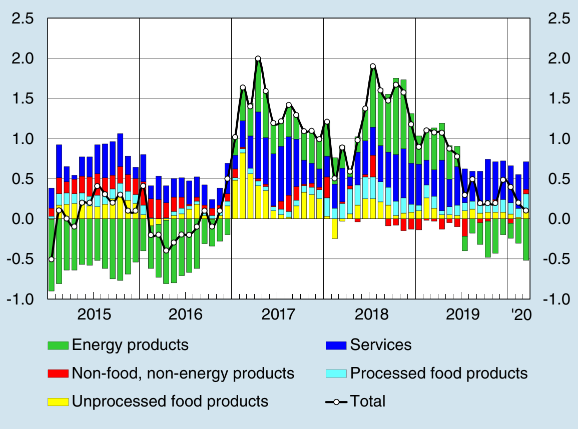
Inflation is still very weak ...

In March, inflation as measured by the twelve-month change in the harmonized index of consumer prices (HICP), diminished slightly, reaching 0.1 per cent (Figure 32). It was affected by the decline in energy prices (-5.7 per cent), which gathered pace following the sharp falls in oil prices (see Section 1.1). This decline was countered by an acceleration in food prices. Core inflation rose slightly to 0.6 per cent (Table 9): the slowdown in service prices was offset by faster growth in those of non-energy goods. The seasonally adjusted annualized three-month inflation rate was nil (Figure 33).

In the fourth quarter, unit labour costs accelerated to 1.4 per cent, owing to the cyclical downturn in productivity levels; in the manufacturing sector stronger growth in hourly wages was a contributory factor. In February,

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).

Table 9

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

	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	Overall index at 1 month (5)	Excl. energy and food	Overall index	
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	0.6	–	0.5	0.0	0.9
2019 – Jan.	0.9	0.6	0.9	0.9	0.1	0.5	4.4	–
Feb.	1.1	0.4	1.0	1.0	0.1	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	-0.2	0.7	2.8	–
May	0.9	0.5	0.8	0.8	0.1	0.4	1.9	–
June	0.8	0.4	0.7	0.7	0.0	0.5	1.1	–
July	0.3	0.4	0.2	0.4	-0.1	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	-0.1	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	0.1	0.7	-3.6	–
Dec.	0.5	0.6	0.4	0.5	0.0	0.6	-3.1	–
2020 – Jan.	0.4	0.5	0.3	0.5	0.1	0.7	-3.4	–
Feb.	0.2	0.5	0.1	0.3	-0.1	0.7	-3.8	–
Mar.	0.1	0.6	0.0	0.1	0.0	0.6	....	–

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally 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 from sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

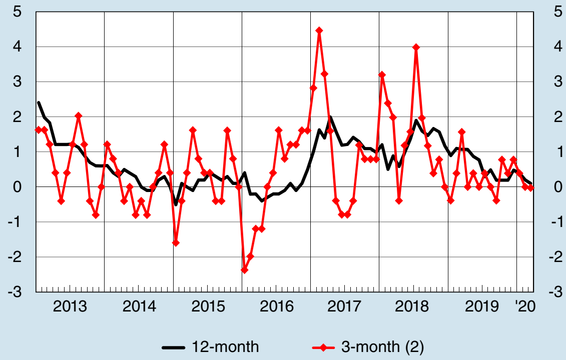
the producer prices of industrial products sold on the domestic market fell sharply again, to a twelve-month rate of -3.8 per cent, following the marked reduction in the prices of energy goods.

... as are inflation expectations

Trends in inflation expectations point to fears that the spread of coronavirus will lead primarily to a fall in aggregate demand. The inflation expectations of the firms interviewed in the Bank of Italy's quarterly survey conducted in March remained at very low levels (Figure 34); expectations regarding their list prices in the next twelve months have been revised downwards, owing to the current and anticipated contraction in demand.

Figure 33

Consumer price inflation (1)
(monthly data; per cent)

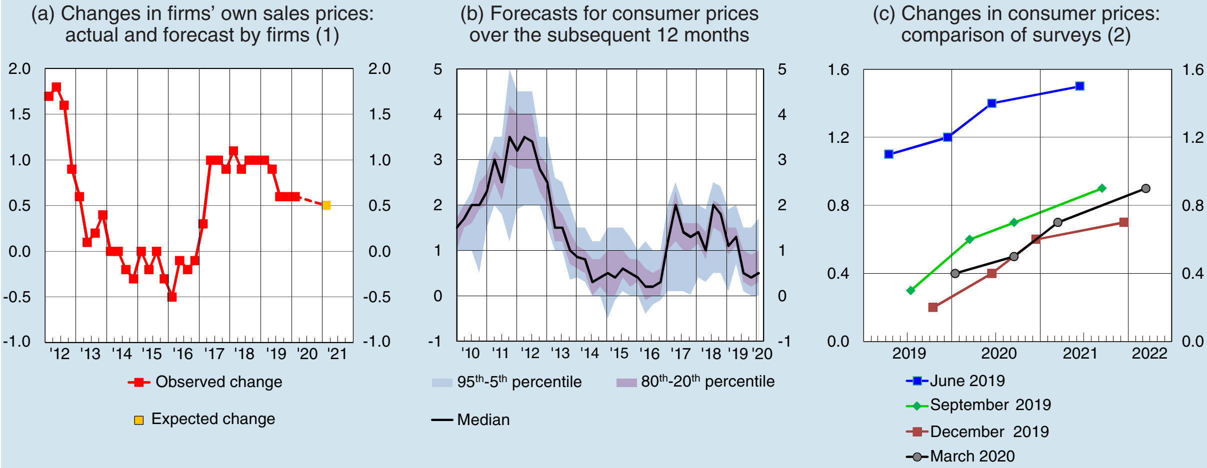


Source: Based on Eurostat data.
(1) Percentage change in the HICP, during the periods indicated. – (2) Annualized and seasonally adjusted.

Figure 34

Inflation expectations of industrial (excluding construction) and service firms

(quarterly data; year-on-year 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' own sales prices over the past 12 months and the change expected over the next 12 months. – (2) The key below indicates the month in which the survey was conducted. 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; and the fourth point is the average of the forecasts for the subsequent 24 months.

According to our estimates, in March, price competitiveness – as measured by the producer prices of manufactured goods and taking account of Italy's trade structure – appeared to deteriorate, as it did in the other leading euro-area countries, mainly owing to the appreciation of the nominal exchange rate of the euro (Figure 35).

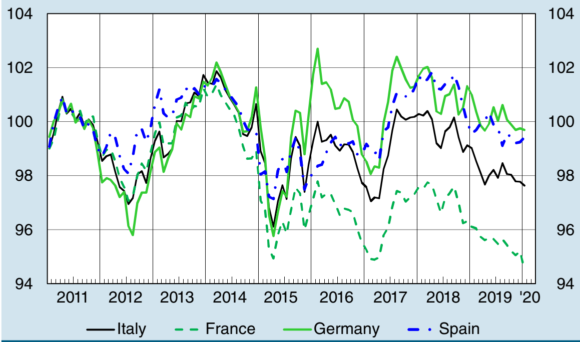
2.7 BANKS

From the end of February onwards, tensions on the international financial markets and the uncertainty generated by the global public health emergency, led to a rapid increase in bank bond yields on the secondary market and in CDS premiums; CDS premiums decreased somewhat following the intervention by the Eurosystem on 18 March. The new operations decided by the Governing Council of the European Central Bank are expected to help lower the cost of funding for banks.[10] The Government introduced a debt moratorium for SMEs and increased public guarantees on new loans.

Figure 35

Indicators of competitiveness (1)

(monthly data; indices: 2011=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 January 2020. For further details on the construction model, see A. Felettigh and C. Giordano, 'A novel three-market view of price competitiveness', Journal of Economic and Social Measurement, 44, 2019, pp. 89-116, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, 2018.

[10] In-depth analyses on the ramifications of COVID-19 for the banking and financial system will be published in the *Financial Stability Report*, 1, 2020, due out on 30 April.

Prior to the spread of the epidemic, growth in lending had strengthened

In February, prior to the outbreak of the epidemic, growth in loans to the non-financial private sector increased slightly, reaching a quarterly rate of 0.7 per cent (from 0.3 per cent in November; on a seasonally adjusted and annualized basis; Table 10 and Figure 36.a), mostly following a smaller decline in business lending (to -0.8 per cent, from -1.5 per cent in November). Lending to households continued to grow at a solid pace for both home purchase and consumer credit. Over the same twelve months, the contraction in business lending also moderated somewhat, after stronger lending to the service sector (Figure 36.b).

Table 10

Bank lending as at February 2020 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**0.5**	**0.7**
Households	**2.5**	**2.6**
of which: loans for house purchase	2.5	....
consumer credit	7.9	....
other loans (3)	**-0.8**	**....**
Non-financial corporations	**-1.3**	**-0.8**
of which: manufacturing	-0.7	....
services	-0.4	....
construction	-4.1	....

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.

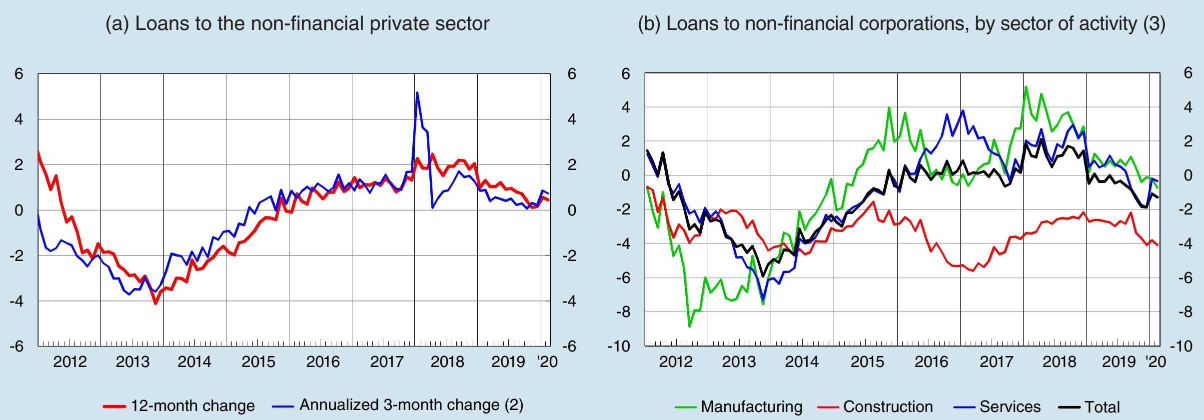
Funding remains stable

Between November and February, Italian banks' funding remained stable (Table 11); greater recourse to wholesale funding was offset by the reduction in liabilities to the Eurosystem. During the same period, residents' deposits remained virtually unchanged; the amount of bank bonds held by households diminished further.

In March, banks could participate in the third auction of the new series of targeted longer-term refinancing operations (TLTRO III) and could make early repayments of the funds obtained through the second series (TLTRO II). The amount of liquidity obtained by Italian banks through TLTRO III was roughly equivalent to that obtained through early repayment of the

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 change is 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) 12-month changes; until December 2013, the data for each sector are not corrected for value adjustments.

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)	
	November 2019	February 2020	November 2019	February 2020
Assets				
Loans to Italian residents (3)	1,682	1,665	-1.8	-1.9
of which: firms (4)	643	635	-1.8	-1.3
households (5)	632	631	2.4	2.5
Claims on central counterparties (6)	103	81	39.8	-1.1
Debt securities excluding bonds of resident MFIs (7)	540	535	0.8	-1.5
of which: securities of Italian general government entities	395	390	-3.7	-5.4
Claims on the Eurosystem (8)	139	125	57.0	72.0
External assets (9)	436	446	7.3	8.7
Other assets (10)	912	917	7.7	7.7
Total assets	**3,813**	**3,770**	**4.1**	**3.1**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,628	1,626	7.7	6.5
Deposits of non-residents (9)	335	341	5.7	3.6
Liabilities towards central counterparties (6)	136	122	-5.2	-12.1
Bonds (12)	241	236	2.1	-1.6
Liabilities towards the Eurosystem (8)	234	215	-3.9	-11.3
Liabilities connected with transfers of claims	130	127	13.5	9.0
Capital and reserves	370	358	-4.1	-4.6
Other liabilities (13)	737	744	4.0	8.3
Total liabilities	**3,813**	**3,770**	**4.1**	**3.1**

Source: Supervisory reports.
(1) The data for February 2020 are provisional. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (3) Excludes transactions with central counterparties. – (4) Harmonized definition, excludes producer households. – (5) Harmonized definition, includes producer households, non-profit institutions serving households, and households not classified elsewhere. – (6) Only repos. – (7) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (8) Includes the accounts with the Eurosystem for monetary policy operations; see Tables 3.3a e 3.3b in 'Banks and Money: National Data', Banca d'Italia, Statistics Series. – (9) In the period considered these refer mainly to interbank transactions. – (10) Includes bonds held by resident MFIs; loans to resident MFIs; shares and other equity of resident companies; cash; money market fund units; derivatives; movable and immovable goods; and some minor items. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs; resident MFI deposits; derivatives; and some minor items.

funds borrowed under TLTRO II. In the same month, the new series of longer-term refinancing operations (LTROs) announced on 12 March was launched (see Section 1.2): in the first five auctions, Italian banks obtained around €54 billion in funds, most of which were allotted in the first operation.

Tensions push up the cost of borrowing for banks ...

From the end of February onwards, as tensions rose on the financial markets, the share prices of Italy's leading banks fell sharply, in line with the trend in the other euro-area countries. Bank bond yields on the secondary market rose and CDS premiums increased in all the main euro-area countries (see Section 2.8). The increase in bond yields was more marked for Italian banks: the spread with respect to the euro-area average, which in the period from 10 to 20 February was below 60 basis points, climbed to about 170 points in the first ten days of April. Following the package of measures adopted by the ECB on 18 March, CDS premiums decreased slightly (see Section 2.8).

... but the new refinancing operations lower the cost of funding

The cost of funding for banks will be significantly eased in the future by the possibility of greater recourse to Eurosystem financing operations at more favourable conditions than before, thanks to the new parameters for participating in TLTRO III and to the new series of LTROs (see Section 1.2).

The average cost of new loans to firms and households remained practically unchanged at historically very low levels in February (Table 12 and Figure 37) and, according to preliminary data, in March.

Table 12

Bank interest rates (1)
(per cent)

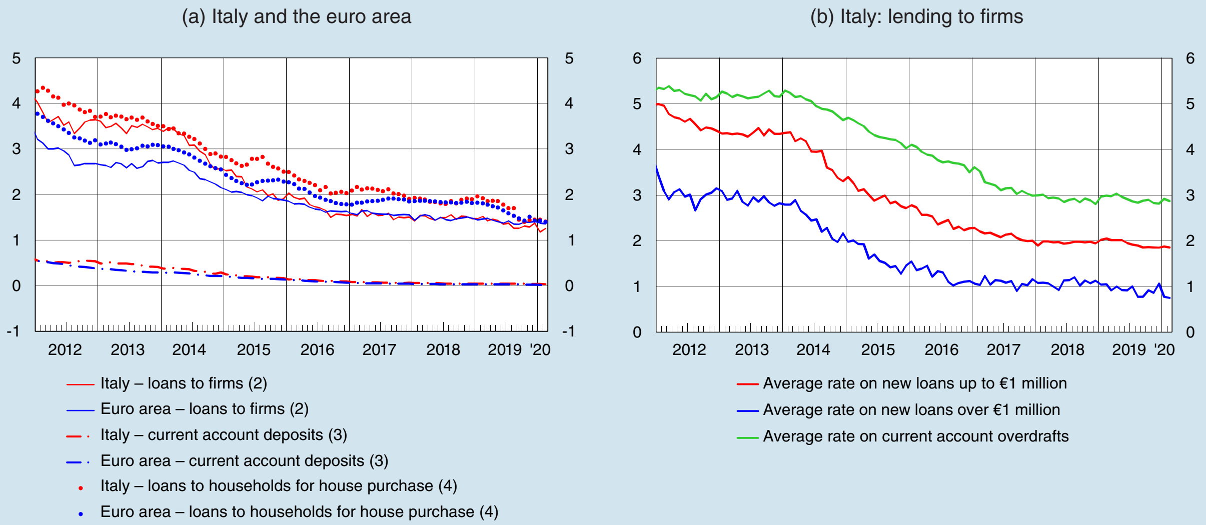
	November 2019	February 2020
Loans to firms	**1.3**	**1.3**
of which: up to €1 million	1.9	1.9
over €1 million	0.9	0.8
Loans to households for house purchase	**1.4**	**1.4**
of which: fixed rate (2)	1.5	1.4
variable rate (3)	1.3	1.4

(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.

The Italian banks interviewed in December for the euro-area bank lending survey, indicated that they had maintained expansionary credit supply standards in the last quarter of 2019; according to the banks polled in the survey, the demand for credit from firms had remained stable and that of households for home purchase had increased.[11]

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 home purchase.

[11] Ten of the main Italian banking groups took part in the survey, which ended on 18 December 2019. For the results for Italy, see on the Bank of Italy's website, 'The euro area bank lending survey'; for the results for the euro area, see on the ECB's website, 'January 2020 euro area Bank Lending Survey'.

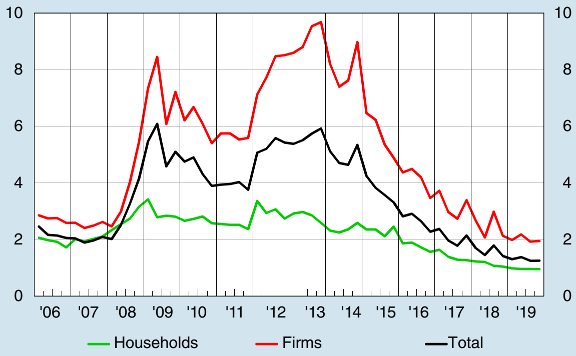
The surveys of firms conducted by Istat and the Bank of Italy, ending on 13 and 26 March respectively, show no significant signs of a deterioration of the terms of access to credit compared with the previous quarters.

The flow of new non-performing loans is moderate

Italy's banks are facing this crisis with better capitalization and liquidity conditions and higher asset quality than in the past.[12] In the fourth quarter of 2019, the flow of new non-performing loans (NPLs) in proportion to total loans held stable (at 1.3 per cent, on a seasonally adjusted annualized basis; Figure 38). The non-performing loan rate is at historically very low levels for both households and firms.

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.

The fall in gross income squeezes profitability

For the banking groups classified as significant, the ratio of NPLs to total outstanding loans fell further, in line with the plans that the banks presented to the ECB and the Bank of Italy. Net of loan loss provisions, the share of non-performing loans to total

Table 13

Main indicators for significant Italian banks (1)
(values and percentage changes)

	September 2019	December 2019
Non-performing loans (NPLs) (2)		
Gross NPL ratio	7.3	6.7
Net NPL ratio	3.6	3.2
Coverage ratio (3)	52.9	53.7
Regulatory capital		
Common equity tier 1 (CET1) ratio	13.6	13.9
	2018	2019
Profitability (4)		
Return on equity (ROE) (5)	6.2	5.5
Net interest income (6)	5.8	-5.7
Gross income (6)	1.9	-2.0
Operating expenses (6)	-7.1	-1.5
Operating profit (6)	22.9	-2.9
Loan loss provisions (6)	-33.0	0.3

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. – (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. The NPL ratio is reported gross and net of loan loss provisions. – (5) Net of extraordinary income. – (6) Percentage changes with respect to the year-earlier period.

[12] Further details will be presented in the *Financial Stability Report*, 1, 2020, to be published on 30 April 2020.

loans declined to 3.2 per cent, to below one third of the peak recorded in December 2015 (9.8 per cent; Table 13). The coverage ratio for non-performing loans (the ratio of loan loss provisions to total non-performing loans) increased with respect to the previous quarter.

Amongst other things, Decree Laws 18/2020 and 23/2020 introduce financial support measures for firms and households, and for smaller firms; in particular, the provisions include measures to alleviate the liquidity tensions caused by the emergency and to strengthen the public guarantee system (see the box 'The financial support measures for firms'). To ensure the efficient and rapid roll-out of the support measures envisaged in the decrees a task force was instituted drawing on experts from the Ministry of Economy and Finance, the Bank of Italy, the Italian Banking Association, Mediocredito Centrale the Ministry of Economic Development and SACE.

THE FINANCIAL SUPPORT MEASURES FOR FIRMS

The Government recently outlined a vast and comprehensive package of measures in response to the public health and economic emergency sparked by the COVID-19 epidemic. Decree Laws 18/2020 and 23/2020 introduced financial support measures for firms to help them cope with any restrictions on lending and temporary liquidity tensions so that they can avoid a prolonged decline in production.

The principal measures set out in Decree Law 18/2020 include a prohibition on the termination of some kinds of loans, the deferral of loan repayments and a debt moratorium for small and medium-sized enterprises (SMEs).[1] These measures ensure financial support for SMEs that do not have non-performing positions at the date of entry into force of the decree but that are facing a temporary shortage of liquidity owing to the COVID-19 crisis, attested by self-declaration. Specifically, firms can: (a) freeze the amounts agreed for revocable credit lines or for loans granted against advances on receivables until 30 September 2020; (b) defer until 30 September the repayment of loans maturing prior to that date; (c) suspend mortgage instalments or lease payments for the same period. This is a protective measure that safeguards firms from interrupting existing loans and temporarily prevents banks from having to make new loan loss provisions. Some 33 per cent of the amounts of these transactions[2] are covered by the subsidiary guarantee provided under the Central Guarantee Fund for SMEs. The guarantee enables banks to halve their expected losses on the suspended loans, given that the average loss on non-performing loans to firms is close to 70 per cent of the nominal amount.

The credit access support measures also focus on a broad programme of public guarantees for loans, introduced first by Decree Law 18/2020 and subsequently strengthened by Decree Law 23/2020. Under the second decree, most Italian firms will have access, until 31 December 2020, to loans backed by a demand guarantee provided by the State to lenders. More specifically, among the main new measures for the strengthening of the Fund, now accessible to firms with up to 499 employees, are: increasing the maximum amount guaranteed per firm from €2.5 million to €5 million; raising the coverage for eligible operations to 90 per cent (in the case of loan guarantee consortiums, to 100 per cent) to finance amounts for up to six years; full coverage for certain categories of loans, especially for small amounts; providing the guarantee at no charge; allowing access to the Fund for individuals whose businesses have been damaged by the public health emergency; extending

[1] In accordance with Commission Recommendation 2003/361/EC, SMEs are defined as firms which employ fewer than 250 employees and which have an annual turnover or annual balance sheet total not exceeding €50 million and €43 million respectively.

[2] This refers, in particular, to the greater amount of credit utilized between the date of entry into force of the decree and 30 September 2020, the individual instalment payments suspended and maturing loans whose term of payment has been extended.

the measure – under certain conditions – to debt renegotiation; eliminating the Fund's assessment of the firm's creditworthiness; granting the guarantee as well to firms with NPLs that had been performing prior to 31 January 2020,[3] while in any case excluding firms with exposures classified as bad loans. The Fund has been allocated additional funding for 2020 of just over €1.7 billion. In addition to mitigating credit risk, the guarantee, since it is a demand guarantee, enables banks to nullify the capital absorption on the portions of the loans covered by the Fund.

The State guarantee system has been strengthened by giving SACE, the Italian export credit agency whose tasks have been redefined, a central role in implementing the liquidity support measures, especially those for larger firms; the measures have also been extended to smaller firms that have fully utilized their capacity to access the Fund. The company can provide a demand guarantee for loans with a maturity not exceeding six years and with coverage percentages of between 70 and 90 per cent, which decrease as the size of the firm increases. Based on our estimates, given the significant amount of loans that can be granted through the SACE guarantee, greater than the stock of loans to large firms at the end of January 2020, the measure could stimulate not just new lending, but also the renewal of existing loans. Allocation of amounts to fund the measures set out in the new decree could be made in a forthcoming decree. In the main European countries and in the United States the response to the emergency, which inevitably has varied due in part to their different margins for manoeuvre under their fiscal policies, has taken on some common features. Specifically, there has been a generalized strengthening of public guarantee schemes: the expansion in funding has made it possible to broaden the number of potential beneficiaries and to raise the coverage percentages; in almost all the countries, the guarantees are generally demand guarantees. Less common is the temporary suspension of debt repayment, often adopted in a less well-structured manner than the moratorium introduced in Italy, which is one of the distinctive features of Decree Law 18/2020.

[3] Decree Law 23/2020 includes other firms in a precarious financial state that are eligible for guarantees from the Fund. These include firms that are negotiating a business continuity arrangement procedure and those that have signed restructuring agreements.

The profitability of Italian banking groups classified as significant declined in 2019. Net of extraordinary components,[13] the annualized return on equity rose to 5.5 per cent (4.9 per cent net of the gain linked to the sale of UniCredit Goup's remaining stake in FinecoBank). Gross income declined – pushed down by the reduction in interest income, which was only partly offset by the increase in other revenues – while operating costs also came down. Loan loss provisions remained stable.

Between September and December, the average capitalization level of the significant banking groups improved, mainly benefiting from capital increases and, in particular, the revaluation of reserves. Common equity tier 1 (CET1) averaged 13.9 per cent of risk-weighted assets. The latter remained essentially unchanged. On 27 March, the ECB issued a recommendation urging significant supervised groups to refrain from making dividend distributions and to use these resources to shore up their own funds, at least until 1 October 2020; this should help limit the adverse effects of the pandemic on the capitalization of credit institutions.[14]

[13] Extraordinary components in 2019 include goodwill impairments, the write-down of deferred tax assets by the MPS Group and the badwill arising from the acquisition of Unipol Banca by BPER.

[14] On the same day, the Bank of Italy extended this recommendation to the less significant banks under its direct supervision.

2.8 THE FINANCIAL MARKETS

Fears about the outlook for the economy and the spread of uncertainty have produced a sharp rise in investors' risk aversion and a deterioration in liquidity conditions in all the financial markets. The increase in sovereign spreads, which was common, to different extents, to most of euro-area countries, also impacted Italy in particular. Share prices have fallen and funding conditions for non-financial corporations and banks have worsened. Following the intervention of the ECB Governing Council, tensions on the bond market have eased.

Figure 39

Implied volatility of options on BTP futures (1)

(daily data; per cent)

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

Volatility increases suddenly

The volatility implied by derivatives on Italian ten-year bonds increased noticeably, as it did on the other bond markets (Figure 39). From 12 to 18 March, the Italian and European financial markets were characterized by heightened tensions, following the announcements of measures by most of the advanced countries to contain the epidemic. Resolute interventions by the Eurosystem following the decisions taken by the ECB Governing Council interrupted the downward spiral of sell-offs and illiquidity that had amplified the fall in financial asset prices, including those of risk-free assets. On the primary market, the demand for BTPs has always far exceeded the volume of issues for sale.

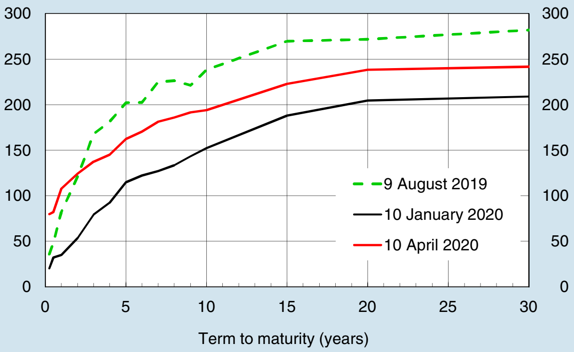
Government bond yields increase ...

The yields on Italian government bonds, which had fallen noticeably between the end of January and mid-February, went up again decidedly, together with those of most of the other euro-area countries. Ten-year bonds went up from 0.9 per cent in mid-February to 2.4 per cent on 18 March. Tensions were

Figure 40

Term structure of sovereign spreads (1)

(basis points)

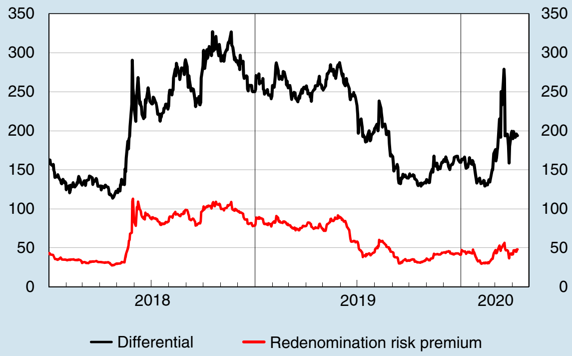


Source: Based on Bloomberg data.
(1) Term structure of the yield spreads between Italian and German government bonds on the selected dates.

Figure 41

Spread between Italian and German 10-year government bonds and redenomination risk premium

(basis points)



Sources: Based on Bloomberg and ICE CMA data.
(1) Spread between the premiums on Italian sovereign CDS ISDA-2014 and ISDA-2003 contracts with 5-year maturities. Compared with ISDA-2003, ISDA-2014 contracts offer greater protection against a redenomination of the underlying debt.

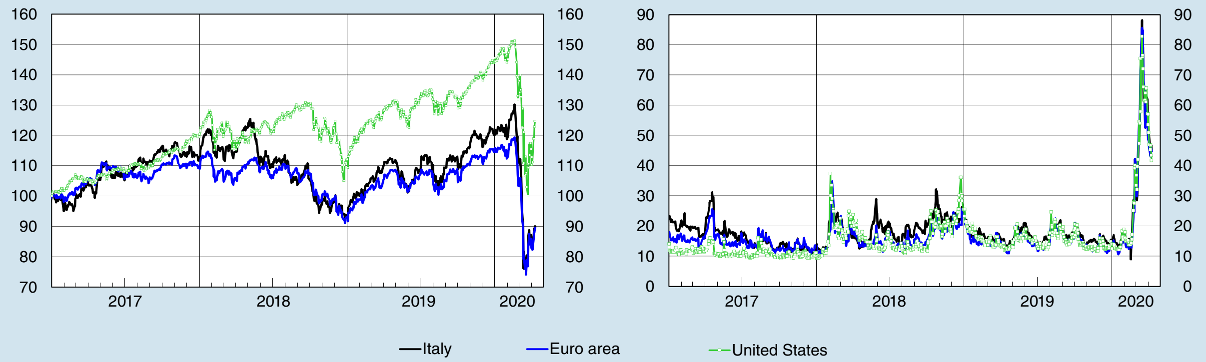
reduced following the Bank of Italy's interventions on the market on behalf of the Eurosystem and the Governing Council's decision to establish a portfolio of asset purchases with an envelope of €750 billion in order to stabilize the financial markets and to preserve monetary policy transmission (see the box 'The monetary policy measures adopted by the ECB in March 2020'). In the second week of April, the yield on Italian ten-year government bonds was 1.59 per cent, with a spread of 194 basis points with respect to the equivalent German bond (Figures 40 and 41), which was well below the 320 points reached during intraday trading during the periods of maximum turbulence.

Figure 42

Share prices

(a) Price indices (1)
(daily data; indices: 1 January 2017=100)

(b) Volatility indices (2)
(daily data; per cent)



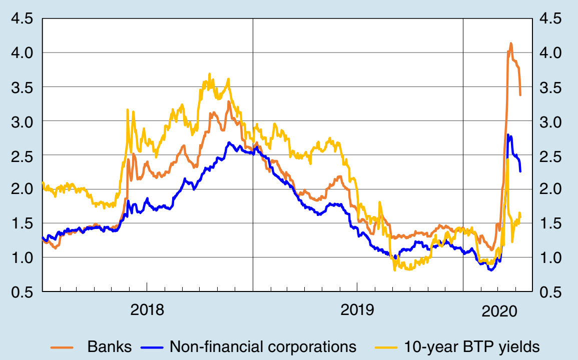
Source: Refinitiv.
(1) Indices: FTSE MIB for Italy; Dow Jones Euro Stoxx for the euro area; Standard & Poor's 500 for the United States. – (2) Indices: VSTOXX for the euro area; volatility implied by the prices of options on the FTSE MIB for Italy; VIX for the United States.

... and share prices plummet

Between the last ten days of February, when the epidemic broke out in the north of the country, and 18 March, the general index of the Italian stock exchange lost about 40 per cent of its value (Figure 42.a). The correction in share prices caused similar falls in the indices of the German and French stock exchanges, and in the overall index for the euro area. The implied volatility of the stock market indices has surpassed the peak reached at the height of the 2008-09 financial crisis (Figure 42.b). From the end of March, share prices partially recovered and volatility declined.

Figure 43

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



Sources: ICE 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.

Yields on private sector bonds are increasing

The funding costs of Italian non-financial corporations and banks were also affected by the worsening of conditions in the financial markets. In the second week of April, the yields on the bonds issued were on average 2.4 per cent for non-financial corporations and 3.6 per cent for banks (Figure 43), around 150 and 240 basis points higher than the February averages. The CDS premiums of the main Italian intermediaries increased considerably. The rise was common to all the main euro-area banks and was then curbed by the measures adopted by the ECB (Figure 44).

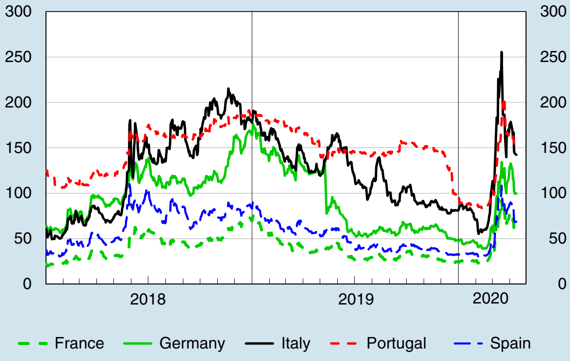
Gross issues of non-financial corporations fall

In the fourth quarter of 2019, the net placements of bonds issued by Italian non-financial corporations were equal to about €1 billion, while the banks made net redemptions of €1.7 billion. According to preliminary data from Dealogic on gross issues only, placements fell noticeably for non-financial corporations in the first quarter of 2020 (from €9 billion to €2.2 billion); whereas banks' placements remained basically the same at €11.5 billion, buoyed by issues in January and February similarly to what was happening in the other euro-area economies.

Figure 44

CDS premiums of the main euro-area banks (1)

(daily data; basis points)



Source: ICE CMA

(1) Average CDS premiums of the following banks: France (BNP Paribas and Crédit Agricole); Germany (Commerzbank and Deutsche Bank); Italy (Unicredit and Intesa Sanpaolo); Spain (Banco Bilbao Vizcaya Argentaria and Banco Santander); Portugal (Banco Comercial Português and Caixa Geral de Depósitos).

2.9 THE PUBLIC FINANCES

In recent weeks, the Government has adopted a series of mostly temporary expansionary measures to deal with the emergency brought about by the spread of COVID-19 and to mitigate its economic impact; additional measures will be announced in the weeks ahead. The European institutions have intervened, permitting the maximum degree of flexibility envisaged under the European budget rules.

In March the Government adopts a package of expansionary measures in response to the emergency

In early March, the Government adopted a number of measures in response to the public health emergency sparked by the epidemic. The first measures, targeting the worst affected areas, have been funded with resources already available under current legislation and do not, therefore, determine an increase in the deficit. As the situation deteriorated, after it had obtained the necessary authorization from Parliament,[15] the Government approved a new package of temporary expansionary measures in Decree Law 18/2020 ('Cure Italy' decree). The new decree determines an increase in net borrowing of around €20 billion in 2020, almost entirely attributable to higher expenditure (see the box 'The measures adopted to deal with the public health emergency in Italy'). For 2021 and 2022, the overall impact is basically nil. In April, the Government passed Decree Law 23/2020 to bolster the liquidity provided to firms under the 'Cure Italy' decree and announced additional measures, which are expected to be adopted in the coming days.

[15] As provided for under national legislation, the Government requested authorization from Parliament to increase this year's deficit by up to €20 billion compared with deficit projected in the Update to the 2019 Economic and Financial Document.

THE MEASURES ADOPTED TO DEAL WITH THE PUBLIC HEALTH EMERGENCY IN ITALY

In response to the public health emergency brought about by the spread of COVID-19 in Italy and its impact on economic activity, the Government has drawn up a broad range of measures.

Following a number of initial, targeted measures drawing on resources already available under existing legislation (and therefore having no impact on the public accounts), in its Report to Parliament for 2020 the Government amended its public finance objectives for the current year to obtain parliamentary approval to raise by up to €20 billion the deficit envisaged in the Update to the 2019 Economic and Financial Document.

In Decree Law 18/2020, the Government has made full use of the higher deficit authorized by Parliament.[1] The key provisions are intended to strengthen the national health service and support workers, households and firms.[2] They include:

a) greater spending on healthcare (about €3.2 billion), including to hire doctors and nurses and to increase the number of intensive care wards (see the table).

b) income support for households (totalling about €9.6 billion) through multiple instruments, most of which are directed at strengthening social safety nets across the country for those in payroll employment (about €3.4 billion) and in self-employment or employed in specific sectors (about €3.5 billion); measures for working parents totalling €0.8 billion (special leave and vouchers for baby-sitting services) following the closure of schools across the country;

c) measures to support firms (about €6.2 billion), mainly to support liquidity through the banking system and the Central Guarantee Fund (€3.8 billion; see the box 'The financial support measures for firms');

d) other measures to deal with the emergency (totalling almost €2 billion), including the suspension of the deadlines for tax collection (accounting for almost €1 billion) and for the payment of tax and social security contributions.

The measures to support firms' liquidity were bolstered on 8 April by Decree Law 23/2020 (see the box 'The financial support measures for firms'), which strengthened the role of state-backed guarantees. In addition, the decree provides for the extension of the April and May deadlines for the main tax payments or firms and self-employed workers whose business turnover decreased by more than a pre-set threshold. Owing to the nature of the guarantees provided and to fact that the suspended taxes and social security contributions shall be paid before the end of the year, official assessments of the impact of the law decree point to a virtually nil effect on the public accounts for 2020 (in terms of both net borrowing and borrowing requirement). The guarantees will have an impact on the net borrowing and on the debt only if and when they are enforced.

The Government has announced additional measures to support the economy, which are expected to be passed in the coming days. The higher deficit stemming from these provisions will require parliamentary approval.

[1] The impact in term of borrowing requirements is practically the same.

[2] See the 'Report by the Bank of Italy' prepared for the Fifth Committee of the Senate (Economic Planning and Budget), 25 March 2020.

Impact on the general government's profit and loss account of the measures included in Decree Law 18/2020 for 2020
(millions of euros)

	2020
USE OF FUNDS	**20,731**
Higher expenditure (A = A1 + A2 + A3 + A4)	**19,795**
Measures to support the national health service (A1)	**3,159**
Increase in the national emergency fund (capital account)	1,650
Financing of the general government standard borrowing requirement	1,410
Other capital expenditure	35
Other current expenditure	64
Measures to support households (A2)	**9,607**
Wage supplementation and other social safety net schemes for payroll employees	3,436
Allowances for the self-employed or those employed in specific sectors	3,462
Parental leave, supplementary payments for baby-sitting expenses and extension of the benefits granted pursuant to Law 104/1992	1,281
Wage subsidy scheme for payroll employees with an income of up to €40,000	881
Increase in the solidarity fund for first-home mortgages (capital account)	400
Other measures to support households	148
Measures to support firms (A3)	**6,164**
Guarantees in favour of small and medium-sized enterprises	3,230
Other guarantees in favour of firms affected by the crisis and those in the agricultural sector	580
Transformation of deferred tax assets into tax credits (capital account)	1,058
Other tax credits	406
Other current expenditure	250
Measures to support investment (capital account)	640
Other measures in support of the emergency (A4)	**865**
Funding of local government current expenditure	411
Other current expenditure	362
Other capital expenditure	92
Lower revenue (B)	**-936**
Suspension of payment deadlines and other measures in support of firms	-933
Other	-3
SOURCES OF FUNDS	**773**
Increased revenue (C)	**553**
Lower expenditure (D)	**-220**
Change in net borrowing (E=A+D-B-C)	**19,959**

Source: Based on official assessments contained in parliamentary documents relating to Decree Law 18/2020.

Table 14

Main indicators of the general government accounts (1)

(per cent of GDP)

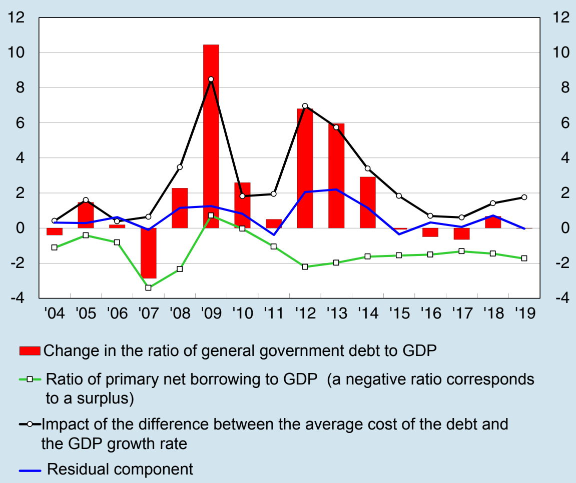
	2016	2017	2018	2019
Net borrowing	2.4	2.4	2.2	1.6
Primary surplus	1.5	1.3	1.5	1.7
Interest payments	3.9	3.8	3.7	3.4
Tax burden	42.2	41.8	41.9	42.4
Borrowing requirement	2.5	3.4	2.2	2.0
Net borrowing requirement (2)	2.6	3.4	2.2	2.0
Debt	134.8	134.1	134.8	134.8

Source: For the general government national accounts, based on Istat data (see Istat, 'GDP and general government net borrowing', Flash Statistics, 2 March 2020).
(1) Rounding of decimal points may cause discrepancies in totals. – (2) Excludes state privatization receipts.

Figure 45

General government debt: trend and determinants of the changes

(annual data; per cent of GDP)



Source: For the items of the general government account and for GDP, based on Istat data.

These measures are part of a broader context within which the European institutions acknowledged that the conditions for the activation of the general escape clause in the Stability and Growth Pact – a severe economic downturn in the euro area or in the Union as a whole – have been fulfilled. While not suspending the actual functioning of the Pact, the clause permits deviations from the adjustment path toward the medium-term budgetary objective and a redefinition of the deadlines for correcting situations of excessive deficit or debt as per EU Council recommendations. The European institutions also made the use of European Structural and Investment Funds more flexible and proposed the introduction of new instruments to provide financial support to the countries hardest hit by the public health crisis (see Section 1.2).

In the coming days, with the publication of the 2020 Economic and Financial Document, the Government will set out its budgetary objectives, which will take account of the deterioration in the macroeconomic outlook and of the discretionary measures adopted.

Net borrowing declines in 2019 ...

At the beginning of March, Istat released the final outturns for general government net borrowing last year. The deficit was equal to 1.6 per cent of GDP (compared with 2.2 per cent in 2018; Table 14), 0.6 points below the estimate published in last September's Update to the 2019 Economic and Financial Document. The decline with respect to 2018 reflected both the increase in the primary surplus, from 1.5 to 1.7 per cent of GDP, and the reduction in interest payments, from 3.7 to 3.4 per cent of GDP. The improvement in the primary surplus is mainly attributable to an increase in revenue (0.7 percentage points of GDP), exceeding that of primary expenditure (0.5 per cent; Table 15).

... and the debt-to-GDP ratio remains stable

The debt-to-GDP ratio remained stable at 134.8 per cent (Figure 45). The primary surplus essentially smoothed the effect of the gap between the average cost of the debt and the nominal GDP growth rate. Better trends in the debt-to-GDP ratio with respect to last autumn's official forecasts, which had projected an increase of 0.9 percentage points of GDP, reflect both the lower final figures for the deficit and a better than expected trend in GDP.

Table 15

General government expenditure and revenue

(billions of euros and percentage changes)

	2018	2019	% change on previous year 2018	% change on previous year 2019
EXPENDITURE				
Final consumption expenditure	334,8	336,1	2.4	0.4
of which: compensation of employees	172,5	173,3	3.2	0.4
intermediate consumption	101,2	102,4	2.4	1.2
social benefits in kind	46,1	45,8	2.1	-0.6
Social benefits in cash	348,5	361,2	2.1	3.7
Interest expense	64,6	60,3	-1.3	-6.7
Other expenditure	65,5	66,7	5.6	1.8
Current expenditure	**798,4**	**809,6**	**2.4**	**1.4**
% of GDP	45,2	45,3		
Current expenditure net of interest expense	**733,7**	**749,3**	**2.7**	**2.1**
% of GDP	41,5	41,9		
Investment (1)	37,8	40,5	-1.3	7.2
Investment grants	13,9	14,2	38.5	2.3
Other capital expenditure	7,3	6,4	-60.6	-12.1
Capital expenditure	**59,0**	**61,1**	**-11.7**	**3.6**
Total expenditure net of interest expense	**792,7**	**810,4**	**1.5**	**2.2**
% of GDP	44,9	45,3		
TOTAL EXPENDITURE	**857,3**	**870,7**	**1.2**	**1.6**
% of GDP	48,5	48,7		
REVENUE				
Direct taxes	248,9	257,4	-0.6	3.4
Indirect taxes	254,4	257,9	2.4	1.4
Social security contributions	234,5	242,1	3.9	3.2
Production for market and for own use	43,9	44,7	3.0	1.7
Other current revenue	32,7	35,5	6.5	8.4
Current revenue	**814,4**	**837,5**	**2.1**	**2.8**
% of GDP	46,1	46,9		
Capital revenue	**4,0**	**3,9**	**-38.9**	**-3.1**
of which: taxes	1,6	1,2	-32.3	-21.5
TOTAL REVENUE	**818,5**	**841,4**	**1.8**	**2.8**
% of GDP	46,3	47,1		
of which: tax burden	41,9	42,4		
NET BORROWING	**-38,8**	**-29,3**		
% of GDP	-2,2	-1,6		
Primary balance	**25,8**	**31,0**		
% of GDP	1,5	1,7		
Memorandum item: GDP	1.766,2	1.787,7		

Source: Based on Istat data (see Istat, 'GDP and general government net borrowing', Flash statistics, 2 March 2020).
(1) Includes proceeds of property sales which are entered with a negative sign.

Table 16

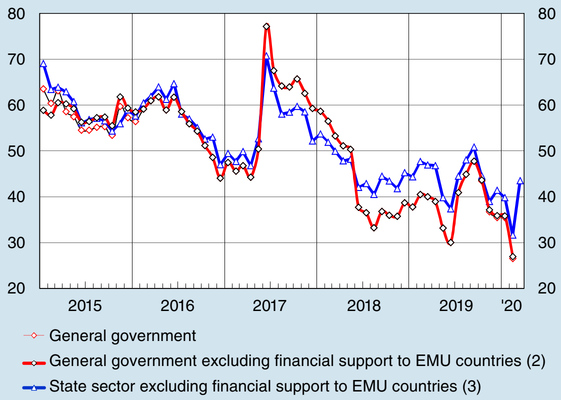
Changes in general government debt and its components
(billions of euros)

	2016	2017	2018	2019
Change in the debt = (a)+(b)+(c)+(d)	**46.2**	**43.9**	**51.4**	**28.9**
(a) Total borrowing requirement	43.2	59.3	38.7	35.5
of which: support to EMU countries	0.0	0.0	0.0	-0.4
(b) Change in Treasury's liquid balances	7.4	-13.8	5.8	-2.2
(c) Issue discounts and premiums/redemptions (1)	-4.4	-1.2	6.8	-4.5
(d) Euro equivalent of foreign currency liabilities	0.0	-0.4	0.1	0.1

(1) Includes the effect of the revaluation of inflation-indexed securities.

Figure 46

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



Source: For the state sector, Ministry of Economy and Finance.
(1) Excludes state privatization receipts. – (2) Excludes liabilities 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.

The increase in the debt in 2019, equal to €28.9 billion, was lower than the general government borrowing requirement (€35.5 billion), thanks to the slight reduction in the Treasury's liquid balances (€2.2 billion) and the overall effect of the discounts and premiums at issue and at redemption, to the revaluation of inflation-indexed securities and to changes in the exchange rate, which reduced the debt by €4.4 billion (Table 16).

The downward trend in yields at issue observed since the second half of the year has translated into a reduction in the average cost of the public debt, which declined to 2.5 per cent at the end of 2019 (from 2.8 per cent in 2018); the average residual maturity remained stable at 7.3 years. In the first quarter of 2020, the state sector borrowing requirement amounted to €30.8 billion (Figure 46), up by around €2.1 billion compared with the corresponding period of 2019.

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
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	93.2	91.8	89.9
2019	115.8	102.9	124,0	89.1	90.3	89.0
2019 – Q1	116.2	102.4	126.9	91.5	90.6	89.2
Q2	116.4	102.2	125.3	88.8	90.3	88.9
Q3	115.4	103.3	122.2	87.4	90.2	89.1
Q4	115.3	103.4	121.5	88.5	89.9	88.7
2019 – Jan.	116.0	102.3	126.6	91.7	90.8	89.8
Feb.	116.4	102.9	127.0	91.6	90.7	89.2
Mar.	116.2	102.2	127.1	91.2	90.4	88.8
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	88.1	90.3	89.3
July	115.5	103.3	123.8	87.8	90.2	88.9
Aug.	115.3	103.1	121.6	86.6	90.3	89.4
Sept.	115.4	103.6	121.2	87.8	90.1	88.9
Oct.	115.2	103.6	121.4	88.2	89,9	88.8
Nov.	115.1	103.0	121.9	89.0	89.8	88.6
Dec.	115.5	103.6	121.1	88.3	89.9	88.7
2020 – Jan.	115.6	103.7	122.5	88.6	89.2	88.6

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh and C. Giordano, 'A novel three-market view of price competitiveness', Journal of Economic and Social Measurement, 44, 2019, 89-116, also published in 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, 19 November 2019. Rounding may cause discrepancies between monthly, quarterly and annual data.

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

	Japan	Italy	Netherlands	United Kingdom	Spain	United States
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	62.9	97.9	112.5	79.5	109.3	103.1
2019	65.6	96.4	113.4	79.7	107.6	105.5
2019 – Q1	64.1	96.8	112.8	80,0	107.6	104.3
Q2	64.7	96.2	113.8	79.8	108.0	105.7
Q3	66.8	96.4	113.2	77.9	107.4	105.9
Q4	67.0	96.1	113.7	81.2	107.2	105.8
2019 – Jan.	64.9	97.3	113.0	79.0	107.4	103.9
Feb.	63.9	96.8	112.5	79.9	107.6	104.0
Mar.	63.5	96.4	112.7	81.0	107.9	105.1
Apr.	63.3	96.0	113.4	80.5	108,0	105.7
May	64.9	96.3	114.0	80.3	108.3	106.3
June	66,0	96.5	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	106.3
Sept.	67.2	96.3	113.2	78.8	107.5	106.3
Oct.	67.5	96.3	113.5	80.1	107.3	106.1
Nov.	66.8	96.1	113.3	81.2	107.1	106,0
Dec.	66.5	96.0	114.2	82.2	107.1	105.5
2020 – Jan.	66.1	95.9	114.5	81.7	107.3	104.9

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh and C. Giordano, 'A novel three-market view of price competitiveness', Journal of Economic and Social Measurement, 44, 2019, 89-116, also published in 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, 19 November 2019. Rounding may cause discrepancies between monthly, quarterly and annual data.

Table A2

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity	Value added (2)	Hours worked	Unit labour costs
			Total industry excluding construction		
2017	1.1	2.2	3.4	1.1	-1.1
2018	1.2	0.6	2.1	1.5	0.7
2019	2.0	-0.2	-0.4	-0.2	2.2
2017 – Q1	1.8	2.2	2.4	0.2	-0.5
Q2	0.7	2.4	3.8	1.4	-1.7
Q3	1.8	2.2	4.3	2.1	-0.4
Q4	-0.1	1.7	4.2	2.5	-1.8
2018 – Q1	0.3	2.4	3.8	1.4	-2.0
Q2	2.4	1.3	2.6	1.2	1.0
Q3	1.2	-0.5	0.7	1.2	1.8
Q4	2.0	-0.9	-0.9	0.0	2.9
2019 – Q1	2.6	-1.2	0.1	1.3	3.9
Q2	1.9	-0.2	-0.4	-0.1	2.1
Q3	1.2	0.6	-0.1	-0.7	0.6
Q4	2.0	-0.1	-1.2	-1.1	2.0
			Services		
2017	0.1	0.0	1.3	1.4	0.1
2018	2.1	-0.5	0.5	1.0	2.6
2019	1.3	0.0	0.3	0.4	1.3
2017 – Q1	0.0	0.3	1.5	1.2	-0.3
Q2	-0.7	0.1	1.4	1.3	-0.8
Q3	-0.2	-0.8	1.1	2.0	0.7
Q4	0.7	-0.2	1.3	1.5	1.0
2018 – Q1	0.7	-0.2	0.8	1.0	1.0
Q2	2.9	-0.7	0.6	1.3	3.6
Q3	2.6	-0.3	0.3	0.6	3.0
Q4	2.5	0.1	0.3	0.2	2.4
2019 – Q1	2.2	-0.8	0.0	0.7	3.0
Q2	0.8	0.4	0.4	0.0	0.3
Q3	1.1	0.1	0.6	0.5	1.0
Q4	0.9	0.1	0.3	0.2	0.9
			Total economy		
2017	0.3	0.6	1.6	1.0	-0.3
2018	1.8	-0.1	0.9	1.0	1.9
2019	1.4	-0.1	0.2	0.4	1.5
2017 – Q1	0.3	0.7	1.6	0.9	-0.4
Q2	-0.2	0.6	1.7	1.2	-0.8
Q3	0.3	0.1	1.6	1.5	0.2
Q4	0.5	0.3	1.8	1.5	0.2
2018 – Q1	0.8	0.7	1.4	0.7	0.1
Q2	2.6	-0.1	1.0	1.1	2.7
Q3	2.1	-0.5	0.5	1.0	2.6
Q4	2.1	0.0	0.1	0.1	2.1
2019 – Q1	2.2	-0.9	0.2	1.1	3.1
Q2	1.2	0.5	0.3	-0.2	0.6
Q3	1.1	0.1	0.4	0.3	1.0
Q4	1.1	-0.3	0.0	0.3	1.4

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	Value added (2)	Hours worked	Unit labour costs
			Total industry excluding construction		
2017	1.8	2.5	3.3	0.8	-0.7
2018	2.1	0.5	1.8	1.2	1.6
2019	1.9	-1.6	-1.1	0.5	3.5
2017 – Q1	1.4	1.6	2.4	0.8	-0.2
Q2	1.4	2.2	3.4	1.1	-0.9
Q3	1.3	3.2	4.6	1.4	-1.8
Q4	1.4	2.4	4.1	1.6	-1.0
2018 – Q1	1.8	2.4	3.6	1.2	-0.6
Q2	2.2	1.3	2.8	1.5	0.9
Q3	2.1	0.0	1.2	1.2	2.1
Q4	2.0	-1.6	-0.5	1.1	3.6
2019 – Q1	1.9	-1.6	-0.4	1.3	3.6
Q2	1.7	-1.5	-1.0	0.4	3.2
Q3	2.4	-1.6	-1.2	0.4	4.0
Q4	1.3	-1.5	-1.7	-0.1	2.9
			Services		
2017	2.0	1.0	2.4	1.3	1.0
2018	2.2	0.5	1.9	1.4	1.7
2019	2.1	0.4	1.7	1.3	1.6
2017 – Q1	1.7	0.8	2.1	1.3	0.9
Q2	1.9	0.9	2.4	1.5	0.9
Q3	1.7	0.9	2.7	1.8	0.9
Q4	1.9	1.0	2.7	1.7	0.9
2018 – Q1	2.1	1.0	2.4	1.4	1.1
Q2	1.9	0.3	2.0	1.7	1.6
Q3	2.3	0.1	1.7	1.6	2.2
Q4	2.2	0.1	1.6	1.5	2.1
2019 – Q1	1.9	0.1	1.7	1.7	1.8
Q2	2.3	0.5	1.7	1.2	1.7
Q3	2.2	0.7	1.8	1.0	1.4
Q4	2.0	0.5	1.7	1.1	1.4
			Total economy		
2017	2.0	1.4	2.6	1.2	0.6
2018	2.1	0.5	2.0	1.4	1.6
2019	2.0	0.1	1.2	1.1	1.9
2017 – Q1	1.6	1.0	2.1	1.1	0.6
Q2	1.8	1.2	2.6	1.3	0.5
Q3	1.6	1.4	3.0	1.6	0.1
Q4	1.8	1.4	3.1	1.6	0.4
2018 – Q1	2.0	1.4	2.7	1.3	0.6
Q2	1.9	0.5	2.2	1.7	1.3
Q3	2.2	0.0	1.6	1.6	2.2
Q4	2.1	-0.3	1.2	1.5	2.3
2019 – Q1	1.8	-0.3	1.4	1.7	2.1
Q2	2.2	0.2	1.2	1.0	2.0
Q3	2.2	0.4	1.2	0.9	1.8
Q4	1.9	0.2	1.0	0.8	1.7

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
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
2019	0.6	0.5	1.3	0.6	1.4	1.3	1.2	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	1.7	1.3	1.3
2020 – Jan.	0.4	0.5	1.7	0.9	1.6	1.3	1.4	1.1
Feb.	0.2	0.5	1.6	1.2	1.7	1.4	1.2	1.2
Mar.	0.1	0.6	0.8	0.7	(1.3)	…	(0.7)	(1.0)

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

Table A5

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

(billions of euros; per cent)

	Stocks									Stock-flow reconciliation		
	Direct 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						
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	592	1,352	819	532	76	551	133	2,704	153.1	29	-74	104
2019	611	1,529	941	588	80	566	156	2,943	164.6	239	125	114
2018 – Q1	564	1,395	860	536	73	534	125	2,691	154.1	17	-33	49
Q2	578	1,399	863	536	75	552	127	2,732	155.6	40	13	27
Q3	583	1,429	883	546	73	556	124	2,766	157.1	34	-1	36
Q4	592	1,352	819	532	76	551	133	2,704	153.1	-62	-53	-9
2019 – Q1	592	1,415	866	549	81	559	138	2,785	157.3	81	63	18
Q2	596	1,441	880	561	85	568	145	2,835	159.9	50	30	19
Q3	607	1,486	900	586	91	577	157	2,918	163.9	83	35	48
Q4	611	1,529	941	588	80	566	156	2,943	164.6	24	-4	28
						Liabilities						
2016	445	1,269	217	1,052	136	886	–	2,736	161.3	-19	-62	43
2017	456	1,308	263	1,045	107	938	–	2,808	161.7	72	-28	101
2018	484	1,146	216	930	107	1,055	–	2,792	158.1	-17	-90	73
2019	511	1,359	281	1,078	123	980	–	2,972	166.3	181	113	68
2018 – Q1	456	1,347	270	1,076	102	954	–	2,859	163.7	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	484	1,146	216	930	107	1,055	–	2,792	158.1	-36	-20	-16
2019 – Q1	487	1,207	249	959	119	1,044	–	2,857	161.3	65	48	17
Q2	495	1,261	247	1,013	130	1,004	–	2,889	162.9	33	26	7
Q3	505	1,349	261	1,088	145	1,003	–	3,002	168.6	112	72	40
Q4	511	1,359	281	1,078	123	980	–	2,972	166.3	-29	-34	4
						Net position						
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	109	205	603	-398	-31	-504	133	-88	-5.0	46	16	30
2019	100	171	660	-489	-43	-414	156	-30	-1.7	58	12	46
2018 – Q1	108	49	590	-541	-30	-419	125	-168	-9.6	-34	-34	1
Q2	114	174	608	-434	-29	-486	127	-100	-5.7	67	62	5
Q3	113	229	629	-400	-27	-501	124	-62	-3.5	38	22	17
Q4	109	205	603	-398	-31	-504	133	-88	-5.0	-26	-34	8
2019 – Q1	106	208	617	-410	-38	-485	138	-72	-4.0	16	15	1
Q2	102	180	632	-452	-45	-436	145	-54	-3.1	17	5	12
Q3	102	137	640	-502	-55	-426	157	-83	-4.7	-29	-37	8
Q4	100	171	660	-489	-43	-414	156	-30	-1.7	54	29	24

(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
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	44,712	54,372	-3,787	9,277	-15,149	958	-1,188	2,146
2018	44,021	45,448	-2,738	18,798	-17,487	-648	-1,482	834
2019	52,867	57,075	-2,049	14,859	-17,018	-1,902	-2,291	390
2019 – Q1	3,858	9,751	-3,708	4,765	-6,949	-242	-361	118
Q2	12,832	14,393	1,228	-361	-2,429	-599	-458	-141
Q3	16,499	14,797	3,323	3,361	-4,982	-385	-561	176
Q4	19,678	18,134	-2,892	7,094	-2,659	-676	-912	236
2019 – Jan.	-1,050	827	-1,201	1,009	-1,685	-77	-139	61
Feb.	2,158	3,811	-1,230	1,872	-2,294	-54	-109	55
Mar.	2,750	5,112	-1,277	1,885	-2,970	-111	-113	2
Apr.	3,453	3,241	-8	1,084	-864	-228	-150	-78
May	3,746	5,401	503	-1,728	-430	-252	-165	-87
June	5,633	5,752	733	282	-1,134	-119	-143	24
July	8,755	7,967	1,525	857	-1,594	-125	-203	77
Aug.	4,487	3,437	1,058	1,693	-1,701	-80	-151	71
Sept.	3,257	3,393	740	811	-1,687	-179	-207	28
Oct.	9,421	8,060	-529	2,548	-658	-132	-330	198
Nov.	4,793	4,973	-1,508	2,021	-693	-166	-302	136
Dec.	5,464	5,101	-854	2,525	-1,308	-378	-280	-99
2020 – Jan.	(-209)	(1,992)	(-992)	(461)	(-1,671)	(-169)	(-241)	(72)

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

Table A7

MFI loans adjusted for the accounting effect of securitizations: Italy and euro area (1)

(12-month percentage changes)

	Italy (2)				Euro area (3)			
	Private sector (4)	Non-financial private sector	Non-financial corporations	Households	Private sector (4)	Non-financial private sector	Non-financial corporations	Households
2013	-3.7	-3.6	-5.2	-1.3	-2.4	-1.6	-3.2	-0.3
2014	-1.6	-1.6	-2.3	-0.6	-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	2.1	2.0	1.4	2.8	3.4	3.6	4.1	3.2
2019	0.1	0.2	-1.9	2.5	3.7	3.5	3.2	3.6
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	3.3	2.9
Apr.	2.9	2.5	2.1	2.9	3.1	3.1	3.4	2.9
May	2.4	1.9	1.1	2.8	3.4	3.2	3.7	2.9
June	2.4	1.5	0.5	2.8	3.5	3.5	4.2	2.9
July	2.5	1.9	1.1	2.9	3.4	3.5	4.2	3.0
Aug.	2.6	1.9	1.2	2.8	3.4	3.6	4.3	3.1
Sept.	2.8	2.2	1.7	2.8	3.5	3.7	4.4	3.1
Oct.	2.7	2.2	1.6	2.8	3.3	3.6	4.0	3.2
Nov.	2.3	1.8	1.0	2.7	3.3	3.6	4.1	3.3
Dec.	2.1	2.0	1.4	2.8	3.4	3.6	4.1	3.2
2019 – Jan.	1.1	1.0	-0.5	2.7	3.1	3.4	3.6	3.2
Feb.	1.4	1.3	0.1	2.8	3.3	3.6	4.0	3.3
Mar.	1.0	1.0	-0.4	2.7	3.3	3.5	3.8	3.3
Apr.	1.0	1.0	-0.4	2.7	3.5	3.6	4.0	3.3
May	1.1	1.2	-0.0	2.7	3.4	3.6	3.9	3.4
June	0.6	0.9	-0.5	2.5	3.5	3.6	3.9	3.3
July	0.8	1.0	-0.3	2.5	3.6	3.7	4.0	3.4
Aug.	0.6	0.8	-0.6	2.4	3.8	3.7	4.2	3.4
Sept.	0.6	0.7	-0.8	2.5	3.6	3.5	3.6	3.4
Oct.	0.4	0.4	-1.4	2.5	3.7	3.6	3.8	3.5
Nov.	0.2	0.1	-1.8	2.4	3.6	3.5	3.4	3.5
Dec.	0.1	0.2	-1.9	2.5	3.7	3.5	3.2	3.6
2020 – Jan.	0.6	0.6	-1.1	2.5	3.8	3.5	3.2	3.7
Feb.	0.3	0.5	-1.3	2.5	3.7	3.4	3.0	3.8

(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		
2018	-29.5	10.8	-4.1	-22.9
2019	-2.0	25.9	-3.9	19.9
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	-1.5	-6.7
Q2	1.4	-0.8	2.1	2.6
Q3	3.2	-1.3	-5.4	-3.5
Q4	-1.7	28.3	0.9	27.5
		Euro area		
2018	85.7	80.3	41.5	207.5
2019	120.9	170.6	61.9	353.3
2018 – Q1	30.9	18.0	22.6	71.5
Q2	-18.2	32.2	3.9	17.8
Q3	47.0	9.7	17.0	73.6
Q4	26.1	20.4	-1.9	44.6
2019 – Q1	58.6	21.7	15.8	96.0
Q2	17.1	27.7	16.5	61.3
Q3	22.1	39.7	20.3	82.1
Q4	23.2	81.5	9.3	113.9

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		Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)		Borrowing requirement	
		of which: PO funds							*of which:* investment of liquidity		*of which:* in connection with financial support to EMU countries (3)
2014	14.1	-1.7	-16.0	82.3	-4.1	-1.3	74.9	-8.8	-28.0	66.2	4.7
2015	5.5	-1.1	-9.5	43.6	1.5	-1.1	40.0	10.7	8.0	50.7	-2.1
2016	-4.8	0.4	-8.0	63.3	0.5	-0.3	50.6	-7.4	-3.0	43.2	0.0
2017	-0.6	-2.4	-0.5	41.1	3.7	1.8	45.5	13.8	10.5	59.3	0.0
2018	5.2	-2.1	0.8	42.3	-4.7	0.7	44.5	-5.8	19.5	38.7	0.0
2019	-10.3	-4.7	6.4	44.0	-7.4	0.6	33.3	2.2	-18.0	35.5	-0.4
2018 – Jan.	5.7	-0.7	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	-0.3	17.1	3.5	5.5	20.5	0.0
Apr.	-2.3	-0.1	-0.0	12.4	0.6	0.1	10.7	-7.3	2.0	3.4	0.0
May	-0.8	-0.5	-0.1	13.3	0.0	0.1	12.5	-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	20.3	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	8.5	-3.3	2.1	5.3	0.0
Dec.	2.7	0.6	-5.9	-26.6	-1.2	1.4	-29.6	16.9	18.4	-12.8	0.0
2019 – Jan.	4.0	-1.0	8.0	29.4	-0.5	-0.5	40.4	-44.0	-14.0	-3.6	0.0
Feb.	-3.9	-0.4	-0.1	4.0	-0.3	0.1	-0.2	9.8	-2.0	9.6	0.0
Mar.	0.2	-2.1	0.6	-3.2	-0.2	0.3	-2.4	22.4	1.4	20.0	0.0
Apr.	0.9	1.3	0.7	12.7	-0.2	-0.1	14.0	-11.6	-1.4	2.4	0.0
May	-1.0	-0.6	0.3	-10.1	1.0	-0.2	-10.0	11.3	3.0	1.3	0.0
June	-1.8	-1.1	-0.4	23.1	-0.5	0.7	21.0	-20.5	-3.0	0.5	0.0
July	5.8	1.6	-0.1	19.1	-2.3	1.1	23.6	-27.1	3.0	-3.4	0.0
Aug.	-0.1	-1.3	1.8	-4.5	0.1	-0.3	-3.0	5.3	-3.0	2.3	0.0
Sept.	1.8	-0.3	1.0	-23.0	0.1	-0.5	-20.6	43.7	-10.0	23.1	0.0
Oct.	-0.2	1.2	1.2	7.5	-0.1	0.2	8.6	-9.8	-3.4	-1.1	-0.2
Nov.	-5.2	-1.8	-0.0	3.6	0.4	-0.2	-1.5	0.1	2.0	-1.4	-0.2
Dec.	-10.8	-0.2	-6.6	-14.6	-4.8	0.1	-36.6	22.5	9.4	-14.0	0.0
2020 – Jan.	2.7	-1.7	5.8	25.1	1.1	0.2	34.9	-38.6	-6.0	-3.7	0.0
Feb.	-2.2	-0.3	-1.1	6.2	-0.0	-0.4	2.5	-1.8	-0.5	0.7	0.0

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

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)
2014	232.3	77.6	124.5	1,669.0	130.5	46.7	36.0	2,203.0	46.4	38.0	25.7	60.3
2015	237.8	76.4	115.0	1,708.5	132.4	45.6	33.9	2,239.4	35.7	30.0	26.9	58.2
2016	232.9	76.8	107.0	1,767.3	133.1	45.3	33.9	2,285.6	43.1	33.0	29.9	58.2
2017	232.4	74.4	106.6	1,806.8	136.7	47.0	33.9	2,329.6	29.3	22.5	32.2	58.2
2018	237.6	72.3	107.4	1,856.0	132.2	47.8	33.9	2,380.9	35.1	3.0	31.5	58.2
2019	227.3	67.6	113.8	1,895.5	124.8	48.4	33.5	2,409.8	32.9	21.0	35.1	57.8
2018 – Jan.	238.1	73.7	112.9	1,819.2	134.7	47.1	33.9	2,352.0	54.5	31.6	33.5	58.2
Feb.	237.0	73.2	112.8	1,821.2	135.2	46.7	33.9	2,353.0	48.3	15.6	34.4	58.2
Mar.	239.4	72.9	112.8	1,835.1	135.0	46.4	33.9	2,368.7	44.8	10.1	33.2	58.2
Apr.	237.1	72.8	112.8	1,847.1	135.6	46.5	33.9	2,379.1	52.1	8.1	34.8	58.2
May	236.3	72.3	112.7	1,862.0	135.6	46.6	33.9	2,393.2	57.6	8.1	35.9	58.2
June	234.0	72.6	113.4	1,857.6	136.5	47.4	33.9	2,388.9	48.4	12.9	33.8	58.2
July	239.6	72.4	113.2	1,876.5	132.6	46.2	33.9	2,408.1	80.0	15.4	35.1	58.2
Aug.	237.3	72.9	112.6	1,863.4	132.7	46.2	33.9	2,392.2	65.1	16.4	34.8	58.2
Sept.	236.2	72.3	112.8	1,869.0	133.0	46.1	33.9	2,397.2	49.6	22.0	33.6	58.2
Oct.	235.0	72.5	112.8	1,874.5	132.6	45.4	33.9	2,400.3	48.7	23.4	33.7	58.2
Nov.	234.9	71.7	113.2	1,882.1	133.4	46.4	33.9	2,410.0	51.9	21.4	33.2	58.2
Dec.	237.6	72.3	107.4	1,856.0	132.2	47.8	33.9	2,380.9	35.1	3.0	31.5	58.2
2019 – Jan.	241.6	71.3	115.4	1,885.2	131.7	47.3	33.9	2,421.1	79.1	17.0	32.7	58.2
Feb.	237.7	70.9	115.3	1,889.0	131.4	47.3	33.9	2,420.7	69.3	19.0	33.6	58.2
Mar.	237.8	68.8	115.9	1,883.5	131.2	47.7	33.9	2,416.1	46.9	17.6	32.2	58.2
Apr.	238.7	70.1	116.6	1,896.5	131.0	47.5	33.9	2,430.4	58.5	19.0	32.3	58.2
May	237.7	69.4	116.9	1,888.0	132.0	47.3	33.9	2,422.0	47.2	16.0	34.3	58.2
June	235.9	68.3	116.5	1,912.1	131.5	48.0	33.9	2,444.0	67.7	19.0	34.5	58.2
July	241.8	69.9	116.4	1,931.0	129.2	49.1	33.9	2,467.4	94.8	16.0	35.6	58.2
Aug.	241.7	68.6	118.2	1,926.2	129.2	48.8	33.9	2,464.1	89.5	19.0	35.9	58.2
Sept.	243.5	68.4	119.2	1,900.9	129.3	48.3	33.9	2,441.2	45.8	29.0	36.5	58.2
Oct.	243.3	69.6	120.4	1,906.8	129.2	48.5	33.7	2,448.2	55.5	32.4	37.4	58.0
Nov.	238.1	67.7	120.4	1,909.9	129.6	48.3	33.5	2,446.3	55.4	30.4	38.7	57.8
Dec.	227.3	67.6	113.8	1,895.5	124.8	48.4	33.5	2,409.8	32.9	21.0	35.1	57.8
2020 – Jan.	230.0	65.8	119.6	1,920.0	125.9	48.7	33.5	2,444.2	71.5	27.0	36.4	57.8
Feb.	227.8	65.5	118.5	1,926.4	125.9	48.3	33.5	2,446.9	73.4	27.5	36.6	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 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.