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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

OVERVIEW

The effects of the pandemic continue to weigh on the global economy

The contraction in economic activity and international trade worsened in April. In recent weeks, there have been signs of a recovery but the risks are still significant. Since May, the epidemic has intensified in some emerging economies and in the United States. The expansionary monetary and fiscal measures adopted and the gradual easing of the measures suspending economic activity have helped to ease the strains in the financial markets, which nevertheless remain extremely sensitive to news about the spread of the contagion.

The ECB Governing Council strengthens monetary stimulus

In the euro area, after dropping again in April, the available indicators point to a partial recovery of economic activity in May and June. Inflation decreased to barely positive levels. The ECB's Governing Council strengthened its expansionary monetary policy stance decisively by expanding the size and duration of the pandemic emergency purchase programme (PEPP), which will continue until the crisis is over. The probability of euro-area consumer prices decreasing over the next twelve months, based on the prices of inflation options, was at its highest at the end of March, but fell after the ECB took action.

In Italy signs of an upturn are seen in May, but the recovery is gradual

In Italy, the decline in GDP, amounting to 5.3 per cent in the first quarter, appears to have intensified in the second, and based on the available information, currently stands at around 10 per cent. This estimate primarily reflects the highly unfavourable performance in April; motorway traffic, gas and electricity consumption suggest that economic activity began to recover in May, encouraged by the progressive easing of restrictions. The purchasing managers' indices have risen but remain below the expansion threshold.

Foreign trade is affected by the uncertainty over the pandemic

Italy's trade in goods and services continued to be affected by the repercussions of the epidemic on world trade in the second quarter overall. In May, however, Italy's sales in non-EU markets recouped some of the previous decline. International tourism flows have been affected by the course of the pandemic; in the absence of any fresh outbreaks, they will be facilitated during the summer by the gradual removal of restrictions on international travel. In the first four months of the year, the current account surplus decreased only slightly.

Social safety nets curb the drop in employment

The deterioration in labour market conditions due to the health emergency led to a sharp reduction in the number of hours worked in the first quarter (-7.5 per cent); the impact on the number of persons in employment, which decreased by 0.3 per cent, was mitigated considerably by the exceptional increase in the use of social safety nets. The impact of the mobility restrictions on the number of job seekers was reflected in the unemployment rate, which fell sharply. The most recent data point to a halt in the decline in employment and to an upturn in the labour market participation.

The fall in demand weighs on inflation expectations

In Italy, consumer price inflation was negative in May and amounted to -0.4 per cent in June, mainly owing to the steep decline in energy prices. The decrease in domestic demand is affecting the inflation expectations of analysts and firms: according to professional forecasters, consumer prices are expected to decline on average this year and to rise just a little in the next. The surveys conducted in March and

May indicated that households' inflation expectations, which were affected primarily by the rise in food prices, rose temporarily, although this increase then faded in June.

Central bank and economic policy interventions counter tensions on the financial markets

Financial market conditions remain fragile, but they have benefited from the interventions of the monetary and fiscal authorities and from the easing of the measures to contain the pandemic. In the euro area, there have been favourable effects on share prices and interest rates because of the strengthening of the ECB's asset purchase programme and the European Commission's proposed instrument – Next Generation EU *– to finance recovery in EU countries by means of loans and grants. This new instrument would make it possible to considerably expand the capacity of the EU budget to counter the consequences of the pandemic. The yields on Italian government securities have decreased, as have funding costs for firms and banks. Bond issues have resumed, partly encouraged by the Eurosystem's purchases.*

Loans to firms increase

The measures adopted by the ECB and the Government have supported credit to firms, which has accelerated in conjunction with the marked increase in liquidity needs. In Italy, growth in loans to firms, which was negative for the whole of last year, reached 11.5 per cent in May (at a three-month annualized rate). The expansion in lending, which initially involved medium-sized and large firms, then extended to producer households following the steady reduction in the delays in implementing the measures adopted by the Government.

This Bulletin updates the macroeconomic scenarios for Italy

This Bulletin provides an update of the scenario analyses for the Italian economy for the three years 2020-22, prepared as part of the Eurosystem staff macroeconomic projection exercise and published on 5 June and which remains valid on the whole in light of the latest data.

A gradual recovery is expected in the second half of the year ...

In a baseline scenario, which assumes that the spread of the pandemic remains under control at global level and in Italy, GDP will shrink by 9.5 per cent on average this year, entirely due to the fall recorded in the first half of the year, and is expected to recover over the next two years (4.8 per cent in 2021 and 2.4 per cent in 2022). The recovery will be gradual: persistent effects on household consumption will stem from the decline in employment and in disposable income, albeit mitigated by the support measures. The deterioration in the outlook for demand and firms' confidence will impact investment, the fall in which in 2020, as also indicated in the Bank of Italy's surveys, will be partly recouped in 2021-22. Inflation will be practically nil both this year and the next, and prices are expected to return to a growth of 1.0 per cent in 2022.

... with the risk of more unfavourable developments in the event of new outbreaks

Should there be any new and serious outbreaks at national or global level, developments could be more negative than those outlined in the baseline scenario. This could have repercussions on the confidence and spending decisions of households and firms, and translate into a more marked decline in world trade, interruptions to global production chains or a deterioration in financial conditions. A more adverse scenario estimates that GDP could decrease by more than 13 per cent this year, with a more moderate recovery in the following two years compared with the baseline scenario.

European initiatives could favour growth

However, compared with the scenarios considered here, growth prospects could be improved as a result of the strengthening of the expansionary policies currently under discussion. The approval and the efficient use of the instruments being debated within the European Union, as well as directly impacting demand and production capacity, could help to boost the confidence of households and firms. The amount of resources that may be granted will depend on the capacity to propose and implement reforms and valid investment projects.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

The effects of the pandemic, which is slowing down in Europe but has become more serious in the emerging countries and in the United States, are weighing on the global economy. GDP contracted markedly in the main economies in the first quarter and, based on the available indicators, will continue to do so in the second quarter. International trade has fallen sharply.

The pandemic causes a sharp fall in economic activity in the first quarter ...

In the first quarter of 2020, GDP decreased in the main economies. As well as in China, the first country hit by the epidemic, there was a substantial decline in the United States and the United Kingdom (Table 1). The main contributing factor was the fall in consumption (-4.7 per cent in the United States and -4.3 per cent in the United Kingdom and China), with a marked reduction in employment too.

... that worsens in April

In the advanced economies, the available indicators point to a further worsening in economic activity in the second quarter, greater than that recorded in the first quarter. In April, industrial production fell by about 10 per cent on a monthly basis in the United States and Japan and by 20 per cent in the United Kingdom; it rose just barely in the United States in May. The purchasing managers' indices (PMI) for manufacturing firms declined further in all countries in April, reaching historically low levels in Europe. They recovered partially in May and June with the gradual reopening of businesses, and went above the threshold compatible with expansion in the United States and the United Kingdom (Figure 1). The decrease in PMIs has been even greater in the service sector.

Table 1

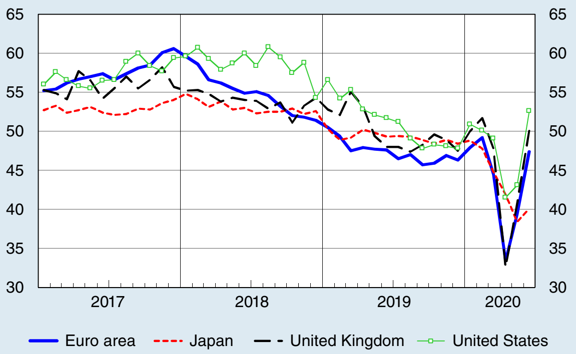
GDP growth and inflation
(percentage changes)

	GDP growth (1) 2019	GDP growth (1) 2019 Q4	GDP growth (1) 2020 Q1	Inflation (2) May 2020
Advanced economies				
Japan	0.7	-7.3	-2.2	0.1
United Kingdom	1.5	0.0	-8.5	0.5
United States	2.3	2.1	-5.0	0.1
Emerging economies				
Brazil	1.1	1.7	-0.3	1.9
China	6.1	6.0	-6.8	2.4
India (3)	5.3	4.1	3.1	5.9
Russia	1.3	2.1	1.6	3.0
Memorandum item:				
World trade (4)	**0,6**	**-1.5**	**-11.3**	

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 March. – (4) Seasonally adjusted quarterly data; annualized quarterly percentage change.

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'.

There are signs of recovery in China

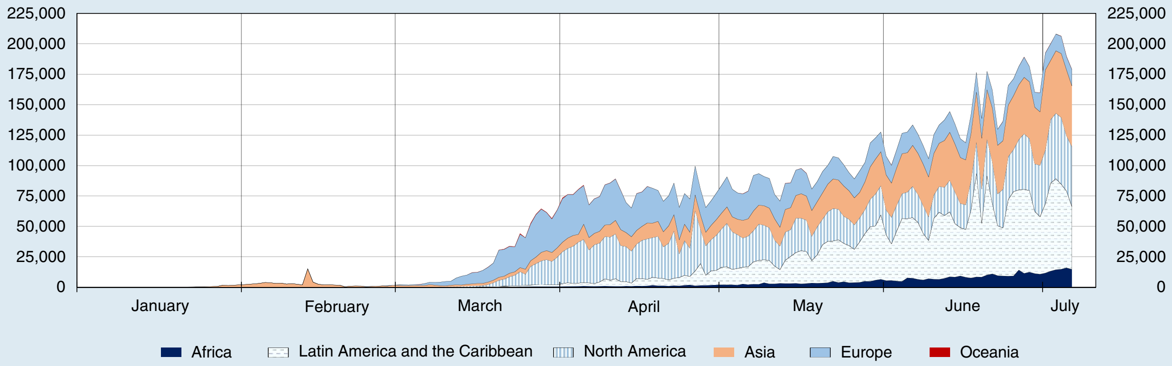
In China, industrial production returned to growth in April and strengthened still further in May; the PMI for the manufacturing sector was once again above the threshold compatible with expansion in the same month and rose further in June. Instead, the epidemic has been spreading more intensely in the other emerging countries since May, especially in Latin America, placing the health services' response capacity in serious difficulty and increasing the uncertainty over the macroeconomic outlook (see the box 'The evolution of the pandemic and containment measures in various countries').

THE EVOLUTION OF THE PANDEMIC AND THE CONTAINMENT MEASURES IN VARIOUS COUNTRIES

The spread of infection. – The COVID-19 epidemic, which began in China, spread rapidly at global level in the first half of 2020 (Figure A). According to data from the European Centre for Disease Prevention and Control up to 5 July, more than 11.4 million people had caught the virus and over 533,000 had died worldwide. The number of cases has exceeded 5.9 million in the Americas, 2.5 million in Asia and 2.4 million in Europe. The United States has the most cases (almost 3 million), followed by Brazil and India (1.6 million and nearly 700,000 respectively).

Figure A

Global evolution of the pandemic: confirmed new cases
(daily data; number of persons)



Source: Based on European Centre for Disease Control and Prevention data.

The number of new cases daily worldwide, currently more than 150,000, is still rising, with very different trends over the last few months geographically speaking. In relation to the population, it has gone down to relatively low numbers in all EU countries, with the exception of Sweden, and in most other European countries; it remains high in Latin America, the Middle East, South Africa and the United States (Figure B).

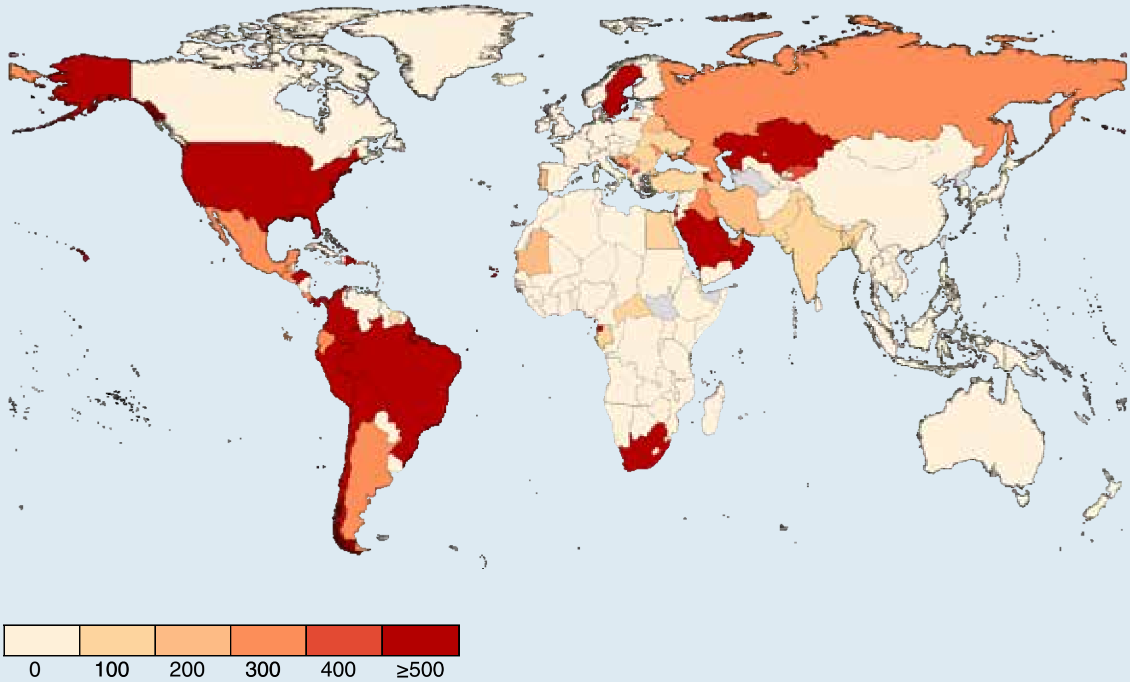
Containment measures and their effectiveness. – The strictness of the containment measures[1] and their composition have differed among countries, especially in terms of the seriousness of the epidemiological picture, but also because of the choices made by the respective governments. In most

[1] The analysis of the containment measures is based on data from the Oxford COVID-19 Government Response Tracker, a database managed by the University of Oxford that collects information on the restrictions (e.g. the extent of the closure of production activities and schools, limitations on domestic and international travel and quarantines) adopted in over 160 countries. This box makes particular reference to the ordinal variable on the closure of production activities (0: no measure; 1: closure recommended for some sectors; 2: closure obligatory for some sectors; and 3: closure of all sectors except for essential ones).

cases, the measures have focused firstly on reducing the amount of contact between people (limits on movement and on national and international travel, the closure of schools and production activities, and social distancing). In some countries, such as South Korea and Japan, there has been greater recourse to diagnostic procedures, both to detect any cases of infection and to intervene swiftly to stop it from spreading.

Figure B

Global evolution of the pandemic: geographical distribution of new cases
(data for the week 29 June-5 July 2020; new cases per million inhabitants)



Source: Based on European Centre for Disease Control and Prevention data.

These measures have generally managed to stop the epidemic from increasing exponentially. In most countries and almost without exception in the EU, the number of new cases daily began to fall within three weeks of introducing containment measures. In the United States, after the initial decline in April, the number of new cases started to rise again in June, with an uneven distribution across the country. The infection curve does not seem to have reached its peak yet in several countries, including Brazil, India, Mexico and South Africa.

Containment measures have had a strong impact on economic activity and on world trade. Yet there has also been a substantial decline in economic activity in countries that have adopted more moderate restrictions, such as Sweden.[2] In the first quarter, international trade fell by more than 11 per cent on an annual basis. Panel (a) of Figure C shows the share of world trade attributable to countries where

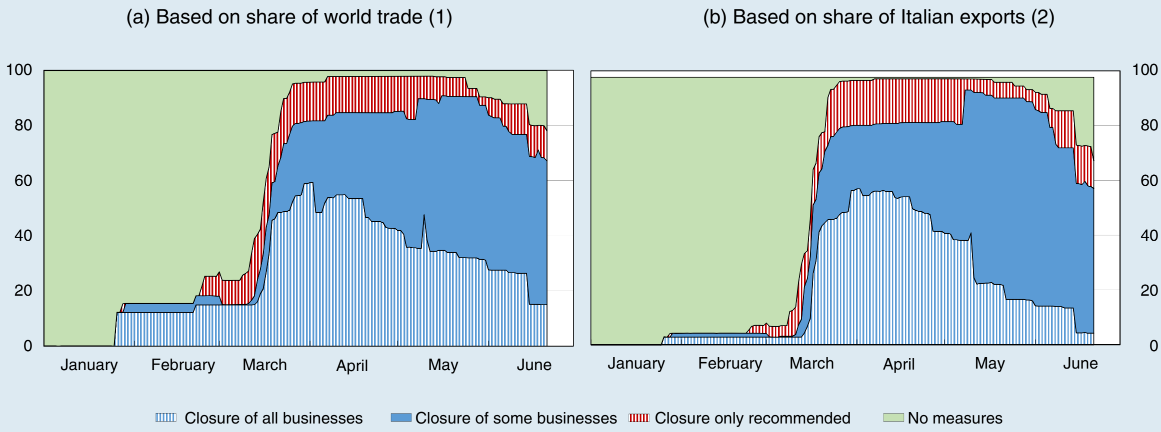
[2] When the number of cases increased in Sweden in April, manufacturing declined by around 16 percentage points. According to the latest OECD projections, the fall in Swedish GDP in 2020 will be similar to that in the other Nordic countries, although they went into lockdown.

limits on economic activity have been adopted, or other measures that have in any case affected it negatively. During the initial phases of the pandemic, the restrictions were mainly confined to Asian economies, with consequences for about 15 per cent of world trade. As the virus spread in Europe and North America, the percentage of world trade made up of the countries affected by containment measures increased rapidly, nearing around 100 per cent at the end of March; for the whole of the month of April, the countries that had closed down all but essential activities made up more than half of this figure.

Figure C

Restrictions on economic activity

(per cent)



Sources: Oxford COVID-19 Government Response Tracker and 'Bilateral Trade in Goods by Industry and End-use', OECD.
(1) For world trade, the weight of each country is calculated as the sum of its total imports and exports divided by the sum of total world imports and exports (in 2018). For all the restriction categories considered, the closing of businesses can be associated with other measures, such as social distancing, restrictions on mobility and closure of schools. – (2) For Italian exports, the weight of each country is calculated as the sum of its total imports from Italy divided by total Italian exports (in 2018). For all the restriction categories considered, the closing of businesses can be associated with other measures, such as social distancing, restrictions on mobility and closure of schools.

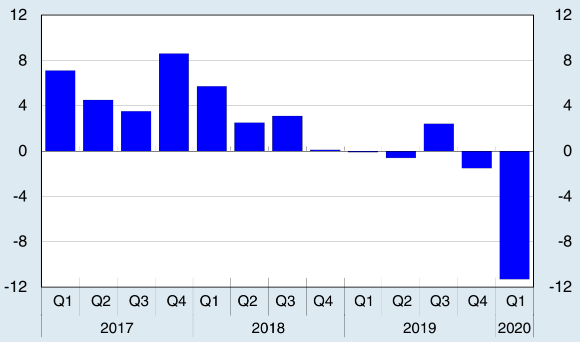
The recent easing of the measures. – Some of the countries where the epidemiological situation has improved have gradually eased containment measures since May. Measures favouring social distancing have remained in force almost everywhere, such as the closure (at least partial) of schools, limits on crowds in public places and teleworking, with continuing consequences for mobility, which has not yet returned to pre-pandemic levels. The percentage of world trade attributable to countries affected by restrictive measures has decreased very slightly, entirely thanks to the advanced economies.

Similar trends are observable for Italy's export markets (see panel (b) of Figure C). Since the beginning of May, the share of Italian exports towards countries with milder restrictions has risen from just over half to around two thirds, and the share of sales to economies where strict containment measures are still in force has fallen considerably, to around 5 per cent at the end of June (it averaged around 50 per cent in April).

So far, the gradual easing of containment measures in Italy has been possible with no significant resurgence of infection observed in the weeks afterwards.

Figure 2

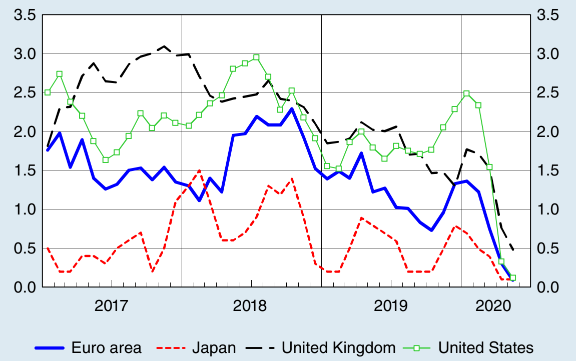
World trade (1)
(quarterly data; percentage changes)



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.

World trade contracts

International trade suffered a significant fall in the first quarter of 2020 (-11.3 per cent on an annualized basis; Figure 2), affected by the drop in demand in most economies, by the interruption of tourist flows and by lower volumes of trade connected with global supply chains.

Inflation goes down again

Consumer price inflation, which has been decreasing considerably since the beginning of the year, went below 1 per cent in all the main advanced economies in April. It fell still further in the United States and the United Kingdom in May, to 0.1 and 0.5 per cent respectively (Figure 3). The long-term inflation expectations on the financial markets instead rose slightly to 1.5 per cent in the United States in April, remaining stable thereafter.

Growth is negative this year ...

The growth projections for the euro area have been repeatedly revised downwards. The forecasts released in June by the International Monetary Fund point to a fall of 4.9 per cent in world GDP for the current year (1.9 percentage points below April's forecasts; Table 2) and to a recovery of 5.4 per cent in 2021 (Table 2). International trade will

Table 2

Macroeconomic projections
(changes and percentage points)

	2019	Forecasts		Revisions (1)	
		2020	2021	2020	2021
GDP (2)					
World	**2.7**	**-4.9**	**5.4**	**-1.9**	**-0.4**
Advanced economies					
of which: Euro area	1.3	-10.2	6.0	-2.7	1.3
Japan	0.7	-5.8	2.4	-0.6	-0.6
United Kingdom	1.4	-10.2	6.3	-3.7	2.3
United States	2.3	-8.0	4.5	-2.1	-0.2
Emerging economies					
of which: Brazil	1.1	-9.1	3.6	-3.8	0.7
China	6.1	1.0	8.2	-0.2	-1.0
India (3)	4.2	-4.5	6.0	-6.4	-1.4
Russia	1.3	-6.6	4.1	-1.1	0.6
World trade (4)	**0,6**	**-14.0**		**-4.0**	

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

be heavily impacted by the decline in economic activity; based on our estimates, it could shrink by 14 per cent on average in 2020.

... with downside risks

The main risks to growth stem from the possibility of a second wave of infections. This would have negative repercussions on the confidence and the consumption and investment decisions of households and firms, as well as on the performance of financial markets, which are particularly sensitive to the course of the pandemic. It is also possible that if the crisis endures, it will have a more unfavourable impact on global supply chains, with persistent effects on economic activity and world trade, which is also threatened by the risk of protectionist tensions being rekindled between the United States and China.

Crude oil prices rise again

After reaching a minimum level of $19 per barrel in mid-April, oil prices partially recovered, rising to $43 per barrel at the beginning of July (Figure 4). This recovery is mainly due to the agreement reached among OPEC+ countries[1] to reduce production by about 10 per cent and, to a lesser extent, to the gradual recovery in the demand for crude oil, especially in China.

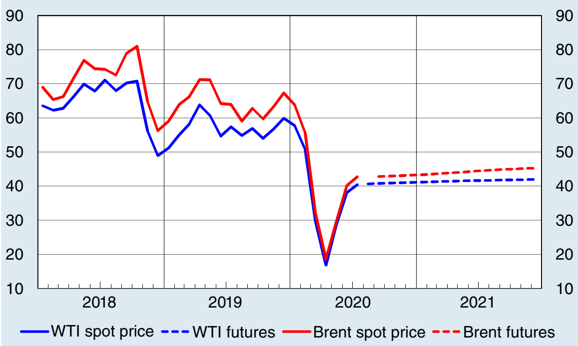
Central banks continue with monetary easing

The main central banks have continued in their actions to support liquidity and loans. Since the outbreak of the pandemic, the Federal Reserve's balance sheet has expanded by $3,000 billion – by almost 70 per cent compared with February – thanks to the various public and private securities purchase programmes. In its June meeting, the Federal Reserve published its macroeconomic projections for the first time since December, predicting a fall in GDP of 6.5 per cent this year (with a recovery of 5.0 per cent in 2021) and that the target range for the federal funds rate will remain unchanged through 2022. It also reiterated that purchases of public sector and private mortgage-backed securities will continue at the current pace at least, at $80 and $40 billion per month respectively.

The Bank of England has increased the amount of new purchases of government and non-financial corporation bonds by a further £100 billion, bringing the stock to £745 billion in July; the

Figure 4

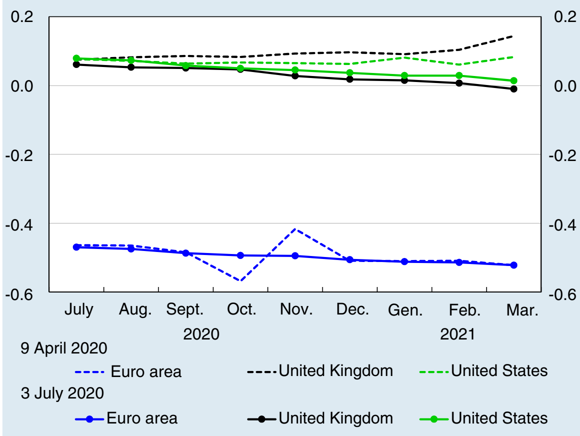
Oil prices (1)
(monthly data; dollars per barrel)



Source: Refinitiv.
(1) For the spot prices, monthly averages up to May 2020; the latest figure is the average of the daily data from 1 to 3 July 2020.

Figure 5

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



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

[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.

prices of futures on the overnight rates in the UK point to expectations that policy rates may fall to negative values (Figure 5).

The Bank of Japan has removed the quantitative limits on public sector securities purchases to strengthen its control over the yield curve; it has also extended the duration of the private sector securities purchase programme and the support programme for funding firms, especially small and medium-sized ones. The People's Bank of China has also announced measures to expand lending to small and medium-sized firms, extending the duration of loans and introducing the possibility of purchasing them from banks. In other emerging countries, including Brazil, India, Russia and South Africa, the central banks have reduced their key interest rates further and expanded their asset purchase programmes.

1.2 THE EURO AREA

The sharp contraction in economic activity in the first quarter appears to have been followed by a more pronounced drop in the second quarter, owing to the very unfavourable developments registered in April. The available indicators point to a partial recovery in May and June. Inflation was barely positive. The ECB's Governing Council strengthened its expansionary monetary policy stance by expanding the size and duration of the purchase programme to counter the effects of the pandemic.

Following very unfavourable developments in economic activity in March ...

In the first quarter of 2020, GDP in the euro area fell by 3.6 per cent, the sharpest quarterly contraction since the inception of the time series in 1995 (Table 3). Thanks to ample recourse to wage supplementation, the impact of the epidemic on the labour market was mainly in terms of a drastic reduction in the number of hours worked (which fell by 3.1 per cent in the first quarter on average in the euro area), while the impact on the number of people in employment was very limited.

... and April, a recovery begins in May and June

The available data suggests that the contraction in economic activity became sharper in the second quarter on average. In April, industrial production fell markedly in all the major economies, decreasing by 17.1 per cent in the euro area on average compared with March (Figure 6). The latest data point to signs of recovery in production in May and June, but these are still incomplete. The purchasing managers' indices (PMI)

Table 3

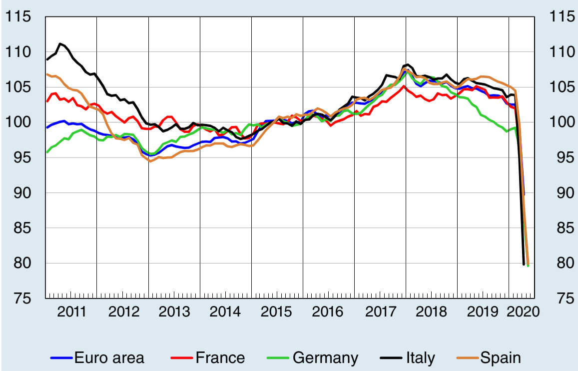
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2019	2019 Q4 (1)	2020 Q1 (1)	2020 June (2)
France	1.5	-0.1	-5.3	(0.1)
Germany	0.6	-0.1	-2.2	(0.8)
Italy	0.3	-0.2	-5.3	(-0.4)
Spain	2.0	0.4	-5.2	(-0.3)
Euro area	1.3	0.1	-3.6	(0.3)

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

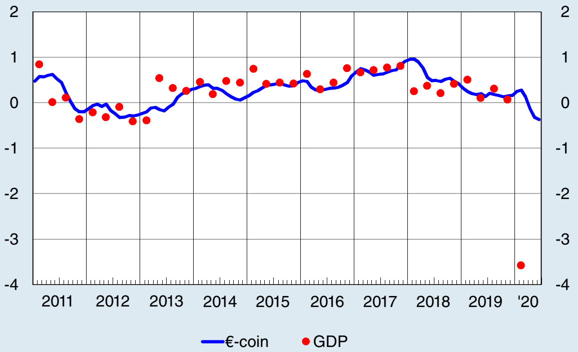


Sources: Based on Eurostat and Istat data.
(1) Data adjusted for seasonal and calendar effects; 3-term moving averages.

Figure 7

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

(monthly and quarterly data; percentage changes)

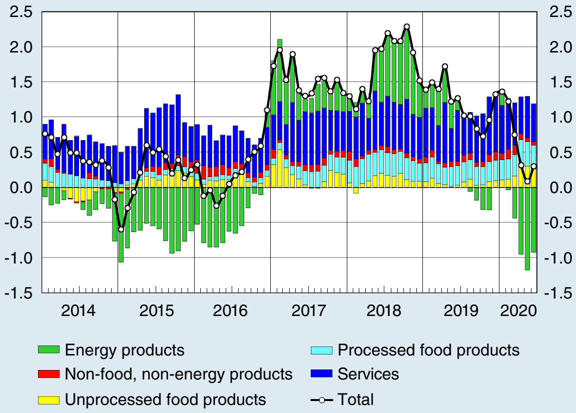


Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July, 2009. Further details are available on the Bank of Italy's website, '€-coin: June 2020'. For GDP, 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.

Figure 8

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). For June, preliminary estimates.

recouped most of the fall recorded in March and April, but remain below the expansion threshold in both manufacturing and services. The business confidence indicators rose somewhat in May in industry excluding construction; in June, the recovery intensified and spread to all sectors. In May, new car registrations recouped almost half of the sharp reduction of the two previous months; household confidence recovered partially in the last two months. The fall in industrial production at the beginning of the quarter affected the Bank of Italy's €-coin indicator, which estimates the underlying GDP trend in the euro area and diminished further in June, despite the recent improvement in the confidence indicators (Figure 7).

According to the Eurosystem staff projections published at the beginning of June, in a baseline scenario, euro-area GDP would fall by 8.7 per cent this year, returning to growth of 5.2 per cent in 2021 and 3.3 per cent in 2022. In a more adverse scenario, the drop in GDP in 2020 would be in the order of 13 per cent and the recovery in the next two years more gradual.

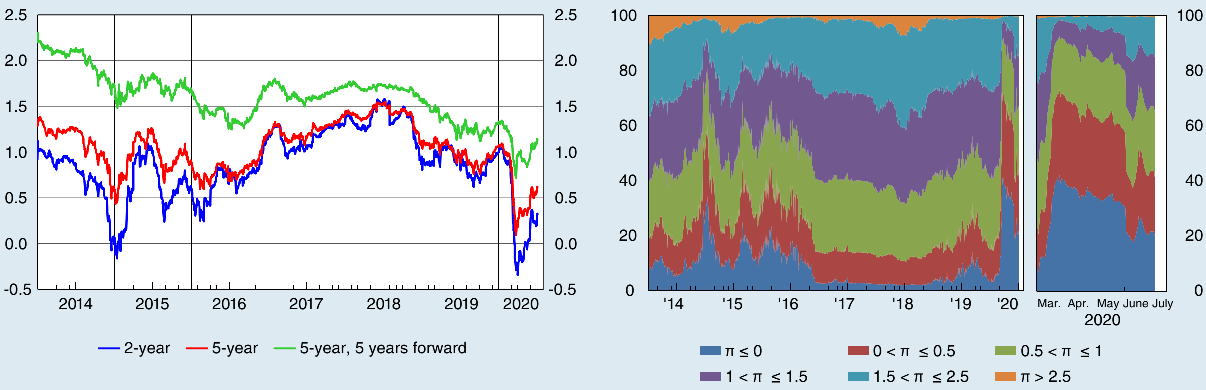
Inflation is only barely positive

Based on preliminary data, twelve-month harmonized consumer price inflation rose slightly in June, to 0.3 per cent, owing to an attenuation in the fall in energy prices (Figure 8). Core inflation declined to 0.8 per cent. According to the Eurosystem staff projections released in early June, the change in consumer prices is expected to be barely positive in 2020 on average (0.3 per cent) and to rise gradually over the next two years, to 0.8 per cent in 2021 and 1.3 per cent in 2022.

The inflation expectations incorporated in the prices of financial assets rose slightly compared with the minimum levels recorded in mid-March, but are still below the levels registered prior to the public health emergency. At the beginning of July, the two-year expectations derived from inflation swap yields were equal to 0.3 per cent (Figure 9.a); five-year, five years forward expectations stood at 1.1 per cent. In the same period, based on the prices of inflation options, the probability of inflation remaining below 0.5 per cent on average over the next five years was about 40 per cent,

Figure 9

Inflation expectations
(daily data; per cent)



Source: 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.

a level that is still high but well below the peak of more than 70 per cent observed at the end of March (Figure 9.b).

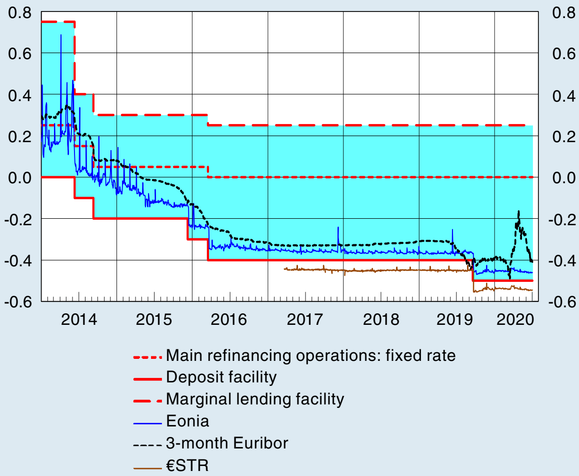
The ECB eases monetary conditions further

The ECB Governing Council has adopted new expansionary measures in several steps (see the box 'The monetary policy measures adopted by the ECB'). In its meeting of 30 April, it improved the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III) and announced new operations.

In its meeting of 4 June, it strengthened the pandemic emergency purchase programme (PEPP), by increasing its endowment to €1,350 billion, and extending its minimum duration. Net asset purchases will continue until the pandemic crisis is over. The Governing Council reiterated that it stands ready to adjust all of its instruments.

Figure 10

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.

Net asset purchases under the expanded asset purchase programme (APP) and the PEPP continued at a swift pace. At the end of June, the book value of the portfolios of private and public sector securities purchased by the Eurosystem under the APP stood at €533 billion and €2,242 billion respectively. Net purchases of Italian public sector securities amounted to €399 billion, of which €359 billion purchased by the Bank of Italy.[2] At the same date, €355 billion worth of private and public sector securities had been purchased under the PEPP. According to the latest data available on the breakdown of PEPP purchases, at the end of May private and public sector securities had been purchased for a book value of €48 billion and €187 billion respectively,[3] €37 billion of which were for Italian public sector securities (of these, €34 billion were purchased by the Bank of Italy).

On 24 June, the fourth auction of the TLTRO III series and the second auction of pandemic emergency longer-term refinancing operations (PELTRO) were settled. Under TLTRO III, €1,308 billion were allocated to 742 counterparties, of which €249 billion to 95 Italian banks; in the second PELTRO auction, a total of €15.6 billion were disbursed, of which €14 billion to 16 Italian banks. On the same day, €371 billion borrowed in the previous series of these operations (TLTRO II) were repaid, of which €132 billion by Italian banks. Furthermore, the liquidity granted with the additional longer-term refinancing operations (LTRO) announced last March was repaid (see the box 'The monetary policy measures adopted by the ECB in March 2020', *Economic Bulletin*, 2, 2020): of the €389 billion repaid by euro-area counterparties, €77 billion were repaid by Italian banks. In June, euro-area banks' net refinancing through the Eurosystem with a maturity of three months or more rose by a total of €564 billion, while for Italian banks, it rose by €53 billion.

The euro short-term rate (€STR) has remained virtually stable in the last three months and stood at -0.55 in the last ten days of June (Figure 10).

THE MONETARY POLICY MEASURES ADOPTED BY THE ECB

At its meeting of 30 April, the ECB Governing Council strengthened the measures to help sustain the flow of credit to households and firms. It eased the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III), reducing the already negative interest rates on the funds from June 2020 to June 2021 by a further 25 basis points.[1] It also announced a new series of seven non-targeted pandemic emergency longer-term refinancing operations (PELTROs) to support liquidity conditions in the euro-area financial system; the operations – which were launched in May and mature in the third quarter of 2021 – are carried out as fixed-rate tender procedures with full allotment, with an interest rate 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.[2] In April, the eligibility criteria and the control measures for the risks applied to assets that can be used as collateral were also relaxed, to enable banks to benefit in full from these loans and to limit the possible procyclical consequences of any downgrades of public and private sector securities by rating agencies.[3]

In its meeting of 4 June, the Governing Council further eased the general monetary policy stance, in response to the deterioration in the medium-term inflation outlook and persistently tighter funding

1 For the details of the changes made to TLTRO III operations, see the ECB, 'ECB recalibrates targeted lending operations to further support real economy', press release of 30 April 2020.

2 For more details of the new PELTRO operations, see the ECB, 'ECB announces new pandemic emergency longer-term refinancing operations', press release of 30 April 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; ECB, 'ECB takes steps to mitigate impact of possible rating downgrades on collateral availability', press release of 22 April 2020.

2 For more information, see the ECB's website, 'Asset Purchase Programmes'.

3 These data are published by the ECB every two months; for more information, see the ECB's website, 'Pandemic Emergency Purchase Programme (PEPP)'.

conditions than those prevailing prior to the outbreak of the epidemic. It decided to increase the envelope for the pandemic emergency purchase programme (PEPP) by €600 billion, to a total of €1,350 billion. It extended its duration by six months, to at least the end of June 2021, and in any event, until such time as the Council judges that the coronavirus crisis phase is over. It announced that the maturing principal payments from securities purchased under the programme will be reinvested until at least the end of 2022 and that the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance.

Market operators had anticipated an easing of monetary conditions, as indicated in the surveys of financial analysts, and this had helped to steady the markets in the weeks leading up to the Council meeting. The measures adopted nonetheless exceeded expectations and had additional effects: following the announcement of the decisions, the yields on ten-year government bonds fell markedly in Greece and Italy (by more than 10 basis points), more moderately in Portugal and Spain (around 5 basis points); the yield spread between Italian and German ten-year bonds narrowed by around 15 basis points. The short- and long-term inflation expectations derived from inflation swap yields rose slightly; bank share prices also rose.

The Governing Council reiterated that in order to guarantee the smooth transmission of monetary policy and to counter the risk of fragmentation within the euro area, purchases under the PEPP will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. In its first two months of operation, ample recourse to flexibility was made under the programme. In response to markedly volatile and illiquid market conditions in a number of market segments between end-March and early April, the volume of securities purchases was very high; at the end of May, these amounted to around one third of the initial envelope of €750 billion and at end-June totalled €355 billion. Deviations in the purchases of public sector securities from the distribution based on shares in the ECB's capital key were more marked in those countries where the risks of fragmentation were more acute. In particular, at the end of May, €37.4 billion worth of Italian public sector securities had been purchased under the PEPP.[4] Other categories of securities were also purchased, especially commercial paper, among those hit hardest by the fallout from the pandemic.

The Governing Council reaffirmed its commitment to ensuring that the monetary policy stance is transmitted to all sectors of the economy and all countries in the area. It also reiterated that it continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its symmetrical approach to the achievement of price stability.

[4] Starting in June, the ECB's website hosts a detailed report, updated on a twice-monthly basis, on the private and public sector securities purchases made under the PEPP.

The European institutions intervene

Last April, the European Council approved (a) the establishment of a temporary support scheme to mitigate the unemployment risk connected with the health emergency ('Support to mitigate unemployment risks in an emergency', SURE); (b) the creation of a guarantee fund by the European Investment Bank (EIB) for lending to firms; and (c) an additional precautionary credit line (Pandemic Crisis Support) to the European Stability Mechanism (ESM), to be used to fund the direct and indirect costs incurred by the public sector to counter the pandemic. The total available funding under these measures amounts to €500 billion.

The 'Next Generation EU' instrument is presented

In May, the European Commission presented a proposal to the European Parliament for the creation of a new instrument called 'Next Generation EU', through which the European Union could raise financial resources by borrowing up to €750 billion in the markets, to be used as loans (about €250 billion) and grants (€500 billion) to Member States, especially those hit hardest by the pandemic. According to preliminary estimates by the European Commission's staff,[4] Italy could receive up to €150 billion, around 20 per cent of 'Next Generation EU' funds. The amount of resources that will be available in practice will depend on the capacity to put forward valid reforms and investment projects.

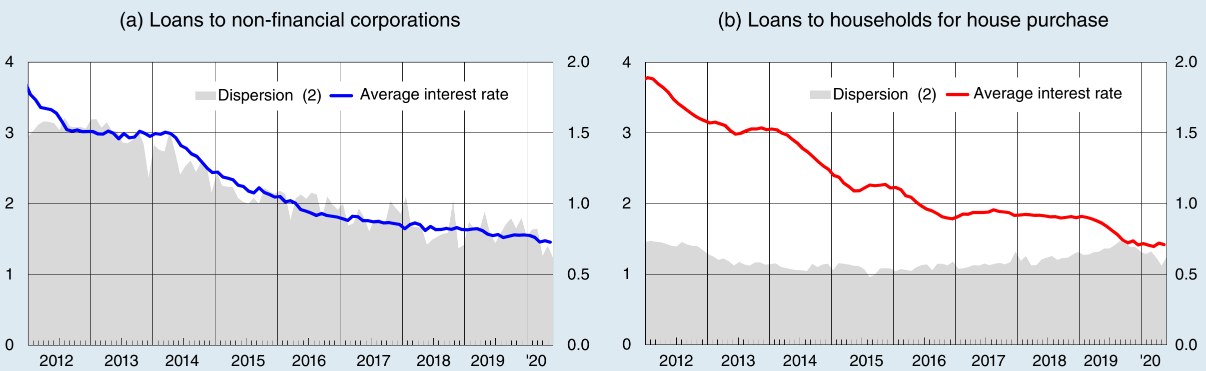
Credit to firms increases

In the three months ending in May, euro-area banks disbursed new loans to firms for a total of €261 billion, against the backdrop of exceptional liquidity needs connected with the health emergency. Lending grew by an annualized quarterly rate of 23.1 per cent in May (up from 1.4 per cent in February, adjusted for seasonal factors and the accounting effect of securitizations). The strong expansion in credit was recorded across all the major euro-area economies.

Loans to households instead slowed in all the major countries, in parallel with the contraction in consumption and in property sales: for the euro area on average, quarterly growth declined to 0.5 per cent in May from 4.3 per cent in February (annualized data, adjusted for seasonal factors and the accounting effect of securitizations). Between February and May, the interest rates applied to new loans to non-financial corporations and households held practically stable at 1.5 and 1.4 per cent respectively (Figure 11).

Figure 11

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

1.3 GLOBAL FINANCIAL MARKETS

The strains in the financial markets caused by the spread of the pandemic partially abated towards the end of March and in the course of the second quarter, thanks to the expansionary measures adopted in the main economic areas and the gradual easing of the restrictions imposed by the pandemic. Nevertheless, the markets remain sensitive to news about the course of the contagion.

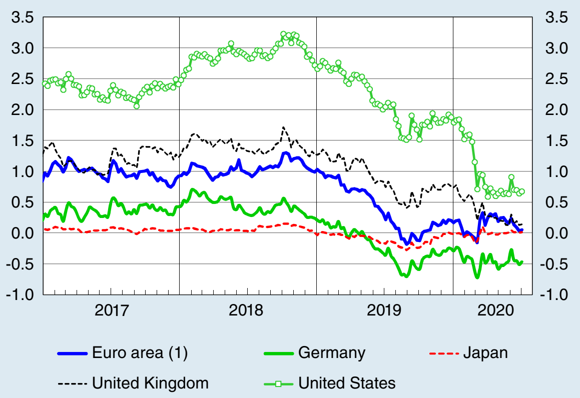
[4] European Commission, 'Identifying Europe's recovery needs', SWD(2020) 98 final, 27 May 2020, working document accompanying the document 'Europe's moment. Repair and prepare for the next generation', COM(2020) 456 final, 27 May 2020.

Long-term yields stabilize ...

Since the start of April, long-term yields have remained basically unchanged in the leading advanced economies (Figure 12). At the beginning of July, the yields of ten-year public sector securities stood at around 0.7 per cent in the United States, 0.0 per cent in Japan, 0.1 per cent in the United Kingdom and -0.5 per cent in Germany. The yield spreads with German ten-year government securities narrowed from 10 April onwards: by 55 basis points in Greece and 39 points in Portugal and, to a lesser extent, in Belgium and Spain (by 22 and 25 basis points respectively). In Italy they narrowed by 25 basis points (Figure 13).

Figure 12

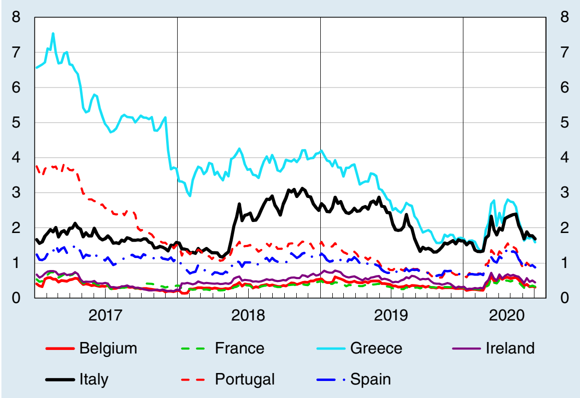
Yields on 10-year government bonds
(end-of-week data; per cent)



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 13

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



Source: Based on Bloomberg data.

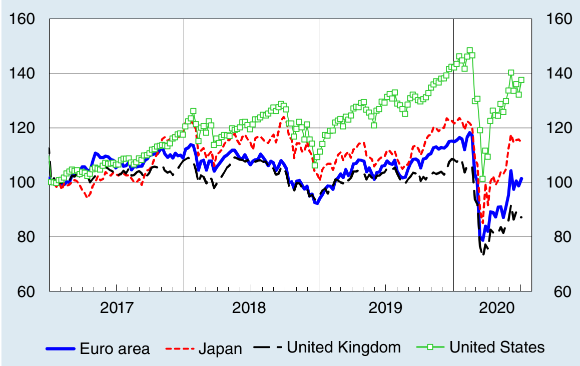
... stock market indices go up again

Since April, share prices have partially recouped the losses suffered in the most acute phase of the pandemic. The reasons for this were investors' higher propensity to risk, encouraged by the strong expansionary measures introduced by the monetary and fiscal authorities, and the progressive easing of restrictions. At the beginning of July, the US stock market indices were slightly below the levels preceding the outbreak of the pandemic (Figure 14; see Section 1.1). However, conditions on the financial markets remain highly sensitive to news about the course of the contagion.

Implied volatility fell significantly in the equity markets and also in the sovereign debt markets, in which it is once again close to the levels recorded prior to the public health emergency (Figure 15).

Figure 14

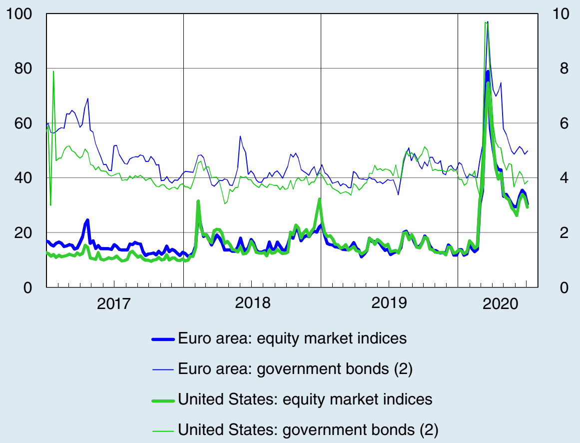
Equity prices (1)
(end-of-week data; indices: 1st week of January 2017=100)



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 15

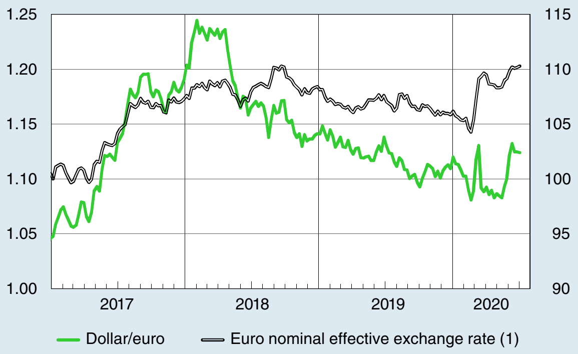
Implied volatility of equity and government bond prices (1)
(average weekly data; percentage points)



Source: Based on Refinitiv data.
(1) Equity 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 16

Exchange rates
(average weekly data; dollar/euro and index)



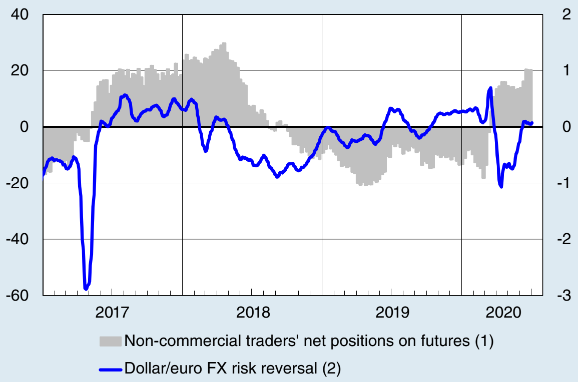
Sources: ECB, Bloomberg and Refinitiv.
(1) An increase in the nominal effective exchange rate indicates an appreciation of the euro. Index: 1st week of January 2017=100. Right-hand scale.

The euro strengthens slightly

The euro exchange rate appreciated against the dollar (1.12) and in nominal effective terms (Figure 16). The prevalence of long positions in euros taken by non-commercial participants in the derivatives markets suggests expectations of an appreciation (Figure 17).

Figure 17

Dollar/euro exchange rates and risk reversal
(daily data; per cent)



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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

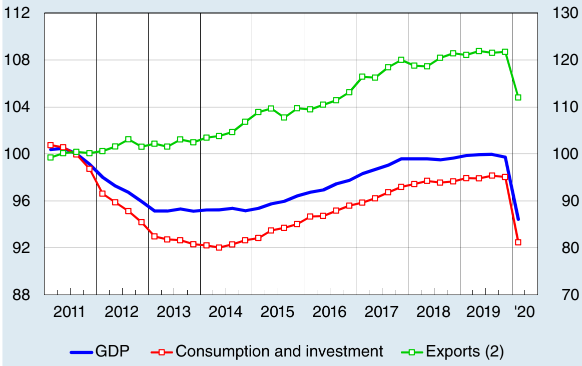
According to the information available, the fall in GDP appears to have been greater in the second quarter, as a whole, when it can be estimated at around 10 per cent. This reflects in particular its highly unfavourable performance in April; production has been showing signs of recovery since May, though still partial and uneven.

GDP falls in the first quarter of 2020 ...

In the first quarter, GDP decreased by 5.3 per cent (Figure 18 and Table 4). The main contributing factor was the shrinking of domestic demand, particularly so as regards household expenditure and gross fixed investment. The contribution of foreign trade was also negative, owing to a greater reduction in exports than in imports. Value added fell in all sectors, especially in

Figure 18

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



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

Table 4

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

	2019			2020	2019
	Q2	Q3	Q4	Q1	
GDP	0.1	0.0	-0.2	-5.3	0.3
Total imports	0.9	1.0	-2.0	-6.2	-0.4
National demand (2)	0.1	0.4	-0.9	-4.7	-0.2
National consumption	0.1	0.2	0.0	-5.1	0.2
Household spending (3)	0.1	0.3	0.0	-6.6	0.4
General government spending	0.1	0.0	0.0	-0.3	-0.4
Gross fixed investment	-0.4	0.2	-0.5	-8.1	1.4
Construction	-1.2	0.9	-0.4	-7.9	2.6
Capital goods (4)	0.3	-0.4	-0.6	-8.3	0.4
Change in stocks (5) (6)	0.1	0.2	-0.8	1.0	-0.6
Total exports	0.7	-0.3	0.2	-8.0	1.2
Net exports (6)	0.0	-0.4	0.6	-0.8	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.

industry excluding construction and in construction.

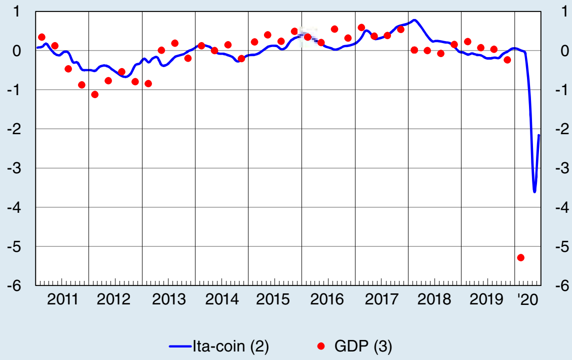
... and, based on our estimates, in the second quarter

The decline in GDP became more marked in the second quarter: based on the available information, it is estimated to have been around 10 per cent. Economic activity reached minimum levels in all the main sectors in April. The latest cyclical indicators, both qualitative and quantitative, show signs of improvement from May onwards, in conjunction with the gradual easing of the measures to suspend production (see the box 'Economic activity in the second quarter of 2020'). The Ita-coin indicator rose in June, but remains extremely low (Figure 19). Despite the signs of recovery emerging from the surveys on the confidence of households and firms, the indicator continues to be affected by the sharp fall in industrial activity and in services at the beginning of the quarter.

Figure 19

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.

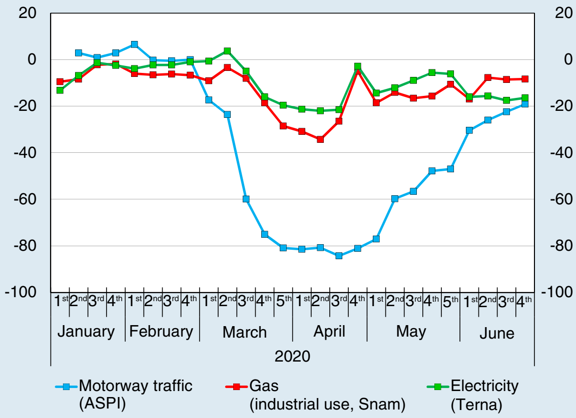
ECONOMIC ACTIVITY IN THE SECOND QUARTER OF 2020

Economic activity in the second quarter was hit hard by the effects of the pandemic. The containment measures adopted by the Government in the Prime Minister's Decree (DPCM) of 22 March 2020 led to the closure of activities deemed 'non-essential' for the entire month of April; these activities account for about one third of total value added. Since the beginning of May, the percentage of suspended activities has gradually declined and was almost completely eliminated in June.

Figure A

High-frequency cyclical indicators (1)

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



Sources: Based on ASPI, Snam and Terna data.
(1) Weekly data: percentage changes compared with the same week of 2019. The changes in the week of 20 April reflect the impact of Easter being on 21 April last year.

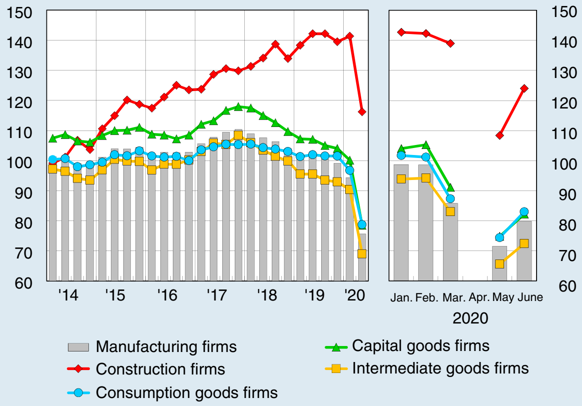
The Bank of Italy's models indicate that in the second quarter the contraction of GDP was more pronounced on average than in the previous quarter; according to the data available now, it can be estimated at around 10 per cent.

Industrial production recorded a sharp decline in April (-19.1 per cent). Based on the latest indicators for electricity consumption, gas supplies to the industrial sector, and motorway traffic (Figure A), it can be estimated that in May and June manufacturing activity increased by just under 40 per cent cumulatively compared with April, although this is still one fourth lower than pre-epidemic levels.

Figure B

Business confidence indices (1)

(monthly and quarterly data; indices: 2010=100)

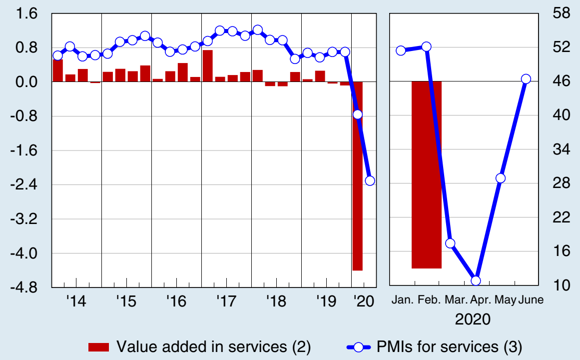


Source: Based on Istat data.
(1) Left-hand panel, average level in the reference quarter. The average for the second quarter of 2020 is measured on the basis of the May and June values since the April data are not available (the survey was suspended in light of the public health emergency).

Figure C

PMIs and value added in services (1)

(quarterly data; diffusion indices and percentage changes)



Sources: Based on Istat and Markit data.
(1) For the PMIs, in the left-hand panel, average level in the reference quarter. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) The data for value added in the second quarter of 2020 are not yet available. – (3) Right-hand scale.

According to the results of the Bank of Italy's survey in June, about 90 per cent of firms judged that the general economic situation had worsened (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, to be published on 13 July 2020). However, signs of an upturn were seen in May, as suggested by Istat's business confidence surveys and by the marked rise in the purchasing managers' indices (PMIs) in the manufacturing sector (Figure B and Figure 20.b).

Value added in services also appears to have declined more markedly in the second quarter. This assessment takes account of the very low level of this sector's PMIs on average in the quarter (Figure C), despite the recovery in May and June. It also considers the trend of Confcommercio's consumption indicator, which in May signalled a drop in spending, in particular on hotel, mobility and personal care services.

Value added in construction appears to have fallen, in line with the contraction in output in April and alongside the decline in confidence on the part of firms operating in this sector.

2.2 FIRMS

Industrial production declined in April by 19.1 per cent: according to our estimates, it began to recover in May and June, rising by around 40 per cent compared with April.[1] Firms believe that the drop in demand will ease in the coming months; investment will continue to decline in the second half of the year, albeit to a lesser extent than in the first six months.

Industrial production falls in April and appears to recover in May and June

After declining in the first quarter (-8.4 per cent), industrial production registered another sharp fall in April (-19.1 per cent compared with the previous month), reflecting the lockdown of 'non-essential' activity. According to our estimates, with the gradual easing of the lockdown, industrial activity began to grow again in May and

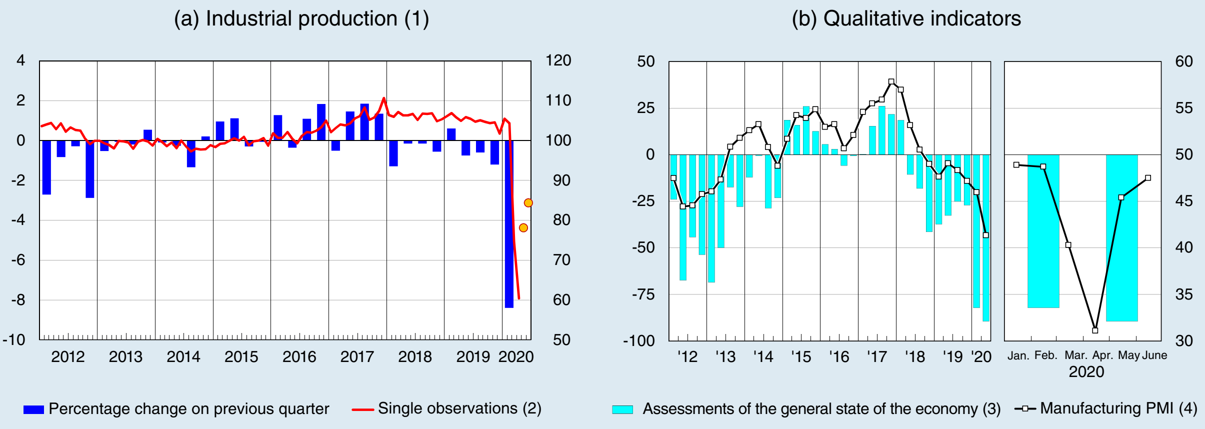
[1] Istat will publish its industrial production data on 10 July, after this Economic Bulletin goes to print.

June, (by a total of around 40 per cent compared with April), but still almost 25 per cent below the levels prior to the spread of the epidemic (Figure 20.a; see the box 'Economic activity in the second quarter of 2020').

Figure 20

Industrial production and qualitative indicators

(monthly and quarterly data)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data seasonally and calendar adjusted. – (2) Monthly data. Index: 2015=100. The dots represent the estimates for May and June 2020. Right-hand scale. – (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, to be published on 13 July 2020). – (4) Average quarterly data (left-hand panel) and monthly data (right-hand panel). Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. Right-hand scale.

Firms plan to cut investment

In the survey conducted in June by the Bank of Italy, the assessments of the current general state of the economy are unfavourable for the second quarter as well. Firms' assessments of demand for their own products over the next three months again point to a drop, although to a much lesser extent than indicated in the previous survey for the spring months (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). In May and June, the purchasing managers' indices (PMIs) recouped most of the fall recorded in March and April, particularly in manufacturing (Figure 20.b), but remain below the expansion threshold. Among the firms interviewed in June for the Bank of Italy's survey, most, but fewer than in the March survey, expect to cut their investment significantly in the next six months.

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

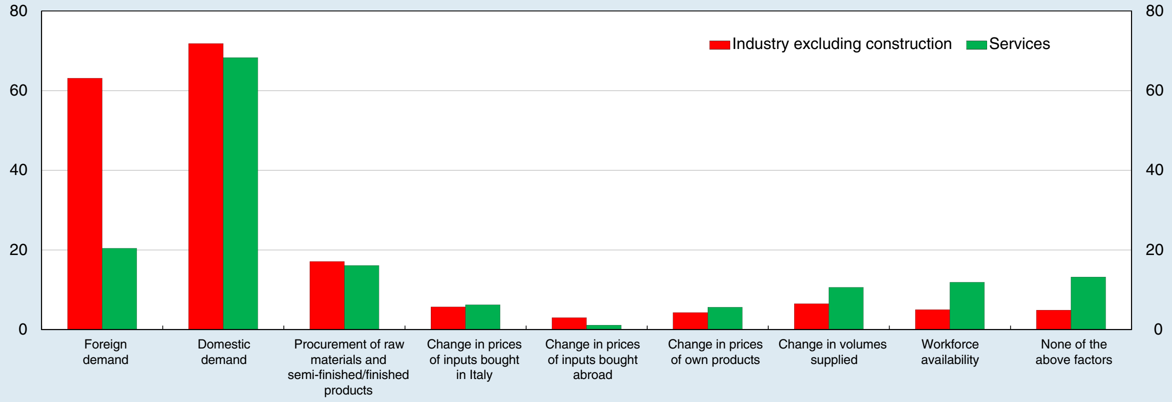
Between 25 May and 17 June, the Bank of Italy conducted its quarterly survey on a sample of about 1,200 industrial, service and construction firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, to be published 13 July 2020). The survey contains specific questions on the main channels through which the COVID-19 epidemic is affecting business activities.

The assessments of the general state of the economy in the second quarter of 2020 deteriorated compared with the March survey as a result of the pandemic having spread even wider at the time the interviews were conducted. The expectations for the next three months continue to be highly unfavourable as regards their own operating conditions, but have improved as to the trend in demand.

Figure A

Channels of transmission of the COVID-19 epidemic to business activities (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 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, to be published on 13 July 2020), to indicate 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 indicated a given channel. The responses are weighted by the number of firms.

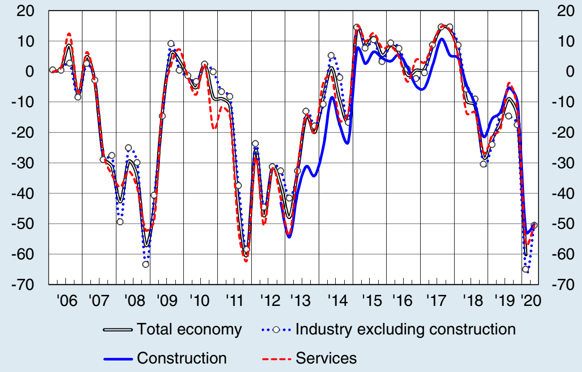
Most firms interviewed report that the effects of the epidemic are being transmitted mainly through the decrease in demand, both domestic and foreign. For around one fifth of the firms, the obstacles to the procurement of raw materials are an important channel; a minority, mainly in the service sector, also points out lower workforce availability (Figure A).

More than half of firms expect demand to drop for the next three months in the June survey too, but the negative balance between those that expect a reduction and those an increase fell sharply compared with the previous survey, from -46.4 per cent to -4.8 per cent. On average, firms in services

Figure B

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

(quarterly data; percentage points)

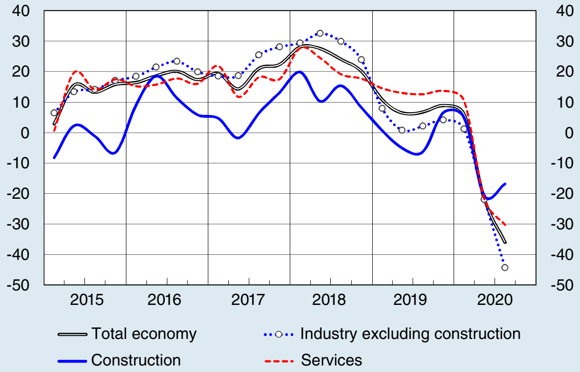


(1) Balance between expectations of an improvement and of a deterioration by comparison with the previous quarter, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 July 2020). Construction firms are included in the total economy from Q1 2013.

Figure C

Firms' expectations of investment trends by reference year (1)

(quarterly data; percentage points)



(1) Balance between expectations of an improvement and of a deterioration by comparison with the previous quarter, as reported in the quarterly survey conducted by the Bank of Italy on a sample of firms with 50 or more employees (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 July 2020). The initial indications of the expectations for the reference year are surveyed in the fourth quarter of the preceding year.

and industry excluding construction estimate that their business will return to pre-crisis levels in about nine to ten months. Just over one fifth believe that they have already equalled or exceeded a turnover comparable to that preceding the pandemic, and 3 per cent say that they will not return to such production levels. In the construction sector, the time needed for a full recovery is estimated to be eight months on average, while around 30 per cent of firms report that they have already returned to production levels equal to or above those prior to the epidemic.

As regards investment conditions, the balance between the opinions indicating an improvement and those indicating a deterioration remains negative, although it has improved slightly since the last survey (Figure B). Among the firms interviewed, most expect to reduce investment in the second half of the year, although the percentage is lower than that reported in the March survey for the first half.

Compared with the last survey, there was an increase in the negative balance between the number of firms that plan to increase investment expenditure in 2020 compared with 2019 and those that plan to decrease it; the deterioration reflects that in the assessments of service firms and especially in those for industry excluding construction, while the assessment of the construction sector improved slightly (Figure C).

The real estate market is also affected by the epidemic

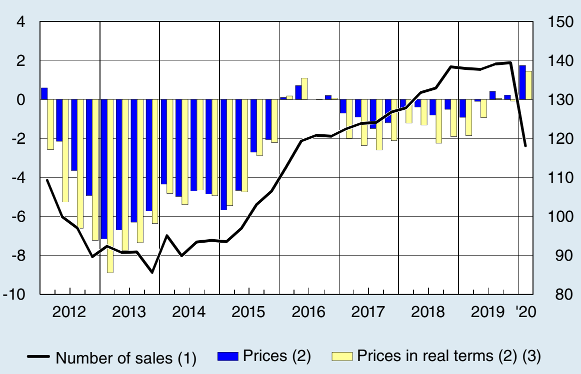
Activity in the construction sector came to a near standstill in March and April because of the measures taken to contain the epidemic, which only permitted public works projects to be carried out. Overall in the first quarter, investment in construction fell by 7.9 per cent. In April, production in the sector dropped by over 50 per cent compared with the preceding month.

The real estate market also felt the impact of the restrictions on mobility and of the uncertainty. In the first quarter, the volume of sales fell by 15.3 per cent quarter on quarter (Figure 21); home prices, a large portion of which were probably agreed before the spread of the epidemic, instead rose. According to our calculations based on data regarding notices of houses for sale published on a digital platform (Immobiliare.it), the number of houses offered for sale, which had plunged to its lowest levels in March and April, began to recover in May. This information as a whole points to a drop

Figure 21

House prices and sales

(quarterly data; indices: 2015=100)

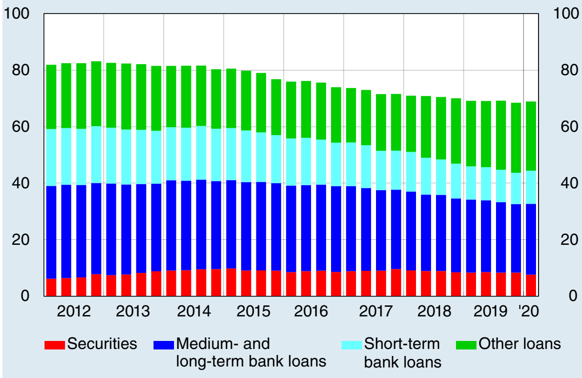


Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Adjusted for seasonal and calendar effects. Right-hand scale. – (2) Year-on-year percentage change. – (3) House prices deflated by the consumer price index.

Figure 22

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.

in sales, also in the second quarter on average. Around two thirds of the estate agents interviewed for the Italian Housing Market Survey, conducted by the Bank of Italy in May and June, expect the COVID-19 epidemic to affect home prices negatively, a situation that could extend beyond this year.

Firms' debt remains stable

In the first quarter of 2020, total corporate debt remained practically unchanged and was equal to 68.9 per cent of GDP (Figure 22), a level much lower than the euro-area average (109.7 per cent).

2.3 HOUSEHOLDS

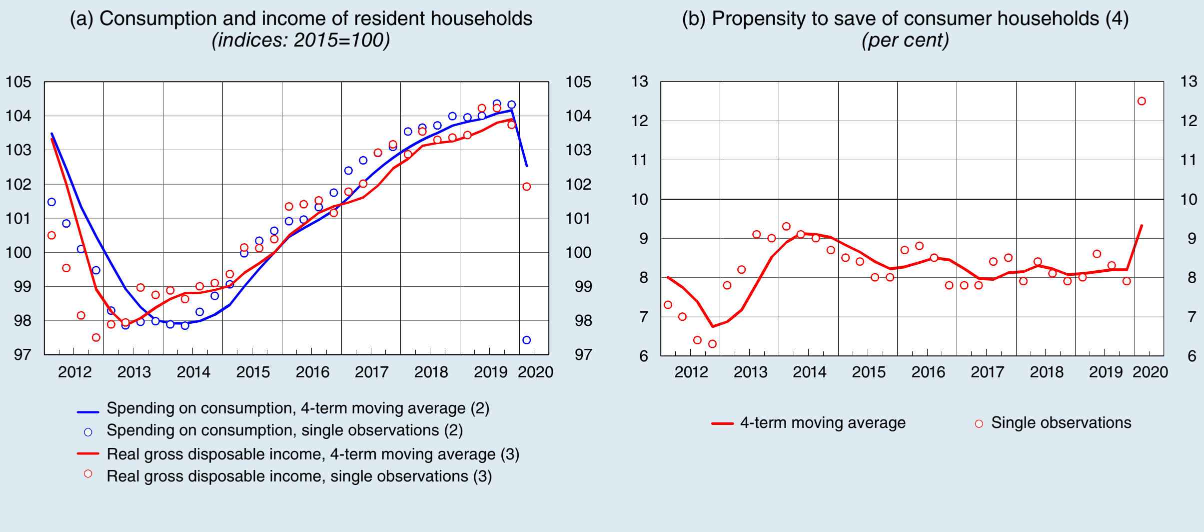
It is estimated that household spending, which fell sharply in the first quarter owing to the measures taken to contain the epidemic, continued to decline in April, but then regained some ground in May. The most recent surveys suggest that the contraction in disposable income, the uncertainty and the consequent increase in precautionary saving could dampen consumption for the rest of the year.

Consumption falls in the first quarter ...

Spending by resident households in the first quarter fell by 6.6 per cent compared with the previous quarter. The decrease was more pronounced for the consumption of semi-durable and durable goods. Households' disposable income in real terms decreased by 1.7 per cent compared with the previous quarter (Figure 23.a), reflecting the decline in employment income (see Section 2.5). The propensity to save rose sharply to around 12.5 per cent (Figure 23.b).

Figure 23

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



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

... and continues to decrease in the second

The latest cyclical indicators suggest that consumption also declined in the second quarter, especially for some types of services and durable goods: new car registrations, after falling to almost nil in April, recovered partially in May, rising to about half of what they were before the health emergency. According to Confcommercio's consumption indicator, household spending in March and April was almost half of that in February, with a particularly sharp reduction for services. The indicator rose in May, but was still about 30 per cent below the level observed prior to the outbreak of the pandemic.

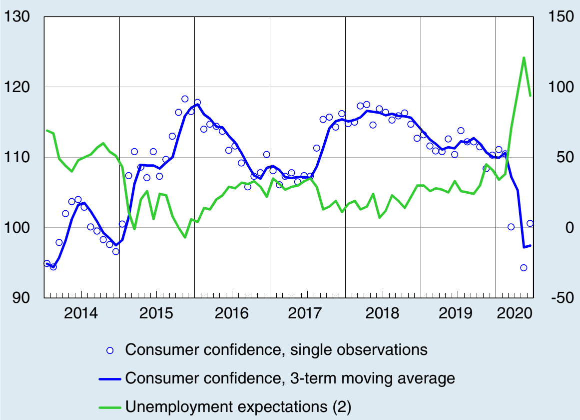
According to the surveys, the effects of the health emergency also weigh on spending decisions for the rest of the year

Half of the households interviewed in a special survey conducted by the Bank of Italy between the end of April and the start of May expect their personal financial situations to deteriorate over the next twelve months and intend to review their consumption patterns, cutting spending on tourism and recreational activities.[2] The lowest-income households, hit most severely by the emergency, report difficulties in making instalment payments on existing debt and fears of needing to dip into their savings to meet current expenditure. The consumer confidence indicator began to fall in March; it turned around in June, especially in the forward-looking components, but is still below the levels reported prior to the spread of the epidemic (Figure 24).

In the first quarter, household indebtedness as a percentage of disposable income remained unchanged at 61.9 per cent (Figure 25), well below the euro-area average (95 per cent). As a share of GDP, it amounted to 41.6 per cent. Debt servicing costs (interest plus repayment of principal) remained stable.

Figure 24

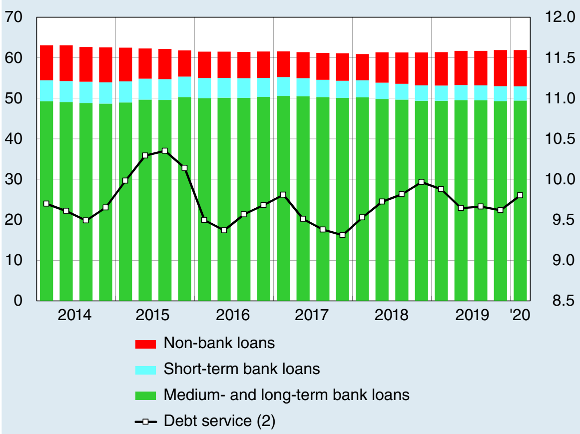
Consumer confidence (1)
(monthly data; indices: 2010=100 and percentage points)



Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of data for April, the moving average for April and May 2020 is constructed on the basis of the only two observations available. – (2) Balance between the percentage points of replies indicating 'an increase' and those indicating 'a decrease'. A rise in the balance signals a deterioration in the expectations regarding the unemployment rate. Right-hand scale.

Figure 25

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



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and 4-quarter cumulative flows. The data for the last quarter are provisional. Debt includes securitized loans. – (2) Estimated cost of debt service (interest plus repayment of principal) for consumer households only. Right-hand scale.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Italy's trade in goods and services was hit hard by the epidemic, especially as regards the tourism sector. Sales in non-EU markets show signs of a partial recovery in May. However, in the first four months of

[2] See the box: 'Italian households' assessments and expectations during the current public health emergency', Chapter 5, *Annual Report for 2019*, 2020).

the year, the current account surplus decreased only slightly compared with the same period in 2019, mainly because of the worsening of the deficit in services.

Trade in goods and services fall sharply in the first quarter

In the first quarter of 2020, the volume of exports of goods and services fell by 8.0 per cent quarter on quarter (Table 5). This was due both to the suspension of non-essential activities, which tend to be more export-oriented (see Chapter 6, 'Firms', *Annual Report for 2019*, 2020) and to the drop in foreign demand.

Goods sales declined by 4.7 per cent. The contraction affected all the main outlet markets (apart from the United States) and all sectors except for food and for products from the chemical and pharmaceutical segment. Exports to markets outside the euro area contracted less noticeably thanks to the improvement in export-weighted price competitiveness (Figure 26.a).

Table 5

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

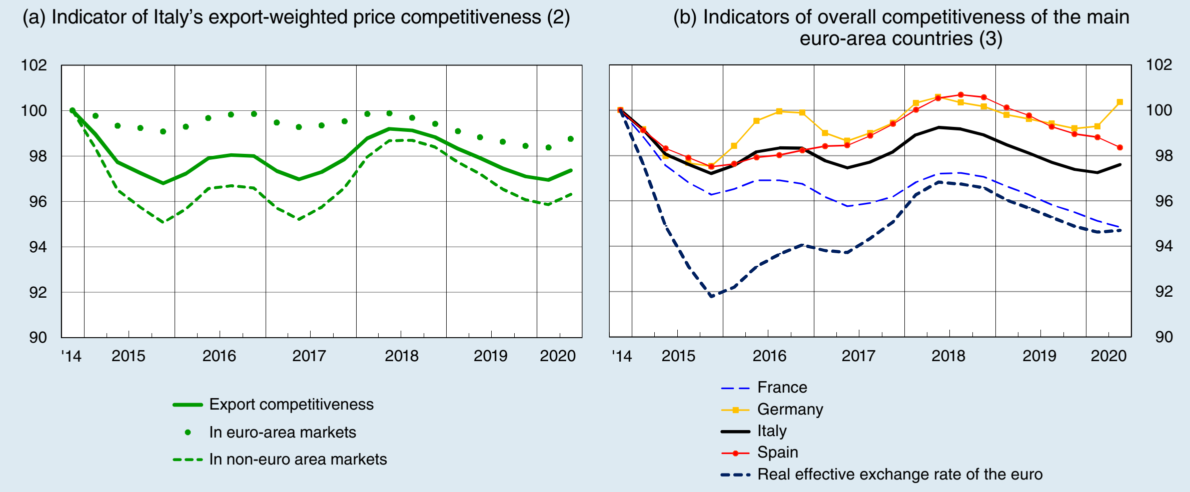
	2019 Q4	2020 Q1
Exports	**0.2**	**-8.0**
Goods	0.1	-4.7
to euro-area markets	-0.1	-5.5
to non-euro area markets	0.2	-4.1
Services	0.6	-21.8
Imports	**-2.0**	**-6.2**
Goods	-3.0	-4.4
from euro-area markets	..	-6.7
from non-euro area markets	-5.3	-2.5
Services	1.7	-12.6

Source: Based on Istat's national accounts data.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects.

Exports of services fell much more markedly (-21.8 per cent), mainly as a result of lower demand for tourism services. International tourism earnings began to fall at the end of February; in March, measured at current

Figure 26

Price competitiveness of the largest euro-area countries and the real effective exchange rate of the euro (1)
(index numbers: Q4 2014=100; 4-quarter moving average)



Source: for the real effective exchange rate of the euro, ECB.
(1) Based on the producer prices of manufactures. An increase signals a loss of competitiveness. Some of the data for the last quarter have been estimated. – (2) This measures the capacity of a country to compete with another 60 exporters and with domestic producers in the international outlet markets. It is decomposed into two separate indicators (euro-area markets and non-euro area markets); for further details on the decomposition, see A. Felettigh and C. Giordano, 'A novel three-market view of price competitiveness', *Journal of Economic and Social Measurement*, 44, 2-3, 2019, 89-116, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 447, 2018. – (3) These represent a weighted average of import competitiveness, which measures the capacity of a country to compete in its domestic market with imported goods, and of export competitiveness; for the methodology, see A. Felettigh, C. Giordano, G. Oddo and V. Romano, 'New indicators to assess price-competitiveness developments in the four largest euro-area countries and in their main trading partners', *Journal of Economic and Social Measurement*, 41, 3, 2016, 203-235, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 280, 2015.

prices, they recorded one fifth of the earnings in the same month in 2019. The size of tourism flows in the second half of this year will depend on the degree of uncertainty surrounding the epidemiological outlook. The gradual removal of travel restrictions within the EU since May, and on arrivals from some non-EU countries from July, coupled with the steady improvement in the public health situation, could facilitate a partial recovery in the summer months (see the box 'The importance of international tourism for EU countries and future prospects', Survey on International Tourism, Banca d'Italia, Statistics Series, 5 June 2020).

Imports of goods and services declined by 6.2 per cent in volume terms, in particular imports of transport equipment.

On average, for the twelve months ending in the second quarter, overall price competitiveness appears to have deteriorated slightly (Figure 26.b).

Exports show signs of a partial improvement in May

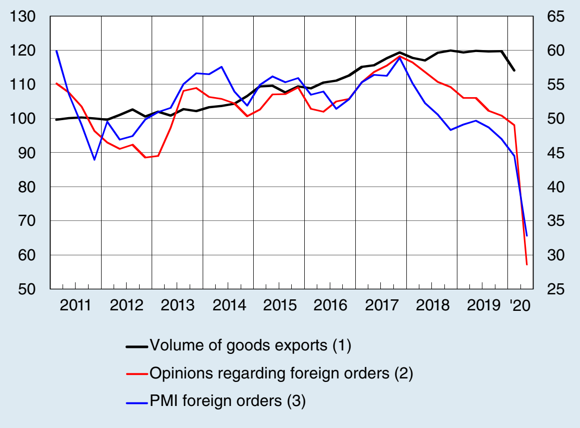
After the sharp fall recorded in April, exports to non-EU markets, valued at current prices and seasonally adjusted, rose by 37.6 per cent in May compared with the previous month. Nevertheless, they remain one third lower than the levels observed prior to the spread of the epidemic. On average in the second quarter, manufacturing firms' assessments of foreign orders were at their lowest level since the time series began (Figure 27).

The current account surplus remains large

The current account surplus was €5.5 billion in the first four months of 2020 (Table 6), lower by €1.7 billion compared with the same period a year earlier. The fall reflected the deterioration of the services and primary income balances, whereas the merchandise trade surplus increased slightly, benefiting from the marked reduction in oil prices (see Section 1.1). The current account balance stood at 3.1 per cent of GDP, calculated

Figure 27

Manufacturing firms' assessments of foreign orders
(quarterly data)



Sources: Istat, Markit and Refinitiv.
(1) National accounts data. Chain-linked volumes; the data are adjusted for seasonal and calendar effects. Indices: 2011=100. – (2) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' and 'decreasing' number of orders, minus the average, plus 100. Q2 2020 is the average of May and June because the April data was not recorded due to the pandemic emergency. Seasonally adjusted data. – (3) Diffusion indices, quarterly averages. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. Seasonally adjusted data. Right-hand scale.

Table 6

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

	2018	2019	Jan.-Apr. 2019	Jan.-Apr. 2020
Current account	**44.0**	**52.9**	**7.3**	**5.5**
Memorandum item: % of GDP	2.5	3.0	–	–
Goods	45.4	56.9	12.9	13.3
Non-energy products (2)	85.0	93.0	25.8	22.0
Energy products (2)	-39.5	-36.1	-12.9	-8.6
Services	-2.7	-1.8	-3.7	-5.5
Primary income	18.8	14.9	5.8	4.3
Secondary income	-17.5	-17.0	-7.8	-6.6
Capital account	**-0.6**	**-1.9**	**-0.5**	**-1.0**
Financial account	**30.4**	**46.1**	**7.5**	**-2.6**
Direct investment	-0.2	-1.5	-0.5	-1.2
Portfolio investment	119.9	-50.6	-38.0	62.9
Financial derivatives	-2.7	2.5	0.7	-2.2
Other investment (3)	-89.3	92.4	43.7	-62.7
Change in official reserves	2.6	3.2	1.6	0.5
Errors and omissions	**-13.0**	**-4.9**	**0.7**	**-7.2**

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

based on the average for the four quarters ending in March (Figure 28).

Foreign demand for Italian securities resumes in June

In the first four months of this year, foreign investors made net sales of Italian securities totalling €56.6 billion (of which €39.1 billion were public sector securities), mainly concentrated in March and coinciding with the tensions in global financial markets. According to data from Emerging Portfolio Fund Research (EPFR) in relation to a sample of international investment funds, in June foreign investors' appetite for Italian securities returned, encouraged by the strengthening of the ECB's asset purchase programme (see Section 1.2) and by the European Commission's proposal for the *Next Generation EU* instrument.

Between January and April 2020, residents' net purchases of foreign portfolio securities totalled €6.4 billion, mainly debt securities. Italian banks' net funding in the form of loans and deposits on the international market fell by €18.9 billion in the same period, as banks made greater recourse to the Eurosystem's refinancing operations (see Section 2.7).

The Bank of Italy's negative balance on the TARGET2 European payment system increased significantly in March, at a time of turbulence on the global financial markets and massive injections of liquidity on the part of the Eurosystem. From the perspective of the balance of payments, the expansion reflected the sale of Italian securities by non-resident investors and lower recourse by Italian banks to foreign credit (Figure 29 and Table 7). Between April and June, the negative balance increased to a lesser extent, reaching €537 billion at the end of the first half of the year.

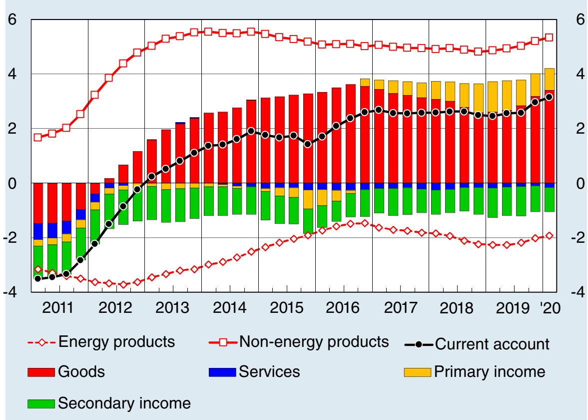
Italy's net international investment position stays close to balance

At the end of March of this year, Italy's net international investment position was negative by €65.2 billion, or 3.7 per cent of GDP (compared with 1.7 per cent in December 2019). The increase in net liabilities reflects negative valuation adjustments, mainly linked to the sharp fall in equity prices in March. The market value of assets fell during the quarter by more than the value of liabilities, which comprise a larger share of bonds. In subsequent months, international

Figure 28

Current account balance and its main components (1)

(quarterly data; per cent of GDP)

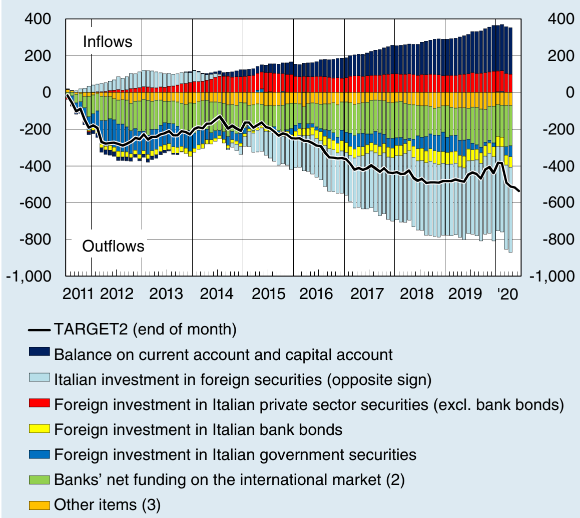


Sources: Istat (for GDP); for the breakdown between energy and non-energy products, based on Istat foreign trade data.
(1) 4-term moving averages.

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

Table 7

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

	TARGET2 balance (end of period)	Change in TARGET2 balance (compared with the end of the previous period) (A) + (B) + (C) + (D) + (E) + (F) – (G)	Foreign portfolio investment in Italian public sector securities (A)	Foreign portfolio investment in Italian private sector securities (excl. bank bonds) (B)	Foreign portfolio investment in Italian bank bonds (C)	Net foreign funding of resident banks (D)	*of which:* handled by resident central counterparties	Current account and capital account balance (E)	Other items (2) (F)	Italian portfolio investment in foreign securities (G)
2018	-482	-43	-51	-11	-12	53	43	43	-19	46
2019 – Q1	-475	7	17	1	..	-5	-18	4	-12	-2
Q2	-448	27	34	9	..	-20	-3	12	-1	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	-25	-12	..	-24	15	6	4	1
Q2	-537	-45	....	....	....	....	....	....	....	....
2020 – Jan.	-383	56	25	-2	..	26	21	-2	9	1
Feb.	-385	-1	2	..	2	..	-1	4	-5	5
Mar.	-492	-107	-52	-10	-3	-50	-5	3	..	-5
Apr.	-513	-21	-14	-3	-2	5	2	-1	..	6
May	-517	-4	....	....	....	....	....	....	....	....
June	-537	-19	....	....	....	....	....	....	....	....

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

equity prices started to strengthen (see Section 1.3) and the effect on the net investment position is expected to reverse.

2.5 THE LABOUR MARKET

As a result of the health emergency, hours worked contracted in the first quarter; the number of persons in employment also fell, but much less so thanks to the extensive use of social safety nets. Some signs that the decline was slowing emerged at the end of May.

Wage supplementation softens impact of crisis on employment

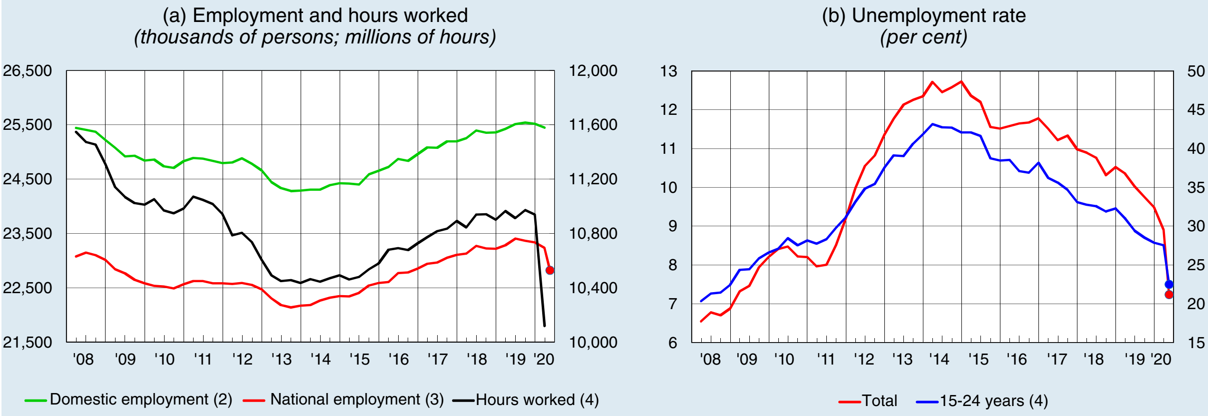
Due to the health emergency, there was a marked reduction in hours worked per capita on average in the first quarter of 2020 and an exceptional increase in the use of the wage supplementation fund (Cassa integrazione guadagni), strengthened considerably by Decree Law 18/2020 and Decree Law 34/2020. In the three months from March to May, the hours of short-time work schemes support authorized amounted to 1,746 million (from 63.4 million in the three preceding months).

Fixed-term positions are particularly hard-hit

Large-scale use of wage supplementation, along with a freeze on terminations, mitigated the impact of the crisis on the number of persons in employment (Figure 30.a and Table 8). The administrative data from the mandatory reporting on employment provided by the National Agency for Active Labour Policies (Agenzia nazionale per le politiche attive del lavoro – ANPAL) show that from 23 February, the day before the first measures were taken to contain infection, to the end of April, there were approximately 500,000 fewer jobs than during the same period of 2019, mainly due to the lack of hiring with new fixed-term contracts. In May, with the gradual reopening of production activities, this gap ceased to

Figure 30

Employment and unemployment (1)
(quarterly data)



Sources: Istat's quarterly national accounts for employment and hours worked; Istat's labour force survey for employment and for the unemployment rate.
(1) Seasonally adjusted data. The dot indicates the average value for April and May. – (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.

Table 8

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

	Stocks	Changes			
	Q1 2020	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Persons employed	**25,447**	**0.3**	**0.1**	**-0.1**	**-0.3**
of which: industry excl. construction	4,280	0.0	-0.3	-0.1	0.0
private services (1)	11,198	0.5	-0.1	-0.3	-0.7
construction	1,589	0.3	1.1	0.9	0.8
Employees	19,442	0.4	0.1	-0.1	-0.3
Self-employed	6,005	0.0	0.0	-0.2	-0.3
Total hours worked	**10,119**	**-0.5**	**0.5**	**-0.3**	**-7.5**
of which: industry excl. construction	1,690	-0.7	-0.1	-0.7	-8.9
private services (1)	4,602	-0.4	0.4	-0.6	-8.6
construction	657	-1.3	2.1	0.6	-9.9
Employees	7,233	-0.2	0.3	-0.1	-6.1
Self-employed	2,885	-1.2	1.1	-0.8	-10.8

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).

widen;[3] Istat's data also confirm an easing in the decline in employment (to -0.4 per cent in May, compared with -1.3 per cent in April). Early evidence for June, available only for the Veneto region, indicates that this trend is gaining traction.

Labour market participation recovers slightly

In May, labour market participation returned to growth (0.9 per cent compared with -2.9 per cent in April). The surge in Google searches for jobs recorded in

3 'Le dinamiche del mercato del lavoro in maggio: evidenze dalle Regioni', COVID-19 Notes, Banca d'Italia, 24 June 2020.

June and July is likely a sign that it will continue to recover in the summer months. The lower participation on average for April and May was reflected in a significant drop in the unemployment rate, which reached 7.2 per cent (1.4 percentage points below the preceding two months; Figure 30.b).

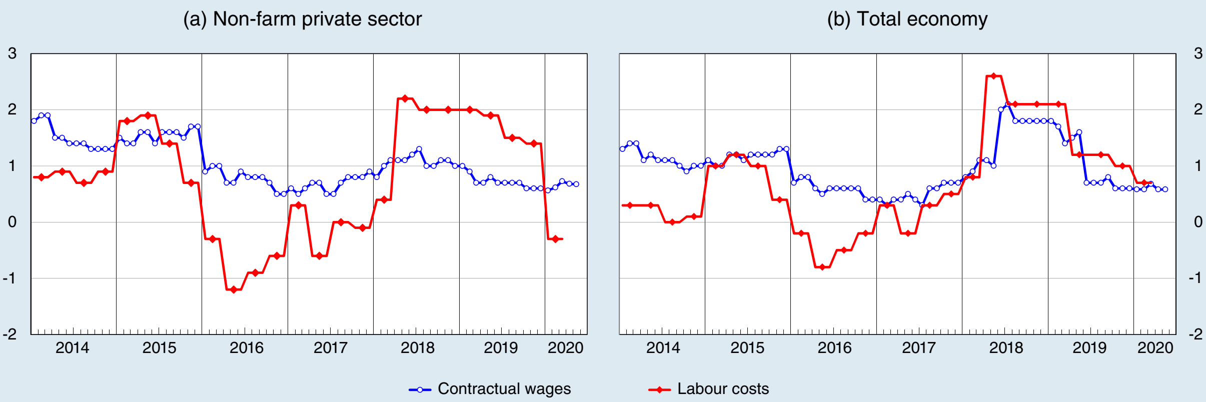
The business confidence surveys conducted by Istat in June point to expectations of a further reduction in employment in the next quarter, although less intense than that indicated in the May survey.

Wage growth remains weak

In the first quarter, labour costs fell by 0.3 per cent in the non-farm private sector compared with a year earlier; it rose by 0.7 per cent for the economy as a whole. The twelve-month growth in contractual wages remained very modest, reaching 0.7 per cent in May for the non-farm private sector and 0.6 per cent for the economy as a whole (Figure 31). Looking ahead, some factors could weaken wage growth. The ongoing uncertainty stemming from the health emergency could be a disincentive to the renewal of numerous expired collective bargaining agreements, affecting around 80 per cent of employees. Contract renewals could also be affected by Istat's downward revision (by more than 1 percentage point) of the inflation expectations for the three years 2020-22, which is used as a benchmark in negotiations.

Figure 31

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



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

2.6 PRICE DEVELOPMENTS

Inflation was negative in May and June, following the sharp decline in energy prices. The core component remains very low. Firms' inflation expectations continue to indicate weak growth in prices over the next twelve months.

The change in consumer prices is negative

The twelve-month change in the harmonized index of consumer prices (HICP) turned negative (Figure 32), reaching -0.4 per cent in June (Table 9). The marked drop in energy prices has impacted inflation developments, but core inflation is also weak: it fell to 0.5 per cent in June, in connection with the decline in domestic demand early in the year. The prices of food products instead went up considerably, reflecting both a greater retail demand owing to increased consumption of meals at home during the months of restrictions on mobility, and the higher costs linked to labour shortages, especially for fruit and vegetables. Again in June, the seasonally adjusted annualized three-month inflation rate went down to -2.3 per cent (Figure 33).

Table 9

Indicators of inflation in Italy

(year-on-year percentage changes)

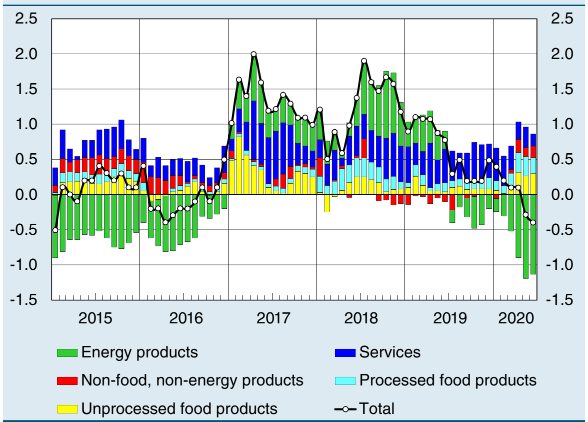
	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index	
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	0.9
2015	0.1	0.7	0.0	0.1	–	0.5	-3.4	0.9
2016	-0.1	0.5	-0.1	-0.1	–	0.5	-2.2	1.1
2017	1.3	0.8	1.3	1.3	–	0.7	2.6	0.7
2018	1.2	0.6	1.2	1.1	–	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	-4.9	–
Apr.	0.1	0.6	0.0	0.0	-0.3	0.5	-6.7	–
May	-0.3	0.6	-0.4	-0.2	-0.1	0.6	-7.2	–
June	(-0.4)	(0.5)	….	(-0.2)	….	(0.5)	….	–

Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally 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.

Figure 32

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

(monthly data; per cent and percentage points)

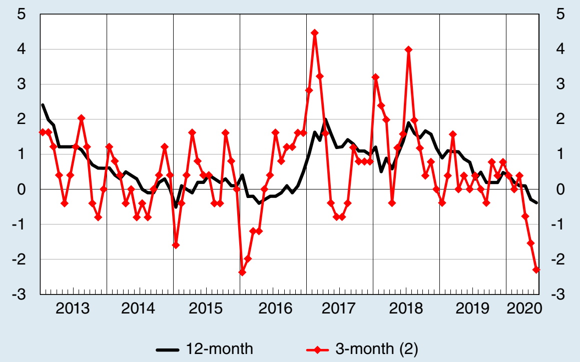


Source: Based on Eurostat data. For June, preliminary estimates.
(1) Twelve-month percentage change in the HICP.

Figure 33

Consumer price inflation (1)

(monthly data; per cent)



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

The emergency affects price measurement

The suspension of Istat's field price collection between mid-March and mid-May, together with some types of consumption being impossible (especially transport, and recreational, catering and accommodation services), have made it difficult to compile the price index. In line with the guidelines indicated by Eurostat, Istat has imputed prices, estimated based on the usual seasonal effects, to the non-surveyed components. This procedure, which cannot take account of the likely fall in demand observed in April and May, might have led to a slight overestimation of inflation for these months. The information content of the HIPC has also been affected by the restrictions that have considerably limited trade in various goods and services.

Producer price pressures decline

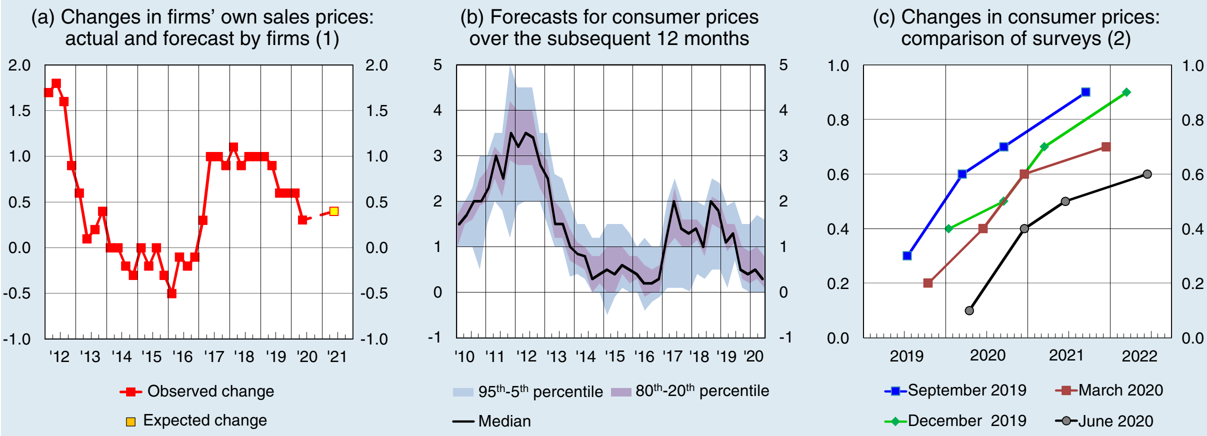
The decline in the producer prices of industrial products sold on the domestic market has steepened (a twelve-month rate of -7.2 per cent in May) owing to the slowdown in the prices of consumer and capital goods and to the marked reduction in the prices of energy goods. In the first quarter, unit labour costs fell by 1.8 per cent compared with the previous year, reflecting a slackening in hourly wages and an increase in productivity. Wage growth is likely to remain extremely weak in the coming months (see Section 2.5).

Firms' inflation expectations are lower

The decrease in oil prices and the fall in domestic demand have influenced the inflation expectations of analysts and firms. The professional forecasters polled in June by Consensus Economics expect the change in prices to be negative on average (-0.1 per cent) in 2020, and to reach 0.6 per cent next year. The firms interviewed in the Bank of Italy's quarterly survey conducted in June have revised their inflation expectations downwards across all time horizons and expect prices to rise by 0.5 per cent over the next twelve months and by 0.6 per cent over the next 24 months (Figure 34). Istat's consumer surveys, conducted in March and May, showed a temporary increase in households' inflation expectations,[4] which probably reflected the price increases observed by consumers in the subset of goods and services that they were able to purchase, particularly food products; this increase largely faded in June. The results of the special survey carried out by the Bank of Italy between the end of

Figure 34

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



Source: Based on the findings of the Bank of Italy's quarterly Survey on Inflation and Growth Expectations. Up to October 2018, the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Robust average of responses to questions on the observed percentage change in firms' own sales prices over the past 12 months and the change expected over the next 12 months. – (2) The 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.

[4] As a result of the operative problems connected with the emergency, Istat suspended its confidence surveys in April.

April and the beginning of May confirm this interpretation (see the box 'Italian households' assessments and expectations during the current public health emergency', Chapter 5 of the *Annual Report for 2019*, 2020).

2.7 BANKS

In the three months ending in May, loans to firms increased significantly, in conjunction with the greater liquidity needs arising from the pandemic. The measures adopted by the ECB and the Government supported the capacity of credit institutions to meet demand for funds. Compared with March, the cost of bond funding on the secondary market declined sharply.

The acceleration in lending reflects firms' greater liquidity needs

From March onwards, growth in loans to non-financial corporations increased markedly, reaching a quarterly rate of 11.5 per cent in May (from -0.3 per cent in February, on a seasonally adjusted and annualized basis; Table 10 and Figure 35.a). The acceleration reflected net disbursements amounting to €23 billion in the three months ending in May. In the same period, lending to producer households accelerated sharply, reflecting net lending of a little over €2 billion concentrated in May. Credit flows, which mainly involved medium- and long-term maturities, reflected the rise in demand associated with greater liquidity needs; intermediaries' ability to meet this demand benefited from the measures adopted by the ECB and the Government (see the box 'Trends in business lending during the pandemic'). By contrast,

Table 10

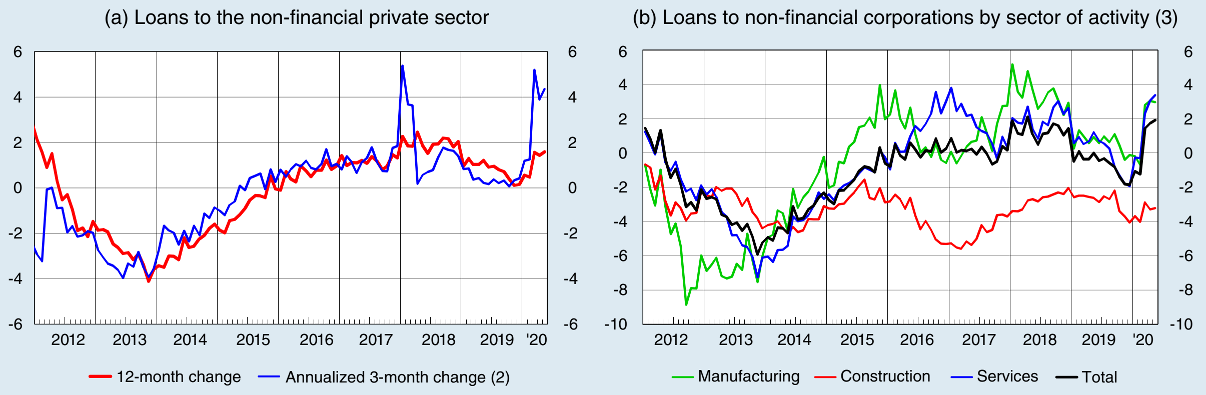
Bank lending as at May 2020 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**1.6**	**4.3**
Households	**1.3**	**-2.5**
of which: loans for house purchase	2.0	….
consumer credit	1.3	….
other loans (3)	-0.4	….
Non-financial corporations	**1.9**	**11.5**
of which: manufacturing	3.0	….
services	3.4	….
construction	-3.2	….

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.

Figure 35

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.

lending to households contracted overall (-2.5 per cent in the three months ending in May, from 3.0 per cent in February); growth weakened in both mortgage loans for house purchase and in consumer loans, reflecting the reduction in household expenditure and fewer property transactions.

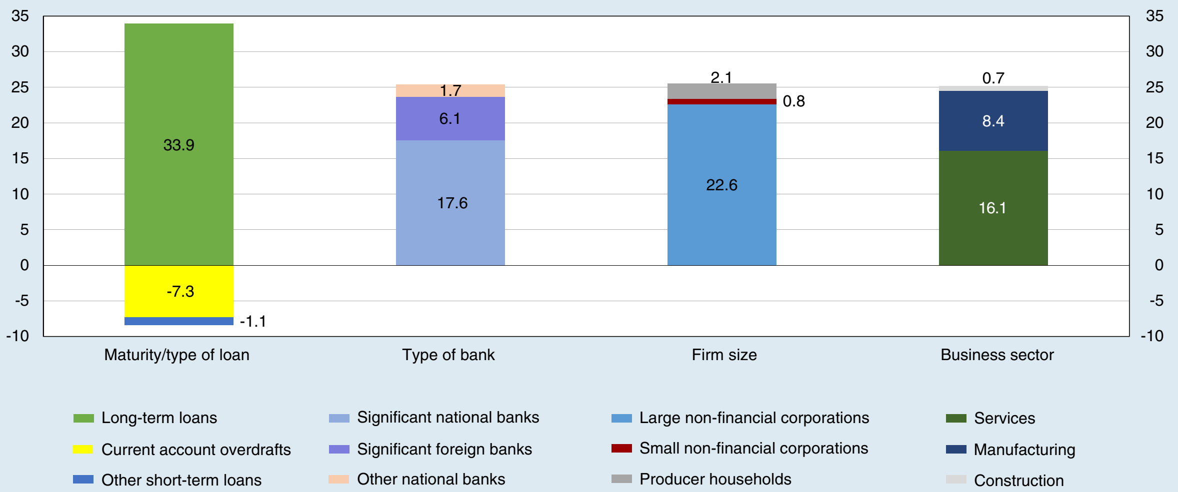
TRENDS IN BUSINESS LENDING DURING THE PANDEMIC

In recent months, Italian firms' liquidity needs have risen strongly as a result of the decline in turnover caused by the health emergency (see the box 'The effects of the pandemic on firms' liquidity needs', in *Financial Stability Report*, 1, 2020). This has prompted a significant increase in demand for loans, the strong expansion of which has been fuelled in part by the extraordinary measures taken by the Government, the ECB and supervisory authorities.[1]

In the three months ending in May, net loans to non-financial corporations and producer households rose by more than €25 billion, most of which was disbursed by national significant banks (see the figure). The increase was concentrated in the segment of loans with maturities beyond one year, which rose by around €34 billion; instead those of current account overdrafts and other short-term loans contracted by €7.3 and €1.1 billion respectively. These trends likely reflect firms' greater preference for longer-term loans that allow them to cope with extended periods of uncertainty; the opportunity to obtain public guarantees may have also contributed.

Figure

Breakdown of lending to firms (1)
(cumulative net flows March-May; billions of euros)



Source: Supervisory reports.
(1) Provisional data; rounding may cause discrepancies in totals.

In March and April, the expansion in credit was almost entirely attributable to medium-sized and large firms; in May, net loans to producer households also rose by €2.1 billion (equivalent to a monthly increase of more than 32 per cent, based on annualized data not adjusted for seasonal effects). This pattern is

[1] For a thorough discussion of the various measures adopted, see *Financial Stability Report* 1, 2020 and *Economic Bulletin*, 2, 2020.

consistent with the gradual resolution of the difficulties encountered during the initial implementation phase of the credit support measures for smaller firms, given that a very high volume of applications was received (see the box 'The financial support measures for firms in response to the pandemic', Chapter 7, *Annual Report for 2019*, 2020).

Credit flows were high for services and manufacturing (€16.1 and €8.4 billion). In May, the 12-month change in the stock of loans reached 3.4 and 3.0 per cent respectively, from -0.3 and -0.7 per cent in February. Lending was instead more limited in the construction sector (just under €1 billion). Additional information drawn from individual reports submitted to the Central Credit Register indicates that among service firms, credit growth was highest in the transport, information and telecommunications sectors; in the manufacturing sector, the increase in lending was most pronounced in the textiles and clothing, electronic equipment, chemical and pharmaceutical sectors.

The flow of credit to the economy continued to benefit, to a growing extent in the most recent period, from liquidity support measures by the Government and other national and international authorities. Among the major initiatives undertaken by the Government is a wide-reaching programme of public guarantees for loans, which allow Italian firms to access lending with State-backed guarantees for banks until 31 December 2020. The increase in the number of applications received by banks for loans backed by the Guarantee Fund for SMEs was extraordinary: in early April, there were just over 8,000; it is estimated that on 26 June they numbered slightly less than 980,000, for a total value of more than €68 billion.[2] The majority of the applications (around 850,000) were for smaller loans fully guaranteed by the State, corresponding to about one fourth of the total value (€16.9 billion). For these applications, the percentage of loans disbursed out of the total of those requested is rising rapidly: on 26 June they amounted to more than 80 per cent, from just under 40 per cent on 15 May. The public guarantee system has been strengthened by having SACE partner in implementing the liquidity support measures, specifically those for larger firms. For loans to these firms as well, recourse to public support has been significant: as at 8 July, SACE had granted guarantees for around €9 billion.

In the coming months, lending will continue to be supported by new monetary policy stimulus (see the box 'The monetary policy measures adopted by the ECB', Chapter 1), by the recent European initiatives to regulate the prudential requirements for banks[3] and by the European supervisory authorities' measures, as a result of the clarifications on the prudential treatment of loans in the event of moratoriums and public guarantees.

2 The data are drawn from the Bank of Italy's weekly survey of a broad sample of banks starting in mid-April, soon after the definition of the regulatory framework for the Government's measures to support households and firms' liquidity, in order to verify its effective utilization. The data are updated weekly on the Bank's site and are described in the press release issued by the task force coordinated by the Ministry for Economy and Finance: 'Task force to oversee the efficient and rapid implementation of the liquidity support measures'; see also: 'The status of the measures concerning public guarantees for loans as provided by Decree Laws 18/2020 and 23/2020', testimony of Paolo Angelini, Director General for Financial Supervision and Regulation, Parliamentary enquiry committee on the banking and financial system, Rome, 11 June 2020) (only in Italian).

3 In particular, these initiatives include moving forward the entry into force of the extension of the treatment in favour of loans to SMEs and the extension of the transitional regime for the recognition of expected loan losses introduced in 2018 upon the adoption of IFRS 9.

Funding remains solid

Italian banks' funding rose between February and May (Table 11), mostly reflecting the strong expansion in liabilities toward the Eurosystem. Residents' deposits increased; several factors are likely to have contributed to the increase in household deposits, including the impossibility of making some consumer purchases owing to the lockdown measures and greater precautionary saving.

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)	
	February 2020	May 2020	February 2020	May 2020
Assets				
Loans to Italian residents (3)	1,665	1,689	-1.9	-0.2
of which: firms (4)	635	657	-1.2	1.9
households (5)	631	629	2.5	1.3
Claims on central counterparties (6)	81	97	-1.1	-0.4
Debt securities excluding bonds of resident MFIs (7)	535	580	-1.4	8.2
of which: securities of Italian general government entities	390	441	-5.4	7.5
Claims on the Eurosystem (8)	125	127	72.0	48.7
External assets (9)	446	466	8.8	12.8
Other assets (10)	917	929	7.7	6.1
Total assets	**3,769**	**3,888**	**3.1**	**5.1**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,626	1,662	6.5	6.4
Deposits of non-residents (9)	341	327	3.6	-2.2
Liabilities towards central counterparties (6)	122	138	-12.1	5.5
Bonds (12)	236	228	-1.6	-5.0
Liabilities towards the Eurosystem (8)	215	291	-11.3	19.8
Liabilities connected with transfers of claims	127	121	8.9	8.0
Capital and reserves	358	355	-4.6	-4.1
Other liabilities (13)	744	765	8.4	8.4
Total liabilities	**3,769**	**3,888**	**3.1**	**5.1**

Source: Supervisory reports.
(1) The data for May 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 and 3.3b in '*Banks and Money: National Data*', Banca d'Italia, Statistics Series. – (9) In the period considered these refer mainly to interbank transactions. – (10) Includes bonds issued by resident MFIs. Loans to resident MFIs; shares and other equity of resident companies; cash; money market fund units; derivatives; movable and immovable goods; and some minor items. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs; resident MFI deposits; derivatives; and some minor items.

In June, Italian banks obtained €249 billion in the fourth auction of the targeted longer-term refinancing operations (TLTRO III) and repaid €132 billion in funds secured through TLTRO II. They also obtained €14 billion in the second auction of the new pandemic emergency longer-term refinancing operations (PELTROs; see the box 'The monetary policy measures adopted by the ECB', Chapter 1) and repaid €77 billion under the additional LTROs, which were launched in March and matured on 24 June. Overall, net refinancing with maturities of over three months of Italian banks through the Eurosystem rose by €53 billion in June.

Table 12

Bank interest rates (1)
(per cent)

	February 2020	May 2020
Loans to firms	**1.3**	**1.1**
of which: up to €1 million	1.9	1.6
over €1 million	0.8	0.9
Loans to households for house purchase	**1.4**	**1.3**
of which: fixed rate (2)	1.4	1.3
variable rate (3)	1.4	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.

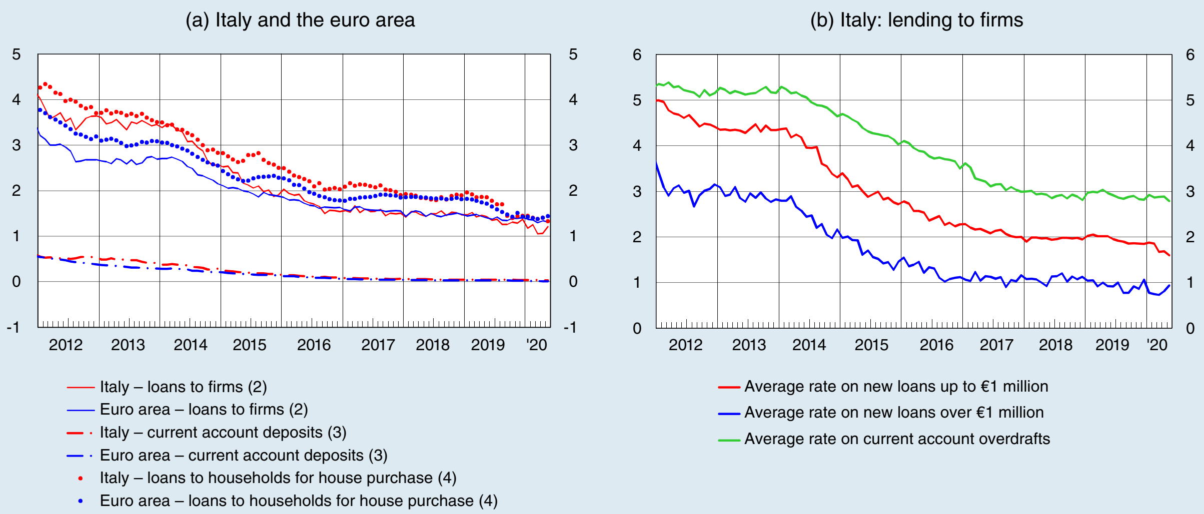
Bank borrowing costs decline

From the last ten days of March onward, bank bond yields on the secondary market decreased progressively: in Italy at the start of July, they stood at 2.0 per cent, still above the levels preceding the outbreak of the pandemic, but markedly lower than the peak of 3.9 per cent registered at the end of March. The yield spread with respect to the euro-area average narrowed by 60 basis points, to below 110 basis points.

Between February and May the average rates on new bank loans to firms came down a little, to 1.1 per cent (Table 12 and Figure 36); the decline involved only loans for under €1 million and was more pronounced for those of up to €250,000. In the same period, the average interest rates on new mortgage loans to households declined a little, to 1.3 per cent.

Figure 36

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



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

Supply conditions remain loose

The results of the euro-area bank lending survey on the first quarter of 2020, which ended on 2 April, incorporate only some of the initial assessments of the impact of the public health emergency (see the box 'Credit supply and demand'). The Italian banks interviewed reported that the terms of lending supply to firms and households remained loose in the first quarter and that they expected demand for business loans to increase in the second.

CREDIT SUPPLY AND DEMAND

The euro-area bank lending survey,[1] which ended on 2 April, refers to the first quarter of 2020 and therefore incorporates only some of effects of the public health emergency. According to the Italian banks interviewed, credit standards for new loans to firms remained basically unchanged (Figure A). Banks reported they had raised their risk tolerance, which is in any case perceived

[1] Ten of the main Italian banking groups took part in the survey. For the results relative to Italy see the Bank of Italy's website, 'Main results for Italian banks'; for those relative to the euro area, see the ECB's website, 'April 2020 euro area bank lending survey', press release, 28 April 2020.

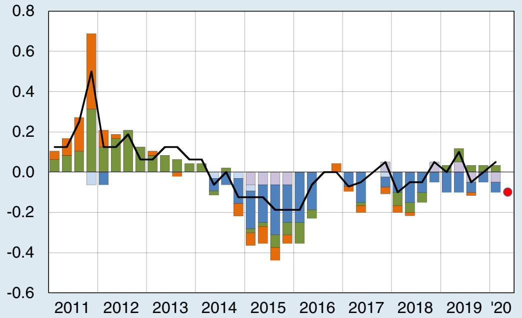
Figure A

Credit standards and demand for loans in Italy (1)

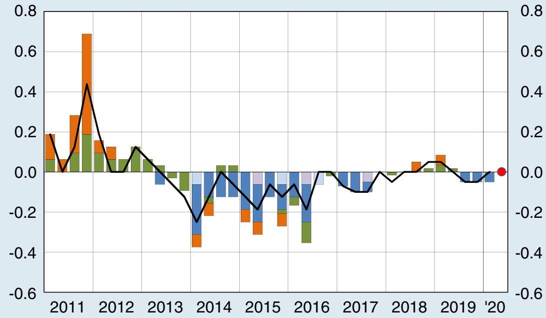
(quarterly data; diffusion indices)

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

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



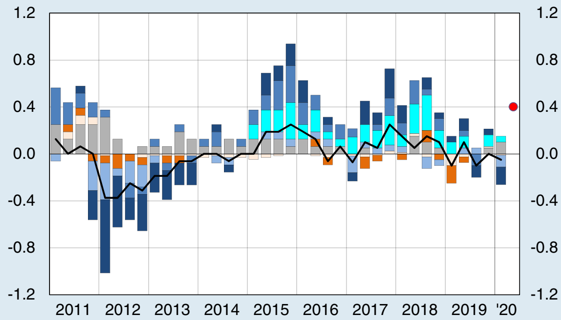
Cost of funds and balance sheet constraints (2)
Risk perception (3)
Competition from other banks
Competition from non-bank institutions and the market (4)
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)



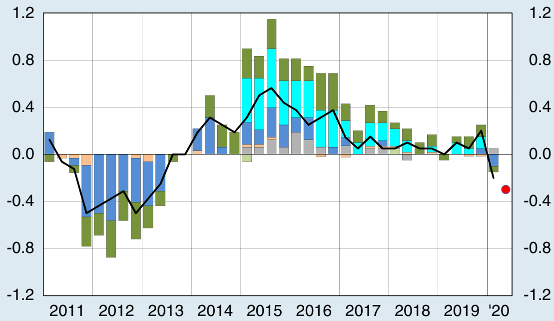
Cost of funds and balance sheet constraints
Risk perception (7)
Competition from other banks
Competition from non-banks
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)

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

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



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



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

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

as increasing because of the worsening of the general economic outlook. Greater competition between banks continued to have an expansionary effect. Banks expected their supply conditions to ease in the second quarter, most likely encouraged by the credit support measures adopted by the Government.

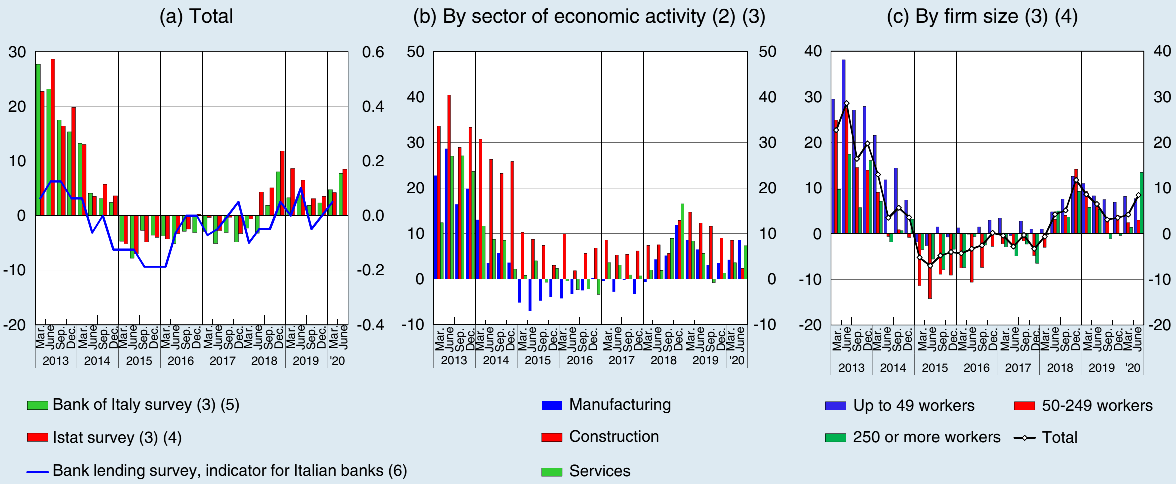
For loans to households, in the first quarter banks eased their credit standards for consumer credit and reduced the margins on loans for house purchase. In the second quarter, they expected another slight easing of credit standards for consumer credit and virtually unchanged supply conditions for mortgage loans.

According to banks, firms' demand for credit remained stable in the first quarter, but they expected a significant rise over the course of the following quarter, owing to increased liquidity needs given the deterioration in economic activity. By contrast, banks reported a reduction in demand from households in the first quarter, both for house purchases and for consumer credit, and expect a further decline in the second quarter. According to banks' assessments, in both cases these developments primarily reflect a reduction in consumer confidence.

In the survey, banks were asked to assess the impact of the monetary policy measures adopted by the ECB. Based on their responses, the third series of targeted longer-term refinancing operations (TLTRO III), the expanded asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) improved banks' liquidity, facilitated an easing of the terms and conditions applied to lending and led to a small increase in loans granted in the six months ending in March 2020. According to banks' forecasts, the impact of these measures will be stronger in the following six months.

Figure B

Firms' access to credit (1)
(quarterly data)



(1) The Bank of Italy survey (in *collaboration with Il Sole* 24 Ore up to October 2018) is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and services. The Istat business confidence surveys are conducted on samples of manufacturing and service firms (excluding retail and wholesale trade) and construction companies. The data for the Istat survey are taken from the end-of-quarter observations; in June 2013 some methodological changes involving the sample and data observation techniques were made that preclude direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, business confidence surveys. – (3) Net percentage of firms reporting difficulty in accessing credit. The net percentage is calculated as the difference between the percentage of replies indicating a worsening of credit access conditions and the percentage of those indicating an improvement. – (4) Istat business confidence survey in the manufacturing sector. – (5) 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series. – (6) Right-hand scale.

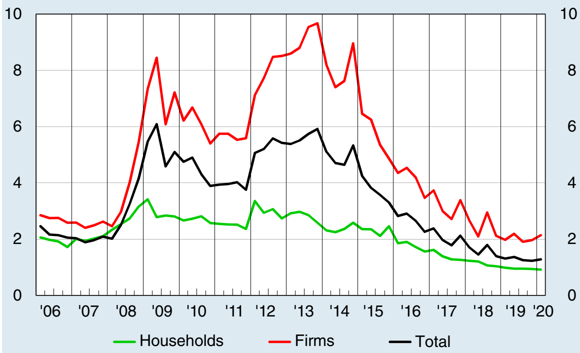
The surveys of firms carried out by Istat and the Bank of Italy regarding the second quarter of 2020 ended in June, and incorporate the first assessments of the effects of the containment measures (Figure B). The firms interviewed reported a deterioration in credit access conditions, which was more marked for service and manufacturing firms and for large companies. The share of small firms that reported a worsening in their access to credit did not increase significantly following the outbreak of the pandemic, likely owing to the measures adopted by the Government to support this type of firm.

The flow of new non-performing remains small

In the first quarter, the flow of new non-performing loans in proportion to total loans held stable compared with the previous quarter (1.3 per cent, on a seasonally adjusted and annualized basis; Figure 37). Looking ahead, the impact of the crisis on the quality of credit will likely be mitigated by the effects of the measures adopted by the Government (see the box 'The financial support measures for firms', *Economic Bulletin*, 2, 2020). The non-performing loan rate was unchanged for households (0.9 per cent) and rose slightly for firms (2.1 per cent, from 2.0 per cent in December 2019), owing to the increase recorded in the service and construction sectors. The share of non-performing loans to total loans of the significant banking groups declined slightly, both gross and net of writedowns (Table 13). The coverage ratio remained unchanged.

Figure 37

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



Source: Central Credit Register.
(1) Annualized quarterly flows of adjusted NPLs in relation to the stock of loans at the end of the previous quarter net of adjusted NPLs. Data seasonally adjusted where necessary.

Table 13

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

	December 2019	March 2020
Non-performing loans (NPLs) (2)		
Gross NPL ratio	6.7	6.4
Net NPL ratio	3.2	3.1
Coverage ratio (3)	53.7	53.7
Regulatory capital		
Common equity tier 1 (CET1) ratio	13.9	14.0
	Q1 2019	Q1 2020
Profitability (4)		
Return on equity (ROE) (5)	7.7	2.4
Net interest income (6)	-2.8	-5.6
Gross income (6)	-6.0	0.2
Operating expenses (6)	-1.6	-1.9
Operating profit (6)	-13.6	4.6
Loan loss provisions (6)	-8.2	79.7

Source: Consolidated supervisory reports.
(1) Provisional data. Significant banks are those directly supervised by the ECB. – (2) End-of-month data. Includes loans to customers, credit institutions and central banks. The NPL ratio is reported gross and net of loan loss provisions. – (3) The ratio of loan loss provisions to the corresponding gross exposure. – (4) The perimeter of significant banks changed starting 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 March 2018 with the data for March 2019, the cooperative credit groups ICCREA and Cassa Centrale Banca were excluded; accordingly, the data refer to samples of homogeneous significant banks. – (5) Net of the extraordinary components. – (6) Percentage changes with respect to the year-earlier period.

Banks' financial position is sound

In the first quarter of 2020, the average capitalization level of the significant groups improved a little, owing to the setting aside of the portion of FY 2019 earnings whose distribution was suspended following the ECB's recommendation of last March and, to a smaller degree, to the reduction in risk-weighted assets.

Again, in the first three months of the year, the profitability of significant banking groups recorded a fall compared with the first quarter of 2019. Net of extraordinary components, the annualized return on equity fell from 7.7 to 2.4 per cent[5] (3.1 per cent not counting the loss recorded following the reduction by UniCredit of its stake in Yapi Kredi Bank); this drop primarily reflects the greater loan loss provisions, which were mostly ascribable to large banking groups and connected to the deterioration in the macroeconomic scenario used to calculate expected losses in accordance with the accounting principles currently in force. Gross income held stable: lower interest income was offset by the increase in other revenues; operating costs fell.

2.8 THE FINANCIAL MARKETS

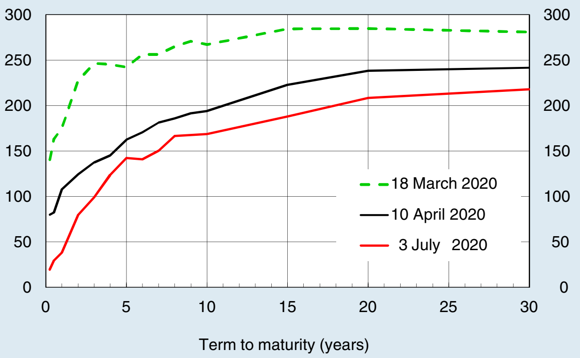
Following the interventions of the fiscal and monetary authorities and the easing of the containment measures adopted to counter the pandemic, prices rose on the Italian stock market. The yields on Italian government bonds diminished, as did the funding costs of non-financial corporations and banks. Bond issuance resumed, encouraged by the Eurosystem's asset purchases. However, the prices of financial assets remain subject to the risk of sizeable adjustments.

Italian government bond yields diminish

After fluctuating around relatively high values, Italian government bond yields began to fall in mid-May across all maturities. The fall basically mirrored the drop in sovereign risk premiums (Figure 38), while redenomination risk

Figure 38

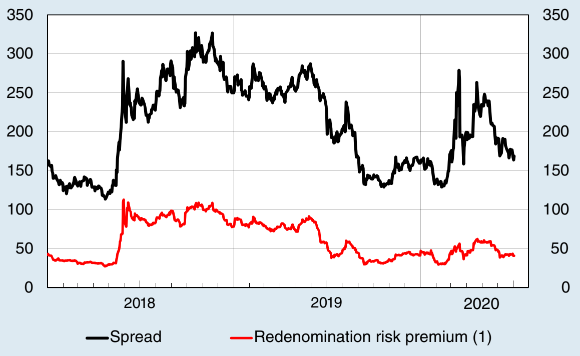
Term structure of sovereign spreads (1)
(basis points)



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

Figure 39

Spread between Italian and German 10-year government bond yields and the redenomination risk premium (1)
(daily data; 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.

[5] The calculation of ROE for the first quarter of 2020 does not include the extraordinary integration expenses reported by one bank and relating to the staff reductions.

premiums remained at low levels (Figure 39). The implied volatility in derivatives on Italian ten-year bonds decreased markedly, to levels below last year's averages (Figure 40).

Figure 40

Implied volatility of options on BTP futures (1)

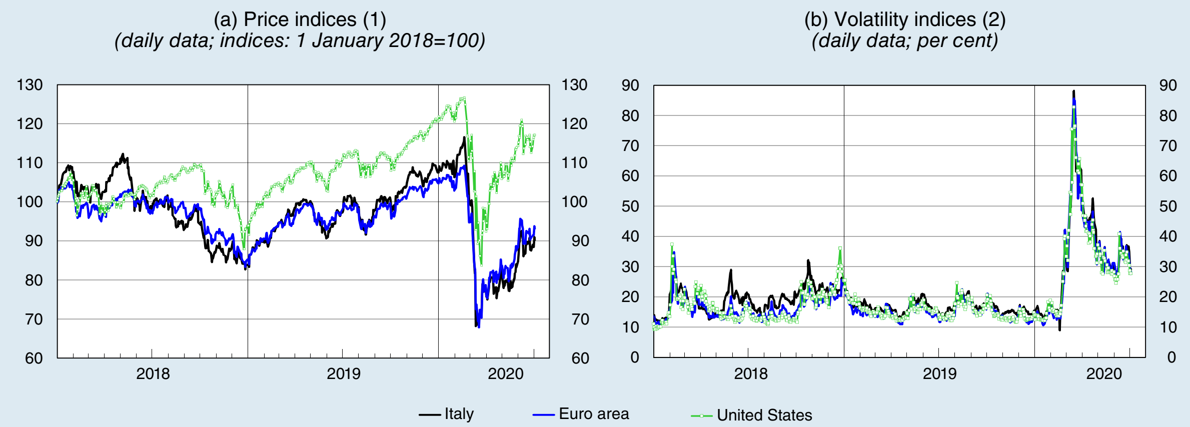
(daily data; per cent)

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.

Equity prices rise Share prices rose both in Italy and in the euro area (Figure 41.a). Between 10 April and the beginning of July, the general index grew by 12 per cent and the index for the banking sector by 19 per cent (in the euro area these indices rose by 14 and 15 per cent, respectively). Market valuations have benefited from a marked decline in equity risk premiums, which fell below the levels recorded at the start of the year, in an environment characterized by lower volatility (Figure 41.b). Investor confidence improved steadily with the roll-out of central bank interventions and fiscal policy measures and, starting in May, the gradual lifting of the restrictions to curb the contagion.

Figure 41

Equity prices



Source: Based on Refinitiv data.
(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.

In the second quarter, funding costs for Italian companies decrease ... The contraction of risk premiums affected the funding costs of Italian non-financial corporations and banks. Since 10 April, secondary market yields on bonds issued by non-financial corporations and banks have fallen, respectively, by 86 and 131 basis points (Figure 42). Banks' funding conditions improved more markedly in Italy than in the euro area on average.

... and bond issues increase The increase in funding costs observed at the end of the first quarter slowed recourse to the bond market on the part of Italian non-financial corporations. Gross bond placements were virtually nil in March and April. According to preliminary data from Bloomberg, in the second quarter of 2020, net bond issues turned positive (€1.5

billion, from -€3.4 billion in the first quarter), thanks to the increase in gross placements and fewer redemptions. Bond issuance resumed, encouraged not only by lower funding costs, but also by Eurosystem purchases of non-financial corporations' debt securities. Bank bond issues were affected to a lesser extent by the worsening of funding conditions on the bond market. Banks' total net issues are estimated to have been €2.7 billion in the second quarter (from -€14.5 billion in the first).

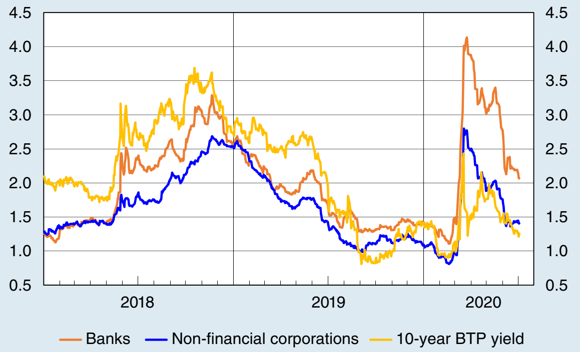
Net inflows turn positive for investment funds

According to Assogestioni data, the net inflow of savings towards open-end investment funds was negative in the first quarter (-€12.1 billion against €5.6 billion in the last quarter of 2019) because of the massive outflows recorded in March. In April and May, net inflows were positive, mainly thanks to subscriptions of bond and equity funds.

Figure 42

Yields on bonds issued by Italian banks and non-financial corporations (1)

(daily data; per cent)



Sources: Based on ICE BofAML and Bloomberg data.
(1) The data refer to the average yields (to maturity) of a basket of euro-denominated 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 particularly representative of the yields offered on Italian government securities.

2.9 THE PUBLIC FINANCES

The spread of the COVID-19 epidemic and the fiscal policy response had strong repercussions on the public accounts in the early part of the year. The impact is likely to be more pronounced in the months ahead, when the effects of the deterioration in the macroeconomic outlook and of the expansionary measures approved to date become fully apparent. According to the Government's forecasts, in 2020 net borrowing will rise to 10.4 per cent of GDP (from 1.6 per cent in 2019) and the debt-to-GDP ratio will expand by almost 21 percentage points, to 155.7 per cent.

The Government adopts expansionary measures

Between March and May, the Government adopted a number of expansionary measures to deal with the public health emergency and to mitigate its impact on the economy. According to official assessments, the measures raise the general government deficit for this year by around €75 billion overall (4.5 per cent of GDP). In terms of the borrowing requirement, the impact, which also takes account of some financial measures, amounts to almost €87 billion (more than 5 per cent of GDP; see the box 'The fiscal policy response to the emergency'). In light of these measures and of the repercussions on the public accounts of the deterioration in the macroeconomic outlook, government forecasts put net borrowing for this year at 10.4 per cent of GDP (1.6 per cent in 2019) and the ratio of debt to GDP at 155.7 per cent (from 134.8 per cent in 2019). Based on these official assessments, it is estimated that the state sector borrowing requirement will exceed €190 billion (€41.5 billion in 2019).

THE FISCAL POLICY RESPONSE TO THE EMERGENCY

The purpose of the fiscal policy response to the emergency sparked by the spread of the epidemic was twofold: on the one hand, it sought to increase the resources available to the health system and to civil protection to tackle the crisis; on the other, it provided economic support to workers, households and firms to limit the effects of the pandemic and in particular of the forced shutdown of production. The measures adopted, which have mobilized a huge quantity of resources, have only a partial direct effect on net borrowing.

Measures that impact net borrowing. – After the first round of interventions targeting the worst affected zones (financed with resources already available under current legislation and accordingly with no impact on the deficit), between March and May the Government issued three decree laws which,[1] based on official assessments, raise total general government net borrowing by roughly €75 billion in 2020, €26 billion in 2021, and around €35 billion in 2022 (see the table). Most of the measures are temporary and their effects will have played out in full by the end of this year. The increase in the deficit in the subsequent years is attributable above all to the cancellation of the expected rises in indirect taxation linked to the activation of the safeguard clauses (officially estimated at €19.8 billion for 2021 and at €26.7 billion for 2022).

For 2020, the measures primarily consist of income support for workers and households (€28.6 billion), firms and economic activity (€28.5 billion) and the health system (€8.2 billion).

There are numerous measures for workers and households. The main interventions make resources available for: strengthening social safety nets for those in payroll employment (€14.5 billion), in self-employment and employed in specific sectors (€7.4 billion); the funding of special leave and vouchers for baby-sitting services in favour of working parents and the extension of paid leave of absence for the beneficiaries of Law 104/1992 (totalling €2.3 billion). The measures for firms are mostly aimed at funding public guarantees on business loans (€8 billion), granting non-repayable contributions to holders of VAT numbers who suffered a significant fall in turnover (€6.2 billion), and lowering the tax burden (€5.4 billion, of which €4 billion due to the exemption from payment of the balance for 2019 of the regional tax on productive activities (IRAP) and of the first instalment of the advance payment for 2020). Turning to the health system, the measures include an increase in the national emergency fund (€3.5 billion), the allocation of resources for the expansion of ICU units (€1.5 billion) and an increase in the national health fund (€1.4 billion).

Finally, the measures allocate resources to local government authorities (€6.3 billion), to mitigate the impact of the health emergency on their balance sheets and to keep critical services functioning, and to schools and universities (€1.3 billion), primarily for interventions to limit the epidemiological risks and to ensure their safe reopening in the new academic year.

Measures with no impact on net borrowing. – According to official assessments, some of the measures envisaged have no impact on net borrowing but do raise the general government borrowing requirement

[1] Decree Law 18/2020 ('Cure Italy' decree), converted by Law 27/2020, Decree Law 23/2020 ('Liquidity Decree'), converted by Law 40/2020, and Decree Law 34/2020 ('Relaunch Decree'), currently being converted into law. The issuance of the decrees required prior authorization by an absolute majority of the members of both chambers of Parliament, as provided for by Law 243/2012. For a more detailed description of the main measures contained in Decree Law 18/2020, see the box 'The measures adopted to deal with the public health emergency in Italy', *Economic Bulletin*, 2, 2020 and the Report by the Bank of Italy for the Fifth Committee of the Senate (Economic Planning and Budget), 'Draft law A.S. 1766, converted into law by Decree Law 18/2020, setting out measures to strengthen the national health service (SSN) and provide economic support for households, workers and firms in connection with the COVID-19 emergency', Rome, 25 March 2020. For Decree Law 23/2020, see 'Conversion into law of Decree Law 23/2020 (urgent measures on access to credit and on tax obligations for firms, on special powers in strategic sectors, and interventions regarding health and labour, and on extending administrative and procedural deadlines)', hearing of the Head of the Structural Economic Analysis Directorate, F. Balassone, Chamber of Deputies, Rome, 27 April 2020. For Decree Law 34/2020, see the Report by the Bank of Italy for the Fifth Committee of the Chamber of Deputies (Budget, Treasury and Planning), 'AC 2500, Conversion into law of Decree Law 34/2020 containing extraordinary measures on health, support for employment and the economy, as well as social policies linked to the epidemiological emergency triggered by COVID-19', Rome, 8 June 2020.

Table

Impact on the general government's profit and loss account of the expansionary measures in response to the emergency

(millions of euros)

	2020	2021	2022
USE OF FUNDS	**77,444**	**30,380**	**35,479**
Higher expenditure (A=A1+A2+A3+A4+A5)	**69,944**	**9,139**	**6,959**
Measures to support the national health system (A1)	**8,209**	**631**	**1,630**
National emergency fund and other measures linked to the emergency (net impact)	3,497	4	1
Increased supply of hospital beds in ICU units	1,467	0	0
Funding of the national health system standard borrowing requirement	1,410	500	1,500
Reorganization of local healthcare services	1,257	0	0
Increases in medical personnel	578	126	130
Measures to support households (A2)	**28,591**	**39**	**79**
Wage supplementation and other social safety net schemes for payroll employees	14,471	0	0
Allowances for the self-employed or those employed in specific sectors (net impact)	7,376	39	79
Parental leave, supplementary payments for baby-sitting expenses and extension of the benefits granted pursuant to Law 104/1992	2,294	0	0
Last-resort income support and compensation for domestic workers	1,423	0	0
Emergency income support	955	0	0
Bonus for payroll employees with an income of up to €40,000	881	0	0
Other measures in favour of households	1,192	0	0
Measures to support firms and economic activity (A3)	**23,179**	**4,716**	**1,456**
Guarantees in favour of firms	8,044	0	0
Non-repayable contributions to holders of VAT numbers affected by the emergency	6,192	0	0
Tax credit for rental payments	1,780	0	0
Tax credits for holidays and property renovations	1,677	414	1,330
Transformation of DTAs into tax credits	1,058	0	0
Reduction in electricity bills for the three months May-July	600	0	0
Tax credit for the repurposing and sanitization of workplaces (net impact)	200	2,000	0
Support for the recapitalization of SMEs	5	2,000	0
Other measures to support firms (net impact)	3,622	301	126
Resources for local government entities and schools and universities (A4)	**7,526**	**1,125**	**660**
Fund for essential functions and other measures in favour of local municipalities	4,202	0	0
Fund for the regions and provinces and other measures	2,068	0	0
Expenditure to support schools and universities	1,257	1,125	660
Other (A5)	**2,438**	**2,629**	**3,134**
Interest expense stemming from higher net issues of public sector debt securities	507	1,766	2,537
Other expenditure	1,931	863	598
Lower revenue (B=B1+B2+B3)	**-7,501**	**-21,241**	**-28,520**
Cancellation of the safeguard clauses on VAT and excise duties	0	**-19,821**	**-26,733**
Measures to support firms and economic activity (B2)	**-5,354**	**-1,310**	**-1,286**
Exemption from payment of the IRAP balance for FY 2019 and from the first instalment of the advance payment for 2020	-3,952	0	0
Suspension of payment deadlines and increase in the annual ceiling of credits that can be offset against taxes or reimbursed	-1,380	0	0
Tax credits for holidays and property renovations (net impact)	-22	-1,310	-1,286
Other (B3)	**-2,147**	**-110**	**-501**
Deferral of entry into force of various taxes (including a sugar and plastic tax; net impact)	-519	-45	72
Reduction of VAT rate on equipment for treating and suppressing the virus	-257	-318	-318
Other revenue (net impact)	-1,370	252	-255
SOURCES OF FUNDS	**2,125**	**4,304**	**831**
Increased revenue (C)	**1,536**	**683**	**327**
Indirect effects of the measures on public sector employment	1,070	438	137
Other	467	244	190
Lower expenditure (D)	**-588**	**-3,621**	**-504**
Reduction of fund to incentivize the use of electronic payment devices	0	-3,000	0
Other	-588	-621	-504
Change in net revenue (E=B+C)	**-5,965**	**-20,558**	**-28,192**
Change in net expenditure (F=A+D)	**69,355**	**5,518**	**6,456**
Current	53,873	1,093	6,345
Capital	15,482	4,425	111
Change in net borrowing (G=F-E)	**75,320**	**26,076**	**34,648**
Per cent of GDP (1)	**4,5**	**1,5**	**…,**
Memorandum item: Change in borrowing requirement	86,894	25,991	34,414
Change in the net balance to be financed	179,573	26,115	34,333

Source: Based on official documents pertaining to Laws 27/2020 and 40/2020, and Decree Law 34/2020.
(1) Current legislation nominal GDP rate reported in the 2020 Economic and Financial Document.

by around €20 billion in 2020.[2] More specifically, €12 billion are allocated for the payment of local government commercial debts due at the end of last year, €4 billion for the subscription of debt instruments issued by medium-sized enterprises which, owing to the health emergency, have suffered a sharp fall in profits and have carried out capital increases,[3] and €3 billion for the stake in a new air transport company.

Additional measures worsen the State budget balance (the net balance to be financed) by around €84 billion, but in official assessments have no impact on either net borrowing or the borrowing requirement. Around half of the resources allocated (€44 billion) are reserved for the establishment of a dedicated fund (*Patrimonio Rilancio*), in which the Ministry of Economy and Finance participates and which is managed by Cassa Depositi e Prestiti (CDP). The Fund will acquire equity, shareholdings and convertible bonds of non-financial corporations resident in Italy with a turnover of more than €50 million.[4] The bulk of the remainder of the resources are allocated to the provisions needed to cover the guarantees mainly issued through SACE (€31 billion) and to the imputed contributions envisaged under the income support measures (almost €9 billion).

Overall, the total amount of public guarantees that can be activated based on the measures launched to date is estimated to exceed €500 billion, about six times the value of the guarantees outstanding at the end of 2019. Given the gravity of the crisis and the uncertainty about the timing and depth of the recovery, the probability of a future enforcement of these guarantees is likely to be higher than in normal conditions. The costs for the public finances could accordingly be significant, even though they will be distributed over several years.

[2] Such as, for example, the public guarantees on loans to firms.

[3] The debt is subscribed through the SME Fund (*Fondo Patrimonio PMI*), managed by Invitalia, for firms with a turnover of between €10 million and €50 million.

[4] Among other things, the *Patrimonio Rilancio* will be funded through the allocation of government bonds of up to €44 million. While it is unclear how this measure will be processed statistically, the resources needed to operate the fund are likely to raise the public debt; moreover, the measures could have an impact on net borrowing if the manner in which they are carried out is not aligned to the prevailing market conditions.

The borrowing requirement and the public debt increase in the early months of the year

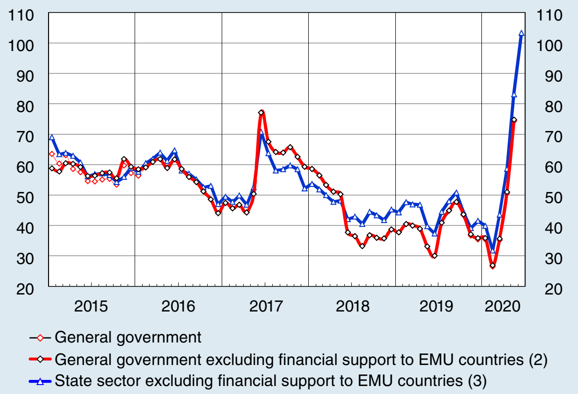
In the first half of 2020, the state sector borrowing requirement rose by €62 billion compared with the same period in 2019, to more than €95 billion. For general government as a whole, for which data are available for the first five months of the year, the borrowing requirement came to €68.5 billion, more than double what it was in the corresponding period of 2019 (Figure 43).

In May, general government debt exceeded €2,500 billion; compared with the end of 2019 it rose by around €98 billion, reflecting, in addition to the borrowing requirement, the increase in the Treasury's liquid balance.[6] The average residual maturity of the debt remained stable with respect to the end of last year, at 7.3 years (Figure 44). The average cost of the debt was equal to 2.51 per cent at the end of March, from 2.53 per cent at the end of 2019. Owing to purchases of public sector securities under the Eurosystem programmes, the share of the public debt held by the Bank of Italy expanded in the first five months of the year by almost 2 percentage points, to 18.5 per cent.

[6] For more information, see 'The Public Finances: Borrowing Requirement and Debt,' Banca d'Italia, Statistics Series, to be published on 15 July 2020.

Figure 43

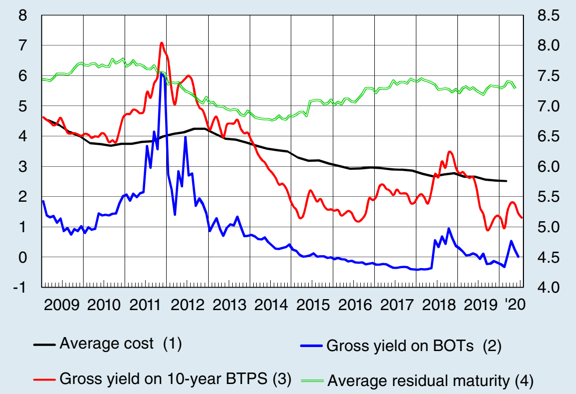
12-month cumulative borrowing requirement (1)
(monthly data; billions of euros)



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

Figure 44

Gross yield on BOTs and 10-year BTPs, average cost and average residual maturity of the debt
(monthly and quarterly data; per cent and years)



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

2.10 PROJECTIONS

The projections for the Italian economy presented here update, in light of the latest data, those prepared as part of the Eurosystem staff macroeconomic projections published on 5 June.[7]

Two scenarios are presented here

In the current cyclical phase, the uncertainty about the duration, strength and geographical spread of the epidemic makes it difficult to formulate projections. The time frame and strength of the recovery will depend on the evolution of contagion and the measures to contain it, on the performance of the global economy, on the impact on confidence and hence on households' spending decisions and firms' investment plans, and on possible financial repercussions; they will also be influenced by the future stance of monetary and fiscal policy, both in Italy and at European level.

The baseline scenario assumes that the spread of the pandemic will remain under control both globally and in Italy and that the containment measures will be gradually removed and their economic repercussions will be alleviated; international developments will be in line with the current estimates released by the main forecasters; and financial conditions will not deteriorate compared with what is implied in current market assessments. The possible impact of more unfavourable developments on these factors is taken into account to formulate a more adverse scenario.

The projections presented here take account of the direct impact of the containment measures, which stems from the limitations on production and consumption; of lower foreign demand; of the virtual

[7] These projections were based on the data available at 19 May for the technical assumptions and at 22 May for the cyclical data. See the Bank of Italy's website: 'Macroeconomic projections for the Italian economy (Eurosystem staff macroeconomic projections)', 5 June 2020.

halt in international tourism flows in 2020; of the impact of uncertainty and confidence on firms' propensity to invest; and of the fiscal policy response (see the box 'The macroeconomic impact of the COVID-19 pandemic on the Italian economy: an estimate of the main channels of transmission').

THE MACROECONOMIC IMPACT OF THE COVID-19 PANDEMIC ON THE ITALIAN ECONOMY: AN ESTIMATE OF THE MAIN CHANNELS OF TRANSMISSION

The effects of the pandemic are transmitted to the economy through multiple channels. This box provides a quantitative estimate of the contributions of each of the main channels in the baseline scenario to developments in GDP. More specifically, it looks at: (a) the direct impact of containment measures; (b) the decline in international trade and foreign demand; (c) the fall in international tourism flows; (d) the impact of uncertainty and of confidence on firms' propensity to invest; and (e) the fiscal policy response. The table shows the contribution of each channel, quantified using simulations of the quarterly model of the Italian economy as the difference between the current baseline scenario growth estimates and those published in *Economic Bulletin*, 1, 2020.[1]

Direct effects of the containment measures. – The strictest measures were in place for a total of 11 weeks. The direct effects are calculated based on the estimate that, between 9 and 27 March and between 4 and 17 May, the restrictions regarded a set of activities accounting for just over 15 per cent of total value added, and that between 28 March and 3 May, the business activities subject to lockdown were responsible for just under 30 per cent of value added. It is also estimated that the persistence of the barriers to production into the second half of May and into June involved less than 5 per cent of value added. In this scenario, the direct effect of business suspensions as part of the lockdown could be to reduce value added for the year by 5.0 percentage points in 2020 (see the table). The gradual lifting of the containment measures and the reopening of businesses previously shut down should provide a significant boost to the recovery of GDP in 2021, although not enough to fully make up for the losses suffered.

Table

Channels of transmission of the COVID-19 shock in the baseline scenario
(percentage changes)

	GDP			Employment *(hours worked)*		
	2020	2021	2022	2020	2021	2022
x. Forecasts made in Economic Bulletin 1/2020	0.5	0.9	1.1	0.4	0.6	0.7
a. Containment measures	-5.0	3.5	0.8	-8.0	6.2	1.0
b. World trade	-2.3	-0.6	-0.6	-0.7	-0.8	-0.1
c. Net international tourism flows	-2.5	-0.9	0.6	-3.5	-0.6	0.8
d. Confidence and uncertainty	-2.2	1.1	1.1	-0.6	-0.4	0.9
e. Fiscal policy	2.1	0.3	-0.3	0.6	0.9	0.0
f. Other factors (1)	-0.1	0.4	-0.3	0.1	0.4	-0.1
Baseline macroeconomic scenario (x+a+b+c+d+e+f) (2)	-9.5	4.8	2.4	-11.8	6.4	3.3

(1) This item, which is a residual one, mainly encompasses the effects attributable to revisions of data and changes in technical assumptions. – (2) Rounding may cause discrepancies.

[1] Although these channels for transmission of the crisis are not necessarily mutually independent, an initial assessment of the overall impact on the GDP can be calculated as the sum of the individual effects.

World trade. – The assumptions underlying the baseline scenario point to a fall in foreign demand for Italian products of 13.5 per cent in 2020, to be only partially recovered in 2021-22.[2] This is expected to have a negative impact on Italian GDP in the order of 2.3 percentage points this year; the effects of lower international trade could continue to hamper growth over the next two years as well.

Net international tourism flows. – It is assumed that arrivals of foreign tourists, after being interrupted in the second quarter, will not increase significantly during the summer months and will start to grow again very gradually at the end of the year. Similar trends are expected for Italian tourists travelling abroad. Both these flows are expected to still be below 2019 levels by about 25 per cent in 2022.[3] The direct effect on GDP of the reduction in net exports of services associated with tourism are added to the indirect ones connected with the drop in employment in the sector – in large part with little social protection – and the consequent contraction in income and consumption. The negative impact on GDP growth is estimated at 2.5 percentage points of GDP this year and at around 0.9 points in 2021; a partial recovery is not expected until 2022, in the region of half a percentage point.

Confidence and economic uncertainty. – It is thought that the outbreak of the epidemic, the measures introduced to contain it and their impact on the economy will cause confidence to plummet and uncertainty to soar, with negative repercussions mainly on firms' investment decisions. It is assumed in the baseline scenario that there will be a shock similar in size to that observed during the global financial crisis (between 3 and 4 standard deviations of the confidence and uncertainty indicators included in the model). Such a shock, temporary in nature, would cause GDP to fall by more than 2 percentage points this year, followed by a recovery over the next two years; the effects on the level of GDP would be cancelled out in 2022.

Fiscal policies. – The projections incorporate the impact of the fiscal policy measures included in Decree Laws 18/2020 ('Cure Italy' decree) and 34/2020 ('Relaunch Decree'), which total around 4.5 per cent of GDP. It is estimated that these measures, largely temporary, will be able to mitigate the drop in GDP by more than 2 percentage points this year. Some measures, such as the debt moratorium and the public guarantees on new loans to firms, while having little direct impact on GDP, are however critical to prevent severe financial consequences from occurring, which could significantly amplify the effects of the Italian economic crisis.

2 These estimates do not take account of any significant interruptions in the functioning of global value chains.

3 The tourism industry directly contributes about 5.5 per cent of national value added and employs about 6.5 per cent of persons in employment; around one third of activity in the sector can be traced to international tourism. Balance of payments data for 2019 show that international tourism earnings (registered as exports of services) equalled 2.5 per cent of nominal GDP; by contrast, imports of services connected with spending by Italians abroad reached 1.5 per cent of GDP.

In the baseline scenario, world trade contracts in 2020

The estimates of all forecasters point to a sharp contraction in world GDP this year, with very marked repercussions on trade (see Section 1.1). The baseline scenario presented here assumes that foreign demand for goods produced in Italy will fall by 13.5 per cent this year and will subsequently expand by 7.9 and 4.6 per cent in 2021 and 2022 respectively (see the box 'The assumptions underlying the baseline macroeconomic scenario').

THE ASSUMPTIONS UNDERLYING THE BASELINE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published on the Bank's website at the start of June and December, following the release of the euro-area projections[1] by the ECB. The macroeconomic projections for Italy presented here update those released on 5 June, and are based on the information available over the last few weeks. They include the latest national quarterly accounts released by Istat on 29 May after the closing of the previous projection exercise, which have revised GDP growth downwards for the first quarter of this year and, all other conditions being equal, project a greater contraction in GDP for 2020 as a whole. The technical assumptions have also been updated, taking account of the information available as of 3 July.

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

a) foreign demand, weighted by the outlet markets for Italian exports, decreases by 13.5 per cent in 2020; it expands again at around 6 per cent a year on average in the two years 2021-22;

b) the euro/dollar exchange rate, which averaged 1.12 in 2019, stands at 1.11 in 2020 and at 1.12 in the following two years[2] (on 3 July it was 1.12);

c) the price of a barrel of Brent crude oil is close to $40 on average this year ($64 in 2019), and rises very gradually over the next two years;

Table

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

	2019	2020	2021	2022
Potential foreign demand	1.6	-13.5	7.9	4.6
Dollar/euro (1)	1.12	1.11	1.12	1.12
Nominal effective exchange rate (2)	1.2	-0.8	-0.4	0.0
Crude oil prices (1) (3)	64.0	40.7	43.8	45.6
3-month Euribor (1)	-0.4	-0.4	-0.5	-0.5
1-year BOT yields (1)	0.0	-0.2	-0.2	-0.2
10-year BTP yields (1)	2.0	1.5	1.7	1.9

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

d) three-month interest rates on the interbank market (Euribor), equal to -0.4 per cent this year, decrease marginally to -0.5 per cent over the next two years;

e) the yield on ten-year BTPs, equal to 1.5 per cent in 2020, rises gradually to 1.9 per cent in 2022, in line with the values of the forward rates implied by the term structure of interest rates on government bond yields;

f) the scenario incorporates the budgetary measures included in Decree Laws 18/2020 ('Cure Italy' decree), converted into Law 27/2020, and 34/2020 ('Relaunch Decree'). As established by the latter decree, for 2021-22, it is assumed that the safeguard clauses relative to VAT and excise duty increases are deactivated. This assumption had already been adopted in the previous forecasting exercises, in line with both the guidelines for macroeconomic projections agreed upon within the Eurosystem and with the analogous practice of the European Commission.

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

[2] The technical assumptions on interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days to 3 July.

Monetary and financial conditions remain expansionary

The baseline scenario assumes that financial conditions overall will not deteriorate, thanks to the measures adopted by the ECB Governing Council and those taken by the Government to support firms' liquidity. In line with the expectations incorporated in market prices, the yields on ten-year Italian government bonds are estimated at 1.5 per cent in 2020, 1.7 per cent in 2021, and 1.9 per cent in 2022. The average cost of lending to firms is expected to remain low this year (1.5 per cent; see Section 2.7) and then to rise by around 30 basis points over the next two years.

The fiscal policy measures support demand

The forecasting scenario incorporates the fiscal policy measures to directly support aggregate demand included in Decree Laws 18/2020 ('Cure Italy' decree) and 34/2020 ('Relaunch Decree'). Other measures contained in Decree Law 23/2020 ('Liquidity Decree'), such as the debt moratorium and the public guarantees on new loans to firms, do not have a direct impact on GDP, but rather avert the possible nonlinear effects, which are potentially very adverse, associated with widespread insolvencies among firms and a sharp tightening in credit conditions.

The scenario does not consider any additional measures that might be funded in the coming months as part of EU-wide initiatives adopted in response to the pandemic crisis. Among these, especially significant are the resources included in the package of measures approved by the European Council in April and those that would be granted through the 'Next Generation EU' instrument proposed by the European Commission in May (see Section 1.2).[8]

The fall in GDP is expected to be recouped in part over the next two years

Under these assumptions, the baseline projection points to GDP contracting by 9.5 per cent in Italy on average this year, followed by a gradual recovery over the next two years (4.8 per cent in 2021 and 2.4 per cent in 2022; Table 14 and Figure 45).[9] After falling very sharply in the first half of the year (by about 15 percentage points overall), GDP is projected to return to growth in the second half, largely owing to the fading of the effects of the containment measures. However, the negative repercussions of the pandemic on international trade, on tourist flows and on the behaviour of households and firms appear to be persistent and are likely to hold back aggregate demand over the entire forecasting horizon. At the end of 2022, GDP is projected to remain about 2 percentage points below the level recorded in the fourth quarter of 2019.

Consumption is affected by uncertainty

Household consumption is expected to decline this year at a similar pace to GDP, mainly reflecting the limitations imposed by the lockdown and the contraction of employment and disposable income, which was nevertheless alleviated by the support measures; the recovery in consumption would be in line with that of GDP in 2021 and slightly more moderate the following year. The propensity to save is expected to rise significantly this year (Figure 46), mainly owing to the constraints on spending during the lockdown; over the next two years, while diminishing, it is expected to remain at slightly higher levels than in 2019, owing to the increase in the

[8] Hearing on the 'Commission Work Programme 2020' and on the report on Italy's participation in the European Union in 2020, testimony by Eugenio Gaiotti, Director General for Economics, Statistics and Research, before the Chamber of Deputies, Rome, 25 June 2020.

[9] The differences between the forecasting scenario published in early June and that presented in this Economic Bulletin are limited overall. In particular, the GDP growth rate in 2020 is now about 0.3 percentage points lower; the revision reflects above all the data on the change in GDP in the first quarter of the year, released by Istat on 29 May and adjusted downwards compared with the preliminary estimate. The impact of these data is only partially offset by that of less unfavourable GDP developments in the second quarter, in line with the latest cyclical data. Inflation has remained broadly unchanged this year on average, in keeping with the latest data. For the two years 2021-22, the effects of updating the technical assumptions on interest rates, exchange rates and oil prices largely cancel each other out for both GDP and inflation. The assumptions on foreign demand, unchanged compared with early June, are in line with the estimates of the main international forecasters.

precautionary component connected with the high degree of uncertainty and the need to recover the wealth levels undermined by the crisis, in keeping with the indications that emerged from the Bank of Italy's surveys (see Section 2.3).

The reduction in the number of persons in employment is mitigated by the support measures

Employment is projected to decrease by about 12 per cent this year in terms of hours worked, and then to recoup about three quarters of the fall over the next two years. The number of persons in employment is projected to decrease much less markedly, by 4.5 per cent in 2020, thanks to the extensive use of wage supplementation. This appears to have been especially intensive in the second quarter of the year, involving about 3 million full-time equivalent employees, historically a very high level. Under the current legislation, the use of wage supplementation is expected to be more moderate in the last quarter of the year and to realign with pre-pandemic levels at the end of the forecasting scenario. The unemployment rate fell below 2019 levels in the first half of the year, owing to lower labour market participation, which was due above all to the limitations imposed on mobility and production in some sectors (see Section 2.5); the evidence available suggests that job-seeking activities could begin to intensify in the second half of 2020. Against a backdrop of persistent weakness in labour demand, such developments would lead to an increase in the unemployment rate, which would average around 11 per cent in 2020 and would continue to grow in the next two years, to around 12 per cent.

Investment falls this year but then picks up again

The deterioration in the outlook for demand, the heightened uncertainty and the sharp decline in capacity utilization are expected to affect investment. Capital accumulation is projected to fall by 18 per cent this year, in line with the indications of the Bank of Italy's business surveys (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'), and subsequently to recoup about two thirds of the fall over the next two years. The recovery would be more pronounced for the capital goods component compared with

Table 14

Baseline macroeconomic scenario

(percentage changes on previous year unless otherwise specified)

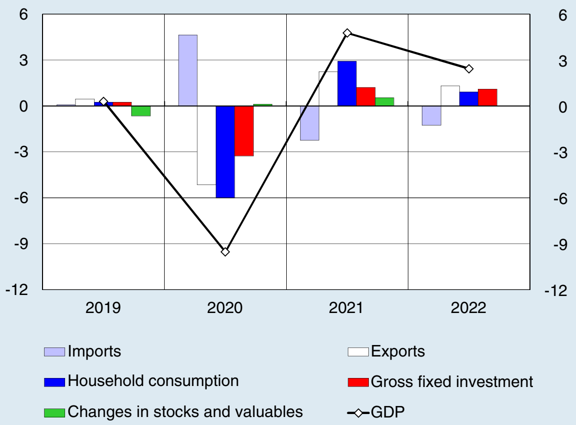
	2019	2020	2021	2022
GDP (1)	0.3	-9.5	4.8	2.4
Household consumption	0.4	-9.9	4.8	1.5
Government consumption	-0.4	0.9	0.6	1.8
Gross fixed investment	1.4	-18.0	7.3	6.5
of which: in capital goods	0.4	-19.2	9.5	5.9
Total exports	1.4	-16.2	7.6	4.3
Total imports	-0.2	-15.9	8.3	4.5
Changes in stocks (2)	-0.7	0.1	0.5	0.0
Memorandum item: GDP, raw data (3)	0.2	-9.4	4.8	2.3
Prices (HICP)	0.6	0.0	0.1	1.0
HICP net of food and energy	0.5	0.5	0.3	0.5
GDP deflator	0.9	0.8	0.5	1.1
Employment (hours worked)	0.3	-11.8	6.4	3.3
Employment (persons employed)	0.6	-4.5	2.3	1.6
Unemployment rate (4)	9.9	10.9	12.2	11.9
Export competitiveness (5)	1.6	-0.5	-1.1	-0.6
Current account balance of the balance of payments (6)	3.0	3.0	3.0	3.2

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

Figure 45

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

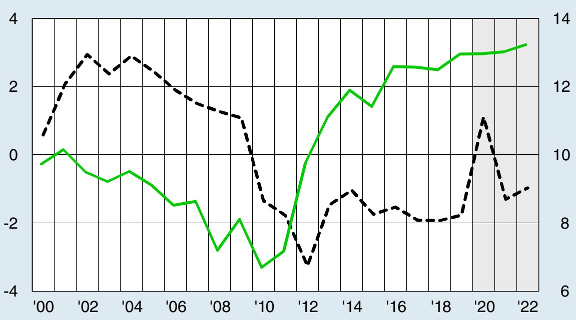
(quarterly and annual data; percentage changes and percentage points)



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

Figure 46

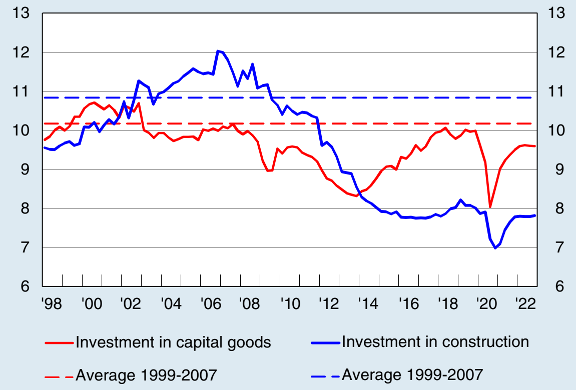
Propensity to save of consumer households and current account balance
(quarterly data; percentage points)



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

Figure 47

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



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

the residential component, which would be affected by a weakening housing market. Over the three-year period as a whole, investment in construction is projected to contract by about 6 per cent. At the end of 2022, the ratio of investment in construction to GDP is projected to remain about 3 percentage points below the level recorded in the ten years prior to the global financial crisis (Figure 47).

The current account still displays a large surplus

Exports are projected to decline by around 16 per cent in 2020, reflecting the fall in foreign demand and the virtual halt in international tourism flows in 2020, and then to expand by about 6 per cent on average in 2021-22. Imports would follow a similar path, with a marked reduction in 2020, consistent with that of the demand components with a higher import content, and a partial recovery in the next two years. The contribution of net foreign demand to GDP growth is estimated to be negative in 2020 and nil on average in the two years 2021-22. The current account balance of the balance of payments, however, is expected to continue to post a large surplus, close to 3 per cent of GDP on average (Figure 46). The deterioration in the tourism balance would be offset by the positive impact on the energy balance of the sharp drop in crude oil prices.

Inflation is practically nil this year and the next

Inflation, calculated based on the change in the harmonized index of

Table 15

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

	2020	2021	2022
GDP (1)	-13.5	3.5	2.6
Household consumption	-14.8	4.4	2.1
Government consumption	0.8	0.6	1.9
Gross fixed investment	-20.9	1.2	9.0
of which: in capital goods	-23.0	3.9	10.4
Total exports	-22.2	4.8	3.8
Total imports	-26.2	3.0	6.2
Prices (HICP)	-0.2	-0.1	0.7
HICP net of food and energy	0.2	-0.3	0.3
Employment (hours worked)	-15.0	4.1	1.8
Employment (persons employed)	-5.2	1.6	0.7
Unemployment rate (2)	11.9	12.9	13.1

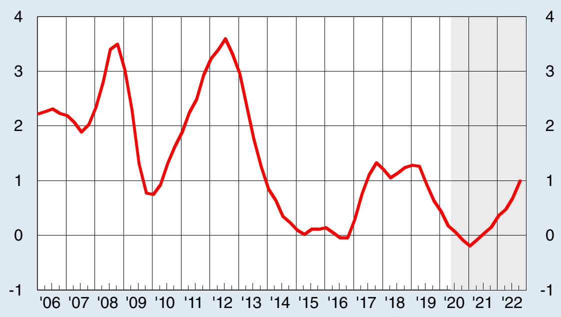
Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Annual averages; per cent.

consumer prices, is expected to be practically nil both this year and the next, mainly owing to the fall in oil prices as well as to the sharp decline in capacity utilization. Prices are expected to turn upwards in 2022, by 1.0 per cent, thanks to the recovery in the energy component and the acceleration in wages (Table 14 and Figure 48). Core inflation is expected to remain very low overall (below 0.5 per cent on average), owing to the weakness of demand. Domestic inflation, measured by the GDP deflator, is projected to be 0.8 per cent this year, to fall significantly in 2021, reflecting a weakening in firms' profit margins, and to rise again in 2022, to 1.1 per cent, owing to the gradual strengthening of the cyclical phase and of wage growth.

Figure 48

Consumer price inflation (1)

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



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

In an adverse scenario, the fall in GDP would be greater

More adverse developments compared with those outlined in the baseline scenario could result from a protraction of the epidemic and the need to counter new outbreaks, with repercussions on confidence and on households' spending decisions and firms' investment plans, more pronounced drops in world trade and disruptions to global supply chains, and a sharp deterioration in financial conditions. In particular, Table 15 considers: (a) the adoption of additional measures suspending economic activity, albeit less restrictive than those enacted at the end of March; (b) a fall in foreign demand that is more pronounced than in the baseline scenario for this year (20 per cent) and a more gradual recovery in the next two years, both in world trade and in tourist flows; and (c) an increase in long-term bond yields of around 50 basis points and a tightening in credit conditions equal to about half that observed during the global financial crisis.[10] These assumptions would result in additional declines of -1.3, -1.5 and -1.2 percentage points respectively in GDP in 2020. GDP would fall by 13.5 per cent this year and would recover at a more moderate pace in 2021 (3.5 per cent).

Table 16

Other organizations' forecasts for Italy

(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2020	2021	2020	2021
IMF (June/April)	-12.8	6.3	0.2	0.7
European Commission (July)	-11.2	6.1	0.0	0.8
Consensus Economics (June)	-10.7	6.5	-0.1	0.6
Private analysts (June)	-12.4	6.7	n.d.	n.d.
OECD (June) (3)	-11.3	7.7	-0.1	0.1

Sources: IMF, *World Economic Outlook Update*, June 2020, for growth; IMF, *World Economic Outlook*, April 2020, for inflation; European Commission, *European Economic Forecast Summer 2020 (Interim)*, May 2020; Consensus Economics, *Consensus Forecasts*, 11 June 2020; private analysts: Barclays, Deutsche Bank, Goldman Sachs and JP Morgan, June 2020 average; OECD, *OECD Economic Outlook*, June 2020.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP – (3) More favourable scenario ('single-hit'), which rules out new outbreaks of contagion in the second half of 2020. In the more severe scenario envisaged by the OECD ('double-hit'), GDP would fall by 14 per cent in 2020 and rise by 5.3 per cent in 2021; inflation in the two years would be equal to -0.2 e -0.1 per cent respectively.

Among the components of demand, consumption is projected to fall more markedly than GDP, especially in 2020; the fall in investment, amplified by the worsening financial conditions, would near 21 per cent this year and 11 per cent over the three-year period 2020-22; the dynamics of exports would reflect those of foreign demand. Inflation

[10] This scenario does not consider more extreme developments connected with the possible effects, which would be non-linear and difficult to quantify, that could stem from widespread insolvencies among firms, which would have a significant impact on the economy's production capacity, or from further waves of the pandemic.

would be lower than that estimated in the baseline scenario by about 0.2 percentage points in each of the three years considered.

The other forecasts are wide-ranging

The growth projections of the main forecasters fall between our baseline scenario and our more adverse scenario (Table 16). The range of individual private analysts' estimates for GDP growth in 2020 and 2021 is exceptionally wide: between -6.7 and -18 percentage points for this year and between 3.4 and 15 points for next year (according to the estimates published by Consensus Economics in June).

The EU initiatives could facilitate a stronger recovery

Significant support to the economy could come from the abovementioned measures currently being drawn up at European level, including the 'Next Generation EU' recovery fund. The amount of funding made available and the consequent stimulus to growth will depend upon the capacity to propose and implement sound investment programmes. The additional expansionary fiscal policy measures announced in the first half of June in France and especially in Germany could also have a positive impact on our economy owing to the strong production and commercial ties with the German and French economies.

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	93.1	91.7	89.8
2019	115.8	102.9	124.1	89.1	90.3	89.0
2019 – Q1	116.2	102.4	126.8	91.4	90.6	89.2
Q2	116.3	102.2	125.2	88.7	90.3	88.9
Q3	115.4	103.4	122.5	87.4	90.2	89.1
Q4	115.3	103.6	121.9	88.6	89.9	88.7
2020 – Q1	114.8	101.5	123.6	87.2	89.2	89.5
2019 – Jan.	116.0	102.2	126.5	91.7	90.7	89.7
Feb.	116.4	102.9	126.9	91.5	90.7	89.2
Mar.	116.1	102.2	127.0	91.1	90.4	88.7
Apr.	116.4	102.3	127.0	90.3	90.3	88.6
May	116.4	101.9	125.0	87.9	90.4	88.8
June	116.3	102.4	123.7	88.0	90.3	89.3
July	115.5	103.3	124.0	87.8	90.2	88.9
Aug.	115.3	103.2	121.9	86.6	90.3	89.4
Sept.	115.4	103.7	121.6	87.8	90.1	89.0
Oct.	115.3	103.7	121.8	88.3	89.9	88.8
Nov.	115.2	103.3	122.4	89.1	89.8	88.6
Dec.	115.5	103.8	121.7	88.5	89.9	88.7
2020 – Jan.	115.7	103.9	123.0	88.7	89.2	88.6
Feb.	114.7	102.7	123.2	87.4	88.9	88.6
Mar.	114.0	98.0	124.7	85.6	89.4	91.4

(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.

cont.

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	79.4	109.3	103.1
2019	65.6	96.4	113.4	79.7	107.5	105.4
2019 – Q1	64.0	96.8	112.7	79.9	107.6	104.3
Q2	64.7	96.2	113.7	79.8	108.0	105.7
Q3	66.9	96.4	113.2	77.9	107.4	105.9
Q4	67.0	96.2	113.7	81.2	107.2	105.8
2020 – Q1	67.5	96.2	114.3	80.8	107.0	106.3
2019 – Jan.	64.9	97.2	113.0	79.0	107.4	103.8
Feb.	63.9	96.8	112.5	79.9	107.6	104.0
Mar.	63.4	96.3	112.6	80.9	107.8	105.0
Apr.	63.2	95.9	113.4	80.4	107.9	105.6
May	64.8	96.2	114.0	80.2	108.3	106.3
June	65.9	96.4	113.9	78.7	107.8	105.2
July	65.5	96.2	112.9	77.9	107.7	105.1
Aug.	67.8	96.7	113.6	76.9	107.0	106.3
Sept.	67.2	96.3	113.2	78.8	107.5	106.4
Oct.	67.6	96.3	113.6	80.1	107.3	106.2
Nov.	66.9	96.1	113.3	81.2	107.1	105.9
Dec.	66.6	96.1	114.3	82.3	107.1	105.4
2020 – Jan.	66.2	95.9	114.4	81.8	107.2	104.8
Feb.	66.7	95.5	113.7	82.1	106.7	105.6
Mar.	69.4	97.2	114.8	78.6	107.0	108.6

(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.

Table A2

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
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	-0.4
Q2	0.7	2.4	3.8	1.4	-1.6
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	2.3	3.7	1.4	-1.9
Q2	2.4	1.4	2.6	1.2	1.0
Q3	1.2	-0.5	0.7	1.2	1.7
Q4	2.1	-0.9	-0.9	-0.0	2.9
2019 – Q1	2.4	-1.1	0.1	1.3	3.6
Q2	1.9	-0.4	-0.5	-0.1	2.3
Q3	1.4	0.6	-0.2	-0.8	0.8
Q4	2.0	-0.0	-1.1	-1.1	2.0
2020 – Q1	-0.7	0.4	-9.9	-10.3	-1.0
			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	1.6	1.2	-0.3
Q2	-0.8	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	-0.3	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	2.9
Q4	2.5	0.1	0.3	0.2	2.4
2019 – Q1	2.2	-0.7	0.1	0.8	2.8
Q2	0.8	0.5	0.5	-0.0	0.3
Q3	1.2	0.0	0.5	0.5	1.1
Q4	0.9	-0.0	0.2	0.2	0.9
2020 – Q1	1.5	3.6	-4.3	-7.6	-2.0
			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	-0.7
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	1.3	0.7	0.1
Q2	2.6	-0.1	1.0	1.1	2.8
Q3	2.1	-0.4	0.6	1.0	2.6
Q4	2.1	0.0	0.1	0.1	2.1
2019 – Q1	2.1	-0.8	0.3	1.1	3.0
Q2	1.2	0.5	0.3	-0.2	0.7
Q3	1.2	0.1	0.3	0.3	1.1
Q4	1.0	-0.3	-0.0	0.3	1.4
2020 – Q1	0.7	2.5	-5.4	-7.7	-1.8

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

Table A3

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2017	1.8	2.5	3.3	0.8	-0.7
2018	2.1	0.5	1.8	1.3	1.5
2019 Q2	1.7	-1.4	-1.0	0.4	3.2
2017 – Q1	1.4	1.6	2.5	0.8	-0.2
Q2	1.4	2.3	3.4	1.1	-0.8
Q3	1.4	3.2	4.7	1.4	-1.8
Q4	1.5	2.5	4.2	1.6	-1.0
2018 – Q1	1.9	2.4	3.5	1.1	-0.5
Q2	2.4	1.5	2.9	1.4	0.9
Q3	2.2	0.1	1.2	1.1	2.1
Q4	2.1	-1.4	-0.4	0.9	3.5
2019 – Q1	1.8	-1.4	-0.2	1.3	3.3
Q2	1.6	-1.4	-1.0	0.5	3.1
Q3	2.3	-1.4	-1.1	0.3	3.8
Q4	1.2	-1.4	-1.6	-0.3	2.6
2020 – Q1	2.2	-1.1	-4.8	-3.7	3.4
		Services			
2017	2.1	1.1	2.4	1.3	1.0
2018	2.2	0.5	1.9	1.4	1.7
2019	2.1	0.5	1.7	1.3	1.6
2017 – Q1	1.7	0.8	2.1	1.4	1.0
Q2	1.9	0.9	2.4	1.5	1.0
Q3	1.8	0.9	2.7	1.8	0.9
Q4	2.0	1.2	2.8	1.6	0.9
2018 – Q1	2.3	1.1	2.4	1.2	1.1
Q2	2.1	0.5	2.0	1.5	1.6
Q3	2.5	0.3	1.7	1.4	2.2
Q4	2.3	0.3	1.6	1.3	2.0
2019 – Q1	1.9	0.2	1.8	1.7	1.7
Q2	2.2	0.6	1.8	1.2	1.7
Q3	2.1	0.6	1.8	1.1	1.4
Q4	1.9	0.4	1.6	1.2	1.6
2020 – Q1	3.4	0.1	-2.3	-2.4	3.3
		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	0.2	1.2	1.1	1.8
2017 – Q1	1.6	0.9	2.1	1.2	0.6
Q2	1.8	1.2	2.6	1.3	0.6
Q3	1.6	1.4	3.0	1.6	0.2
Q4	1.9	1.5	3.1	1.6	0.4
2018 – Q1	2.2	1.5	2.7	1.2	0.7
Q2	2.1	0.7	2.2	1.5	1.4
Q3	2.4	0.2	1.6	1.4	2.2
Q4	2.2	-0.1	1.3	1.3	2.2
2019 – Q1	1.8	-0.1	1.5	1.7	1.9
Q2	2.1	0.2	1.3	1.0	1.9
Q3	2.1	0.3	1.3	0.9	1.8
Q4	1.8	0.1	0.9	0.8	1.7
2020 – Q1	3.1	-0.1	-2.8	-2.8	3.1

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

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	1.3	0.7	1.0
Apr.	0.1	0.6	0.4	0.3	0.8	1.0	0.3	0.9
May	-0.3	0.6	0.4	0.7	0.5	1.1	0.1	0.9
June	(-0.4)	(0.5)	(0.1)	….	(0.8)	….	(0.3)	(0.8)

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
2019 – Q1	592	1,415	866	549	81	559	138	2,785	157.2	81	63	18
Q2	596	1,441	880	561	85	568	145	2,835	159.8	50	30	19
Q3	607	1,486	900	586	91	577	157	2,918	163.8	83	35	48
Q4	611	1,529	941	588	80	566	156	2,943	164.6	24	-4	28
2020 – Q1	607	1,396	823	573	91	598	167	2,858	161.8	-84	-117	33
							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
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	168.5	112	72	40
Q4	511	1,359	281	1,078	123	980	-	2,972	166.3	-29	-34	4
2020 – Q1	510	1,223	205	1,019	141	1,049	-	2,923	165.5	-49	-78	29
							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
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
2020 – Q1	97	173	619	-446	-50	-451	167	-65	-3.7	-35	-39	3

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

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

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
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	52,890	56,854	-1,805	14,859	-17,018	-1,902	-2,291	390
2019 – Q1	3,824	9,674	-3,666	4,765	-6,949	-242	-361	118
Q2	12,800	14,285	1,304	-361	-2,429	-599	-458	-141
Q3	16,510	14,757	3,374	3,361	-4,982	-385	-561	176
Q4	19,756	18,137	-2,817	7,094	-2,659	-676	-912	236
2020 – Q1	6,450	12,958	-4,704	3,836	-5,640	-821	-767	-54
2019 – Jan.	-1,039	800	-1,163	1,009	-1,685	-77	-139	61
Feb.	2,143	3,788	-1,223	1,872	-2,294	-54	-109	55
Mar.	2,721	5,086	-1,280	1,885	-2,970	-111	-113	2
Apr.	3,437	3,201	15	1,084	-864	-228	-150	-78
May	3,739	5,365	532	-1,728	-430	-252	-165	-87
June	5,624	5,719	757	282	-1,134	-119	-143	24
July	8,744	7,953	1,528	857	-1,594	-125	-203	77
Aug.	4,452	3,422	1,038	1,693	-1,701	-80	-151	71
Sept.	3,313	3,382	808	811	-1,687	-179	-207	28
Oct.	9,470	8,065	-485	2,548	-658	-132	-330	198
Nov.	4,801	4,974	-1,502	2,021	-693	-166	-302	136
Dec.	5,486	5,098	-830	2,525	-1,308	-378	-280	-99
2020 – Jan.	-1,289	860	-1,258	415	-1,306	-277	-278	1
Feb.	4,568	6,278	-1,471	1,637	-1,877	-273	-263	-9
Mar.	3,171	5,820	-1,975	1,784	-2,458	-271	-225	-45
Apr.	(-915)	(353)	(-779)	(437)	(-925)	(-166)	(-101)	(-65)

(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	3.5	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	3.5	3.2
Feb.	1.4	1.3	0.1	2.8	3.3	3.6	3.9	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	3.6	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	3.4
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	3.7	3.5	3.2	3.7
Feb.	0.3	0.5	-1.2	2.5	3.7	3.4	3.0	3.7
Mar.	1.4	1.6	1.4	1.7	5.0	4.3	5.5	3.4
Apr.	1.4	1.4	1.7	1.1	4.9	4.5	6.6	3.0
May	1.5	1.6	1.9	1.3	5.3	4.9	7.3	3.0

(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 Italyn residents. – (3) Loans to euro-area residents. – (4) The series are based on the new definitions for monetary aggregates and counterparties adopted by the ECB in September 2012, which exclude repo transactions with central counterparties (for the euro area, starting with the June 2010 data).

Table A8

Net bond issues: Italy and euro area (1)

(billions of euros)

	Banks	Other financial corporations (2)	Non-financial corporations	Total
		Italy		
2018	-29.5	15.2	-4.1	-18.4
2019	-2.0	26.0	-3.8	20.2
2019 – Q1	-4.9	-0.3	-1.5	-6.7
Q2	1.4	-2.0	2.1	1.4
Q3	3.2	-1.1	-5.4	-3.3
Q4	-1.7	29.4	1.1	28.8
2020 – Q1	-14.5	-7.8	-3.4	-25.6
		Euro area		
2018	85.7	80.3	41.5	207.5
2019	120.1	166.9	62.0	349.0
2019 – Q1	58.6	21.7	15.8	96.0
Q2	17.1	27.8	16.5	61.3
Q3	22.1	39.1	20.3	81.4
Q4	22.4	78.4	9.5	110.3
2020 – Q1	33.1	5.6	10.1	48.9

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. – (2) Includes insurance corporations, other financial intermediaries, financial auxiliaries, money lenders and captive financial institutions.

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which:* investment of liquidity	Borrowing requirement	*of which:* in connection with financial support to EMU countries (3)
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
Mar.	10.8	1.3	-0.2	-23.8	-0.8	-0.5	-14.5	43.2	15.5	28.7	0.0
Apr.	-1.9	-0.0	10.1	25.7	0.6	0.1	34.6	-16.8	11.5	17.7	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.

Table A10

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	*of which:* in connection with EFSF loans	General government debt	Memorandum item: Treasury's liquid balances (2)	*of which:* investment of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
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
Mar.	238.5	66.9	118.3	1,901.3	125.1	47.8	33.5	2,431.1	30.1	12.0	36.4	57.8
Apr.	236.6	66.9	128.5	1,928.4	125.7	47.9	33.5	2,467.1	46.9	0.5	35.7	57.8

(1) For more information, see the Methodological Appendix in 'The Public Finances: Borrowing Requirement and Debt' in *Supplements to the Statistical Bulletin* for data up to December 2016 and for subsequent months 'The Public Finances: Borrowing Requirement and Debt' in the Statistics Series. – (2) Treasury deposits held at the Bank of Italy 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.