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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

OVERVIEW

The global economy recovers, but the outlook depends on the pandemic

Following the marked decline in conjunction with the lockdown in the spring, the world economy recovered over the summer and the most adverse scenarios have so far been avoided; nevertheless, growth is still largely dependent on the exceptional stimulus measures introduced in all the main economies. The outlook is still subject to uncertainty about the course of the pandemic, with infection rates rising in recent weeks, and to the possible repercussions on the behaviour of households and firms.

The euro area still needs ample monetary stimulus

Economic activity has also returned to growth in the euro area, but is not yet at the levels reached prior to the public health emergency. For households, persistent fears of unemployment have been accompanied by an increase in precautionary saving. Inflation has turned slightly negative; the risk of prolonged deflation incorporated in financial asset prices, which remains significant, has decreased thanks to the monetary policy decisions and to the introduction of the new European fiscal policy measures. The Governing Council has maintained a highly expansionary stance and has reiterated that it stands ready to further adjust all of its instruments.

Growth resumes in Italy

Based on the available indicators, the return to growth in Italy in the third quarter is likely to have been stronger than was forecast in July. According to our estimates, thanks also to the stimulus measures, GDP rose by around 12 per cent, driven above all by the strong rebound in industry, where firms expect demand to be more favourable over the coming months. The outlook remains more uncertain for services, which are recovering thanks to the favourable developments in domestic tourism flows, but activity in this sector is still very modest. In our surveys, households have indicated a gradual improvement in their financial situation; however, they also report a high propensity to save for precautionary purposes.

Foreign trade and purchases of Italian government securities pick up

Italy's trade in goods and services has increased, although the volume is still lower than it was prior to the outbreak of the epidemic. A partial recovery in tourism receipts was also recorded in the summer, though in August they were still around one fourth below those for the previous year. Demand for Italian securities from non-residents has picked up again since June, encouraged by the accommodative action of monetary policy and by the expectations raised by the European agreement reached on Next Generation EU, the European Union's recovery instrument.

Social safety nets mitigate the impact on employment

The latest available data suggest a partial recovery in the number of persons in employment over the summer; the margins of spare labour capacity are still ample. Recourse to social safety nets continues to soften the impact of the crisis on employment: on average in July and August, the number of hours of wage supplementation authorized, though halved compared with the peak of April and May, stayed at levels never seen before the health emergency.

Weak demand keeps prices down

Current and expected inflation continue to reflect the weakness of demand. The twelve-month change in prices stayed negative in September, reflecting both the weakening of the core component and the fall in energy prices. The inflation expectations of analysts and firms point to barely positive growth in prices over the next twelve months. The fears initially reported by households of a possible rise in inflation, likely prompted by the temporary increase in food prices observed during the lockdown, have abated.

Economic policies lead to a significant improvement in the financial markets

Monetary policy interventions, the expansionary fiscal stance and the agreement reached by the European Council on Next Generation EU have enabled a significant improvement in financial market conditions. The yield spread between ten-year Italian securities and the corresponding German Bund continued to narrow, falling to levels slightly below those registered prior to the pandemic. However, share prices have been more volatile, in both Italian and foreign markets, and heavily sensitive to news about the global spread of COVID-19 infections.

Disbursement of loans to firms increases

Firms' substantial liquidity needs were amply met by the sustained increase in bank lending, which began in March and continued into the summer (to 9.6 per cent on an annual basis in the three months ending in August). Credit supply conditions improved thanks to the introduction of substantial public guarantees on new loans and very favourable conditions for new ECB refinancing operations (TLTRO III). Disbursements increased without raising costs: the interest rates on loans remained unchanged at low levels.

The Government updates the public accounts estimates …

Given the effects of the pandemic on the economy and the measures adopted to address it, the Government estimates that net borrowing for the year will equal 10.8 per cent of GDP, 9.2 percentage points above the figure for 2019, and that the debt-to-GDP ratio will reach 158.0 per cent.

… and sets the objectives for subsequent years

The budgetary provisions, incorporating the use of Next Generation EU resources, imply a higher deficit than that projected under the current legislation scenario over the next two years (and a slightly lower one in 2023). According to its plans, the deficit would stand at 7.0 per cent of GDP in 2021, decreasing thereafter to 3.0 per cent in 2023; the debt would decrease over the three-year period to 151.5 per cent of GDP in 2023.

Under the Government's policy scenario, the expansionary measures provide a considerable boost to the economy, the magnitude of which is consistent with a set of interventions in which public investment plays a significant role. To maximize the benefits, it is crucial to speed up the execution and ensure the quality of such interventions.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

Following an unprecedented contraction, global economic activity picked up again in the third quarter. The recovery, strong but still partial, greatly depends on the effects of the exceptional stimulus measures introduced at global level. The world economy is still affected by uncertainty over the course of the pandemic, which has recently intensified, and by the potential repercussions on the behaviour of households and on firms' balance sheets.

New cases increase, deaths remain stable

After rising sharply in July and briefly stabilizing in August, the number of new cases of COVID-19 recorded daily has risen again since September, to around 320,000 in October. Between early July and mid-October, the biggest increases were recorded in India (6.7 million cases), in the United States (5.3 million) and in Brazil (3.7 million). The number of cases has risen in Europe (4.0 million, of which 690,000 in Russia), while in China the epidemic seems to be under control. The number of deaths per day has remained virtually unchanged, at around 5,500 on average in October.

Following the marked contraction in the second quarter ...

In the second quarter of 2020, GDP shrank considerably in both the advanced and the emerging economies, excluding China (Table 1); this was mainly due to the decline in private consumption, especially in the service sector. The broad income support measures limited this fall: savings, however, increased significantly, also for precautionary reasons.

... the recovery has been strong but partial

The available indicators point to a sizeable though partial recovery in economic activity in the third quarter of the year. In July and August, industrial production grew by a monthly average of 2 per cent in the United States, 5.3 per cent in Japan, and 2.8 per cent in the United Kingdom; it remains at levels of 8, 11 and 7 per cent respectively below those prior to the pandemic. The purchasing managers' index (PMI) for manufacturing firms continued the recovery that began in May, returning above the threshold compatible with expansion in all the leading economies except for Japan (Figure 1). The same trend

Table 1

GDP growth and inflation
(percentage changes)

	GDP growth (1)			Inflation (2)
	2019	2020 Q1	2020 Q2	September 2020
Advanced economies				
Japan (3)	0.7	-2.2	-27.8	0.2
United Kingdom (3)	1.3	-9.7	-58.7	0.2
United States	2.3	-5.0	-31.7	1.4
Emerging economies				
Brazil	1.1	-0.3	-11.4	3.1
China (3)	6.1	-6.8	3.2	1.7
India	4.9	3.1	-23.9	7.3
Russia	1.3	1.6	-8.0	3.7
Memorandum item:				
world trade (4)	**0.6**	**-13.1**	**-45.4**	

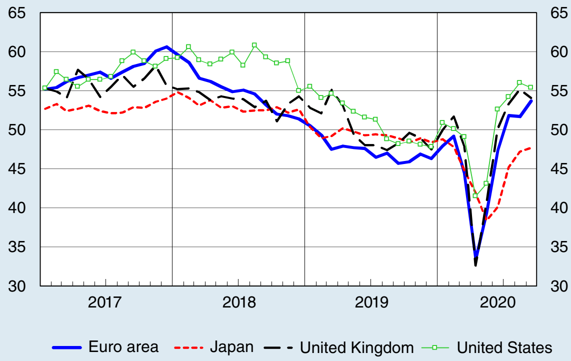
Sources: National statistics; for world trade, Bank of Italy based on national accounts and customs data.
(1) For the annual data, percentage change. For the quarterly data: annualized and seasonally adjusted quarterly percentage changes for the advanced countries; year-on-year percentage changes for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

was observed in the service sector, where the fall had been greater.

In China, the economy had already returned to growth in the second quarter of the year (Table 1), boosted by industrial production – which exceeded the levels prior to the spread of the epidemic – and by investment in real estate and infrastructure. The PMI for the manufacturing sector, on the increase for five months, signals that the expansion continued into the third quarter. In the other emerging economies in the same period, the recovery was most significant in Asia, with the exception of India, where it was curbed by the restrictive measures imposed because of the increase in cases.

Figure 1

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



Sources: Istat, 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'.

The decrease in world trade continues

The fall in international trade became considerably more marked in the second quarter of 2020: based on preliminary estimates, it contracted by around 45 per cent on an annual basis, penalized in particular by the decline in the tourism and transport sectors (Figure 2). It is estimated to have recovered partially in the third quarter, benefiting from the recovery in mobility and in global production.

The cyclical decline is reflected in price dynamics

Consumer price inflation remains very low in all the advanced economies (Figure 3). The long-term inflation expectations on the financial markets increased by 30 basis points in the United States, reaching 1.9 per cent in early October, and remained essentially stable in the United Kingdom and in Japan, at 3.4 and 0.0 per cent respectively.

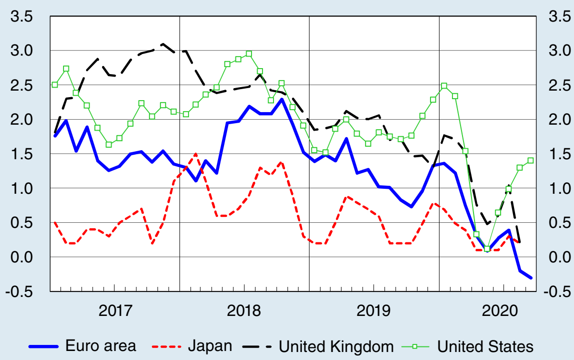
Figure 2

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

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

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.

Growth is expected to resume gradually ...

In its most recent forecasts, the International Monetary Fund slightly reduced its projected fall in world GDP in 2020 (by 0.8 per cent, to -4.4 per cent), thanks to the better than expected figures recorded in the second quarter of the year in the advanced economies. However, it made a small downward revision for growth in 2021 (of -0.2 per cent, to 5.2 per cent; Table 2). These forecasts assume that social distancing will continue in 2021 but will disappear over time as treatment improves and vaccines become widespread.

... with strong risks

The outlook for growth is subject to the risks of a protraction of the acute phase of the pandemic, which could have medium-term repercussions on supply as well, and of the possibility that the emergency measures to support households and firms might not be renewed. In the United States, no agreement has been reached on the new fiscal stimulus package (Phase 4) needed to support disposable income for the rest of the year. World trade could be affected by the rekindling of tensions between the United States and China and by the possible lack of an agreement between the United Kingdom and the European Union on future trade ties.

Table 2

Macroeconomic projections
(changes and percentage points)

	2019	Forecasts (1)		Revisions (2)	
		2020	2021	2020	2021
GDP					
World	**2.8**	**-4.4**	**5.2**	**0.8**	**-0.2**
of which:					
Advanced economies					
Euro area	1.3	-8.3	5.2	1.9	-0.8
Japan	0.7	-5.3	2.3	0.5	-0.1
United Kingdom	1.5	-9.8	5.9	0.4	-0.4
United States	2.2	-4.3	3.1	3.7	-1.4
Emerging economies					
Brazil	1.1	-5.8	2.8	3.3	-0.8
China	6.1	1.9	8.2	0.9	0.0
India (3)	4.2	-10.3	8.8	-5.8	2.8
Russia	1.3	-4.1	2.8	2.5	-1.3
World trade	**0.6**	**-10.0**		**4.0**	

Sources: IMF, *World Economic Outlook*, October 2020 (for GDP), and Bank of Italy, based on national accounts and customs data (for world trade).
(1) Percentage changes. – (2) Percentage points. Revisions compared with the forecasting scenario of June, taken from IMF, *World Economic Outlook*, June 2020 (for GDP) and from Bank of Italy, *Economic Bulletin*, 3, 2020 (for world trade). – (3) The data relate to the fiscal year starting in April.

Crude oil prices stabilize

Oil prices, which increased gradually until August, have fallen slightly since September ($40 per barrel in early October), affected by a slowdown in demand and by an increase in stocks (Figure 4); the expectations incorporated in futures indicate essentially stable prices in the medium term.

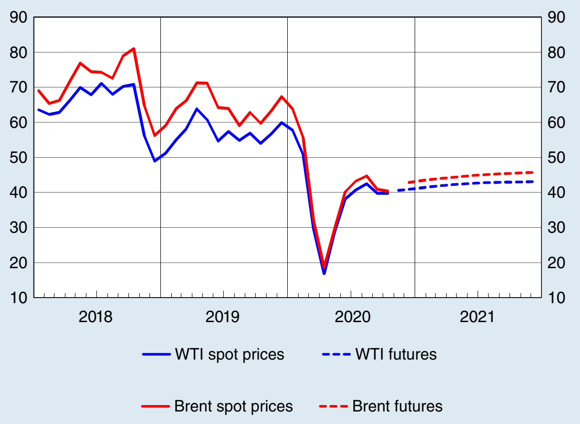
The Fed reviews its strategy and announces more expansionary conditions

The Federal Reserve has completed the review of its monetary policy strategy, begun in November 2018. It has specified that its decisions will meet the goals of countering shortfalls in employment from its maximum level – which may vary over time – and of achieving an inflation rate of around 2 per cent on average; this implies that a slightly higher inflation rate can be pursued following periods in which it has fallen below the objective.[1] In its September meeting, it therefore reformulated its forward guidance, also announcing that it does not expect any increases in interest rates until the end of 2023 (Figure 5). The Bank of England and the Bank of Japan have left their monetary policy stance unchanged. The People's Bank of China has kept its interest rates stable for the fifth consecutive month, underlining its desire to combine the need to stimulate lending to the real economy with that of preventing risks to financial stability.

[1] Federal Reserve, 'Statement on Longer-Run Goals and Monetary Policy Strategy', 27 August 2020.

Figure 4

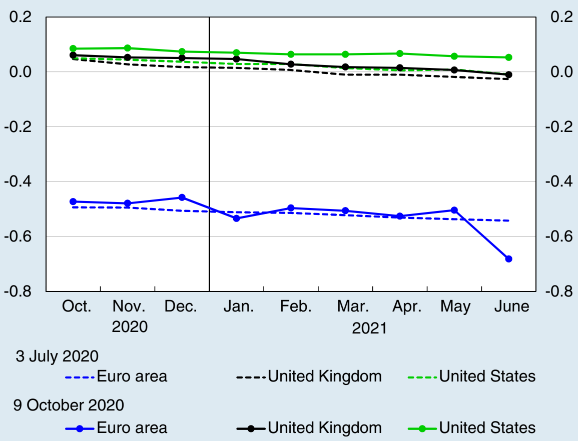
Oil prices (1)
(monthly data; dollars per barrel)



Source: Refinitiv.
(1) For the spot prices, monthly average data up to August 2020; the latest figure is the average of the daily data from 1 to 2 October 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.

1.2 THE EURO AREA

Based on the available indicators, economic activity in the euro area recovered markedly in the third quarter without, however, returning to pre-pandemic levels. Inflation turned negative; the risk of persistent deflation incorporated in financial asset prices, while still relatively high, decreased thanks to the monetary policy decisions and the introduction of the new EU fiscal policy measures. The ECB Governing Council confirmed that it continues to stand ready to intervene further, as appropriate.

The drop in GDP in the second quarter is significant

In the second quarter, economic activity in the euro area fell by 11.8 per cent (Table 3), the most significant quarterly drop since the time series began in 1995. The contraction affected all the components of demand. Net exports made a negative contribution to growth, as exports fell more than imports. The drop in GDP was sharper in Spain, above all owing to the pronounced reduction in value added in services, and less marked in Germany.

Table 3

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2019	2020 Q1 (1)	2020 Q2 (1)	2020 September (2)
France	1.5	-5.9	-13.8	(0.0)
Germany	0.6	-2.0	-9.7	(-0.4)
Italy	0.3	-5.5	-13.0	(-0.9)
Spain	2.0	-5.2	-17.8	(-0.6)
Euro area	1.3	-3.7	-11.8	(-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 changes in the harmonized index of consumer prices (HICP).

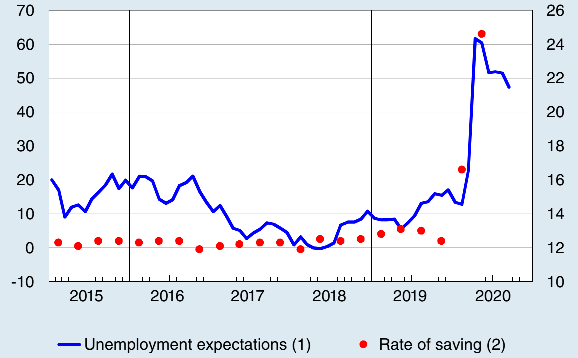
Precautionary saving increases

The decrease in consumption was accompanied by strong growth in household saving rates, initially reflecting difficulties in procuring goods and services resulting from the suspension of non-essential activities, and then increasingly precautionary motives, in connection with the persistent worsening in unemployment expectations (Figure 6).

Figure 6

Unemployment expectations and propensity to save

(monthly and quarterly data; percentage points and per cent)

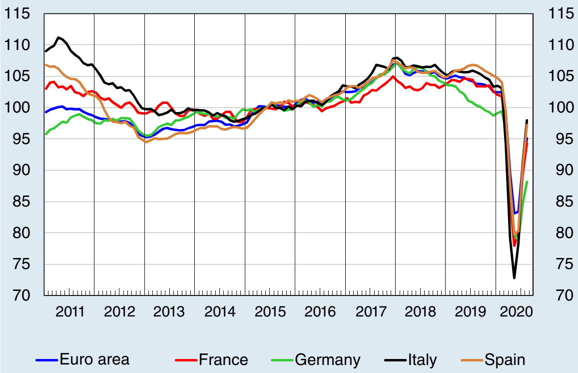


Sources: Based on European Commission and Eurostat data.
(1) Balance between the percentages of replies indicating 'an increase' and those indicating 'a decrease'. A rise in the balance signals a deterioration in unemployment expectations. – (2) Consumer households' savings as a percentage of gross disposable income. Right-hand scale.

Figure 7

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.

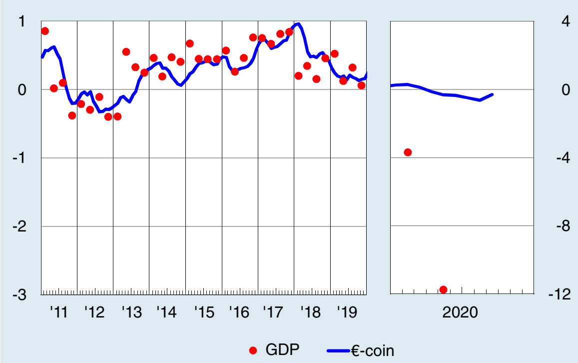
GDP makes a strong, though partial, recovery in the third quarter

The latest cyclical indicators point to strong growth in the summer months, though insufficient to recoup the drop recorded in the previous quarter. Overall, the rebound appears consistent with the scenario of gradual recovery envisaged by the Eurosystem in June. Industrial production, which had already increased by more than 20 per cent in the two months May and June, rose further in July and August, by about 6 per cent (Figure 7). In September, the PMIs, which since July have returned to levels in line with the expansion threshold, continued to signal a recovery in the manufacturing sector, while they decreased in services. The improvement in assessments of the level of orders in September drove up the business confidence indicator for euro-area industrial firms. The €-coin indicator returned to growth after diminishing for six consecutive months (Figure 8).

Figure 8

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

(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', Economic Bulletin, July, 2009. Further details are available on the Bank of Italy's website, '€-coin: September 2020'. For GDP, quarterly data, changes on previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter net of the most erratic components. The data for 2020 are plotted on a different scale to the one used for the previous years.

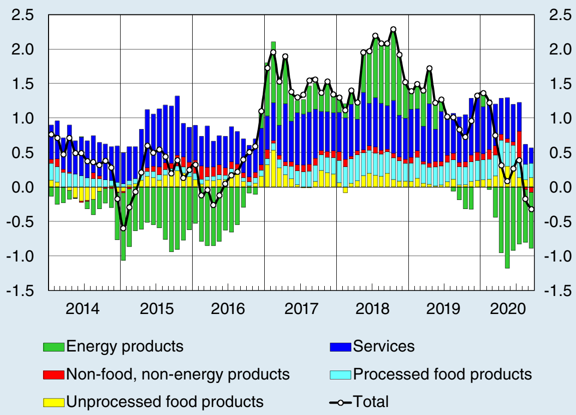
According to the ECB staff projections released in September, in a baseline scenario GDP would fall by 8.0 per cent in the current year. A recovery of 5.0 and 3.2 per cent is projected for the two following years. Uncertainty remains high and risks are mostly on the downside, above all in relation to possible, more unfavourable effects linked to the course of the pandemic.

Inflation enters negative territory

Based on preliminary data, twelve-month harmonized consumer price inflation was negative in September (-0.3 per cent; Figure 9). The negative contribution of the prices of energy goods was compounded by the weakening of the core component, which declined to 0.2 per cent, the lowest level since the introduction of the euro. The core component was affected by the slowdown in service prices as well as by the decrease in the prices of non-energy industrial goods. The ECB staff projections indicate consumer price inflation of 0.3 per cent in 2020, rising to 1.0 and 1.3 per cent in 2021 and 2022 respectively.

Figure 9

Euro-area consumer price inflation and contributions of its components (1)
(monthly data; per cent and percentage points)

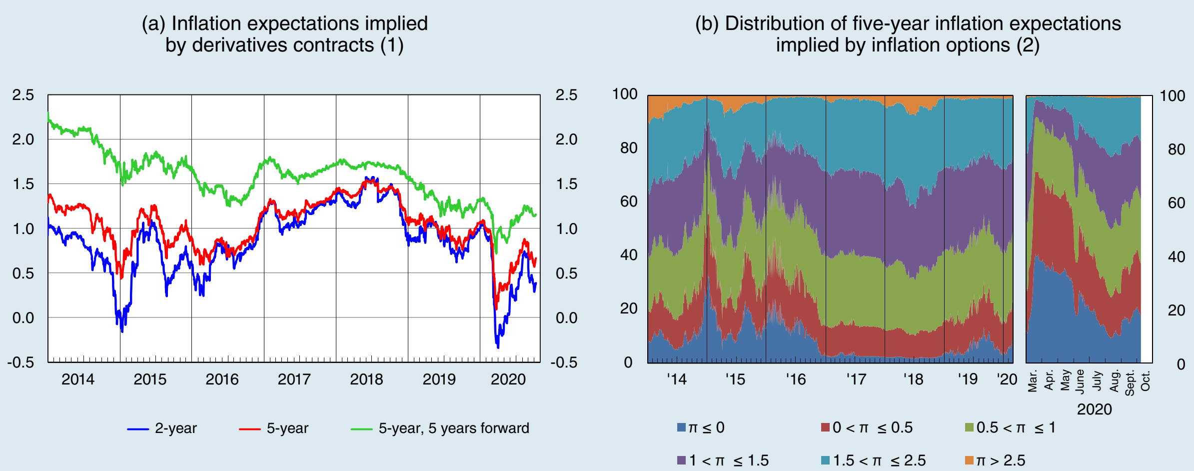


Sources: Based on Eurostat and ECB data.
(1) Twelve-month percentage change in the harmonized index of consumer prices (HICP). For September, preliminary estimates.

The inflation expectations incorporated in the prices of financial assets turned upwards in the summer months, reflecting the expansionary decisions taken by the ECB Governing Council in June and the European-level agreement on Next Generation EU, the European Union's recovery instrument. The upward trend came to a halt following the release of the preliminary figure for the harmonized index of consumer prices for August, which was worse than expected, and the renewed fears about the outlook for growth in connection with the resurgence in COVID-19 infections. At the beginning of October, expectations were still low over all time horizons: the two-year expectations derived from inflation swap yields were equal to 0.4 per cent; five-year, five years forward expectations stood at 1.2 per cent (Figure 10.a). Based on the prices of inflation options, the probability of inflation remaining below 0.5 per cent on average over the next five years is close to 40 per cent, less than the 70 per cent recorded in March but still above the 20 per cent registered prior to the public health emergency (Figure 10.b).

Figure 10

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 estimated 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.

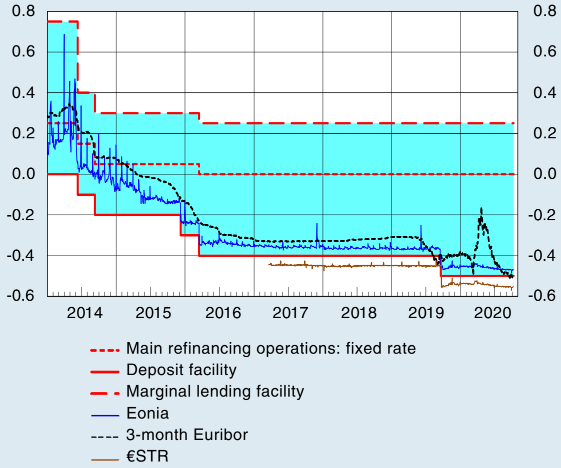
Ample monetary stimulus is still needed

At its 16 July and 10 September meetings, the ECB Governing Council decided to keep its very accommodative monetary policy stance unchanged. The measures adopted since the beginning of March and reinforced in June (see the box 'The monetary policy measures adopted in March 2020', *Economic Bulletin*, 2, 2020 and the box 'The monetary policy measures adopted by the ECB', *Economic Bulletin*, 3, 2020) support liquidity and borrowing conditions in the economy and contribute to the flow of credit to households and firms and to maintaining favourable financial conditions across all sectors and euro-area countries (Figure 11). In the current environment of heightened uncertainty, the Governing Council confirmed that it stands ready to adjust all of its instruments, as appropriate.

Figure 11

Official interest rates and money market rates in the euro area (1)

(daily data; per cent)



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

Net purchases under the expanded asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) brought the total book value of the portfolios of private and public sector securities purchased by the Eurosystem to €608 billion and €2,800 billion respectively at the end of September (Table 4). Flexible purchases under the PEPP restored orderly conditions in the financial markets and reduced the risk of fragmentation. On the sovereign securities market, the dispersion of the yields of the euro-area countries continued to decrease and liquidity conditions improved considerably.

On 30 September, the fifth auction of the third series of targeted longer-term refinancing operations (TLTRO III) was settled, allocating €174 billion to euro-area counterparties, of which €22 billion to Italian counterparties (Table 5). The total value of the funds disbursed under these operations rose to €1,699 billion and €340 billion respectively.

Table 4

Securities held under the APP and PEPP

(billions of euros)

	Private sector securities (1)	Public sector securities (1)	Italian public sector securities (2)	Italian public sector securities purchased by the Bank of Italy (2)
APP				
September 2020	552	2,290	411	370
PEPP				
September 2020	56	510	95	86

Sources: ECB and Bank of Italy.
(1) Book values at amortized cost. – (2) Difference between the acquisition cost of all purchase operations and the redeemed nominal amounts.

Table 5

Eurosystem refinancing operations
(billions of euros)

	Euro area		Italy	
	Amount	Number of counterparties	Amount	Number of counterparties
Total refinancing at 30 September 2020 (1)	**1,754**		**367**	
Refinancing under TLTRO III	1,699		340	
of which: last operation settled in September 2020 (gross)	174	388	22	41
last operation settled in September 2020 (net) (2)	158		17	

Sources: ECB and Bank of Italy.
(1) Includes the total amounts of main refinancing operations and longer-term refinancing operations: 3-month LTROs, TLTRO II, TLTRO III, and pandemic emergency longer-term refinancing operations (PELTRO). – (2) The amount of funds allocated is calculated net of the amounts that reached maturity or were reimbursed under the TLTRO II programme.

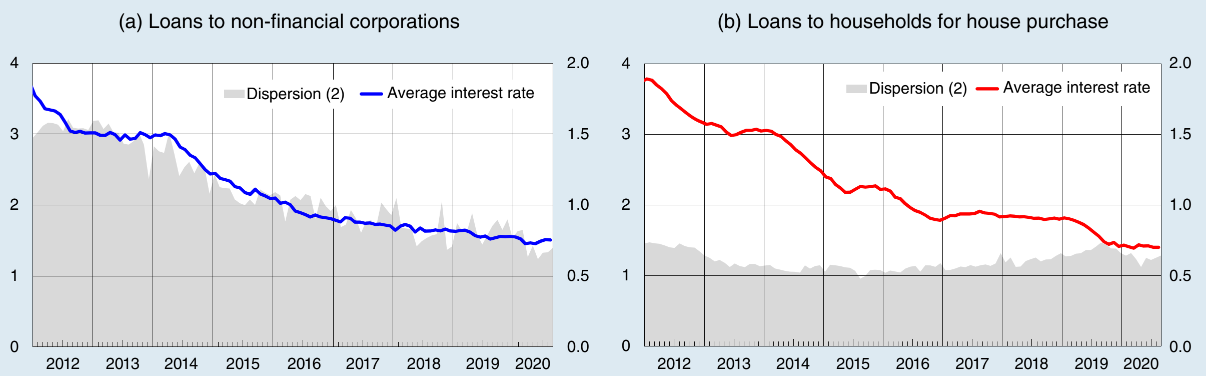
Lending to firms records strong growth

The abundant liquidity provided by the Eurosystem and the application of more favourable conditions to TLTRO III encouraged euro-area banks to respond to the strong demand for credit coming mainly from firms. Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in August, growth in lending to non-financial firms in the euro area, while slowing, continued at a robust pace (at an annualized rate of 4.5 per cent, compared with 23.1 per cent in May). However, lending patterns were uneven across the major euro-area countries: there was strong growth in France and Italy (12.0 and 9.6 per cent respectively), zero growth in Germany, and negative growth in Spain (-3.7 per cent). After the slowdown observed starting in March, loans to households picked up again: in August, the annualized quarterly rate of growth rose to 3.5 euro in the euro area on average (from 0.5 per cent in May).

Between May and August, the interest rates applied to new loans to non-financial corporations and to households for house purchase held practically stable, at 1.5 and 1.4 per cent respectively (Figure 12).

Figure 12

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



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

An agreement is reached on the Next Generation EU programme, which will also have to be approved by the European Parliament

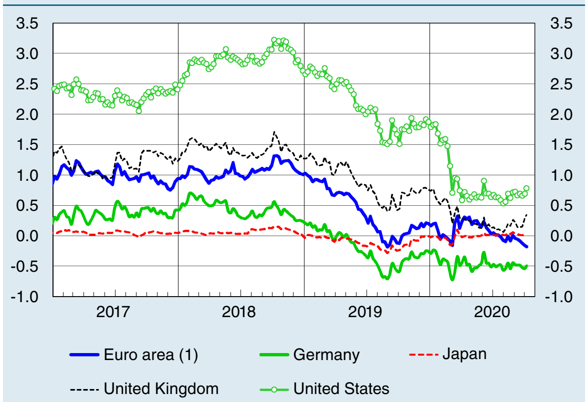
On 21 July, the European Council reached an agreement on the introduction of the Next Generation EU programme.[2] The agreement will need to be approved by the European Parliament and, for the part relating to the funding of the programme, ratified by the individual countries according to their constitutional procedures. Following that, the EU will be able to raise financial resources by issuing debt of up to €750 billion, to be used to issue grants and loans (for €390 billion and €360 billion respectively) to Member States, especially those hardest hit by the pandemic. The debt incurred by the EU will have to be repaid by 2058; to this end, new EU taxes will be established in the coming years. Almost 90 per cent of the resources (€312.5 billion worth of grants and the entire sum of €360 billion for loans) will be delivered through a Recovery and Resilience Facility established for this purpose. To apply for funding from the Facility, the countries will have to draw up specific national plans that identify reforms and investments for the next four years, which will be assessed by the European Commission.[3] The actual disbursement of the funds will be conditional on the satisfactory achievement of the intermediate and final objectives indicated in the national plans. Both the actual amount of resources on which Italy will be able to count and their economic impact will depend on the public administration's capacity to select, plan and execute adequate projects while minimizing waste and delays.

1.3 GLOBAL FINANCIAL MARKETS

In the course of the summer, financial market conditions improved not only thanks to large-scale interventions by the monetary authorities in support of liquidity but also to the expectations raised by comprehensive measures to bolster economic activity. Nevertheless, how markets perform is still contingent on the outlook for the pandemic, the health response capacity and the question of when vaccines may become available.

Figure 13

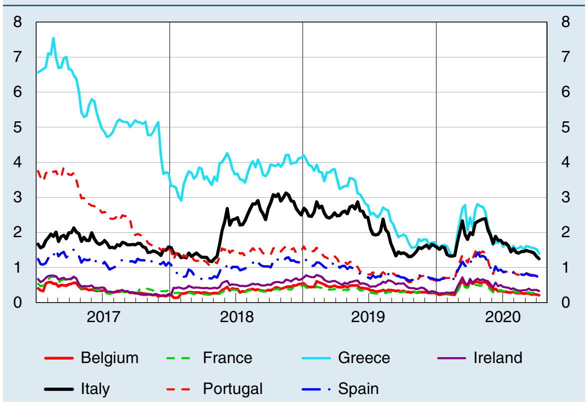
Yields on 10-year government bonds
(end-of-week data; per cent)



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

Figure 14

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



Source: Based on Bloomberg data.

[2] For more details, see 'Testimony as part of the fact-finding inquiry into the priorities for the utilization of the Recovery Fund', by F. Balassone, Head of the Structural Economic Analysis Directorate, before the Chamber of Deputies, Rome, 7 September 2020.

[3] For more details, see 'Testimony on the proposal regarding "Guidelines for defining the National Recovery and Resilience Plan" (Bill No. 572)', by F. Balassone, Head of the Structural Economic Analysis Directorate, before the Chamber of Deputies, Rome, 1 October 2020.

Long-term yields remain low

In a context of abundant liquidity to which the expansionary measures taken by the central banks contributed, since the start of July, long-term yields have remained basically unchanged in the leading advanced economies. On 9 October, the yields of ten-year public sector securities stood at around 0.8 per cent in the United States, 0.0 per cent in Japan, 0.3 per cent in the United Kingdom and -0.5 per cent in Germany (Figure 13). Since July the yield spread with the corresponding German Bund has narrowed by 44 basis points in Italy and, to a lesser extent, in Greece, Spain, Portugal, Ireland and Belgium (by 19, 18, 15, 12 and 10 basis points respectively; Figure 14; see Section 2.8).

Stock market indices perform unevenly

Share prices have risen in the United States and Japan since July, driven by their better than expected economic performance and by encouraging news about progress in vaccine testing. By contrast, share prices have fallen in the United Kingdom, held back by the increase in infections and uncertainty around the outcome of negotiations with the European Union concerning future trade relations. At the beginning of September, US stock indices had reached an all-time high, thanks to a sharp appreciation in the technology sector. However, there was a partial correction in the weeks that followed because of growing uncertainty over the new fiscal stimulus package and rising global infection rates (Figure 15).

Implied volatility fell in both the equity and the sovereign debt markets and then increased slightly in September (Figure 16).

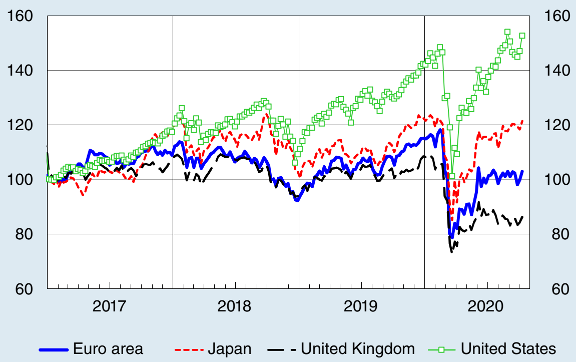
The euro strengthens

The euro exchange rate appreciated, both against the dollar and in nominal effective terms. As regards the dollar, the exchange rate reached 1.18 dollars against the euro, gaining 5 per cent since the start of July and 10 per cent since the lows recorded in March (Figure 17). Contributory factors were a reduction in risk aversion, whose increase at the height of the pandemic emergency had encouraged flows towards the US currency, and the expectation of more expansionary monetary policy in the United States (see Section 1.1). Expectations of a further strengthening prevail: non-commercial operators' net long positions in euros are in fact positive and the cost of hedging against a sharp appreciation of the euro against the dollar is greater than that of hedging against a sharp depreciation (Figure 18).

Figure 15

Equity prices (1)

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

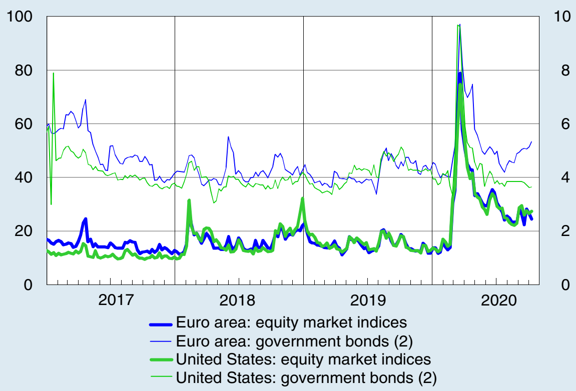


Source: Refinitiv.
(1) Indices: Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 16

Implied volatility of equity and government bond prices (1)

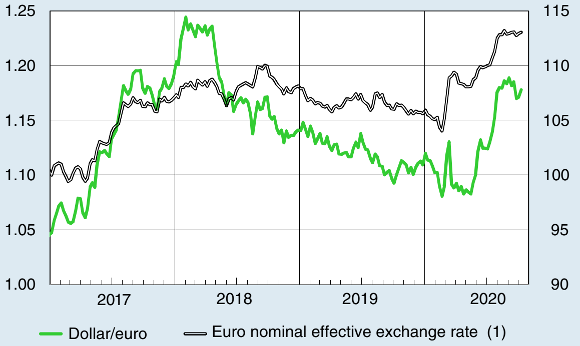
(average weekly data; percentage points)



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

Figure 17

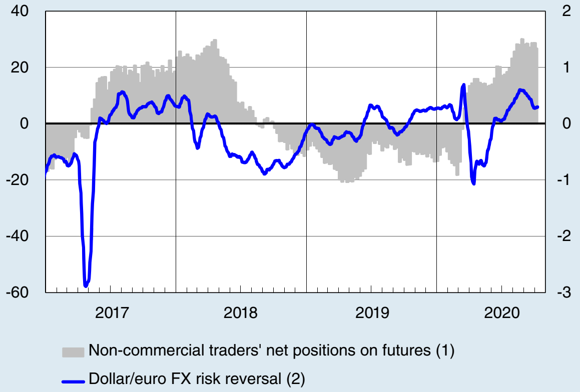
Exchange rates
(average weekly data; dollars per euro and indices)



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

Figure 18

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



Sources: ECB, Bloomberg and Refinitiv.
(1) Difference between 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

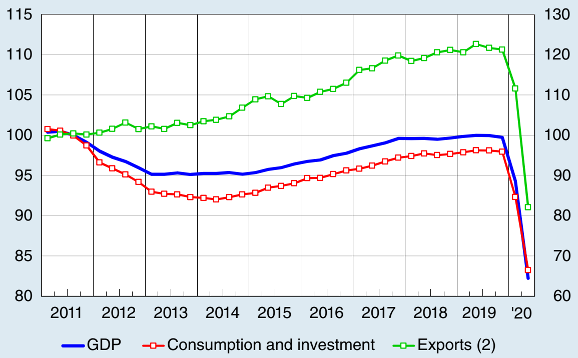
According to the latest information, the improvement in the economic situation over the summer was stronger than the baseline scenario outlined in our July projections; however, the recovery is still partial. In the third quarter, growth is estimated at around 12 per cent, driven by the recovery in industry; the outlook remains more uncertain in the service sector.

There is a general fall in GDP in the second quarter ...

In the second quarter, GDP fell by 13.0 per cent compared with the previous period, a little more than Istat had estimated in July (Figure 19 and Table 6). The contraction was across the board, due above all to the reduction in household consumption, as well as to that in gross fixed investment. The contribution of foreign trade to GDP growth was also negative, owing to a greater reduction in exports than in imports. Value added fell in all sectors, more markedly in industry excluding construction and in construction. There was also

Figure 19

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



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

Table 6

GDP and its main components (1)
(percentage change on previous period; contributions to growth by changes in stocks and net exports)

	2019		2020		2019
	Q3	Q4	Q1	Q2	
GDP	0.0	-0.2	-5.5	-13.0	0.3
Total imports	0.2	-2.8	-5.3	-20.6	-0.6
National demand (2)	0.3	-0.8	-4.8	-11.0	-0.1
National consumption	0.1	-0.1	-5.4	-8.5	0.3
Household spending (3)	0.2	-0.1	-6.8	-11.4	0.4
General government spending	0.0	-0.1	-1.1	-0.3	-0.2
Gross fixed investment	0.1	-0.2	-7.7	-16.2	1.6
Construction	0.9	-0.4	-6.7	-22.2	2.5
Capital goods (4)	-0.5	0.0	-8.4	-11.2	0.9
Change in stocks (5) (6)	0.2	-0.7	1.1	-1.2	-0.7
Total exports	-0.8	-0.8	-7.5	-26.4	1.0
Net exports (6)	-0.3	0.6	-0.9	-2.3	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 plants, machinery and arms (which also includes transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

a sharp decline in services, especially in the trade, transport, accommodation and catering sectors.

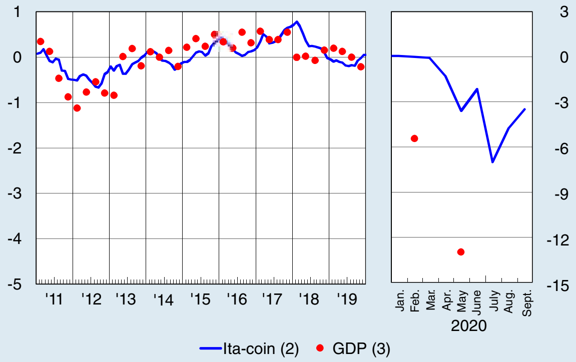
... followed by a significant, albeit partial, recovery in the third

According to the latest data, GDP made a robust though partial recovery in the third quarter, estimated at around 12 per cent. The latest qualitative and quantitative cyclical indicators are consistent with an upturn in activity in all sectors of the economy, more pronounced in industry, and marked by greater uncertainties in services. A full recovery is still far off in the latter sector (see the box 'Economic activity in the third quarter of 2020'). The Ita-coin indicator rose again in September (Figure 20), thanks to the mounting signs of recovery in industrial production and in the confidence of households and firms.

Figure 20

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

(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Istat.
(1) Further details are available on the Bank of Italy's website, 'Ita-coin coincident cyclical indicator'. Since November 2019, the dataset used for the Ita-coin estimate has been expanded with new data on services, which has meant revising the indicator profile. The Ita-coin estimate and the GDP growth rate are calculated based on the version of the quarterly national accounts available before the Istat data were revised on 2 October. The data for 2020 are plotted on a different scale to the one used for the previous years. – (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.

Overall, thanks also to the monetary and fiscal measures to stimulate demand, the improvement in the economic situation in the third quarter appears slightly stronger than the baseline scenario outlined in our July projections. Looking ahead, there is still a substantial risk that the pandemic will continue to impair the confidence of households and firms and that global demand will remain persistently weak.

ECONOMIC ACTIVITY IN THE THIRD QUARTER OF 2020

The recovery in economic activity under way since May continued into the summer months, at a stronger pace than could be inferred from last July's projections. The Bank of Italy's models indicate that in the third quarter as a whole, GDP growth was around 12 per cent on the previous quarter, only partially recouping the contraction recorded in the first part of the year. In the third quarter, the more timely indicators for electricity consumption, gas supplies to the industrial sector, and motorway traffic continued to rise, following a trend that began in May with the reopening of many activities. However, for the quarter on average, these indicators have not yet fully returned to pre-pandemic levels (Figure A). Business confidence continued to improve across all the main sectors, according to Istat data (Figure B); the purchasing managers' index (PMI) in the manufacturing sector also recorded a strong increase (Figure 21.b).

Based on these indicators and on the data released in July and August (see Section 2.2), industrial production is estimated to have grown by about 30 per cent in the third quarter (from -16.8 per cent in the second quarter), returning to pre-pandemic levels.

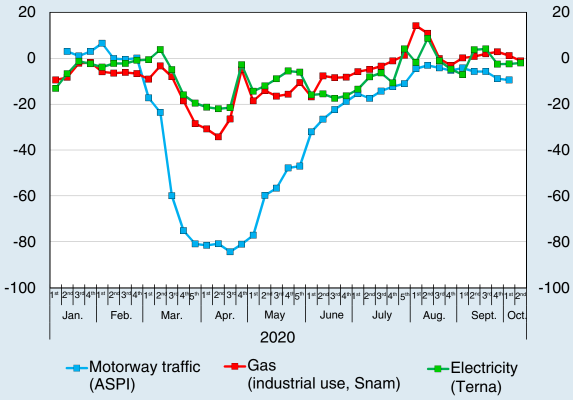
The business survey carried out by the Bank of Italy in September confirms that a recovery is underway: the share of firms that expect the general economic situation to improve compared with the previous three months rose to 30 per cent, from 3 per cent in the previous survey (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 12 October 2020).

Services, which were hit hardest by the measures to contain the pandemic, appear to have made a positive contribution overall to economic growth in the third quarter, following the partial

Figure A

High-frequency cyclical indicators (1)

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

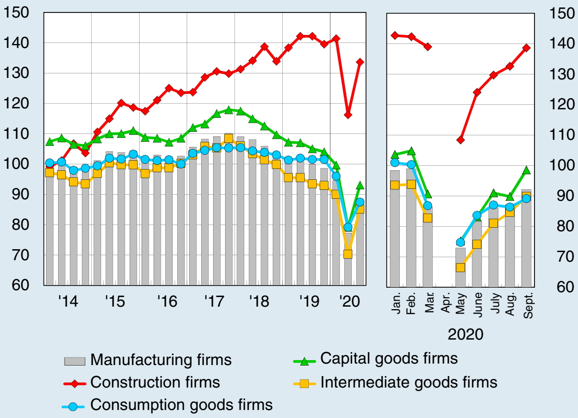


Sources: Based on data from ASPI, Snam and Terna.
(1) Weekly data; percentage changes compared with the same week of 2019. The changes in the week of 20 April reflect the impact of Easter being on 21 April last year.

Figure B

Business confidence indices of industrial firms (1)

(quarterly data; indices: 2010=100)



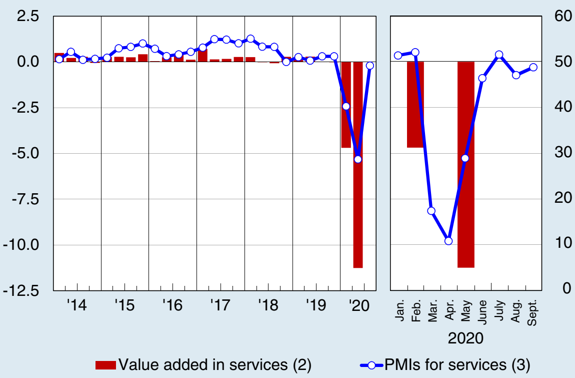
Source: Based on Istat data.
(1) Left-hand panel, average level in the reference quarter. The average for the second quarter of 2020 is measured on the basis of the May and June values since the April data are not available owing to the suspension of the survey in light of the public health emergency.

reopening of many business and favourable developments in domestic tourism flows. However, foreign tourism appears to have acted as a brake, especially for hotel and restaurant services: in August, the spending of foreign visitors to Italy was about one fourth lower than in the same month of last year, while in June it was lower by more than three fourths (see Section 2.4). Despite the inversion in the trend under way since May, the PMI of the sector was low on average in the third quarter and compatible only with a gradual recovery in economic activity (see Figure C). Similar indications come from both the data on payment flows (transactions at POS

Figure C

PMI and value added in services (1)

(quarterly data; diffusion indices and percentage changes)

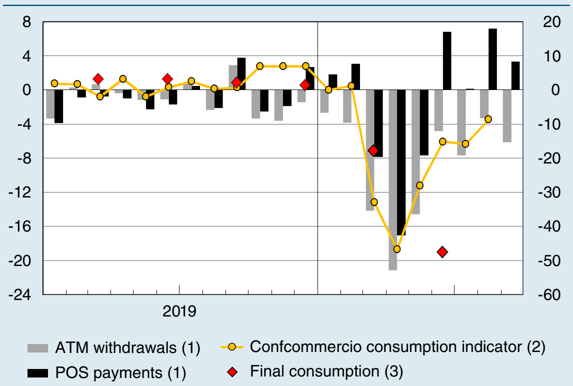


Sources: Based on Istat and Markit data.
(1) For the PMI, average level in the reference quarter in the left-hand panel. For value added in services, percentage change on the previous period, seasonally adjusted. – (2) The data for value added in the third quarter of 2020 are not yet available. – (3)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

Figure D

ATM withdrawal and POS payment amounts and consumption expenditure

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



Sources: Based on data from the Bank of Italy, Istat and Confcommercio.
(1) Data obtained from the BI-COMP multilateral clearing system; right-hand scale. For more details, see the Bank of Italy's website: 'BI-Comp and CABI: retail payments systems'. – (2) Right-hand scale. – (3) Final consumption expenditure of resident and non-resident households on the economic territory; current prices; the series are calendar adjusted.

terminals and ATM withdrawals) and developments in the consumption indicators calculated by Confcommercio, which in the two months July and August pointed to a partial recovery in spending, mainly concentrated on household and personal goods and on the purchase of goods and services for mobility (Figure D).

Value added in construction appears to have increased, in line with the growth in output in July and the marked improvement in business confidence in that sector, which benefited from the recently introduced tax incentives (see the box 'Italian firms' assessments reported in the Bank of Italy's surveys').

Bearing in mind that, according to the data released in October by Istat, the decline in the second quarter was slightly greater than in July's estimate, the trends we are currently seeing nevertheless remain broadly consistent with the result for the year envisaged in that scenario: a drop of just under 10 per cent in GDP followed by a very gradual recovery (see *Economic Bulletin*, 3, 2020).

2.2 FIRMS

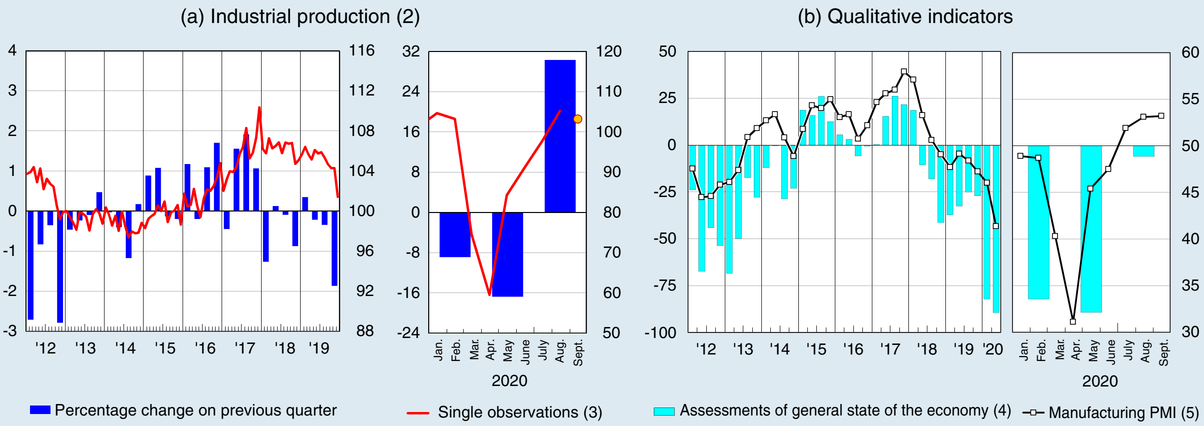
The available data suggest that industrial production continued to rise in the summer months, returning to pre-crisis levels. Following the deterioration linked to the effects of the most acute phase of the health emergency, firms expect a more favourable trend in demand in the coming months, including in foreign markets; assessments of investment are improving, especially in industry.

Industrial production continues to recover

Industrial production, which fell sharply in April, but had already recovered partially in May and June, recorded a further increase in July and August (by 7.0 and 7.7 per cent respectively), supported mainly by capital and intermediate goods. According to our estimates, industrial activity grew by about 30 per cent in the third quarter, returning to pre-pandemic volumes (Figure 21.a; see the box 'Economic activity in the third quarter of 2020').

Figure 21

Industrial production and qualitative indicators (1)
(monthly and quarterly data)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) The data for 2020 are plotted on a different scale to the one used for the previous years. – (2) Data adjusted for seasonal and calendar effects. – (3) Monthly data. Index: 2015=100. The red dot represents the estimate for September 2020. Right-hand scale. – (4) 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, 12 October 2020). – (5) 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 the percentage of responses 'better' to half of the percentage of responses 'the same'. Right-hand scale.

Firms point to an improvement in the outlook

In the survey conducted in September by the Bank of Italy, assessments of the current general state of the economy are markedly more favourable compared with the steep drop in the previous quarter. Firms' assessments of demand for their own products over the next three months again point to a recovery (see the box 'Italian firms' assessments reported in the Bank of Italy's surveys'). In September, the purchasing managers' indices (PMIs) remained above the threshold compatible with an expansion in manufacturing (Figure 21.b), but stayed below that level in services. The firms interviewed in the survey conducted in September by the Bank of Italy reported less unfavourable investment conditions and said they planned to increase their investment in the second half of the year, although they expect investment to be lower in 2020 as a whole.

ITALIAN FIRMS' ASSESSMENTS REPORTED IN THE BANK OF ITALY'S SURVEYS

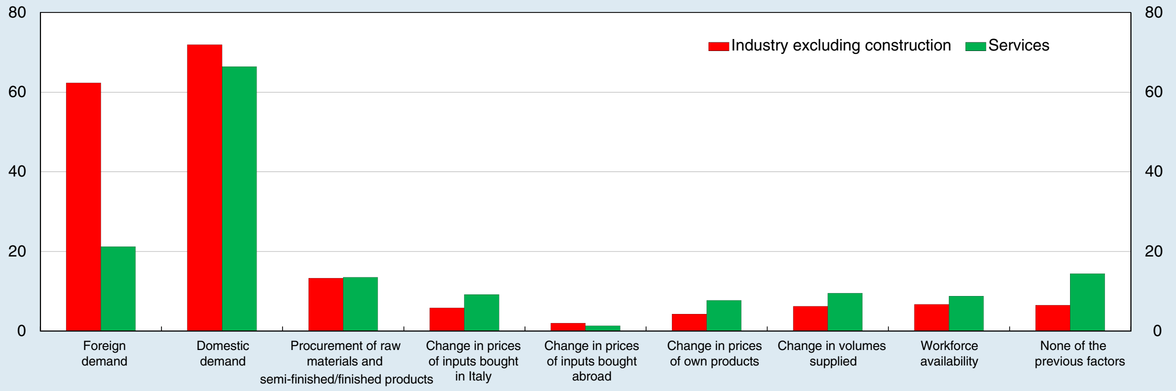
Between 27 August and 17 September, the Bank of Italy conducted its quarterly survey on inflation and growth expectations on a sample of about 1,200 firms with 50 or more employees in industry excluding construction, services and construction (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 12 October 2020).

Firms' assessments of the general economic situation became more favourable: the share of those considering the economic situation to be worsening compared with the previous three months fell noticeably (to 35 per cent, from 92 per cent in the June survey), while almost 30 per cent reported seeing an improvement (it was only 3 per cent in the previous survey). The balance between assessments of an improvement and of a deterioration turned slightly positive in industry excluding construction (1.3 percentage points), while it remained negative in services and in construction (about -12 points for both sectors).

The share of firms expecting the demand for their products to expand over the next three months exceeds that anticipating a reduction, including when considering foreign markets. Expectations are more optimistic in industry excluding construction. The share of firms that anticipate, over the same horizon, a worsening of their own operating conditions all but halved; more than one in two expect the situation to remain unchanged.

Figure A

Channels of transmission of the COVID-19 epidemic to business activities (1)
(percentage points)



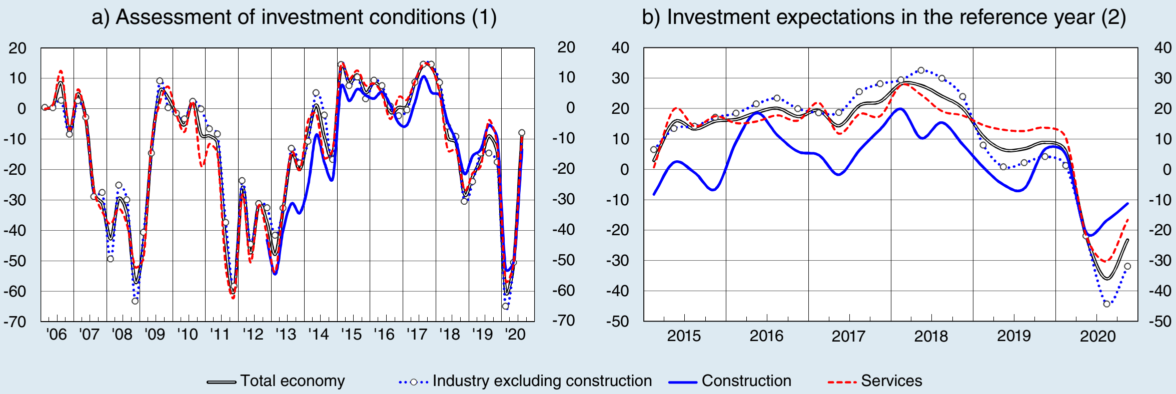
Source: Survey on Inflation and Growth Expectations, Banca d'Italia, Statistics Series, 12 October 2020.
(1) Firms in industry excluding construction and in services were asked to indicate the two main channels through which the COVID-19 epidemic will affect their activity at present and over the next 3 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 of the firms interviewed continued to report that the epidemic is affecting their business above all by reducing demand, both domestic and foreign (Figure A). Some 67 per cent of firms in services and 77 per cent of those in industry excluding construction report that their current production levels are still below those registered before the outbreak of the pandemic (74 and 82 per cent respectively in the previous survey); in construction the share is 54 per cent (71 per cent in June). On average, firms expect that it will take around twelve months for a complete recovery in economic activity. The share of those that believe they will never return to pre-pandemic levels rose slightly across all sectors, to about 4 per cent in industry excluding construction, 6 per cent in services and 3 per cent in construction.

The balance between the share of firms whose assessments point to an improvement in investment conditions and the share of those indicating a worsening went up significantly compared with the previous survey, even if it was still negative (-8.4 percentage points, from -50.6 points; Figure B).

Figure B

Assessments and expectations regarding investment
(quarterly data; percentage points)



Source: Survey on Inflation and Growth Expectations, Banca d'Italia, Statistics Series, 12 October 2020.
(1) Balance between assessments of an improvement and of a deterioration by comparison with the previous quarter. Construction firms are included in the total economy starting from Q1 2013. – (2) Balance between expectations of an improvement and of a deterioration by comparison with the previous year. The first indication of expectations for the reference year is surveyed in the fourth quarter of the previous year.

The share of firms that expects to increase investment expenditure in the current half of the year compared with the first half barely exceeds the share anticipating a reduction, the balance being wider in the construction sector (8.5 percentage points); for almost half of firms, investment expenditure will remain unchanged. As regards 2020, the balance between firms expecting capital accumulation to grow compared with 2019 and those expecting it to decline became less negative in all sectors, at around -23 percentage points on average (Figure B).

The reduction in investment for this year is also confirmed by the survey conducted between September and October by the Bank of Italy's branches on a sample that is representative of small firms as well (about 4,500 non-construction industry and service firms with at least 20 employees and construction firms with at least 10 employees; see Business Outlook Survey of Industrial and Service Firms, Banca d'Italia, Statistics Series, forthcoming).

More than 40 per cent of firms in industry excluding construction and in services have reported that their investment for 2020 as a whole will fall short of what they had planned at the end of last year. For about half of these firms, investment expenditure will be lower by more than one fourth compared with initial plans. Fewer than one in two will carry out their planned investment.

The downward revision in spending plans was mainly attributable to the uncertainty about the economic and political outlook and the contraction in sales: 71 per cent of firms recorded a reduction in turnover in the first three quarters of 2020 compared with the year-earlier period, while 16 per cent reported an increase.

Against the backdrop of these developments, the demand for bank loans increased considerably in the first half of the year, mainly in response to greater liquidity needs.

For 2021, one in three firms are planning to increase their investment expenditure compared with this year, in connection with the less pessimistic outlook for demand.

Construction firms reported a widespread reduction in output for this year, which affected the public works segment as well. More than half of construction firms expect output to recover in 2021.

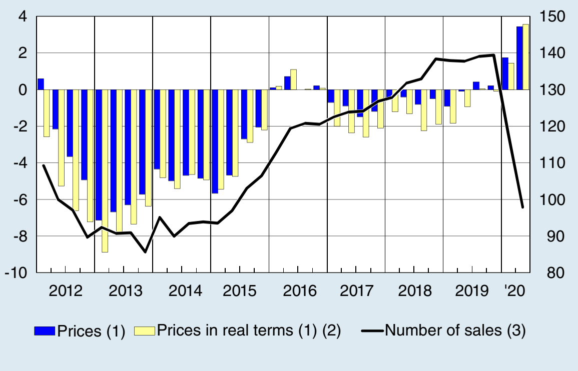
Further data collected through the Bank of Italy's branch network show that, in response to the changed economic landscape, firms modified their business models and their production processes, either by investing in digitalization or by restructuring supply chains. Compared with the assessments reported in April, the economic situation in some segments of the tertiary sector (non-food retail trade; hotels, bars, restaurants and similar establishments and recreational activities; and tourism) is deemed to be improving in the South and Centre of the country, and to be essentially stable in the North.

The property market shows signs of recovery

In the second quarter, the volume of house sales fell by 17.1 per cent compared with the previous period (Figure 22), while house prices rose by 3.1 per cent. The Italian Housing Market Survey conducted in September indicates that the estate agents' outlook for the property market is less unfavourable than that of June ('Italian Housing Market Survey', Banca d'Italia, Statistics Series, forthcoming). After restrictions to curb the epidemic began to be lifted in May, activity in the construction sector picked up, thanks to an increase in production of 3.5 per cent in July, and returned to levels in line with those at the end of 2019. According to our calculations based on the number of notices for sale taken down from the digital platform Immobiliare.it, which is generally a leading indicator of future home purchases, in the

Figure 22

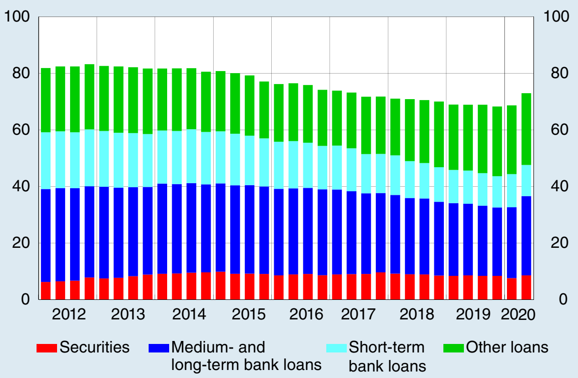
House prices and sales
(quarterly data; indices: 2015=100)



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

Figure 23

Debt of non-financial corporations (1)
(quarterly data; as a percentage of GDP)



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

second half of the year, house sales are expected to record a significant, albeit partial, recovery from the sharp decline reported in the first half of the year.

Firms' debt rises

Based on Istat data, on average in the four quarters ending in June 2020, the profit share of non-financial corporations (calculated as the ratio of gross operating surplus to value added) decreased compared with the preceding quarter, following a sharper decline in the gross operating surplus than in value added. Their self-financing capacity (calculated as the ratio of gross saving to value added) also declined. In the second quarter of 2020, total corporate debt as a percentage of GDP rose to 73 per cent (Figure 23), although it was still far below the euro-area average of 115 per cent. Due to the impact of the public health emergency, the share of debt issued by those firms deemed most risky is destined to rise, mitigated in part by the support measures introduced to date.

2.3 HOUSEHOLDS

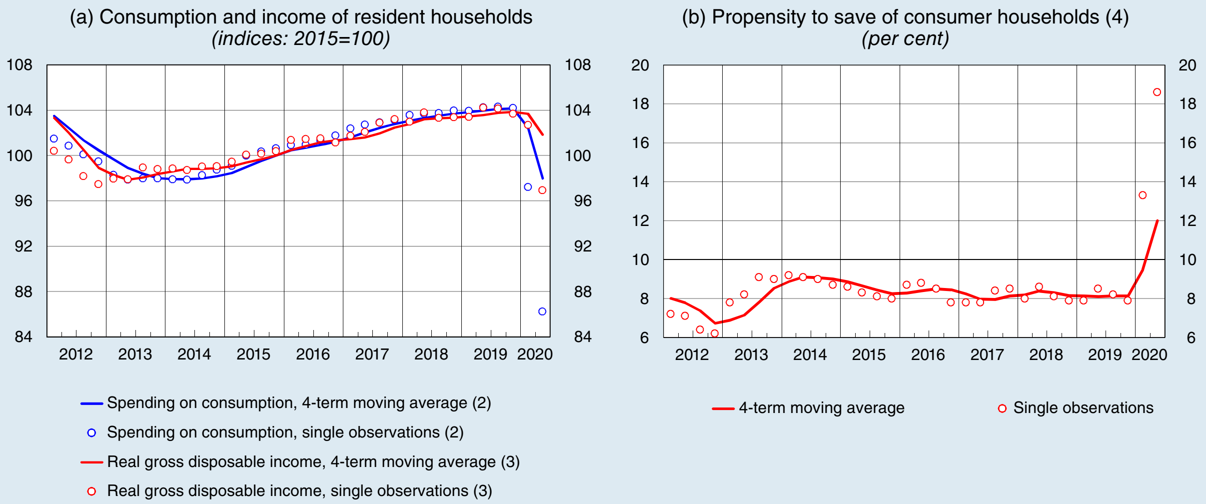
In the second quarter, household spending fell sharply, following the contraction registered in April; preliminary estimates suggest that the recovery that began in May continued into the third quarter. According to the assessments of households, economic conditions are expected to gradually improve, but persistent epidemiological risks and an increase in precautionary savings are holding back consumption.

Consumption contracts in the second quarter

Private consumption fell by 11.4 per cent in the second quarter compared with the previous quarter. The reduction was more pronounced for semi-durable and durable goods and for services. Households' disposable income decreased by 5.6 per cent compared with the previous quarter (Figure 24.a), also owing to the substantial decline in the number of hours worked (though this was mitigated by wage supplementation; see Section 2.5). This led to a sharp increase in the propensity to save, to 18.6 per cent, more than double the rate observed at the end of 2019 (Figure 24.b). The propensity to save, initially influenced by the mechanical effect of the difficulties in

Figure 24

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



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

procuring goods and services following the suspension of non-essential activities, remained high. This likely reflects both precautionary motives and the persistent risk of infection, which may discourage or prevent some types of consumption, especially those linked to tourism and recreational activities. Our surveys, conducted between the end of August and the beginning of September, indicate that almost one third of households plan to reduce spending on non-durable goods (such as food, clothing, footwear, household goods and services) over the next three months; the share rises to 47 per cent among households in financial difficulty (see the box 'Italian households during the epidemic: the Bank of Italy's survey').

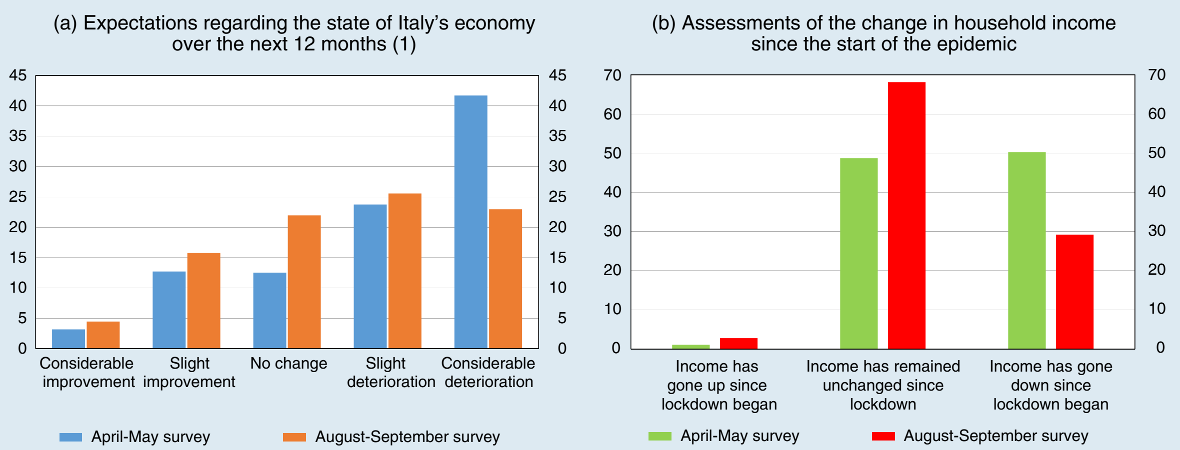
ITALIAN HOUSEHOLDS DURING THE EPIDEMIC: THE BANK OF ITALY'S SURVEY

Between the end of August and the start of September the Bank of Italy conducted the second edition of its Special Survey of Italian Households to collect information on the impact of the COVID-19 epidemic on the financial situation and expectations of households.[1]

Compared with the first edition of the survey – conducted between the end of April and the start of May, a period still heavily affected by the lockdown and its economic fallout[2] – the assessments of the general outlook for Italy are less negative overall. The percentage of households that expect a significant deterioration in the next twelve months fell by around 20 percentage points, although it remains high (at 23 per cent; see panel (a) of Figure A). The assessments by households headed by self-employed workers continue to be more pessimistic, likely influenced by worries about the effects of the pandemic on their activities.

Figure A

Expectations and assessments of economic and financial conditions
(per cent)



Source: Based on data from the Bank of Italy's Special Survey of Italian Households, 1st and 2nd editions.
(1) The figure does not include responses of 'I don't know'.

1 The interviews on a sample of over 2,300 households were conducted remotely using a multimedia touchscreen device; almost 900 of these households had also taken part in the first edition of the survey.

2 In the first edition of the survey, carried out between the end of April and the start of May 2020, two other survey techniques (namely interviews over the phone and the web) were used in addition to the touchscreen device, which was the only method used for the second edition. For the purposes of comparison of the results, only that component of the sample interviewed for both editions using the touchscreen device was used in analysing the data from the first edition. The main findings of the survey and the methodology used are described in A. Neri and F. Zanichelli, 'The main results of the special survey of Italian households in 2020', *Note COVID-19*, Banca d'Italia, 26 June 2020 (only in Italian), and in the box 'Italian households' assessments and expectations during the current public health emergency', Chapter 5, *Annual Report for 2019*, 2020.

Assessments of households' financial situation have also improved: those that state that their income has dropped since the start of the epidemic account for just under 30 per cent, a percentage that, while still high, is lower than the 50 per cent registered in April (see panel (b) of Figure A). Among the households interviewed in both editions, just under half of those that reported a drop in income between March and April stated that their income remained lower than pre-crisis levels. The reduction in income is frequent among households headed by a self-employed worker or someone unemployed; it was alleviated by support measures,[3] which benefited respectively more than 60 and 40 per cent of those households.

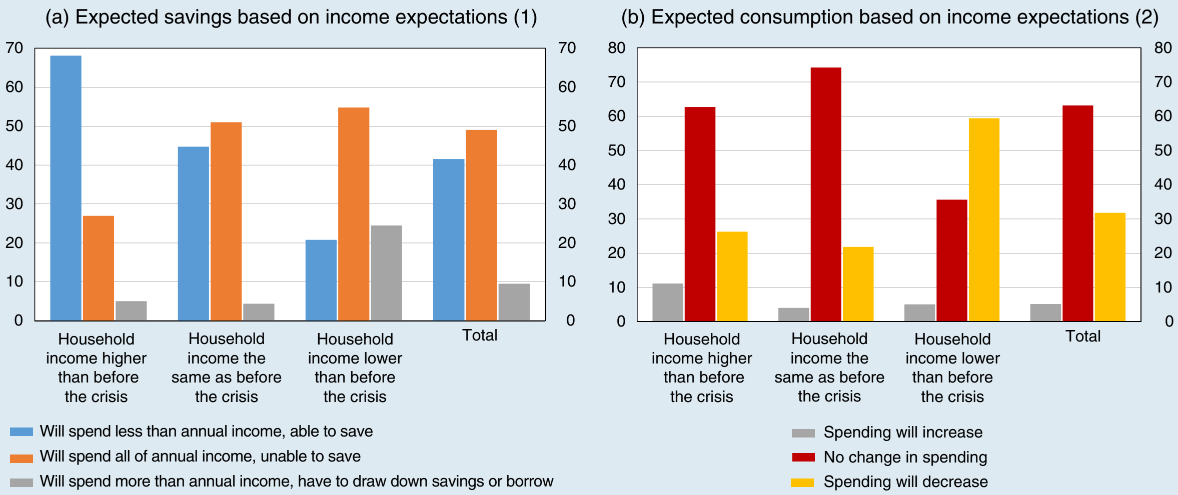
Households' expectations concerning their own financial situation are also less pessimistic than in the spring: the share of households that expect their income in the next twelve months to be lower than where it stood prior to the epidemic, decreased by almost half, although it is still high (at 25 per cent). Those who are currently unemployed had more unfavourable expectations, as did heads of household hired on fixed-term contracts or self-employed: more than one fifth of heads of household employed with fixed-term contracts and 15 per cent of those who are self-employed believe that they have a greater than 50 per cent chance of losing their jobs in the next twelve months.

The percentage of households that plan to save remained high: more than 40 per cent think that they will spend less of their annual income in the next twelve months. Planning to save is widespread both among households that expect their income to increase (almost 70 per cent) and among those that expect their income to fall (about one fifth; see panel (a) of Figure B). It is likely that expectations

Figure B

Expected savings and consumption based on income expectations

(per cent)



Source: Based on data from the Bank of Italy's Special Survey of Italian Households, 2nd edition.
(1) Percentage of households that in the next 12 months expect: to be able to set aside some savings; not to be able to save anything; to have to draw down their savings or borrow money, based on income expectations over the next 12 months. Some 12 per cent of households expect their income to increase over the next 12 months, 25 per cent expect it to decrease, and 63 per cent expect it to remain stable. – (2) Percentage of households that expect that over the next 3 months their spending on food, clothing and footwear, household goods and services will: increase, not change, decrease, based on income expectations for the next 12 months. The distribution of income expectations is shown in Note 1.

[3] The income support measures considered included: the wage supplementation scheme (*Cassa integrazione guadagni*), the allowance from the wage supplementation fund (*Fondo di integrazione salariale*) and the solidarity funds, the unemployment insurance schemes (*nuova assicurazione sociale per l'impiego* or NASpI, *disoccupazione agricola* for farm workers), the new minimum income scheme (*Reddito di cittadinanza*), emergency income (*Reddito di emergenza*), measures in support of self-employed workers and professionals, and the vouchers for the purchase of baby-sitting services.

regarding saving reflect precautionary motives, in the face of the risk of income reduction, and the persistent risk of COVID-19 infection, which can discourage or hinder some expenditure linked to tourism and recreational activities.

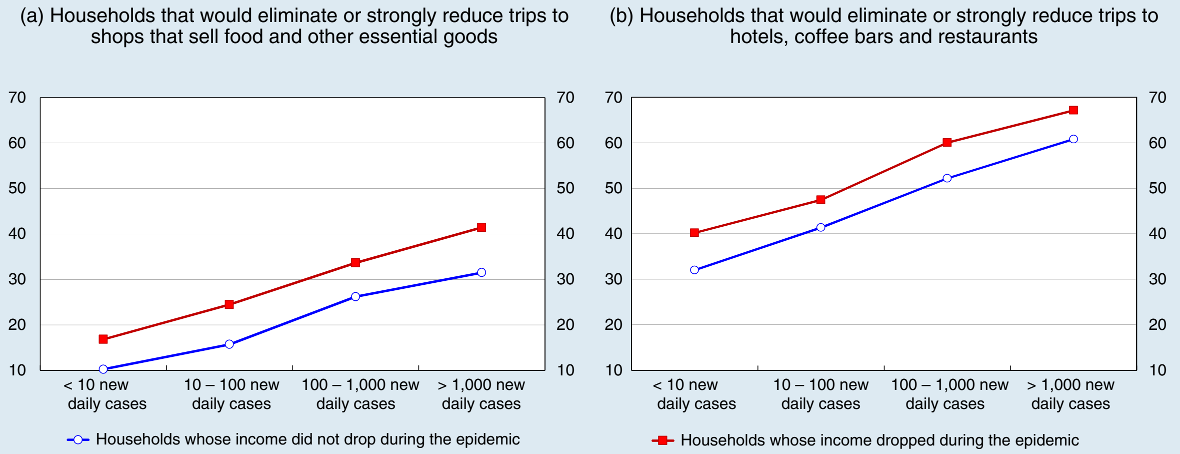
This conclusion is confirmed by evidence concerning spending decisions: Italian households have changed their consumption patterns to reduce 'non-essential' expenses. Some 70 per cent of households stated that they did not go on holiday this summer; more than one third of these had planned, prior to the health emergency, to go on vacation this past summer. Around one half of the households that had planned to go on vacation, but then decided not to due to the pandemic, give as their reason fear of contracting the virus, and more than one third cited having less disposable income as a result of the crisis.

More than 30 per cent of Italian households plan to further cut their consumption of non-durable goods and services over the next three months; around one fifth of households that do not expect to experience a loss of income in the future also plan to decrease consumption (see panel (b) of Figure B).

The course of the pandemic is impacting household consumption patterns as a result both of health concerns and of the drop in disposable income. According to the survey, the share of households that would reduce purchases of essential goods (such as food) in shops or would eliminate or strongly reduce their 'non-essential' expenses (for example, hotels, coffee bars and restaurants) rises with the number of hypothetical regional cases (see panels (a) and (b) of Figure C);[4] it is higher for households that have suffered a decrease in household income since the start of the pandemic (red line in both panels).

Figure C

Expected household consumption in relation to the hypothetical number of new daily COVID-19 cases by region and changes in income
(per cent)



Source: Based on data from the Bank of Italy's Special Survey of Italian Households, 2nd edition.

[4] The results do not differ significantly between regions in relation to population and, therefore, the per capita rate of infection.

The effect on consumption of the risk of infection is expected to be higher in relation to spending on non-essentials: around one third of households would reduce their purchases of groceries and other essential goods in shops if new daily cases in their region were to exceed 1,000; the same share would eliminate or strongly reduce their spending in hotels, coffee bars and restaurants even in a more favourable epidemiological scenario (fewer than 10 new cases per day).

Spending recovers partially in the summer

The latest cyclical indicators suggest that consumption rose in the third quarter. In September, new car registrations continued to increase, returning to end-2019 levels. Confcommercio's consumption indicator points to a recovery in August compared with July, despite the fall registered in the recreational services and clothing sectors. The consumer confidence index, which has been rising since June, is nonetheless still far below the levels recorded prior to the health emergency (Figure 25).

Households' conditions improve, but savings are rising

The households interviewed for the Bank's surveys expect their financial conditions to gradually improve, albeit remaining below pre-epidemic levels (see the box 'Italian households during the epidemic: the Bank of Italy's survey'). The recent deterioration in the epidemiological scenario, however, could continue to discourage or obstruct some types of expenditure deemed non-essential, such as travel, holidays and eating out. These signs, along with those of uncertainty emerging from the Istat surveys (Figure 25), suggest that in the second part of the year, households' saving decisions will continue to be dictated by their desire to take financial precautions and by their choice to cut consumption for fear of infection.

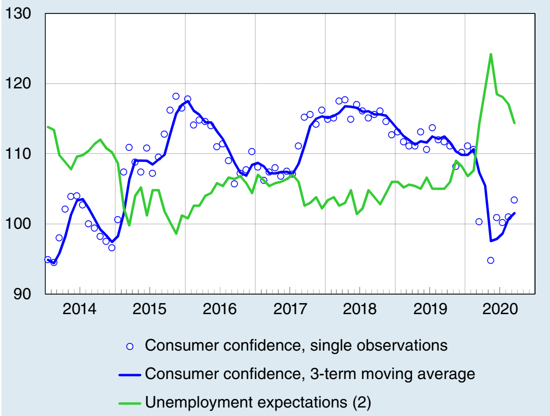
Household debt is increasing

In the second quarter of 2020, household indebtedness as a percentage of disposable income rose considerably, in part due to the sizeable contraction in such income, to 63.2 per cent (Figure 26), still well below the euro-area average (96.1 per cent). As a share of GDP, household debt amounted to 43.6 per cent (against 60.4 per cent in the euro area). Debt servicing costs (interest plus repayment of principal) as a share of disposable income rose compared with the previous quarter.

Figure 25

Consumer confidence (1)

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

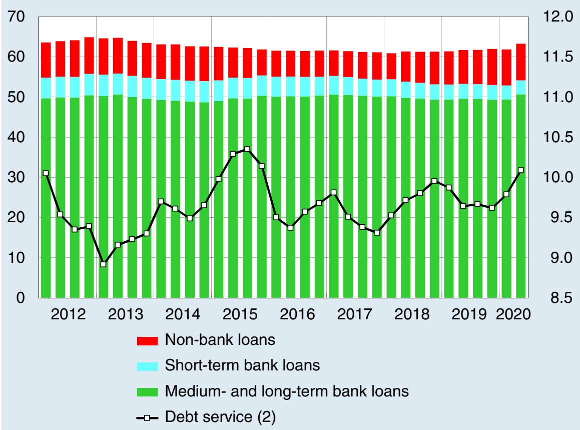


Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of data for April, the moving average for April, May and June 2020 is constructed on the basis of the only two observations available. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating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

Figure 26

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks for debt; 4-quarter cumulative flows for income. 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 recovered gradually over the summer, while nevertheless remaining at a lower level than before the start of the epidemic. In the first seven months of the year, the current account surplus decreased only slightly compared with the same period in 2019, mainly because of the reduction in the tourism services surplus. Foreign demand for Italian securities is picking up.

In the second quarter, trade in goods and services contracts ...

In the second quarter of 2020, the contraction in the volume of exports of goods and services intensified, falling by 26.4 per cent compared with the preceding quarter. There was also a sharp drop in imports (-20.6 per cent; Table 7). Similar reductions were recorded in the other major euro-area countries.

Goods exports diminished by 23.0 per cent as a result of the drop in April, followed by a partial recovery in the subsequent two months. Goods imports fell by 17.2 per cent, affecting all sectors except for textile products, which were supported by purchases of personal protection equipment from China.

Exports of services fell much more markedly (-43.2 per cent), affected by the drop in exports of tourism services. Receipts from international tourism (valued at current prices), which had already undergone a sharp fall in March when travel restriction measures were introduced, continued to contract, standing at a level that was 85 per cent lower in the second quarter as a whole than that observed in the same period in 2019.

... and only partially recovers in the summer months

In July, goods exports, valued at current prices and seasonally adjusted, rose by 5.7 per cent compared with the previous month. In August, exports to non-EU markets were essentially stable, still about 10 percentage points below the 2019 average. Manufacturing firms' opinions of foreign orders recovered slightly on average in the third quarter, despite continuing to be at a markedly lower level than before the pandemic (Figure 27).

On average, for the twelve months ending in the third quarter, overall price competitiveness appears to have worsened slightly, above all in

Table 7

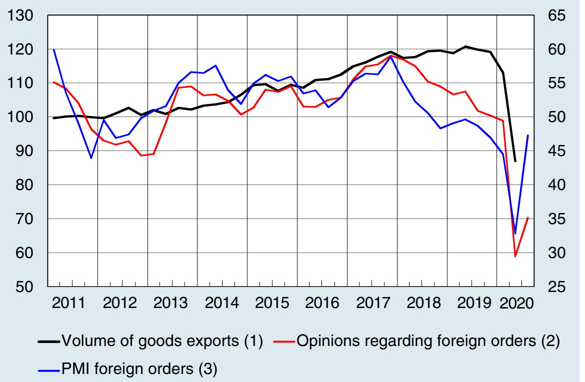
Italy's exports and imports (1)
(percentage change on previous period)

	2020 Q1	2020 Q2
Exports	**-7.5**	**-26.4**
Goods	-4.9	-23.0
to euro-area markets	-5.7	-21.8
to non-euro area markets	-4.4	-23.9
Services	-18.6	-43.2
Imports	**-5.3**	**-20.6**
Goods	-4.4	-17.2
to euro-area markets	-6.9	-20.5
to non-euro area markets	-2.3	-14.4
Services	-8.7	-33.1

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

Figure 27

Manufacturing firms' assessments of foreign orders
(quarterly data)

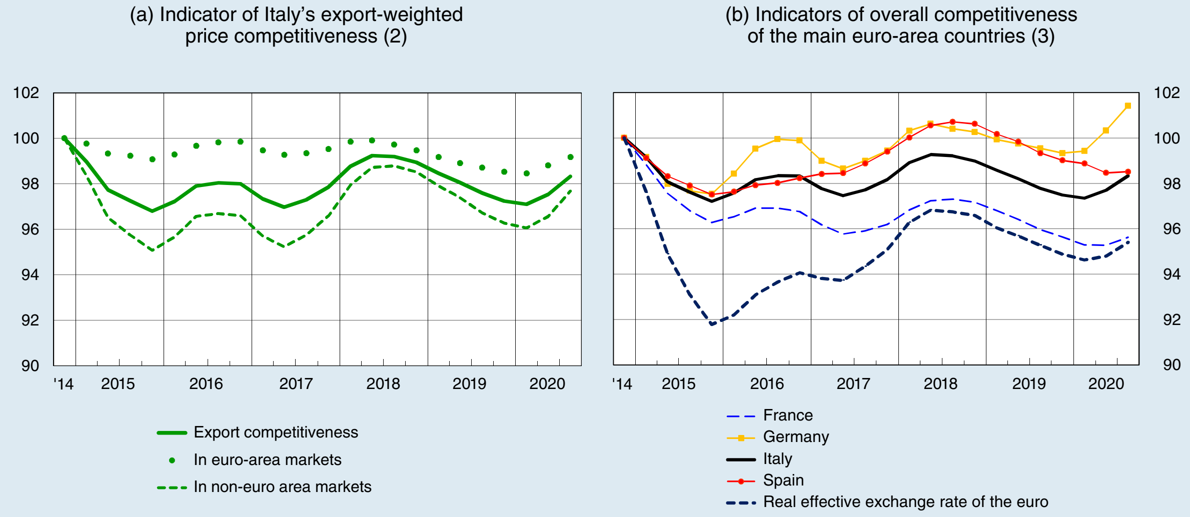


Sources: Istat, Markit and Refinitiv.
(1) National accounts data. Chain-linked volumes; the data are adjusted for seasonal and calendar effects. Indices: 2011=100. – (2) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' and 'decreasing' number of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

Figure 28

Price competitiveness indicators of the largest euro-area countries and the real effective exchange rate of the euro (1)

(index numbers: Q4 2014=100; 4-term moving averages)



Source: for the real effective exchange rate of the euro, ECB.
(1) Based on the producer prices of manufactures and weighted by trade flows in manufactures. An increase signals a loss of competitiveness. Last quarter's data are partly estimates. – (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, 280, 2015).

non euro-area markets (Figure 28.a), reflecting in part the appreciation of the real effective exchange rate of the euro (Figure 28.b).

A partial recovery of tourism receipts was also observed in the summer months, with an improvement of the health situation in European countries and the removal of restrictions on movement within the EU. Tourism flows recovered gradually: in August, spending by foreign visitors, mostly coming from the major European countries, was down by around one fourth compared with the same month in 2019, whereas in June it was down by three fourths.

The current account surplus narrows slightly but remains high

The current account surplus was €22.0 billion in the first seven months of 2020 (Table 8), lower by €3.7 billion compared with the same period a year earlier. The fall reflected above all the worsening services deficit, weighed down by the sharp reduction in the tourism balance surplus, which fell to €3 billion from €10 billion in the same period last year. However, the merchandise trade surplus increased, benefiting from low oil prices (see Section 1.1). The current account balance stood at 2.9 per cent of GDP, calculated as the average of the four quarters ending in June (Figure 29).

Foreign demand for Italian securities picks up

Overall, in the first seven months of this year, foreign investors made net sales of Italian securities totalling €44.2 billion (of which €26.7 billion were public sector securities), mainly concentrated in March and April. Purchases have

Table 8

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

	2018	2019	Jan.-July 2019	Jan.-July 2020
Current account	**44.2**	**53.4**	**25.7**	**22.0**
Memorandum item: % of GDP	2.5	3.0		
Goods	45.6	57.2	31.9	34.6
Non-energy products (2)	85.1	93.3	54.3	47.3
Energy products (2)	-39.5	-36.1	-22.4	-12.8
Services	-2.8	-1.7	-0.8	-7.3
Primary income	18.9	14.9	5.4	7.0
Secondary income	-17.5	-16.9	-10.9	-12.3
Capital account	**-0.6**	**-2.2**	**-1.0**	**-1.0**
Financial account	**26.7**	**48.0**	**28.5**	**3.0**
Direct investment	-4.1	-1.3	3.9	1.4
Portfolio investment	120.2	-51.2	-82.7	83.7
Financial derivatives	-2.7	2.5	2.1	-3.8
Other investment (3)	-89.3	92.2	102.4	-79.3
Changes in official reserves	2.6	3.2	2.7	1.0
Errors and omissions	**-16.9**	**-3.2**	**3.9**	**-18.0**

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

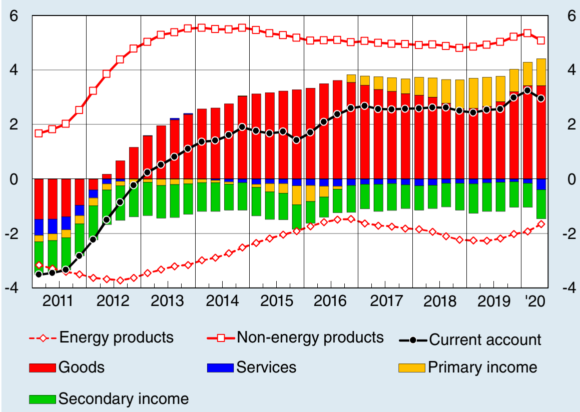
been picking up since June: the increased demand from foreign investors has also been encouraged by the strengthening of the pandemic emergency purchase programme (PEPP) and the agreement on the Next Generation EU facility.

Between January and July, residents' net purchases of foreign portfolio securities, which were higher compared with the same period last year, totalled €39.6 billion, including both debt securities and investment fund units. Italian banks' net funding in the form of loans and deposits on the international markets fell by €7.1 billion in the same period, as banks made greater recourse to the Eurosystem's refinancing operations.

After the widening from March to June, the Bank of Italy's debit balance on the TARGET2 European payment system narrowed in the summer months, reflecting the recovery of capital flows (Figure 30 and Table 9). At the end of September, the balance widened, reaching €546 billion, owing to partly transitory effects connected to the closing of the quarter.

Figure 29

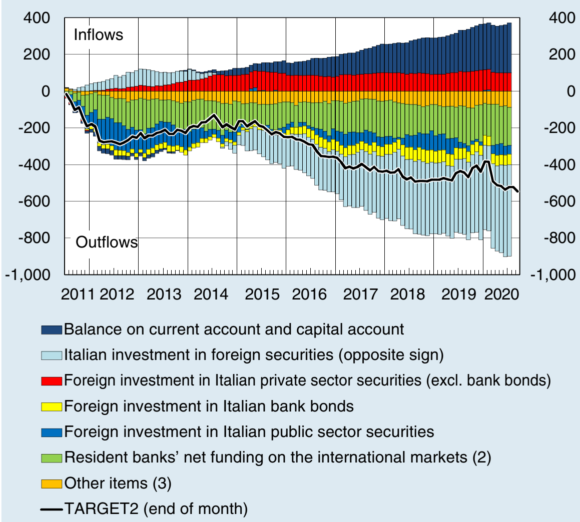
Current account balance and main components (1)
(quarterly data; as a percentage of GDP)



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

Figure 30

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



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's 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, derivatives, other investment, official reserves, errors and omissions.

Table 9

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 (in relation to 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	44	-19	46
2019 – Q1	-475	7	17	1	..	-5	-18	3	-11	-1
Q2	-448	27	34	9	..	-20	-3	12	-1	7
Q3	-468	-20	22	5	6	-40	-27	16	-3	27
Q4	-439	29	11	9	4	7	1	20	14	36
2020 – Q1	-492	-52	-25	-12	..	-24	15	7	4	1
Q2	-537	-45	-4	-3	-1	5	5	5	-8	38
2020 – Jan.	-383	56	25	-2	..	26	21	-1	9	1
Feb.	-385	-1	2	..	2	..	-1	5	-5	5
Mar.	-492	-107	-52	-10	-3	-50	-5	3	..	-5
Apr.	-513	-21	-14	-3	-2	5	2	-2	1	5
May	-517	-4	-1	..	..	17	-1	3	-12	12
June	-537	-19	12	-1	1	-17	3	4	3	21
July	-522	15	2	1	-1	12	-10	9	-9	..
Aug.	-523	-1	....	....	....	....	....	....	....	....
Sept.	-546	-23	....	....	....	....	....	....	....	....

(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 July 2020, provisional data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

Italy's net international investment position is close to balance

At the end of June this year, Italy's net international investment position was negative by €25.2 billion, equal to 1.5 per cent of GDP, which was less than the 3.3 per cent recorded at the end of March. The improvement is in part attributable to the current account surplus and, above all, to positive valuation adjustments, in connection with the recovery of share prices.

2.5 THE LABOUR MARKET

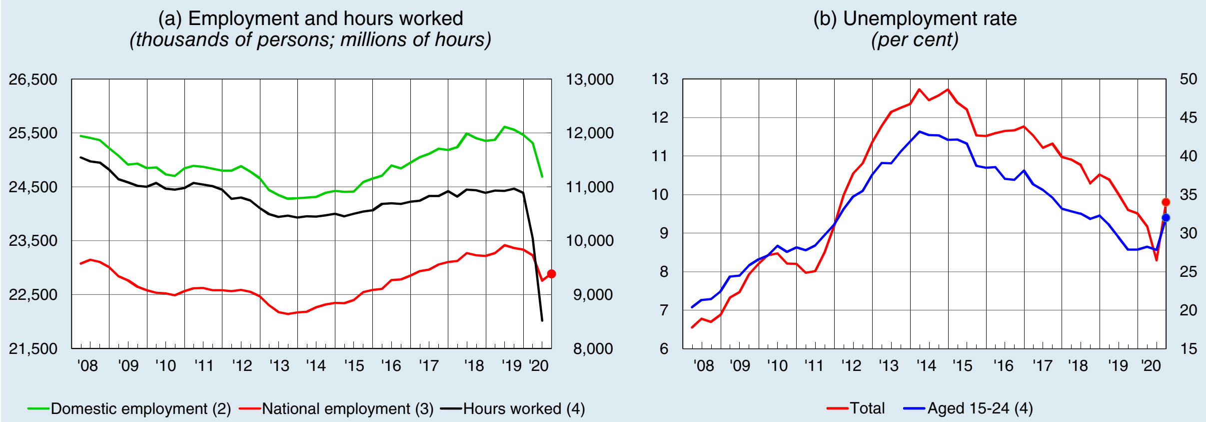
In the second quarter, the number of hours worked declined sharply. The drop in the number of persons in employment was considerably smaller, also thanks to widespread recourse to forms of wage supplementation and to the measures to safeguard permanent employment. The reduction in employed persons mostly reflected fewer new hires, especially among young people and women. The latest available data indicate a partial recovery in the summer months.

Employment benefits from ample use of the wage supplementation scheme (CIG) and the freeze on dismissals ...

In the second quarter of 2020, the decline in the number of hours worked became more pronounced (-15.2 per cent; Figure 31.a and Table 10), affecting industry excluding construction (-14.1 per cent), construction (-21.4 per cent) and private services (-20.2 per cent). For those activities predominantly carried out by the public sector, which were not subject to the measures halting production, the

Figure 31

Employment and unemployment (1)
(quarterly data)



Source: Istat's quarterly national accounts for employment and hours worked; Istat's labour force survey for employment and the unemployment rate.
(1) Seasonally adjusted data. The red dot indicates the average for the two-month period July-August. – (2) Includes any person engaged in production on the economic territory of the country (source: Istat's quarterly national accounts). – (3) Includes all resident employed persons, excluding workers living permanently in an institution and military personnel (source: Istat's labour force survey). – (4) Right-hand scale.

Table 10

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

	Stocks	Changes			
	Q2 2020	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Persons employed	**24,688**	**-0.2**	**-0.4**	**-0.6**	**-2.5**
of which: industry excl. construction	4,243	-0.2	-0.2	0.0	-0.6
private services (1)	10,750	-0.5	-0.7	-1.1	-3.5
construction	1,509	0.5	0.6	-0.7	-1.2
Employees	18,862	-0.1	-0.3	-0.6	-2.6
Self-employed	5,826	-0.4	-0.4	-0.7	-2.2
Total hours worked	**8,518**	**0.3**	**-0.7**	**-7.7**	**-15.2**
of which: industry excl. construction	1,451	0.0	-0.8	-8.9	-14.1
private services (1)	3,649	0.1	-0.8	-8.8	-20.2
construction	488	1.7	0.3	-12.5	-21.4
Employees	6,262	0.0	-0.5	-6.2	-13.1
Self-employed	2,256	1.1	-1.0	-11.3	-20.6

Source: Istat's quarterly national accounts.
(1) Excludes services to households and individuals (arts, entertainment and recreational activities; domestic work; other personal and household services).

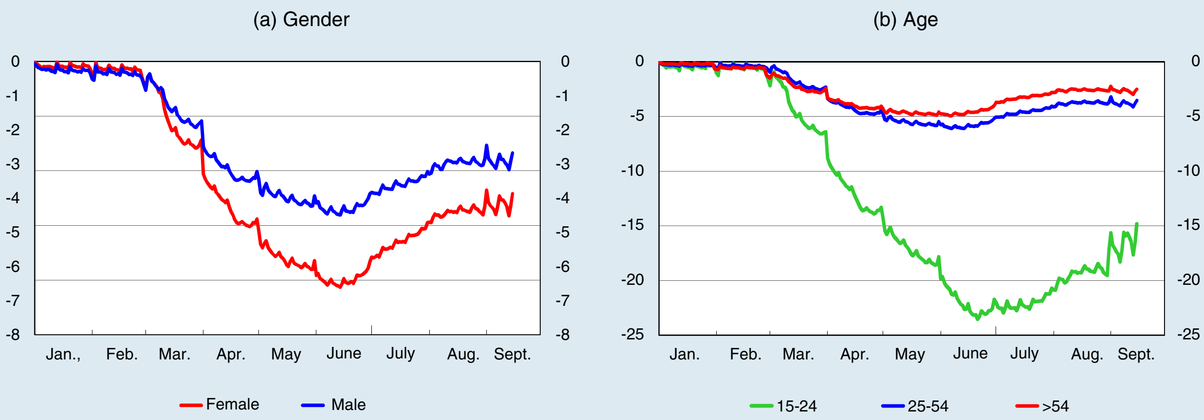
decline was marginal (-0.4 per cent). Recourse to the wage supplementation scheme (CIG) and wage supplementation fund (FIS), whose use has been simplified and extended, has continued to mitigate the impact of the crisis on the number of persons in employment (-2.5 per cent). In the payroll employment component, the fall in employment primarily reflected the lack of new fixed-term employment contracts, while the freeze on dismissals limited terminations of permanent employment contracts.

... with timid signs of a recovery in the summer

The administrative data from the mandatory reporting on employment provided by the National Agency for Active Labour Policies (ANPAL) show that the balance between new hires and terminations contracted sharply in March (roughly -150,000 positions fewer compared with the same period in 2019), April (-280,000) and May (about -80,000). The decrease has had a significant impact above all on female employment

Figure 32

Cumulative net new hires by gender and age category in selected Italian regions (1)
(differences compared with the same date in 2019; units per 1,000 employees)



Sources: Based on Istat's labour force survey and on the mandatory reports provided by Piedmont's labour market observatory, Veneto Lavoro, the region of Friuli Venezia Giulia, the labour market observatory for the Autonomous Province of Bolzano and the Sardinian agency for active labour policies (ASPAL).
(1) New hires net of terminations. The reference universe comprises permanent jobs in private sector payroll employment, apprenticeships, and fixed-term employment. The new hires and terminations that took place on 29 February 2020 are added to those of 28 February. The regions examined are: Piedmont, Veneto, Friuli Venezia Giulia, the Autonomous Province of Bolzano, Umbria, Sardinia and Calabria.

(Figure 32.a), owing to the poorer performance of sectors where women make up a large share of the workforce, such as in tourism services, and on young people aged 15 to 24, who are more frequently hired on fixed-term contracts (Figure 32.b). The balance of jobs showed signs of an improvement starting from end-June. Data released by Istat show an average increase in the number of employed persons of 0.4 per cent in the two months July-August, after four consecutive months of decline between March and June. According to the administrative data for some regions only, growth is estimated to have slowed in the second half of August.

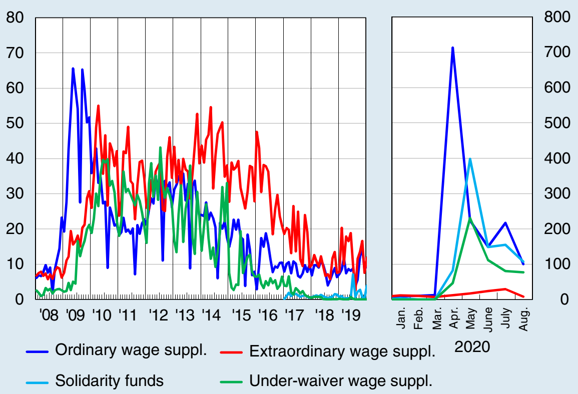
The margins of spare labour capacity are still ample: the employment rate among those of working age, equal to 58.1 per cent in August, continues to be around 1 percentage point below the levels recorded prior to the public health emergency.

Recourse to the CIG declines

The number of hours of wage supplementation authorized which, compared with the peak recorded in April-May (863.1 million), more than halved on average in the two months July-August (388.2 million), nonetheless remains at levels not seen before the global health emergency (Figure 33). However, actual recourse to forms of wage supplementation appears to have been more limited and progressively less widespread. According to the preliminary data provided by INPS, in the first six months of the year, firms utilized fewer than half of the total requested: around 250 million hours per month on average in the period March-May and 180 million in the month of June.

Figure 33

Hours of wage supplementation authorized (1)
(monthly data; millions of hours)

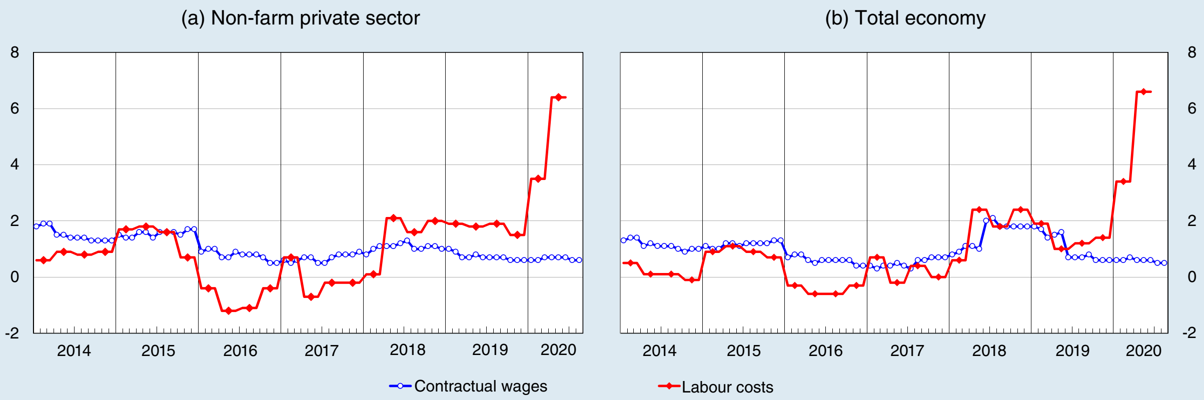


Source: Based on INPS data.
(1) The data for 2020 are plotted on a different scale to the one used for the previous years.

Figure 34

Contractual earnings and hourly labour costs (1)

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



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

Labour market participation has risen since May

The participation rate, which after two months of sharp decline began to recover from May onwards, reached 64.5 per cent in August, still almost 1 percentage point lower than it was before the pandemic. In the two months July-August, the higher participation rate drove the unemployment rate, which rose to 9.8 per cent on average over the period, from 9.4 per cent in June (8.3 per cent in the second quarter; Figure 31.b).

Wage growth remains weak

Growth in contractual wages remained very moderate in the second quarter (0.7 per cent in the non-farm private sector and 0.6 per cent in the economy as a whole; Figure 34). In the two months July-August, it slowed slightly (to 0.6 and 0.5 per cent respectively), reflecting the large share (around 80 per cent) of employees waiting for their contracts to be renewed. The renewals signed in recent months in some industrial sectors (foodstuffs, and rubber and plastics) envisage increments largely in line with the inflation forecasts formulated by Istat for the three years 2020-22; the forecasts, which are very low, are on average 0.4 percentage points below those formulated last year. Looking ahead, the ongoing uncertainty stemming from the public health emergency could prolong negotiations for the renewal of numerous contracts that have expired, especially in services.

In the second quarter, the cost of labour, calculated as the ratio of payroll labour income to hours worked, was 6.4 per cent higher in the non-farm private sector than it was a year earlier (6.6 per cent higher in the economy as a whole). The increase in hourly wages is nonetheless primarily a statistical effect, attributable to national accounting rules on wage supplementation measures; specifically, the hours authorized under the wage supplementation fund (FIS) are included in labour income, while the hours not worked are excluded from total hours worked.

2.6 PRICE DEVELOPMENTS

Inflation stayed negative in September, reflecting both the weakening of the core component and the fall in energy prices. The inflation expectations of analysts, firms and households continue to indicate barely positive growth in prices over the next twelve months. The fears of households that the pandemic could lead to a rise in inflation, caused by the temporary increase in the prices of food products during lockdown, have completely subsided.

Consumer price inflation is negative ...

Based on preliminary data, the twelve-month change in the harmonized index of consumer prices (HICP) fell to -0.9 per cent in September (Figure 35 and Table 11). The marked decrease in the prices of energy products and the weakness of the core component were contributory factors; the latter turned negative (-0.4 per cent), owing to summer sales lasting longer than they did last year. Inflation for food products stood at 1.4 per cent, which was lower than the figures recorded during the most serious phase of the pandemic. The seasonally adjusted annualized three-month inflation rate was -2.3 per cent (Figure 36).

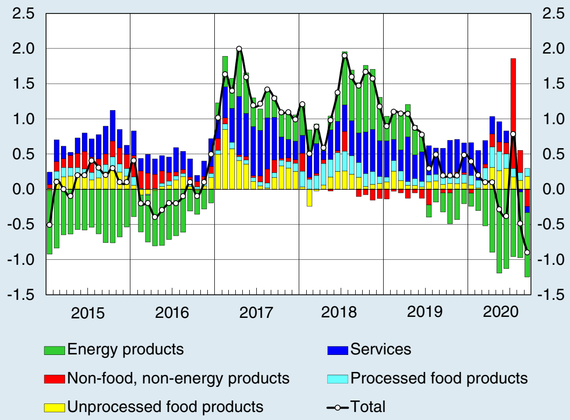
... and producer price pressures remain weak

The decline in the producer prices of industrial products sold on the domestic market has continued (reaching a twelve-month rate of -4.0 per cent in August),

Figure 35

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

(monthly data; per cent and percentage points)



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

Table 11

Indicators of inflation in Italy

(year-on-year percentage changes, unless otherwise specified)

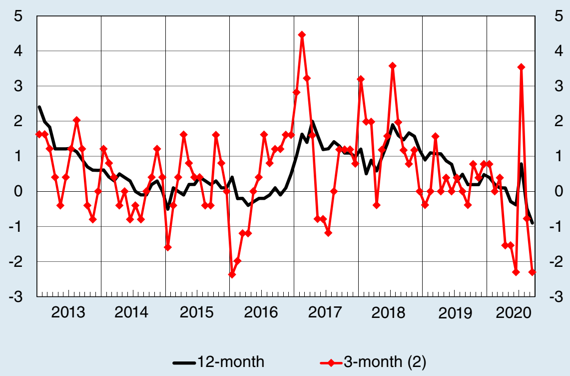
	HICP (1)			CPI (2)			PPI (3)	GDP deflator
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index	
2014	0.2	0.7	-0.1	0.2	–	0.7	-1.8	0.9
2015	0.1	0.7	0.0	0.1	–	0.5	-3.4	0.9
2016	-0.1	0.5	-0.1	-0.1	–	0.5	-2.2	1.1
2017	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	-0.5	-0.2	0.0	0.5	-6.1	–
July	0.8	2.1	0.7	-0.4	-0.3	0.3	-4.5	–
Aug.	-0.5	0.3	-0.6	-0.5	0.0	0.1	-4.0	–
Sept.	(-0.9)	(-0,4)	....	(-0.5)	....	(0.0)	....	–

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally because 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) One-month percentage change, seasonally adjusted.

although it is gradually easing thanks to the smaller decrease in energy prices. In the second quarter, unit labour costs rose by 1.5 per cent compared with the corresponding year-earlier period, since the decline in the number of hours worked was reflected in an increase in hourly wages (see Section 2.5).

Figure 36

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



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

Inflation expectations are still low ...

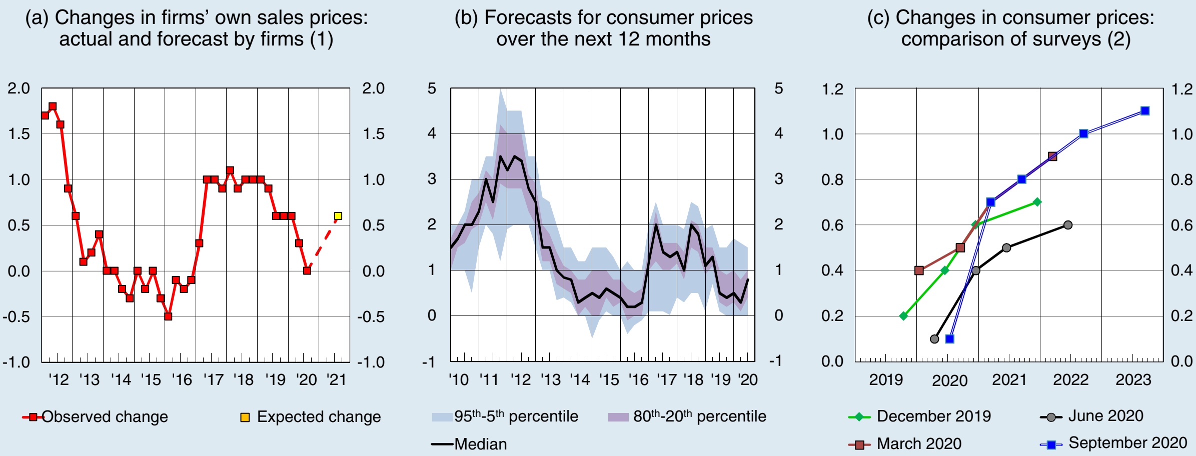
The weakness of domestic demand and of oil prices affected inflation expectations. According to the professional forecasters surveyed in September by Consensus Economics, inflation will be zero on average in 2020, and will reach 0.5 per cent next year. The firms interviewed in the Bank of Italy's quarterly survey conducted in September expect a modest rise in their list prices over the next twelve months (0.6 per cent, following the 0.0 per cent recorded in June). They have revised their consumer price inflation expectations upwards for the next two years, which are nonetheless still very low (Figure 37).

... and those of households decline

Households' inflation expectations, which had risen temporarily during lockdown, affected above all by the steady growth in the prices of food products at that time, have returned to low levels. In the surveys carried out by Istat in September, the share of Italian households expecting a fall in prices over the next twelve months was once again bigger,

Figure 37

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' list prices over the past 12 months and the change expected over the next 12 months. – (2) The key below shows the month in which the survey was conducted. The first point of each curve is the definitive figure for inflation 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.

while in May, more households expected an increase (Figure 38). The survey carried out on households in August and September by the Bank of Italy confirms that inflation expectations have declined compared with those of April, although they are higher among those households already reporting greater difficulty in meeting their monthly expenses before the pandemic.

Figure 38

Consumers' inflation expectations (1)

(monthly data; share of total)

Source: Based on Istat data.
(1) Balance between the percentage of consumers expecting prices to rise over the next twelve months and those expecting them to decline.

2.7 BANKS

During the summer months, lending to non-financial corporations grew at a rapid pace. Strong demand for funds was met also thanks to the improvement in lending conditions, facilitated by the public guarantees on new loans and the expansionary monetary policy measures. Banks' bond funding costs declined further, and rates on lending to firms and households stayed at low levels.

Credit growth to firms has been strong

In August, lending to the non-financial private sector continued to record significant growth (Table 12 and Figure 39.a). The rate of growth in loans to non-financial corporations remained high, at 9.6 per cent over the three months (from 13.3 per cent in May, on a seasonally adjusted and annualized basis; Figure 39.b). Demand for funds was very substantial, with lending mostly benefiting from the effects of the measures to support liquidity adopted by the Government (see the box 'Trends in business lending during the pandemic', *Economic Bulletin*, 3, 2020).

Table 12

Bank lending as at August 2020 (1)

(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**4.1**	**6.7**
Households	**1.9**	**4.6**
of which: loans for house purchase	1.9	....
consumer credit	0.7	....
other loans (3)	2.8	**....**
Non-financial corporations	**6.0**	**9.6**
of which: manufacturing	9.8	....
services	6.3	....
construction	-0.6	....

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

Lending to households accelerated. Of the various components, loans for house purchase and for consumption continued to display modest growth. The pace of expansion of other loans, including those to producer households, increased, also benefiting from the liquidity support measures.

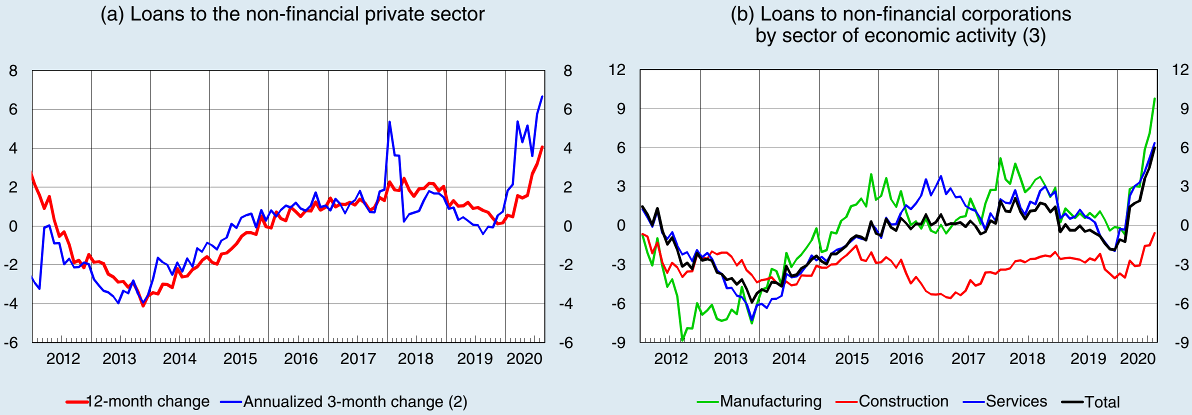
Funding rises

Between May and August, Italian banks' funding rose, in part owing to the strong expansion in liabilities to the Eurosystem at the end of June, following the conclusion of the fourth auction of the new series of targeted longer-term refinancing operations (TLTRO III; see *Economic Bulletin*, 3, 2020). Residents' deposits continued to grow at a steady pace (6.0 per cent; Table 13). In particular, those of firms accelerated further, presumably reflecting precautionary motives as well.

The action of the European Central Bank helped to keep down the cost of funding. Since the start of July, yields on bank bonds in the secondary market in Italy have come down further. In the first few days of October they stood at 1.5 per cent: significantly below the levels recorded in March at the height of the pandemic, but still 45 basis points more than before the public health emergency. In the same period, the yield spread with respect to the euro-area average narrowed a little, to around 95 basis points.

Figure 39

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. Percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) The data are seasonally adjusted using a methodology that conforms with the guidelines of the European Statistical System. – (3) Twelve-month changes; until December 2013, the data for each sector are not corrected for value adjustments.

Table 13

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

	End-of-month stocks		12-month percentage changes (2)	
	May 2020	August 2020	May 2020	August 2020
Assets				
Loans to Italian residents (3)	1,689	1,704	-0.2	1.4
of which: to firms (4)	657	671	1.9	6.0
to households (5)	629	634	1.2	1.9
Claims on central counterparties (6)	97	82	-0.4	-18.0
Debt securities excluding bonds of resident MFIs (7)	580	598	8.1	11.9
of which: securities of Italian general government entities	441	451	7.3	10.3
Claims on the Eurosystem (8)	127	182	48.7	136.0
External assets (9)	466	458	12.8	8.9
Other assets (10)	929	754	6.0	2.4
Total assets	**3,888**	**3,778**	**5.1**	**6.2**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,662	1,695	6.4	6.0
Deposits of non-residents (9)	327	310	-2.2	-6.4
Liabilities towards central counterparties (6)	138	115	5.5	-5.0
Bonds (12)	228	226	-4.9	-6.3
Liabilities towards the Eurosystem (8)	291	350	19.8	46.7
Liabilities connected with transfers of claims	121	127	8.0	12.0
Capital and reserves	355	358	-4.2	-1.3
Other liabilities (13)	766	598	8.3	8.2
Total liabilities	**3,888**	**3,778**	**5.1**	**6.2**

Source: Supervisory reports.
(1) The data for August 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, '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; other minor items. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs; deposits of resident MFIs; derivatives; other minor items.

The cost of credit remains low

Between May and August the interest rate on new business loans declined slightly, to 1.1 per cent (Table 14 and Figure 40), while a small increase was recorded for loans of up to €1 million. In the same period, the average interest rates on new mortgage loans to households remained unchanged, at 1.3 per cent.

Table 14

Bank interest rates (1)
(per cent)

	May 2020	August 2020
Loans to firms	**1.2**	**1.1**
of which: up to €1 million	1.6	1.7
over €1 million	0.9	0.9
Loans to households for house purchase	**1.3**	**1.3**
of which: fixed rate (2)	1.3	1.3
variable rate (3)	1.4	1.4

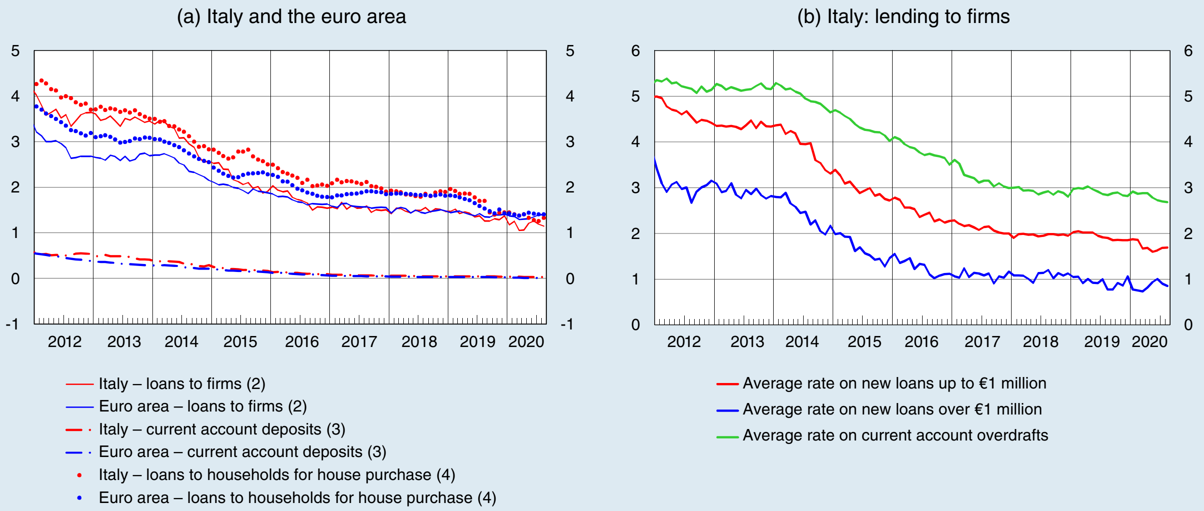
(1) Averages. Rates on new euro-denominated loans. The data are collected and processed using the Eurosystem's harmonized method. – (2) Initial rate fixation period of more than one year. – (3) Initial rate fixation period of less than one year.

Credit standards ease

According to the Italian banks that took part in the Euro Area Bank Lending Survey, in the second quarter of 2020 the credit standards applied to business loans eased (see the box 'Credit supply and demand'). The public guarantees granted on new loans following the measures adopted by the Government were one contributory factor. Demand for loans from non-financial corporations is also expected to increase in the third quarter. Based on the business surveys carried out by Istat and the Bank of Italy in September, credit access conditions improved overall, especially for companies operating in the services sector.

Figure 40

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



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

CREDIT SUPPLY AND DEMAND

According to the Italian banks that took part in the Bank Lending Survey (BLS)[1], in the second quarter the credit standards applied to new business loans were more accommodative (Figure A).

[1] Ten of the main Italian banking groups took part in the survey. The results for Italy are available on the Bank of Italy's website, 'Bank Lending Survey (BLS)'. For the results relative to the euro area, see the ECB's website, 'July 2020 euro area bank lending survey', press release, 14 July 2020.

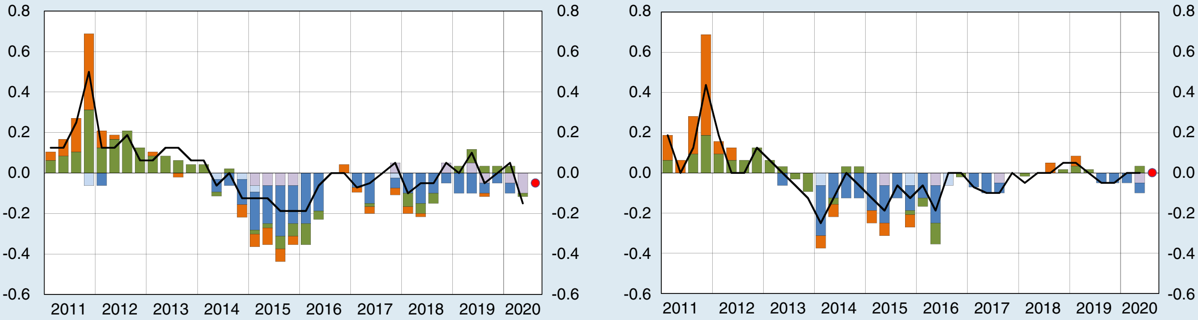
Figure A

Credit standards and demand for loans in Italy (1)

(quarterly data; diffusion indices)

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

Credit standards: factors contributing to a tightening (+) / easing (-)

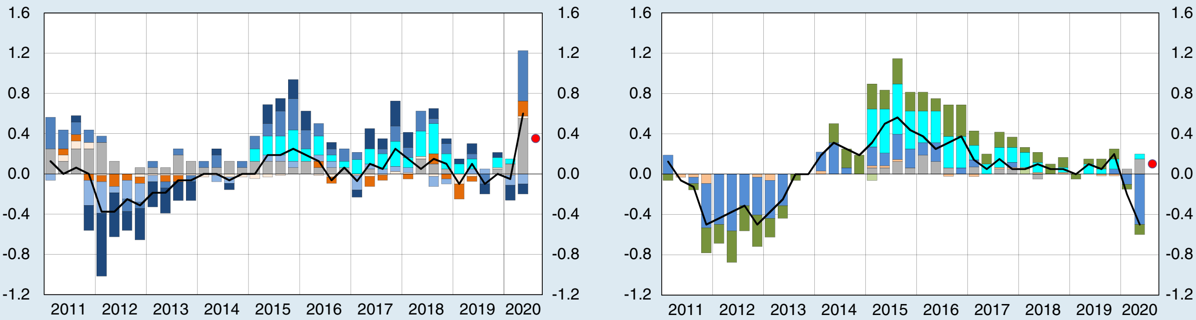


(a):
- Cost of funds and balance sheet constraints (2)
- Risk perception (3)
- Competition from other banks
- Competition from non-bank institutions and the market (4)
- Risk tolerance
- Index of supply tightening (actual) (5)
- Index of supply tightening (expected) (6)

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

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

Demand for loans: factors contributing to an expansion (+) / contraction (-)



(c):
- 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 (actual) (5)
- Index of demand (expected) (6)

(d):
- 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 (actual) (5)
- Index of demand (expected) (6)

Source: Euro Area Bank Lending Survey.

(1) Positive values indicate supply tightening/demand expansion compared with the previous quarter. The diffusion indices are constructed based on the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened moderately, 0=basically stable, -0.5=eased moderately, -1=eased considerably; for demand, 1=increased considerably, 0.5=increased moderately, 0=basically stable, -0.5=decreased moderately, -1=decreased considerably. The range of variation of this index is from -1 to +1. – (2) Average of the following factors: the bank's capital position; the bank's capacity to obtain funds on the market; and the 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 borrower's creditworthiness. – (8) Average of the following factors: loans from banks; loans from 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 from other banks; and other sources of external funding.

In particular, banks reported higher risk tolerance. The granting of public guarantees on new loans following the measures adopted by the Government helped to reduce banks' risk perception, even though the general economic outlook had worsened. Banks expected their credit standards to ease further in the third quarter.

For loans to households, in the second quarter banks maintained a stable supply policy overall for both consumer credit and loans for house purchase. However, their terms and conditions improved slightly, mainly reflecting the reduction in the margins on loans. Banks expected no change in credit standards for households in the third quarter.

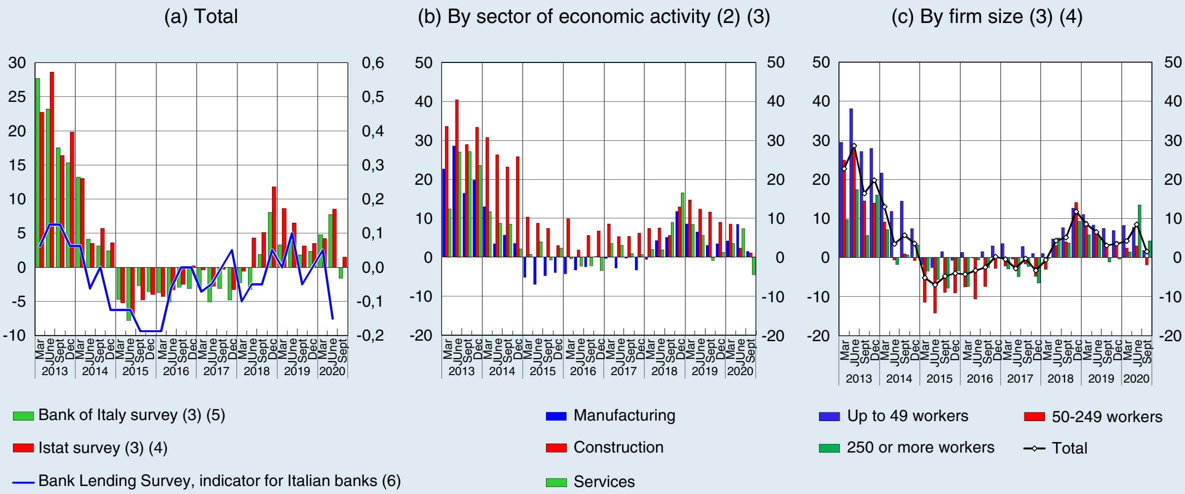
Banks reported that in the second quarter the demand for business loans increased markedly to meet the exceptional need for liquidity arising from the public health emergency. Demand for credit from households instead fell further, in connection with the deteriorating outlook for the residential property market, the reduction in spending on durable consumer goods, and the decline in consumer confidence. For the current quarter, banks expected a further, if smaller, increase in credit demand from firms and a slight increase in demand for loans from households.

Based on the business surveys carried out by Istat and the Bank of Italy in September, credit access conditions in the third quarter were, in general, more relaxed (Figure B). The improvement concerned in particular companies in the services sector and medium-sized enterprises. The percentage of manufacturing and construction firms that reported a worsening of conditions was significantly lower than in the preceding quarter.

Figure B

Firms' access to credit (1)

(quarterly data)



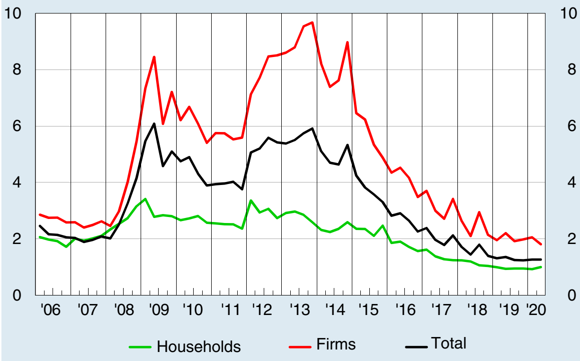
(1) The Bank of Italy survey (in collaboration with *Il Sole 24 Ore* up to October 2018) is conducted quarterly on a sample of medium-sized and large firms (with at least 50 employees) in industry (excluding construction) and services. The Istat business confidence surveys are conducted on samples of 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 modest flow of NPLs reflects the support measures adopted by the authorities

In the second quarter, the flow of non-performing loans in proportion to total loans was unchanged compared with the previous quarter (at 1.3 per cent, on a seasonally adjusted and annualized basis; Figure 41). While there was a slight increase in the household NPL rate (to 1.0 per cent, from 0.9 per cent in March), that for firms declined to 1.8 per cent (from 2.1 per cent). The performance of the indicator, however, benefited from the government measures to support credit (moratoriums and guarantees on new loans), as well as from the recommendation of the supervisory authorities to utilize the flexibility allowed under the rules for classifying loans. The share of non-performing loans to total loans of the significant banking groups continued to decline, both gross and net of writedowns (Table 15). The coverage ratio fell a little owing to sales of NPLs that had already been heavily written down by the largest banking groups.

Figure 41

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.

Banks' profitability declines ...

In the first half of 2020, the profitability of the significant groups was down on the same period of last year. Net of extraordinary components, the return on

Table 15

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

	March 2020	June 2020
Non-performing loans (NPLs) (2)		
Gross NPL ratio	6.4	6.1
Net NPL ratio	3.1	3.0
Coverage ratio (3)	53.7	52.6
Regulatory capital		
Common equity tier 1 (CET1) ratio	14.0	14.8
	H1 2019	H1 2020
Profitability (4)		
Return on equity (ROE) (5)	8.7	3.1
Net interest income (6)	-4.8	-6.1
Gross income (6)	-6.0	-5.4
Operating expenses (6)	-3.7	-3.5
Operating profit (6)	-10.0	-8.9
Loan loss provisions (6)	11.1	45.1

Source: Consolidated supervisory reports.
(1) Provisional data. Significant banks are those directly supervised by the ECB. – (2) End-of-month data. Includes loans to customers, credit institutions and central banks. The NPL ratio is reported gross and net of loan loss provisions. – (3) The coverage ratio is measured as the ratio of loan loss provisions to the corresponding gross exposure. – (4) The perimeter of significant banks changed in the first quarter of 2019 following a significant change in the size of the ICCREA cooperative group and the classification of the Cassa Centrale Banca group as a significant group. For the purposes of comparing the profitability data for the first half of 2020 with the data for the same period in 2019, the cooperative credit groups ICCREA and Cassa Centrale Banca were excluded; accordingly, the data refer to a sample of homogeneous significant banks over time. – (5) Net of extraordinary components. – (6) Percentage changes with respect to the year-earlier period.

equity (ROE) fell by 5.6 percentage points, to 3.1 per cent, mainly owing to the increase in loan loss provisions.[1] The decline in operating expenses, net of those borne to facilitate the early termination of employment contracts, was greater than the fall in earnings, leading to an improvement in the cost-income ratio of 3 percentage points, to 62.8 per cent.

... but their capital position strengthens

After benefiting in the first three months of the year from the ECB's recommendation to refrain from making dividend distributions for the financial year 2019, in the second quarter the capitalization levels of the significant groups improved greatly. Around two thirds of the increase was due to capital growth,[2] and one third to the decline in risk-weighted assets, in particular to the diversification of a portion of banks' assets.

2.8 THE FINANCIAL MARKETS

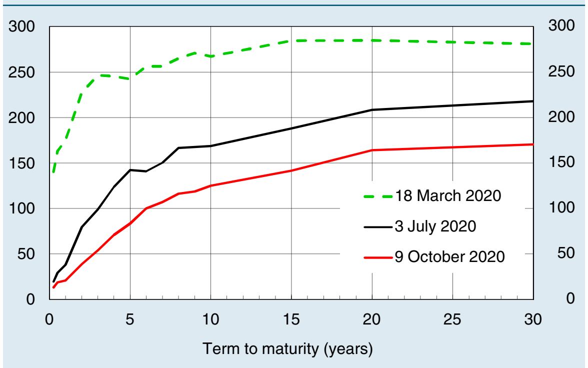
Conditions on the financial markets in Italy have continued to improve on the whole, thanks to monetary policy interventions, the expansionary fiscal stance, and the positive expectations raised by the agreement reached by the European Council on the Next Generation EU facility. Nevertheless, share prices remain sensitive to global developments regarding the pandemic.

Government bond yields decrease

From the beginning of July, the yields on Italian government bonds diminished at all maturities. This was mainly due to the decline in the sovereign risk premium (Figure 42). The yield spread between Italian and German ten-year government bonds fell by 44 basis points, reaching slightly lower levels than those observed before the pandemic. Premiums for public debt redenomination risk remained stable at low levels (Figure 43).

Figure 42

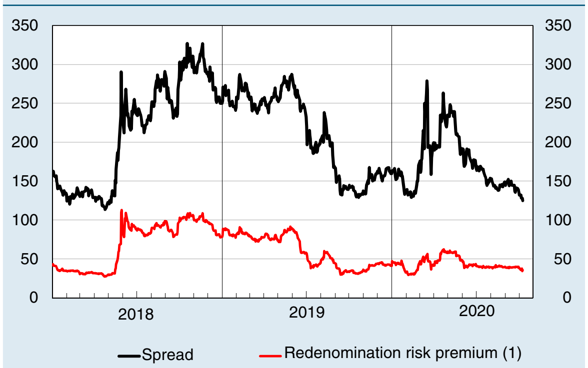
Term structure of sovereign spreads (1)
(basis points)



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

Figure 43

Spread between Italian and German 10-year government bonds 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.

[1] Extraordinary components in the first half of 2020 refer to goodwill impairments and the write-down of deferred tax assets. Including these components, ROE is estimated to have fallen to 2.8 per cent in the same period.

[2] Capital growth reflected the adoption of the transitional regime of IFRS 9 by one of the main banking groups and, to a lesser extent, the revaluation of some of the financial instruments in banks' portfolios.

The volatility implied by derivatives on Italian ten-year bonds were still at the levels prevailing at the start of the year (Figure 44).

Figure 44

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.

Share prices decline

Following a period of substantial stability, share prices began to fall at the end of August, following the resurgence of infection in some European countries (Figure 45.a). In Italy in the third quarter as a whole, the general index contracted by 0.7 per cent (in the euro area it rose by 1.4 per cent), while the banking sector index declined by 4.1 per cent (-10.1 per cent in the euro area). Volatility declined slightly (Figure 45.b).

Funding costs continue to fall ...

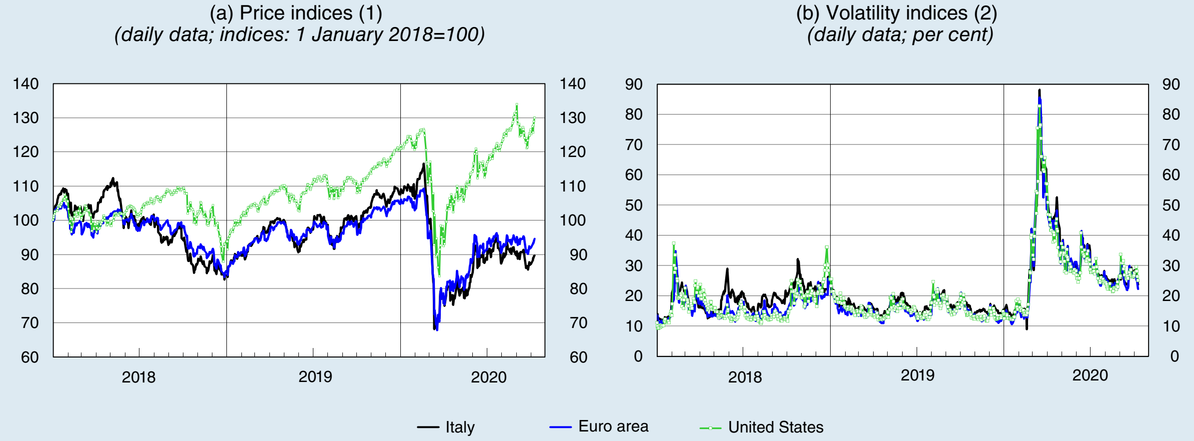
The funding costs of firms and banks continued to fall. Since the start of July, the average yields on bonds issued on the secondary market by Italian non-financial corporations and banks have fallen by 42 and 41 basis points respectively (Figure 46). This is in line with the average fall observed in the euro area.

... and corporate bond issues increase

In the third quarter, net bond issues by non-financial corporations appear to have increased, to €1.9 billion according to preliminary data, from €1.6 billion in the second quarter. Banks continued to issue bonds and, on the whole, gross issues appear to have remained substantial in the three months ending in September. In the third quarter overall, however, net issuance decreased (to €0.6 billion, from €7.6 billion in the second), mainly owing to fewer placements in the month of July.

Figure 45

Equity prices



Source: Based on Refinitiv data.
(1) Indices: FTSE MIB for Italy, Dow Jones Euro Stoxx for the euro area; and 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, and VIX for the United States.

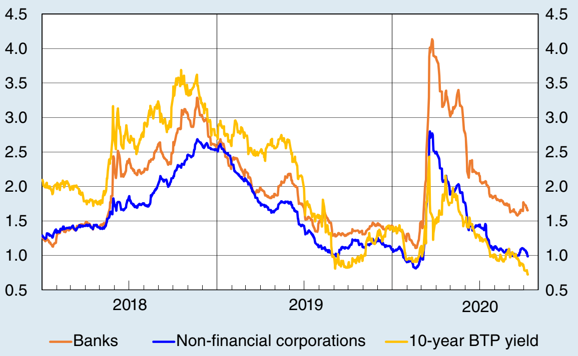
Net inflows turn positive for investment funds

According to Assogestioni data, the net inflow of savings towards open-end investment funds was positive in the second quarter of 2020 (€14.8 billion, following a contraction of €12.1 billion in the first three months), thanks to the recovery of subscriptions beginning in April. Investors' preferences were mainly directed towards equity funds (€8.5 billion), but the other main sectors also recorded high net subscriptions (€4.2 billion to money market funds, €2.9 billion to bond funds and €1.1 billion to balanced funds). In July and August, net subscriptions were €1.6 billion and €4.3 billion, respectively.

Figure 46

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

(daily data; per cent)



Source: 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 and 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 Government has updated the public accounts estimates in the current legislation scenario and has set the budget objectives for the next three years. According to its forecasts, in 2020 net borrowing will rise to 10.8 per cent of GDP (from 1.6 per cent in 2019) and the debt-to-GDP ratio will expand by more than 23 percentage points, to 158.0 per cent. The sharp deterioration in the public accounts this year reflects, in addition to the impact of the worsening macroeconomic outlook, the expansionary measures approved between early March and August. In the Government's plans, which incorporate a provisional estimate of the use of funds under Next Generation EU, net borrowing and debt will decline gradually in the subsequent years, to 3 and 151.5 per cent respectively in 2023.

Additional expansionary measures are adopted in August

In August, the Government approved a decree law that largely reprises and extends previous measures to combat the effects of the pandemic, accounting for €25 billion (1.5 per cent of GDP) of the increase in net borrowing for this year.[3] In its ex ante official estimates, the measures adopted between March and August to address the public health emergency and to mitigate its impact on the economy are estimated to have raised the deficit by around €100 billion overall (6.1 per cent of GDP).[4] The economic support measures have allocated around €9 billion to the national health system, €35 billion to workers and households, roughly €40 billion to firms and to supporting economic activity (of which €14 billion in the form of lower revenue), and €13 billion to local government authorities and education. Around €5 billion have been utilized for a large number of other measures involving limited amounts, mostly in connection with the public health emergency (Table 16). In terms of the borrowing requirement, the impact, which also takes account of some financial measures, amounts to almost €118 billion (around 7 per cent of GDP).

[3] Decree Law 104/2020 ('August Decree'), converted by Law 126/2020; 'Draft law 1925, conversion into law of Decree Law 104/2020 containing urgent economic support and recovery measures'. See the 'Report by the Bank of Italy' prepared for the Fifth Committee of the Senate (Economic Planning and Budget), Rome, 7 September 2020.

[4] 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'), converted by Law 77/2020. For a description of the three measures, see the box 'The fiscal policy response to the emergency', *Economic Bulletin*, 3, 2020.

Table 16

Overall impact on the general government profit and loss account of the measures included in the 'Cure Italy' decree, 'Liquidity Decree', 'Relaunch Decree' and 'August Decree'

(millions of euros)

	2020	2021	2022
USE OF FUNDS	**103,629**	**35,087**	**37,017**
Higher expenditure (A = A1 + A2 + A3 + A4 + A5)	**86,919**	**16,534**	**10,074**
Measures to support the national health system (A1)	**9,246**	**1,235**	**1,661**
National emergency fund and other measures linked to the emergency (net impact)	4,048	604	1
Increased supply of hospital beds in ICU units	1,467	0	0
Funding of the national health system standard borrowing requirement	1,415	502	1,504
Reorganization of local healthcare services	1,257	0	0
Increases in medical personnel	1,059	128	157
Measures to support households (A2)	**35,381**	**2,183**	**484**
Wage supplementation and other social safety net schemes for payroll employees	20,075	1,227	2
Allowances for the self-employed or those employed in specific sectors (net impact)	8,568	53	79
Parental leave, supplementary payments for baby-sitting expenses and extension of the benefits granted pursuant to Law 104/1992	2,463	0	0
Emergency income support	966	0	0
Bonus for payroll employees with an income of up to €40,000	881	0	0
Last-resort income support and compensation for domestic workers	849	0	0
Other measures to support households	1,579	904	403
Measures to support firms and economic activity (A3)	**26,292**	**6,197**	**1,489**
Guarantees in favour of firms	8,044	0	0
Non-repayable contributions to holders of VAT numbers and to specific sectors affected by the emergency	7,817	0	0
Tax credit for rental payments	1,855	0	0
Tax credits for holidays and property renovations	1,677	423	1,357
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	10	2,005	5
Other measures to support firms (net impact)	5,031	1,769	126
Resources for local government entities and schools and universities (A4)	**13,272**	**3,401**	**2,519**
Fund for essential functions and other measures in favour of local municipalities (net impact)	6,414	1,260	1,308
Fund for essential functions and other measures in favour of the regions and provinces (net impact)	5,026	415	550
Expenditure to support schools and universities	1,833	1,726	661
Other (A5)	**2,727**	**3,519**	**3,923**
Interest expense stemming from higher net issues of public sector debt securities	591	2,211	3,055
Other expenditure	2,136	1,308	868
Lower revenue (B = B1 + B2 + B3)	**-16,710**	**-18,553**	**-26,942**
Cancellation of the safeguard clauses on VAT and excise duties (B1)	**0**	**-19,821**	**-26,733**
Measures to support firms and economic activity (B2)	**-14,239**	**1,519**	**553**
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
Social security contribution relief to support employment	-2,771	**-1,234**	**0**
Suspension of payment deadlines and increase in the annual ceiling of credits that can be offset against taxes or reimbursed	**-1,546**	**0**	**0**
Tax credits for holidays and property renovations (net impact)	-23	-1,322	-1,321
Rescheduling or deferral of some tax payment deadlines	-5,948	4,074	1,874
Other (B3)	**-2,471**	**-251**	**-762**
Deferral of entry into force of various taxes (including a sugar tax and a plastic tax; net impact)	-519	-45	72
Reduction of VAT rate on equipment for treating and containing the COVID-19 pandemic	-257	-318	-318
Other revenue (net impact)	-1,694	111	-517
SOURCES OF FUNDS	**3,351**	**3,750**	**1,549**
Increased revenue (C)	**2,172**	**1,694**	**915**
Indirect effects of the measures on public sector employment	1,483	766	152
Fiscal impact of the social security contribution relief	0	459	421
Other	690	469	341
Lower expenditure (D)	**-1,178**	**-2,056**	**-634**
Fund to incentivize the use of electronic payment devices (net impact)	2	-1,250	0
Other expenditure	-1,180	-806	-634
Change in net revenue (E = B + C)	**-14,538**	**-16,859**	**-26,028**
Change in net expenditure (F = A + D)	**85,741**	**14,478**	**9,440**
Current	68,561	6,419	7,455
Capital	17,180	8,060	1,985
Change in net borrowing (G = F - E)	**100,278**	**31,337**	**35,468**
Per cent of GDP (1)	6.1	1.8	1.9
Memorandum items: change in debt	117,742	31,839	35,186
change in the net balance to be financed	210,519	32,998	35,565

Source: Based on official documents pertaining to Laws 27/2020, 40/2020, 77/2020 and Decree Law 104/2020.
(1) Calculated based on the nominal GDP in the policy scenario reported in the Update to the 2020 Economic and Financial Document.

Table 17

Public finance objectives and estimates for 2020
(per cent of GDP)

	General government				*Memorandum items:*	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	real GDP growth rate	nominal GDP growth rate
Objectives						
December 2019 (2)	2.2	1.4	1.1	-0.5	0.6	2.0
April 2020 (3)	10.4	–	-6.8	20.9	–	–
October 2020 (4)	10.8	6.4	-7.3	23.4	-9.0	-8.0
Estimates						
April 2020 (3)	7.1	3.6	-3.5	17.0	-8.0	-7.1
October 2020 (4)	10.8	6.6	-7.3	23.4	-9.0	-8.0

(1) Change in the debt-to-GDP ratio compared with the previous year. – (2) Italy's 2020 Draft Budgetary Plan. – (3) 2020 Economic and Financial Document (DEF). The objectives refer to the new policies based on the current legislation scenario. The 2020 DEF does not include a macroeconomic policy framework. – (4) Update to the 2020 Economic and Financial Document.

In 2020 the deficit is estimated at 10.8 per cent of GDP

In light of the discretionary measures taken and the deterioration of the macroeconomic outlook,[5] in its Update to the 2020 Economic and Financial Document,[6] the Government estimates general government net borrowing of 10.8 per cent of GDP this year (Table 17), 9.2 percentage points more than in 2019. The debt-to-GDP ratio is expected to rise by more than 23 percentage points, to 158.0 per cent (Table 18).

Table 18

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

	2019	2020	2021	2022	2023
Net borrowing	1.6	10.8	7.0	4.7	3.0
Primary surplus	1.8	-7.3	-3.7	-1.6	0.1
Interest expense	3.4	3.5	3.3	3.1	3.1
Structural net borrowing	1.9	6.4	-5.7	-4.7	-3.5
Debt (2)	134.7	158.0	155.6	153.4	151.5

Sources: Update to the 2020 Economic and Financial Document.
(1) Outturns for 2019 and official objectives for 2020-23. Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to EMU countries. Compared with the figure indicated in the Update to the 2020 DEF (134.6 per cent), the figure for 2019 was revised in the report sent to Eurostat on 30 September under the Excessive Deficit Procedure.

The cash-basis figures available to date appear compatible with these estimates

In the first nine months of 2020, the state sector borrowing requirement rose by €73 billion compared with the same period in 2019, to more than €128 billion. For general government as a whole, for which data are only available for the first eight months of the year, the borrowing requirement came to almost €102 billion, more than triple what it was in the corresponding period of 2019; in the twelve months ending in August 2020, it stood at €107 billion (Figure 47).

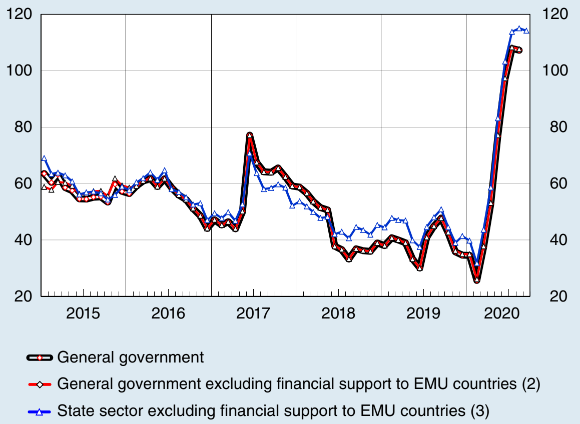
Based on these data, it can be estimated that on average, excluding the effects of operations that have no impact on net borrowing and of temporal lags, in each month between April and August the ratio of general government borrowing to GDP was almost 1 percentage point above that for the same period in the previous year. While considering that at this juncture, the interpretation of the cash-basis data is subject to considerable uncertainty, these figures appear consistent with the Government's estimates for 2020 as a whole, assuming that this gap continues at a similar pace in the latter part of the year.

[5] The Government's forecasts also incorporate lower spending than initially estimated for some of the measures launched since March and better than expected tax revenue.

[6] See 'Preliminary testimony on the Update to the 2020 Economic and Financial Document', by E. Gaiotti, Director General for Economics, Statistics and Research at the Bank of Italy, before the Chamber of Deputies, Rome, 12 October 2020.

Figure 47

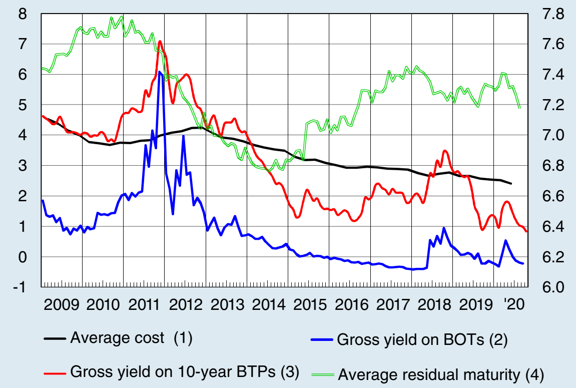
12-month cumulative borrowing requirement (1)
(monthly data; billions of euros)



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 48

Gross yields 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.

Again, in the first eight months of 2020, general government debt expanded by €169 billion, reflecting not only the borrowing requirement but also the increase in the Treasury's liquid balance (accounting for almost €68 billion). The average maturity of the debt declined slightly, from 7.3 years at the end of last year, to 7.2 years in August. In recent months, yields at issue have fallen significantly. The average cost of the debt came down to 2.4 per cent at the end of June, from 2.5 per cent at the end of 2019 (Figure 48).

The tax revenue entered in the State's budget, net of lottery and gaming receipts, fell by almost €14 billion in the first nine months of 2020 compared with the same period of last year. The decline was mostly attributable to indirect taxes, partially offset by greater revenue from direct taxes. However, the trend in direct taxation revenue incorporates some temporal misalignments, among which the extension to the autumn, agreed in 2019, of self-assessment returns by taxpayers subject to the synthetic indicators of fiscal reliability.

For the next few years, the Government plans to reduce the deficit and the debt

In its Update to the 2020 Economic and Financial Document, the projections for the public finances under current legislation for the three years 2021-23 highlight a significant improvement compared with 2020, owing to the end of the (primarily temporary) discretionary measures introduced throughout this year, and to the improvement in cyclical conditions: net borrowing is projected to fall from 10.8 per cent in 2020 to 3.3 per cent in 2023.[7]

The Update envisages a budgetary package for the years 2021-23 that includes a provisional estimate of the resources under Next Generation EU; in particular, the use of subsidies is projected to amount

[7] Both the current legislation scenario and the budgetary objectives incorporate the elimination of the increases in indirect taxation envisaged under the safeguard clauses (equal to 1.1 per cent of GDP in 2021 and around 1.5 per cent in 2022) under Decree Law 34/2020 ('Relaunch Decree').

to 0.6 percentage points of GDP in 2021 and to 0.9 and 1.4 points in the two subsequent years.[8] Compared with the current legislation scenario, the budgetary package would lead to an increase in the deficit of 1.3 percentage points in 2021, 0.6 points in 2022, and to a slight decrease in 2023. In the policy scenario, the deficit would stand at 7.0 per cent next year, 4.7 per cent in 2022 and 3.0 per cent in 2023.

In the Government's plans, the debt-to-GDP ratio will decline in the next three years, reaching 151.5 per cent at the end of the period. The fall is expected to be driven by a favourable trend in the gap between the average cost of the debt and nominal GDP growth (averaging -3 per cent in the three-year forecasting horizon), whose effects would more than offset the primary deficit and the other factors that impact the debt but not the deficit. In its Update, the Government also indicates it intends to bring the debt-to-GDP ratio back to pre-pandemic levels by the end of the decade.

[8] The use of subsidies would not correspond to an increase in the deficit. The Government also expects to activate a portion of the loans made available under the programme in the three years 2021-23, amounting to €43.5 billion. The Update specifies that not all the interventions financed with loans will raise the deficit because existing spending programmes can replace some of them while others can be offset by other coverage measures.

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	124.2	94.9	94.5	89.7
2015	106.0	105.1	132.3	93.6	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	117.2	104.5	128.3	93.5	91.8	89.9
2019	116.0	103.0	124.8	89.6	90.4	89.1
2019 – Q1	116.3	102.6	127.5	92.0	90.7	89.3
Q2	116.5	102.3	125.9	89.3	90.4	89.0
Q3	115.6	103.5	123.2	87.9	90.3	89.2
Q4	115.5	103.7	122.7	89.2	90.0	88.8
2020 – Q1	114.9	101.8	124.1	87.8	89.4	89.7
Q2	112.4	99.5	125.4	86.4	90.4	92.2
2019 – Jan.	116.1	102.4	127.2	92.2	90.9	89.8
Feb.	116.5	103.0	127.7	92.1	90.8	89.3
Mar.	116.3	102.3	127.7	91.7	90.5	88.8
Apr.	116.5	102.4	127.7	90.9	90.4	88.7
May	116.5	102.0	125.7	88.4	90.5	88.9
June	116.4	102.5	124.4	88.5	90.4	89.4
July	115.6	103.4	124.7	88.3	90.3	89.0
Aug.	115.5	103.3	122.7	87.2	90.5	89.6
Sept.	115.6	103.8	122.3	88.4	90.3	89.1
Oct.	115.4	103.8	122.6	88.8	90.1	88.9
Nov.	115.4	103.4	123.2	89.7	89.9	88.8
Dec.	115.7	103.9	122.3	89.0	90.1	88.8
2020 – Jan.	115.8	104.0	123.5	89.2	89.3	88.7
Feb.	114.8	102.8	123.6	87.9	89.0	88.7
Mar.	114.2	98.5	125.2	86.2	89.8	91.5
Apr.	112.3	98.5	127.0	86.6	89.8	92.4
May	110.0	99.1	125.6	86.0	90.5	92.2
June	115.0	101.0	123.5	86.4	91.0	92.1
July	116.4	100.9	123.5	86.5	91.2	92.2

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh, C. Giordano, 'A novel three-market view of price competitiveness', *Journal of Economic and Social Measurement*, 44, 2019, 86-116, 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.

Table A1 *cont.*

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

(period averages; indices: 1999=100)

	Japan	Italy	Netherlands	United Kingdom	Spain	United States
2014	62.8	98.9	113.8	86.0	108.7	93.7
2015	60.3	96.2	107.8	89.9	105.9	102.6
2016	67.9	97.3	109.5	81.7	106.7	104.6
2017	64.0	97.1	111.2	77.9	108.0	103.4
2018	63.2	97.9	112.7	79.6	109.3	103.3
2019	66.1	96.5	113.6	79.8	107.6	105.7
2019 – Q1	64.4	96.9	113.0	80.1	107.6	104.6
Q2	65.0	96.3	114.0	79.9	108.0	106.0
Q3	67.3	96.5	113.5	78.0	107.4	106.3
Q4	67.5	96.2	114.0	81.4	107.2	106.2
2020 – Q1	67.8	96.3	114.7	81.0	107.0	106.5
Q2	69.7	97.7	114.1	78.9	106.2	108.5
2019 – Jan.	65.3	97.3	113.3	79.2	107.4	104.1
Feb.	64.2	96.8	112.8	80.0	107.6	104.3
Mar.	63.8	96.4	112.9	81.1	107.9	105.3
Apr.	63.6	96.0	113.6	80.6	108.0	105.9
May	65.1	96.3	114.2	80.4	108.3	106.6
June	66.3	96.5	114.1	78.8	107.8	105.5
July	65.9	96.2	113.2	78.1	107.7	105.4
Aug.	68.3	96.8	113.9	77.1	107.0	106.6
Sept.	67.7	96.4	113.4	79.0	107.5	106.7
Oct.	68.0	96.4	113.8	80.3	107.4	106.5
Nov.	67.4	96.2	113.6	81.4	107.1	106.3
Dec.	67.1	96.1	114.6	82.4	107.2	105.7
2020 – Jan.	66.6	96.0	114.7	81.9	107.3	105.1
Feb.	67.0	95.6	114.2	82.2	106.8	105.9
Mar.	69.9	97.3	115.2	78.8	107.0	108.6
Apr.	70.2	97.5	113.8	79.8	106.2	108.3
May	70.0	97.5	113.8	78.6	105.8	109.9
June	68.8	98.1	114.6	78.2	106.7	107.3
July	68.8	98.3	115.4	78.4	107.6	107.2

(1) Based on the producer prices of manufactures of 61 countries. For the method of calculation see A. Felettigh, C. Giordano, 'A novel three-market view of price competitiveness', *Journal of Economic and Social Measurement*, 44, 2019, 86-116, 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	1.1	0.7	2.1	1.4	0.4
2019	2.0	-0.5	-0.7	-0.2	2.5
2017 – Q1	1.8	2.0	2.2	0.2	-0.2
Q2	0.7	2.4	3.8	1.4	-1.6
Q3	1.7	2.2	4.3	2.1	-0.4
Q4	-0.2	1.8	4.3	2.5	-2.0
2018 – Q1	0.2	2.5	3.8	1.3	-2.2
Q2	2.2	1.6	2.7	1.1	0.6
Q3	1.0	-0.5	0.7	1.2	1.5
Q4	1.9	-0.9	-1.0	-0.1	2.9
2019 – Q1	2.4	-1.4	-0.2	1.2	3.9
Q2	1.9	-0.6	-0.8	-0.1	2.5
Q3	1.4	0.2	-0.5	-0.7	1.3
Q4	2.2	-0.3	-1.4	-1.1	2.5
2020 – Q1	4.6	0.3	-9.9	-10.2	4.2
Q2	2.6	-6.9	-27.8	-22.4	10.2
		Services			
2017	0.1	0.0	1.3	1.4	0.1
2018	2.0	-0.1	0.6	0.8	2.1
2019	1.2	0.1	0.5	0.4	1.1
2017 – Q1	0.5	0.7	1.5	0.9	-0.1
Q2	-0.7	0.0	1.4	1.5	-0.7
Q3	0.0	-0.7	1.1	1.9	0.8
Q4	0.0	-0.5	1.3	1.8	0.5
2018 – Q1	0.6	-0.2	0.8	1.0	0.7
Q2	2.7	-0.4	0.7	1.1	3.1
Q3	2.1	-0.1	0.4	0.5	2.2
Q4	2.9	0.8	0.5	-0.3	2.1
2019 – Q1	1.8	-0.5	0.3	0.8	2.3
Q2	0.5	0.4	0.6	0.2	0.1
Q3	1.2	0.1	0.7	0.6	1.1
Q4	1.2	0.4	0.4	0.0	0.8
2020 – Q1	3.4	3.5	-4.4	-7.7	-0.1
Q2	8.7	8.8	-15.4	-22.3	-0.1
		Total economy			
2017	0.3	0.6	1.6	1.0	-0.3
2018	1.7	0.0	1.0	0.9	1.6
2019	1.4	0.0	0.3	0.3	1.4
2017 – Q1	0.7	1.0	1.5	0.6	-0.3
Q2	-0.2	0.4	1.7	1.3	-0.6
Q3	0.4	0.2	1.6	1.4	0.2
Q4	0.0	0.1	1.9	1.8	-0.1
2018 – Q1	0.6	0.7	1.4	0.7	-0.1
Q2	2.4	0.0	1.1	1.1	2.5
Q3	1.8	-0.4	0.6	1.0	2.2
Q4	2.4	0.4	0.2	-0.3	1.9
2019 – Q1	1.9	-0.7	0.3	1.0	2.7
Q2	1.0	0.5	0.3	-0.2	0.4
Q3	1.2	0.1	0.4	0.2	1.1
Q4	1.4	0.0	0.0	0.0	1.3
2020 – Q1	3.4	2.7	-5.6	-8.1	0.7
Q2	6.6	5.0	-18.1	-22.0	1.5

Source: Based on Istat data.
(1) Based on hours effectively worked. Annual figures are unadjusted; quarterly data are adjusted for seasonal and calendar effects. – (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	1.9	2.7	3.4	0.7	-0.8
2018	2.0	0.3	1.6	1.2	1.7
2019	2.0	-1.4	-1.0	0.4	3.4
2017 – Q1	1.6	1.8	2.5	0.7	-0.2
Q2	1.5	2.4	3.4	1.0	-0.8
Q3	1.4	3.5	4.9	1.3	-2.0
Q4	1.5	2.7	4.4	1.6	-1.2
2018 – Q1	2.0	2.3	3.4	1.0	-0.4
Q2	2.3	1.5	2.8	1.3	0.9
Q3	2.2	-0.1	0.9	1.0	2.4
Q4	2.0	-1.6	-0.7	0.9	3.7
2019 – Q1	1.9	-1.8	-0.5	1.3	3.7
Q2	2.0	-1.6	-1.3	0.3	3.7
Q3	2.4	-1.2	-0.8	0.4	3.6
Q4	1.6	-1.0	-1.4	-0.4	2.6
2020 – Q1	3.2	-0.9	-5.1	-4.2	4.1
Q2	6.2	-2.9	-18.3	-15.8	9.3
		Services			
2017	2.2	1.2	2.5	1.3	1.0
2018	2.3	0.5	2.0	1.4	1.7
2019	1.9	0.4	1.7	1.3	1.5
2017 – Q1	1.7	0.8	2.2	1.4	0.9
Q2	2.0	1.0	2.5	1.5	1.0
Q3	1.8	0.9	2.7	1.8	0.9
Q4	2.1	1.2	2.8	1.6	0.8
2018 – Q1	2.4	1.3	2.5	1.1	1.1
Q2	2.2	0.6	2.2	1.5	1.6
Q3	2.6	0.3	1.7	1.4	2.2
Q4	2.3	0.3	1.6	1.4	2.0
2019 – Q1	1.6	0.0	1.8	1.8	1.6
Q2	2.1	0.5	1.8	1.3	1.6
Q3	1.9	0.6	1.8	1.2	1.3
Q4	1.8	0.3	1.5	1.2	1.5
2020 – Q1	4.6	1.1	-2.5	-3.5	3.5
Q2	10.0	3.3	-13.9	-16.6	6.5
		Total economy			
2017	2.1	1.5	2.6	1.1	0.6
2018	2.2	0.4	1.9	1.4	1.7
2019	1.9	0.1	1.2	1.1	1.8
2017 – Q1	1.6	1.0	2.2	1.2	0.6
Q2	1.9	1.3	2.6	1.3	0.6
Q3	1.7	1.5	3.1	1.6	0.1
Q4	1.9	1.6	3.2	1.6	0.3
2018 – Q1	2.3	1.5	2.6	1.1	0.7
Q2	2.1	0.7	2.3	1.5	1.4
Q3	2.4	0.1	1.5	1.4	2.3
Q4	2.1	-0.2	1.2	1.3	2.3
2019 – Q1	1.6	-0.3	1.5	1.8	1.9
Q2	2.1	0.2	1.2	1.0	1.9
Q3	2.0	0.3	1.3	1.0	1.6
Q4	1.8	0.1	0.9	0.8	1.7
2020 – Q1	4.2	0.7	-3.0	-3.7	3.5
Q2	9.0	1.9	-14.6	-16.2	6.9

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

Table A4

Consumer prices: Italy, euro area and main economies

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

	Italy		France		Germany		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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	0.2	0.4	0.8	1.1	0.3	0.8
July	0.8	2.1	0.9	1.4	0.0	0.7	0.4	1.2
Aug.	-0.5	0.3	0.2	0.6	-0.1	0.6	-0.2	0.4
Sept.	(-0.9)	(-0.4)	(0.0)	….	-0.4	0,3	(-0.3)	(0.2)

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

Table A5

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

(billions of euros; per cent)

	Stocks									Stock-flow reconciliation		
	Direct invest-ment	Portfolio investment			Financial derivati-ves	Other invest-ment	Official reserves	Total	Total as a percenta-ge of GDP	Change in total stocks	Valuation adjust-ments (2)	Financial account flows
		Total	Equity and invest-ment funds	Debt securi-ties						(a)=(b)+(c)	(b)	(c)
						Assets						
2016	544	1,265	758	507	92	504	129	2,534	149.4	99	23	76
2017	558	1,391	864	527	76	523	126	2,675	154.0	141	-7	148
2018	594	1,356	822	534	76	551	133	2,710	153.0	36	-68	104
2019	617	1,535	944	591	75	564	156	2,948	164.7	237	119	118
2018 – Q1	564	1,395	860	536	73	534	125	2,691	154.0	17	-33	49
Q2	578	1,404	865	538	75	552	127	2,736	155.6	45	18	27
Q3	583	1,434	886	548	73	556	124	2,771	157.0	34	-2	36
Q4	594	1,356	822	534	76	551	133	2,710	153.0	-60	-52	-8
2019 – Q1	595	1,420	868	551	80	559	138	2,791	157.2	81	62	19
Q2	600	1,445	882	563	83	567	145	2,841	159.8	50	30	20
Q3	611	1,491	903	588	87	577	157	2,923	163.8	82	33	49
Q4	617	1,535	944	591	75	564	156	2,948	164.7	25	-5	30
2020 – Q1	614	1,401	826	575	85	596	167	2,863	161.9	-85	-120	35
Q2	611	1,515	903	612	83	576	175	2,960	174.7	96	85	11
						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	488	1,146	216	930	107	1,055	–	2,796	157.9	-12	-90	77
2019	520	1,361	282	1,078	116	978	–	2,975	166.2	179	109	70
2018 – Q1	456	1,347	270	1,076	102	954	–	2,859	163.6	50	2	49
Q2	464	1,225	255	970	105	1,039	–	2,832	161.1	-27	-49	22
Q3	470	1,201	254	947	100	1,057	–	2,828	160.2	-4	-23	19
Q4	488	1,146	216	930	107	1,055	–	2,796	157.9	-32	-19	-12
2019 – Q1	489	1,208	250	959	117	1,044	–	2,858	160.9	62	44	18
Q2	499	1,262	249	1,013	127	1,003	–	2,890	162.6	32	27	5
Q3	509	1,350	262	1,088	140	1,002	–	3,001	168.2	112	71	41
Q4	520	1,361	282	1,078	116	978	–	2,975	166.2	-27	-33	6
2020 – Q1	518	1,224	206	1,018	133	1,047	–	2,922	165.2	-53	-82	29
Q2	519	1,258	229	1,029	132	1,076	–	2,985	176.1	63	46	17
						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	106	210	606	-396	-31	-504	133	-86	-4.8	48	21	27
2019	98	174	661	-487	-41	-414	156	-27	-1.5	59	11	48
2018 – Q1	108	49	590	-541	-30	-419	125	-168	-9.6	-34	-34	1
Q2	114	179	610	-432	-29	-486	127	-96	-5.4	72	66	5
Q3	113	233	632	-398	-27	-501	124	-57	-3.2	38	22	17
Q4	106	210	606	-396	-31	-504	133	-86	-4.8	-28	-33	4
2019 – Q1	106	211	619	-407	-37	-485	138	-67	-3.8	19	18	1
Q2	102	184	634	-450	-44	-436	145	-49	-2.8	18	3	15
Q3	102	141	640	-500	-53	-425	157	-79	-4.4	-30	-38	8
Q4	98	174	661	-487	-41	-414	156	-27	-1.5	52	27	25
2020 – Q1	96	177	620	-443	-48	-451	167	-58	-3.3	-31	-38	6
Q2	93	257	674	-417	-49	-500	175	-25	-1.5	33	39	-6

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

Table A6

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

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
2014	30,904	49,346	-2,282	265	-16,425	2,830	-942	3,771
2015	23,529	54,144	-4,245	-11,413	-14,956	6,110	-1,183	7,294
2016	43,997	59,963	-4,082	4,794	-16,678	-2,645	-1,973	-673
2017	44,712	54,372	-3,787	9,277	-15,149	958	-1,188	2,146
2018	44,208	45,558	-2,763	18,880	-17,467	-648	-1,482	834
2019	53,406	57,164	-1,723	14,898	-16,933	-2,221	-2,603	382
2019 – Q1	3,466	9,678	-3,664	4,376	-6,924	-372	-490	118
Q2	12,716	14,289	1,299	-477	-2,395	-536	-396	-141
Q3	16,761	14,766	3,454	3,486	-4,945	-389	-565	176
Q4	20,463	18,431	-2,812	7,513	-2,669	-924	-1,152	228
2020 – Q1	7,373	13,010	-4,685	4,655	-5,608	-692	-718	25
Q2	5,308	11,796	-2,612	996	-4,872	-200	-103	-97
2019 – Jan.	-1,052	801	-1,163	985	-1,676	-113	-174	61
Feb.	2,104	3,789	-1,222	1,823	-2,286	-99	-154	55
Mar.	2,414	5,088	-1,279	1,567	-2,962	-160	-162	2
Apr.	3,431	3,202	14	1,069	-854	-209	-131	-78
May	3,706	5,367	531	-1,776	-416	-225	-138	-87
June	5,580	5,720	755	230	-1,125	-102	-126	24
July	9,471	7,957	1,558	1,531	-1,576	-127	-204	77
Aug.	4,339	3,424	1,061	1,547	-1,692	-83	-154	71
Sept.	2,951	3,384	835	409	-1,677	-180	-208	28
Oct.	9,631	8,185	-470	2,574	-657	-204	-413	209
Nov.	5,092	5,070	-1,494	2,216	-700	-244	-386	141
Dec.	5,739	5,175	-847	2,723	-1,312	-476	-354	-122
2020 – Jan.	-988	874	-1,257	700	-1,305	-242	-271	29
Feb.	4,881	6,297	-1,464	1,906	-1,858	-217	-237	21
Mar.	3,480	5,840	-1,964	2,049	-2,445	-234	-209	-24
Apr.	-1,902	-285	-845	716	-1,488	-89	-45	-44
May	3,102	5,735	-1,073	-191	-1,369	-73	-25	-48
June	4,108	6,345	-694	471	-2,014	-38	-33	-5
July	(9,308)	(9,765)	(7)	(1,341)	(-1,805)	(-58)	(-104)	(46)

(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	1.2	5.3	4.9	7.3	3.0
June	2.3	2.7	3.6	1.6	4.8	4.8	7.1	3.0
July	2.8	3.2	4.5	1.7	4.7	4.8	7.1	3.0
Aug.	3.6	4.1	6.0	1.9	4.6	4.8	7.1	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 Italian residents. – (3) Loans to euro-area residents. – (4) The series are based on the new definitions for monetary aggregates and counterparties adopted by the ECB in September 2012, which exclude repo transactions with central counterparties (for the euro area, starting with the June 2010 data).

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	25.9	-3.8	20.1
2019 – Q1	-4.9	-0.3	-1.5	-6.8
Q2	1.4	-2.1	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	-3.3	-25.7
Q2	7.6	4.1	1.6	13.3
		Euro area		
2018	85.7	80.3	41.5	207.5
2019	119.7	165.7	62.1	347.5
2019 – Q1	58.6	21.6	15.8	96.0
Q2	17.1	27.7	16.5	61.3
Q3	22.1	38.0	20.3	80.4
Q4	22.0	78.4	9.6	109.9
2020 – Q1	33.1	4.2	10.6	47.9
Q2	136.7	45.2	107.1	289.0

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 companies, other financial intermediaries, financial auxiliaries, lenders and captive financial institutions.

Table A9

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which*: investment of liquidity	Borrowing requirement	*of which*: in connection with financial support to EMU countries (3)
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	1.6	45.3	13.8	10.5	59.1	0.0
2018	5.2	-2.1	0.8	42.4	-4.7	0.9	44.7	-5.8	19.5	38.9	0.0
2019	-10.3	-4.7	6.4	43.0	-7.4	0.7	32.4	2.2	-18.0	34.6	-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	15.3	-0.2	-0.1	17.3	3.5	5.5	20.8	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	-1.2	17.4	-31.6	-2.5	-14.2	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	1.3	-29.7	16.9	18.4	-12.9	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	-2.3	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	-0.6	0.7	21.0	-20.5	-3.0	0.4	0.0
July	5.8	1.6	-0.1	19.1	-2.3	1.2	23.7	-27.1	3.0	-3.3	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	6.5	-0.1	0.2	7.6	-9.8	-3.4	-2.1	-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	-14.5	-4.7	0.0	-36.6	22.5	9.4	-14.1	0.0
2020 – Jan.	2.7	-1.7	5.8	25.1	1.1	0.2	35.0	-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	-23.1	1.3	-0.2	-11.5	43.2	15.5	31.7	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
May	-4.2	0.2	10.9	32.6	0.6	-0.1	39.8	-14.5	-2.5	25.3	0.0
June	-0.7	-0.3	1.4	20.4	-1.5	0.2	19.8	0.8	0.0	20.6	0.0
July	-0.8	-0.4	-2.2	33.2	0.3	0.4	30.9	-23.3	-1.0	7.7	0.0
Aug.	0.3	-0.1	1.3	18.5	-1.5	-0.3	18.4	-16.8	1.5	1.6	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)
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	46.8	33.9	2,329.4	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	48.5	33.5	2,409.9	32.9	21.0	35.1	57.8
2018 – Jan.	238.1	73.7	112.9	1.819.2	134.7	46.9	33.9	2,351.8	54.5	31.6	33.5	58.2
Feb.	237.0	73.2	112.8	1,821.2	135.2	46.5	33.9	2,352.8	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	46.3	33.9	2,408.2	80.0	15.4	35.1	58.2
Aug.	237.3	72.9	112.6	1,863.4	132.7	46.3	33.9	2,392.3	65.1	16.4	34.8	58.2
Sept.	236.2	72.3	112.8	1,869.0	133.1	46.2	33.9	2,397.3	49.6	22.0	33.6	58.2
Oct.	235.0	72.5	112.8	1,874.5	132.6	45.5	33.9	2,400.4	48.7	23.4	33.7	58.2
Nov.	234.9	71.7	113.2	1,882.1	133.4	46.5	33.9	2,410.1	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	2,420.8	69.3	19.0	33.6	58.2
Mar.	237.8	68.8	115.9	1,883.5	131.3	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	131.1	47.5	33.9	2,430.5	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	49.2	33.9	2,467.5	94.8	16.0	35.6	58.2
Aug.	241.7	68.6	118.2	1,926.2	129.2	48.9	33.9	2,464.2	89.5	19.0	35.9	58.2
Sept.	243.5	68.4	119.2	1,900.9	129.3	48.4	33.9	2,441.3	45.8	29.0	36.5	58.2
Oct.	243.3	69.6	120.4	1,906.8	129.2	48.6	33.7	2,448.3	55.5	32.4	37.4	58.0
Nov.	238.1	67.7	120.4	1,909.9	129.6	48.4	33.5	2,446.4	55.4	30.4	38.7	57.8
Dec.	227.3	67.6	113.8	1,895.5	124.8	48.5	33.5	2,409.9	32.9	21.0	35.1	57.8
2020 – Jan.	230.0	65.8	119.6	1,920.0	126.0	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	126.0	48.3	33.5	2,447.0	73.4	27.5	36.6	57.8
Mar.	238.5	66.9	118.3	1,901.3	127.3	48.1	33.5	2,433.5	30.1	12.0	36.4	57.8
Apr.	236.6	66.9	128.5	1,928.4	127.9	48.2	33.5	2,469.5	46.9	0.5	35.7	57.8
May	232.4	67.0	139.3	1,962.0	128.4	48.1	33.5	2,510.4	61.4	3.0	36.8	57.8
June	231.8	66.8	140.7	1,983.1	127.0	48.3	33.5	2,530.9	60.7	3.0	36.5	57.8
July	230.9	66.4	138.5	2,015.1	127.3	48.7	33.5	2,560.6	83.9	4.0	36.9	57.8
Aug.	231.3	66.2	139.9	2,033.5	125.8	48.5	33.5	2,578.9	100.7	2.5	36.6	57.8

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