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Economic Bulletin

1 | 2021

January 2021

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

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

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

Based on data available on 8 January 2021, unless otherwise indicated

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

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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

OVERVIEW

The new pandemic wave is impacting the recovery, but vaccinations have begun

The resurgence of coronavirus cases in the autumn led to a slowdown in global economic activity at the end of 2020, especially in the advanced countries. The start of the vaccination campaigns is affecting the medium-term prospects favourably, but the timing and intensity of the recovery remain uncertain

The ECB Governing Council will continue to support the economy

In the euro area, the effects of the pandemic on economic activity and on prices are set to last longer than was previously assumed. The ECB Governing Council has expanded and prolonged monetary stimulus to ensure favourable lending conditions for all sectors for as long as necessary to guarantee full support to the economy and to inflation. It stands ready to recalibrate its instruments once again if necessary.

In Italy, a marked recovery in GDP is followed by a drop at the end of 2020 …

In Italy, the higher than expected growth in the third quarter demonstrated the economy's strong capacity to recover. As in the other euro-area countries, the second pandemic wave nevertheless caused a further decrease in GDP in the fourth quarter. Based on the available indicators, this decline can currently be estimated at around -3.5 per cent, although there is a great deal of uncertainty over this figure.

… mainly in services …

The downturn was considerable in services and marginal in manufacturing. Our surveys reveal that firms' assessments have become less favourable, but are still far from the pessimism registered in the first half of 2020. Firms intend to step up their investment plans for 2021. According to the households interviewed by the Bank of Italy, spending on services continues to be held back by fears of infection more than by the restrictive measures.

… but exports and capital inflows have resumed …

Italian exports of goods and services recovered significantly in the third quarter of 2020, far more so than world trade; this continued in the autumn, but less markedly. Capital flows and purchases of Italian public sector securities by non-residents started up again. The Bank of Italy's TARGET2 balance improved. Thanks to the protracted current account surplus, Italy's net international investment position turned positive after more than thirty years of negative balances.

The recovery in employment weakens after the summer

With the reopening of the activities suspended during the first wave of the pandemic, in the third quarter the number of hours worked rose sharply and recourse to wage supplementation schemes declined. The number of payroll employment positions also returned to growth. However, the latest available data indicate another upturn in the use of the wage supplementation scheme (CIG), albeit much less so than during the first wave. In November, the increase in the number of new jobs essentially came to a halt, highlighting a gap compared with the same period of the previous year, particularly for young people and women.

Weak demand keeps prices down

The change in consumer prices remained negative, reflecting price developments in the service sectors hit hardest by the crisis, whose growth continues to be affected by the weakness of demand. The inflation expectations of analysts and firms continue to point to very low rates over the next twelve months.

There is greater optimism on the financial markets

The optimism of financial market operators in Italy and abroad has been boosted by the announcement of the rollout of vaccines, further monetary policy and fiscal support, and the end of the uncertainty surrounding the presidential elections in the United States. The yield spread between Italian and German ten-year government bonds remains at lower levels than those observed before the healthcare crisis. Financial markets nevertheless remain sensitive to the course of the pandemic.

Lending continues to grow at a sustained pace

Banks continued to meet demand for funds from firms. Supply conditions remained relaxed overall, thanks to the continuing support of monetary policy and public guarantees. Banks' bond funding costs declined further, and rates on lending to firms and households remained low.

The Government has adopted further support measures

In response to the resurgence of the health crisis, the Government enacted additional measures to support households and firms in the last quarter of 2020. Compared with the scenario at unchanged policies, the budget envisages an increase in net borrowing both this year and the next. Further expansionary stimulus should come from the measures that will be defined under the Next Generation EU (NGEU) programme.

This Bulletin updates the macroeconomic projections for Italy

This Bulletin presents the macroeconomic projections for the Italian economy in the three years 2021-23, which update those prepared in December as part of the Eurosystem staff macroeconomic projection exercise. The baseline projections presented here assume that the pandemic gradually comes under control in the first half of this year and is completely resolved by the end of 2022; that the substantial support from fiscal policy, reinforced by the use of funds available under NGEU, continues; and that monetary policy ensures that financial conditions remain favourable over the entire forecasting horizon, as envisaged by the ECB Governing Council.

GDP is expected to return to robust growth from the spring onwards …

Based on these assumptions, it is projected that GDP will return to significant growth starting in the spring, estimated at 3.5 per cent on average this year, 3.8 per cent in 2022, and 2.3 per cent in 2023, when output would be back to pre-pandemic levels. Investment is projected to pick up at a rapid pace, benefiting from the stimulus measures, with exports staging a significant recovery; consumption is instead projected to recover more gradually, with an only partial inversion of the large increase in the propensity to save observed since the outbreak of the pandemic. Inflation is projected to remain low throughout the year and to then rise only gradually in the two years 2022-23.

… after falling at the end of 2020 …

The estimate for growth this year is heavily dependent on the negative carryover from the expected decline in GDP in the latter part of 2020. Compared with the projections in July's Economic Bulletin, the pace of activity is instead projected to be more robust from the second quarter onwards and significantly stronger in 2022, thanks to the stimulus provided by the support measures.

… but persistently high risks must be countered

Achieving these rates of growth depends on the expansionary effects of the interventions under NGEU being deployed in full, on support measures preventing firms' rising indebtedness from having repercussions on financial stability, and on contagion fears not deepening again. Growth could instead be higher if faster progress were to be made in limiting the spread of the coronavirus.

1 THE WORLD ECONOMY

1.1 THE WORLD ECONOMY

After a better than expected recovery in the summer, global economic activity slowed in the fourth quarter, influenced by the new wave of the pandemic, especially in the advanced countries. The start of the vaccination campaign is having a favourable effect on the longer-term outlook, but the time frame for recovery remains uncertain.

Vaccinations begin, but the new pandemic wave is having an impact

The resurgence of the pandemic between October and December, particularly intense in the European Union and the United States, and the subsequent stepping up of containment measures in many countries – though generally less intense than in the spring (Figure 1) – led to a new slowdown in the world economy in the last quarter of 2020. The longer-term outlook has instead improved, thanks to the launch of vaccination campaigns in many countries; however, the distribution and large-scale vaccine administration times, on which the effects on the economic cycle will depend, remain uncertain.

The economic recovery was intense in the summer ...

In the third quarter, there was a robust recovery in economic activity (Table 1), albeit to a much lesser extent in the service sector, which remained weak everywhere. In the United States, Japan and the United Kingdom, GDP was still below pre-pandemic levels, by 3.5, 4.2 and 9.7 per cent respectively; however, it rose above the levels prior to the public health emergency in China, where growth strengthened.

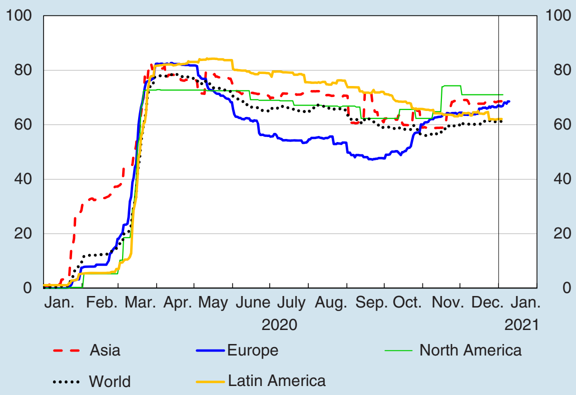
... but the new cases are holding back economic activity ...

In the last part of 2020, the acceleration in infections curbed economic activity, especially in the advanced

Figure 1

Restrictions on economic activity (1)

(daily data; index numbers)



Source: Bank of Italy calculations based on data from the Oxford Covid-19 Government Response Tracker.
(1) For each country, the index is the simple average of nine indicators that measure the intensity of the restrictions in various areas (schools, workplaces, public transport and so on). Where possible, the indicators also consider whether the restrictions are adopted throughout the country or in part of it. Regional aggregates are calculated by weighing the national data for the population.

Table 1

GDP growth and inflation

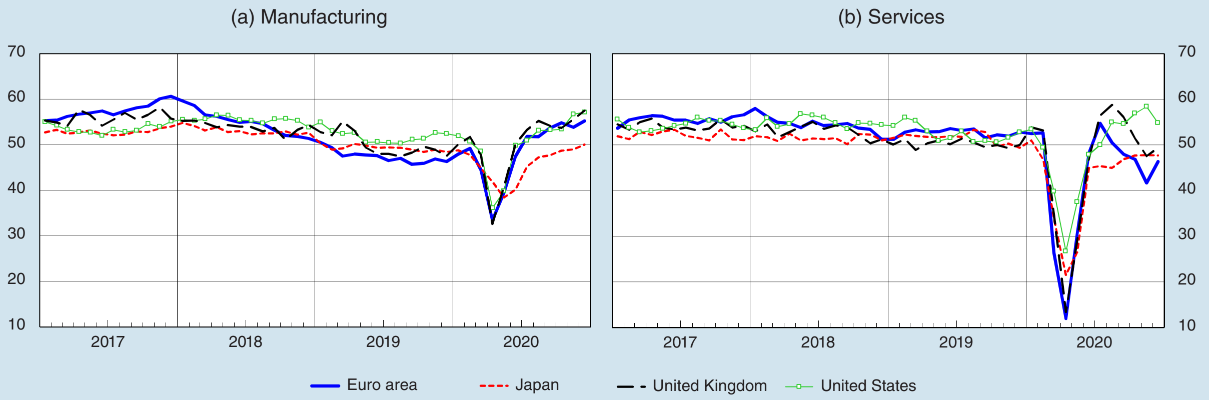
(percentage changes)

	GDP growth (1)			Inflation (2)
	2019	2020 Q2	2020 Q3	December 2020
Advanced economies				
Japan (3)	0.3	-29.2	22.9	-0.9
United Kingdom (3)	1.3	-58.7	78.0	0.3
United States	2.2	-31.4	33.1	1.4
Emerging countries				
Brazil	1.1	-11.4	-3.9	4.5
China	6.1	3.2	4.9	0.2
India	4.9	-23.9	-7.5	4.6
Russia	1.3	-8.0	-3.4	4.9

Source: National statistics.
(1) For the annual figure, percentage change. For the quarterly figures, quarterly percentage changes, annualized and seasonally adjusted, for the advanced countries; year-on-year percentage changes for the emerging countries. – (2) Consumer price index, year-on-year change. – (3) Data for November.

Figure 2

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

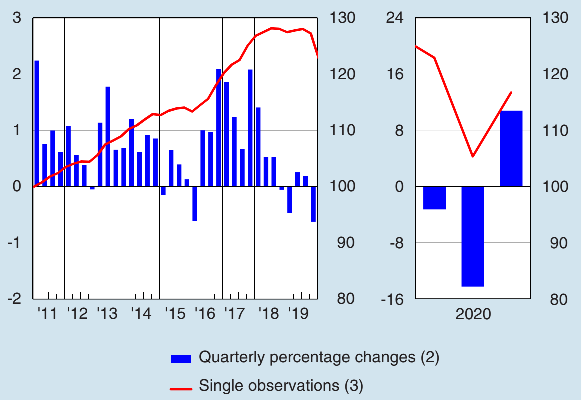


Sources: Markit and Refinitiv.
(1) Diffusion indices of economic activity in the manufacturing and service sectors based on purchasing managers' assessments. Each index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'.

economies. In December, the purchasing managers' index (PMI) for manufacturing remained above the threshold compatible with expansion in the United States, the euro area and the United Kingdom (Figure 2.a). In the service sector, the hardest hit by the measures to contain the pandemic, the outlook remains negative overall (Figure 2.b), especially in the tourism and recreation services sectors. Only in China, where infections have practically fallen to zero since last spring, do the indices signal an expansion in all sectors.

Figure 3

World trade (1)
(quarterly data; percentage changes and single observations)



Source: Based on national accounts and customs data.
(1) Seasonally adjusted data; quarterly percentage changes. – (2) For graphic design, the data for quarterly percentage changes for 2020 are plotted on a different scale from that used for previous years. – (3) Index: Q1 2011=100. Right-hand scale.

... and world trade

These trends are reflected in world trade. After the robust recovery recorded in the third quarter (Figure 3), the latest data indicate a slowdown in the fourth quarter. The contraction in world trade is expected to be around 9 per cent for 2020 as a whole.

The weakness of demand affects inflation

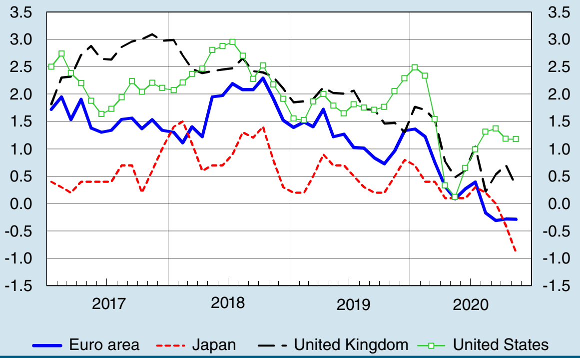
Consumer price inflation in the leading advanced economies remains below pre-pandemic levels (Figure 4). Price developments reflect above all the weakness of aggregate demand. The long-term market-based inflation expectations rose following the positive news on the effectiveness of the vaccines, which has led to more favourable assessments of medium-term growth.

The outlook is still dependent on support policies

According to the OECD forecasts released in December, world GDP is expected to expand by 4.2 per cent in 2021 (Table 2), surpassing pre-pandemic levels by the end of the year. The forecasts factor in the continuance of the support provided by expansionary economic policies at international level and large-scale vaccination by the end of the current year. In addition, they already included the signing of an agreement

Figure 4

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.

Table 2

Macroeconomic projections
(changes and percentage points)

	2019	Forecasts (1)		Revisions (2)	
		2020	2021	2020	2021
GDP					
World	**2.7**	**-4.2**	**4.2**	**0.3**	**-0.8**
of which:					
Advanced countries					
Euro area	1.3	-7.5	3.6	0.4	-1.5
Japan	0.7	-5.3	2.3	0.5	0.8
United Kingdom	1.3	-11.2	4.2	-1.1	-3.4
United States	2.2	-3.7	3.2	0.1	-0.8
Emerging countries					
Brazil	1.1	-6.0	2.6	0.5	-1.0
China	6.1	1,8	8.0	0.0	0,0
India (3)	4.2	-9,9	7.9	0,3	-2.8
Russia	1.3	-4.3	2.8	3.0	-2.2
World trade	**0.6**	**-8,7**	**7.2**	**1.3**	**–**

Sources: OECD, *OECD World Economic Outlook*, December 2020 (for GDP), and Bank of Italy, based on national accounts and customs data (for world trade).
(1) Percentage changes. – (2) Percentage poi nts. Revisions compared with OECD, *OECD Economic Outlook*, Interim Report, September 2020 and, for world trade, Bank of Italy, *Economic Bulletin*, 4, 2020. – (3) The data relate to the fiscal year starting in April.

on the bilateral relations between the United Kingdom and the European Union (see the box 'The agreement on trade and cooperation between the European Union and the United Kingdom'). China is expected to contribute more than one third to the global expansion in 2021.

THE AGREEMENT ON TRADE AND COOPERATION BETWEEN THE EUROPEAN UNION AND THE UNITED KINGDOM

On 30 December, at the end of complex negotiations, the agreement on future relations between the United Kingdom and the European Union was signed.[1] It will only be ratified by the latter following the approval, in the early months of this year, of the European Parliament. The European Council has authorized its provisional application from 1 January 2021, at the end of the transition period established by the Withdrawal Agreement (see the box 'The United Kingdom's withdrawal from the European Union', *Economic Bulletin*, 1, 2020).

The treaty is based on three pillars: (a) the establishment of a free trade area and of a new social and economic partnership with the United Kingdom; (b) a new partnership for the security of citizens; and (c) a horizontal agreement on governance. Agreements were also reached on the exchange of classified information and on civil nuclear power, and 15 declarations were formulated on other issues of common interest.

The first pillar provides for the establishment of a free trade area for goods produced within the European Union and the United Kingdom, with the full exclusion of customs duties and quantitative restrictions.[2] Based on the agreed rules of origin, when calculating value added in order to identify the goods entitled to this treatment, the contributions to the value added from the two economies are combined, while those

[1] 'Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, on the One Part, and the United Kingdom of Great Britain and Northern Ireland, on the Other Part'.

[2] Other important agreements, such as that between the EU and Canada – the Comprehensive Economic and Trade Agreement, CETA – and that of the European Economic Area with Norway, Iceland and Liechtenstein, instead maintain customs duties in some specific commodity sectors.

of other countries with which the EU and the UK simultaneously have trade agreements, and obviously, those of other third countries are not considered.[3] As regards customs, the facilitations already found in other EU trade agreements are included, comprising the possibility of simplified procedures for authorized operators, but not the full exemption from the customs, sanitary and phytosanitary controls (absent within the EU). A framework for cooperation against customs and VAT fraud is also envisaged. Lastly, the agreement contains measures for the return of unlawfully removed objects of cultural value.

As regards trade in services, there will be significant limitations: specifically, there is no right of establishment for natural persons (apart from a few exceptions in some specific cases)[4] and no mutual recognition of professional qualifications, of authorizations for carrying out certain activities or of banking and financial supervisory systems. For financial services, the agreement does not envisage broader reciprocal access to the market than that established in the EU's agreements with other trading partners.[5] In a dedicated joint declaration, the parties are committed to drawing up a Memorandum of Understanding on regulatory cooperation on finance by 31 March of this year.

The trade agreement also covers air and land transport, the coordination of social security systems, intellectual property rights, public procurement and fishing. With regard to the last point, the parties' positions remained far apart until the very end of the negotiations. A reduction of 25 per cent in the current EU fishing quotas in UK waters was established, to be gradually implemented over the next five and a half years, at the end of which there will be annual negotiations on access.

The agreement contains a comprehensive system of bans and sanctions to ensure a level playing field between the parties regarding subsidies that distort the functioning of the market, and compliance with the principle of non-regression (namely the safeguarding of the level of protection) in a social and environmental context and as regards workers' rights.

The second pillar of the agreement, relating to the partnership for the security of citizens, envisages the cooperation of the police and of the judicial authorities on criminal matters, and the protection of fundamental rights and of personal data. It governs the exchange of information, UK participation in EU programmes, and collaboration on anti-money laundering.

The third pillar of the agreement establishes that governance is through a Joint Partnership Council, chaired by a member of the European Commission and by a UK government minister, specialized technical committees, and a Trade Partnership Council, co-chaired by senior officials from both sides. The dispute settlement system provides for political consultations and possible recourse to an arbitration tribunal for the economic partnership areas (including the ban on State aid and the non-regression areas) and, albeit with some limits, fishing, the coordination of social security systems, and UK participation in EU programmes. In the event of violations of the agreement, the other party may restrict market access for the sector where the violation occurred by means of duties, tariffs or quotas.[6] The possibility of retaliations

3 It would clearly contradict the logic of a trade agreement to include the contributions to value added of other third countries in the calculation.

4 The agreement specifically envisages exemption from short-stay work visas and facilitations for temporary secondments of highly qualified employees.

5 As agreed in the political declaration attached to the Withdrawal Agreement, access to the financial services market is not regulated by the trade agreement, since equivalence regimes and the other rules for third-country intermediaries are applied (see the box 'The United Kingdom's withdrawal from the European Union', *Economic Bulletin*, 1, 2020).

6 Any substantial violation of the obligations approved as essential elements of the agreement (fight against climate change, respect for democratic values and fundamental rights, non-proliferation of weapons of mass destruction) may trigger the suspension or termination of the agreement. This is the first time that an EU trade agreement has included the fight against climate change among its essential components.

across other sectors, or on other parts of the agreements, is also envisaged in the event of non-compliance with a ruling of the arbitration tribunal.

Overall, the agreement allows the European Union and the United Kingdom to keep some of the benefits of bilateral trade, mainly in trade in goods, at the same time protecting the EU from distortion of competition and any lowering of standards by the UK. The creation of a free trade area with robust safeguards for a level playing field is also important for Italy: one seventh of its exports of goods to the UK (about 5 per cent of all Italian exports) consists of food and drink products, which are generally more at risk of restrictive measures in the event of international trade tensions. In addition, the relatively smaller size of Italian exporting firms exposes them to a greater extent to any distortions of market conditions.

The recovery could be slowed by the effects of further outbreaks of infection not countered by new fiscal support measures. On the other hand, a possible large-scale vaccination campaign carried out more quickly than expected could boost growth.

Oil prices go up again

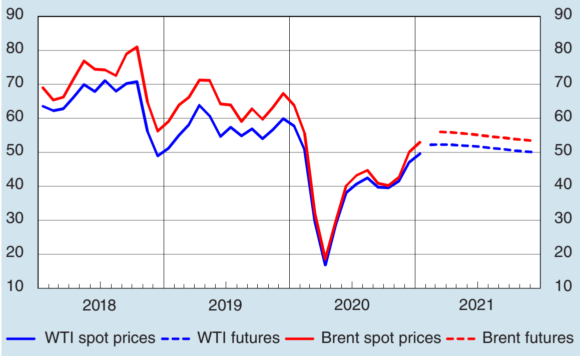
Oil prices have risen since the end of October, reaching around 50 dollars per barrel. The spread of the encouraging news about vaccines, the end of the uncertainty over the US elections, and Asian demand holding firm were all contributory factors. In December, prices also benefited from the decision of OPEC+ to adopt a more gradual resumption of production from January 2021, from the approval of a new fiscal stimulus in the United States, and the abating of the uncertainty surrounding the Brexit negotiations. Futures indicate a slight fall in prices in the medium term (Figure 5), but the prospects will probably be affected by the course of the pandemic.

Monetary expansion continues

In its December meeting, the Federal Reserve announced that purchases of securities will continue until substantial progress has been made in achieving the objectives of maximum employment and price stability (Figure 6). The Bank of Japan has kept its stance unchanged, while the Bank of England has increased its objective for public securities purchases by £150 billion, or 7 per cent of GDP. The People's Bank of China has left its key interest rates unchanged, but has limited its interventions in some cases of insolvency in firms controlled by local governments that had put pressure on interbank rates. This signalled the progressive phasing out of the implicit guarantees on the part of the central State in order to limit the risks of financial instability.

Figure 5

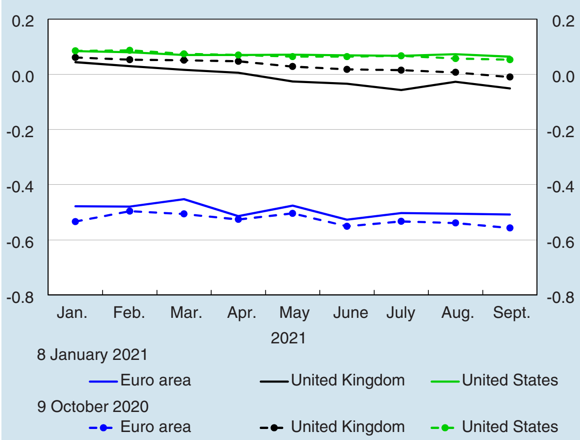
Oil prices (1)
(monthly data; dollars per barrel)



Source: Refinitiv.
(1) For the spot prices, average monthly data up to December 2020; the latest figure is the average of the daily data from 1 to 8 January 2021.

Figure 6

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

According to the latest indicators, economic activity in the euro area weakened at the end of the year, owing to the resurgence in infection and the tightening of the containment measures. The ECB Governing Council recalibrated its monetary policy instruments, making them more expansionary, to guarantee favourable financing conditions over the pandemic period, which looks set to last longer than previously hypothesized.

After a stronger-than-expected recovery in the third quarter …

In the third quarter, euro-area GDP grew more than expected, by 12.5 per cent (Table 3), after recording a cumulative loss of 15 per cent in the first half of the year. Value added increased across all sectors, though it is still far from the end-2019 levels, especially in the service segments most exposed to social interaction. GDP grew in all the major economies, but nowhere did it return to pre-pandemic levels.

Table 3

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2019	2020 Q2 (1)	2020 Q3 (1)	2020 December (2)
France	1.5	-13.8	18.7	(0.0)
Germany	0.6	-9.8	8.5	(-0.7)
Italy	0.3	-13.0	15.9	(-0.3)
Spain	2.0	-17.9	16.4	(-0.6)
Euro area	1.3	-11.7	12.5	(-0.3)

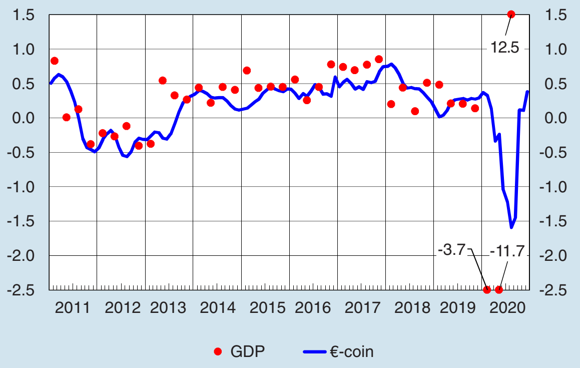
Sources: Based on national statistics and Eurostat data.
(1) Quarterly data adjusted for seasonal and calendar effects; percentage changes on previous quarter. – (2) Year-on-year percentage changes in the harmonized index of consumer prices (HICP).

… the indicators point to a contraction in the fourth quarter

According to the available data, GDP decreased in the fourth quarter. The purchasing managers' indices (PMI) are compatible overall with a contraction in economic activity. Signs of recovery in manufacturing strengthened in the fourth quarter on average, while there was a weakening in services, though to a lesser degree than in the spring months. The €-coin indicator rose in December, reflecting the resilience of manufacturing activity and the improvement in the expectations of households and firms (Figure 7).

Figure 7

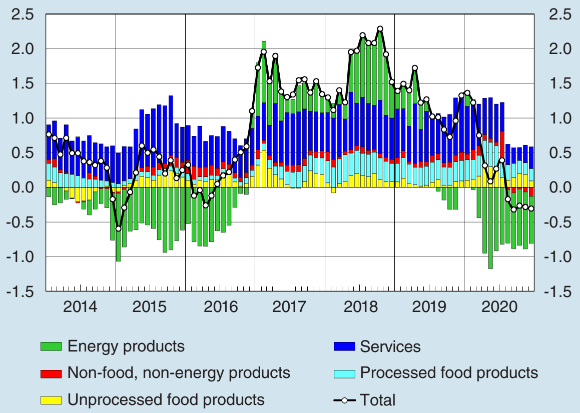
€-coin coincident cyclical indicator and euro-area GDP (1)
(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology and construction of the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July, 2009. The indicator underwent some revisions, the details of which are available on the Bank of Italy's website, '*€-coin: December 2020*'. For GDP, quarterly data, changes on the previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components.

Figure 8

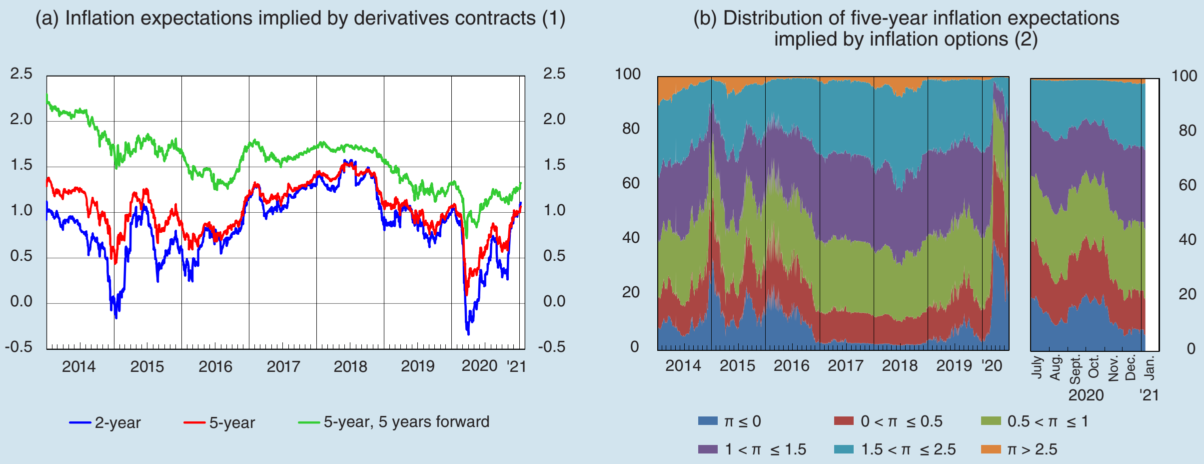
Euro-area inflation and contributions of its components (1)
(monthly data; per cent and percentage points)



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

Figure 9

Inflation expectations
(daily data; per cent)



Source: Based on Bloomberg data.
(1) Expected inflation rates implied by 2-year, 5-year and 5-year, 5 years forward inflation swaps. – (2) The distribution of expected inflation (π) is 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.

The December Eurosystem staff projections indicate that GDP contracted by 7.3 per cent in 2020 and will grow by 3.9, 4.2 and 2.1 per cent in the next three years. The risks are still mainly to the downside.

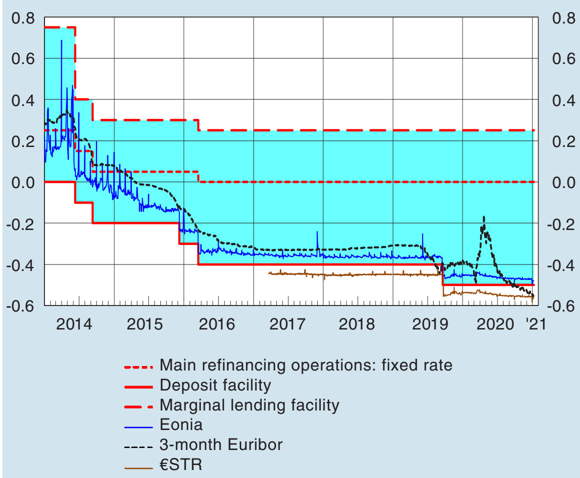
Inflation is affected by the weakness of demand

Based on preliminary data, the twelve-month change in consumer prices was -0.3 per cent in December (Figure 8). The core component has stood at 0.2 per cent since last September (the lowest value ever recorded), in part owing to weak prices in tourism-related services (especially transport). According to the Eurosystem staff projections published in December, the change in consumer prices will be equal to 1.0 per cent in 2021 and will reach 1.1 and 1.4 per cent in 2022 and 2023 respectively.

The two-year inflation expectations derived from inflation swap yields turned upwards in early January, to 1.1 per cent; five-year, five years forward expectations rose to 1.3 per cent (Figure 9.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 has fallen significantly, to about 20 per cent, in line with the levels recorded in February 2020 (Figure 9.b).

Figure 10

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



Sources: ECB and Refinitiv.
(1) As of 2 October 2019, the €STR is a new overnight benchmark rate for the euro-area money market. For the period prior to 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.

The ECB Governing Council expands monetary stimulus

At its 10 December meeting, the ECB Governing Council recalibrated its monetary policy instruments, making them more expansionary, to contribute to preserving favourable financing conditions against the backdrop of the impact of the pandemic on the economy and on prices, which appears likely to last longer than previously hypothesized (Figure 10; see the box 'The monetary policy measures adopted by the ECB in December 2020').

THE MONETARY POLICY MEASURES ADOPTED BY THE ECB IN DECEMBER 2020

At its 10 December 2020 meeting, the ECB Governing Council adopted new measures to preserve favourable financing conditions, support bank lending to firms and households, and combat the fallout of the pandemic on the economy and inflation. The measures regarded: (a) the pandemic emergency purchase programme (PEPP); (b) the third series of targeted longer-term refinancing operations (TLTRO III); (c) the pandemic emergency longer-term refinancing operations (PELTRO); and (d) the eligibility criteria for assets that banks use as collateral in operations with the Eurosystem.

The total envelope of the PEPP was increased by €500 billion to €1,850 billion. The Governing Council extended the horizon for net purchases to at least the end of March 2022 and, in any case, until the coronavirus crisis phase is over, and the horizon for the reinvestment of principal payments from maturing securities until at least the end of 2023.

In view of the economic fallout of the pandemic, which could persist longer than previously forecast, the PEPP has been strengthened to prevent any premature restrictions on financing conditions, while the health emergency continues, which could threaten support for the economy and inflation. Purchases under the PEPP will continue to be made flexibly over time, across asset classes and among jurisdictions, in order to preserve the smooth transition of monetary policy and the maintenance of expansionary financing conditions; the envelope need not be used in full, but can be increased to help counter the effects of the pandemic shock.

The TLTRO III time frame was extended by twelve months to June 2022, a period over which more favourable interest rates will apply;[1] three operations have been added, to be carried out between June and December 2021. The total amount that counterparties will be entitled to borrow was raised from 50 to 55 per cent of their stock of eligible loans as at 28 February 2019.[2] The recalibration and extension of TLTRO III will also help to counter the signs of a slight tightening of credit supply conditions, recently observed for euro-area banks.[3]

Four additional PELTRO operations will be offered in 2021. Regular lending operations will continue to be conducted as fixed-rate tender procedures with full allotment at the prevailing conditions for as long as necessary.[4]

[1] From June 2021 to June 2022, the interest rate on all outstanding TLTRO III operations will be 50 basis points below the average rate applied in the Eurosystem's main refinancing operations. For counterparties whose lending between 1 October 2020 and 31 December 2020 equals the benchmark net lending, the interest rate applied will be 50 basis points lower than the deposit facility rate and in any case no higher than -1 per cent. See the box 'The monetary policy measures adopted by the ECB', in *Economic Bulletin*, 3, 2020.

[2] For additional information on the changes made to the TLTRO III operations, see ECB, 'ECB prolongs support via targeted lending operations for banks that lend to the real economy', press release of 10 December 2020.

[3] See ECB, '*October 2020 Euro area bank lending survey*', press release of 27 October 2020.

[4] For more details of the PELTRO operations, see the ECB, '*ECB extends pandemic emergency longer-term refinancing operations*', press release of 10 December 2020.

To ensure that counterparties can make full use of all the operations to obtain liquidity, most notably through the recalibrated TLTRO III, the collateral easing measures have been extended until 2022.

The set of measures adopted will contribute to supporting economic growth, bringing inflation to levels consistent with price stability. The Governing Council will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. Given that uncertainty remains high – including with regard to the dynamics of the pandemic and the timing of vaccine rollouts – it announced that it stands ready to adjust all of its monetary policy instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

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				
December 2019	477	2,103	364	327
December 2020	567	2,342	411	370
PEPP				
November 2020	48	650	118	107

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.

Net purchases under the expanded asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) brought the total book value of the two securities portfolios to €2,909 billion at the end of December for the former and to €698 billion at the end of November for the latter (Table 4).

On 16 December, the sixth auction of the third series of targeted longer-term refinancing operations (TLTRO III) was settled, allocating €50 billion to euro-area counterparties, of which €11 billion to Italian counterparties (Table 5). The total value of the funds disbursed under these operations rose to €1,749 billion and €350 billion respectively.

Table 5

Eurosystem refinancing operations
(billions of euros)

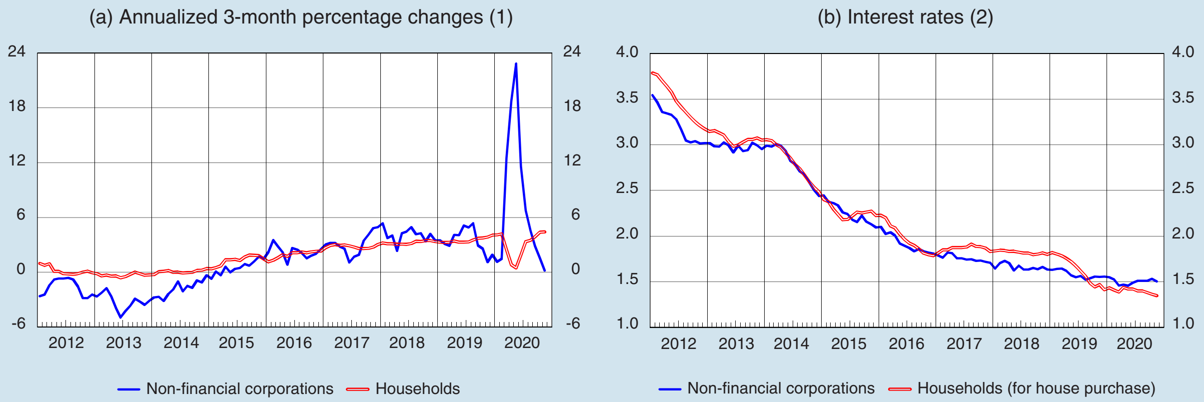
	Euro area		Italy	
	Amount	Number of counterparties	Amount	Number of counterparties
Total refinancing at 31 December 2020 (1)	**1,793**		**374**	
Refinancing under TLTRO III	1,749		350	
of which: last operation settled in December 2020 (gross)	50	156	11	25
last operation settled in December 2020 (net) (2)	37		6	

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

Figure 11

Lending in the euro area (1)

(monthly data)



Source: ECB.
(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. The data are seasonally adjusted. – (2) Weighted average of interest rates on new short-term and medium- and long-term loans, with weights equal to the 24-month moving average of new loan disbursements; for non-financial corporations, includes overdrafts.

Business lending slows

Since the end of the summer, the lower demand for funds to meet liquidity needs and to finance investment was reflected in a slowdown in lending to euro-area firms. Adjusted for seasonal factors and the accounting effect of securitizations, in the three months ending in November the growth rate of lending to non-financial firms fell to an annualized 0.2 per cent, from 4.6 per cent in August (Figure 11.a). Among the major euro-area countries, the growth rate was negative in Spain and Germany (-2.5 and -0.9 per cent respectively), moderate in France (4.4 per cent), and high in Italy (8.9 per cent; see Section 2.7). Loans to households accelerated slightly: in November, their annualized quarterly rate of growth rose to 4.4 per cent in the euro area on average (from 3.5 per cent in August).

Between August and November, the interest rates applied to new loans to non-financial corporations and to households for house purchase remained practically stable, at 1.5 and 1.3 per cent respectively (Figure 11.b).

The Council of the EU adopts the multiannual financial framework

At its 10 December 2020 meeting, the European Council reached an agreement on the EU budget and on the 'Next Generation EU' recovery instrument.[1] Following the deal, on 17 December the Council of the EU approved the multiannual financial framework for 2021-27. The overall budget for the entire period totals €1,074.3 billion[2] (of which €166 billion for 2021). In order for Next Generation EU to take effect, all Member States will have to ratify the EU's decision on 'own resources' according to their national constitutional rules. To favour economic growth, on 18 December 2020 the EU Council presidency and the European Parliament's negotiators reached a provisional agreement whereby, following the ratification of the Next Generation EU programme, Member States will be able to ask for 13 per cent of the amount allocated to them to be made available in pre-financing (instead of the 10 per cent envisaged in July), upon approval of their national recovery and resilience plan.[3]

[1] 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.

[2] At 2018 prices.

[3] See Chapter 2, footnote 7.

1.3 GLOBAL FINANCIAL MARKETS

Conditions on the global financial markets have progressively improved following the abating of the uncertainty surrounding the result of the US elections and the widespread optimism about the effectiveness of some vaccines. Equity prices are nevertheless still vulnerable to changes in the course of the pandemic.

Long-term yields remain low

Long-term rates have remained low or slightly negative in the leading advanced economies, where monetary policy is still highly accommodative. On 8 January, the yields of ten-year public sector securities stood at around 1.1 per cent in the United States, 0.3 per cent in the United Kingdom, 0.0 per cent in Japan, and -0.6 per cent in Germany (Figure 12). Since early October, the yield spread with the corresponding German Bund has narrowed by 29 basis points in Greece, 21 points in Portugal, 20 points in Italy and 14 points in Spain (Figure 13; see Section 2.8).

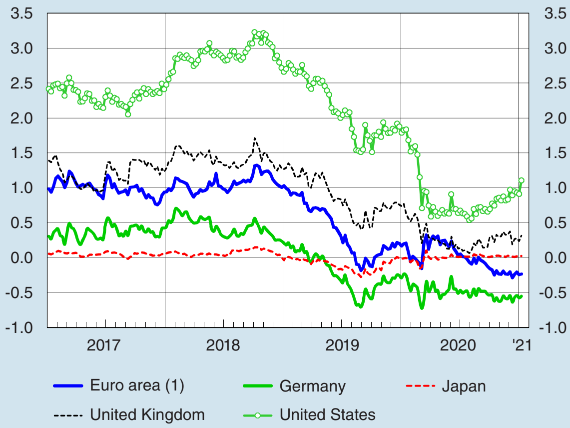
Stock market indices have risen since November

Equity prices have risen since November in all the leading advanced countries (Figure 14). In the United States and in Japan, prices have risen above pre-pandemic levels, while they have not yet fully recovered in the United Kingdom and in the euro area. Implied volatility, which had risen before the US elections, fell in all sectors and, as

Figure 12

Yields on 10-year government bonds

(end-of-week data; per cent)

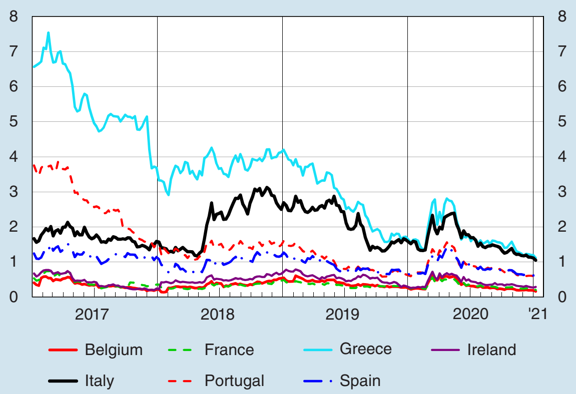


Source: Based on Refinitiv data.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government bonds of the euro-area countries, excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

Figure 13

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

(end-of-week data; percentage points)

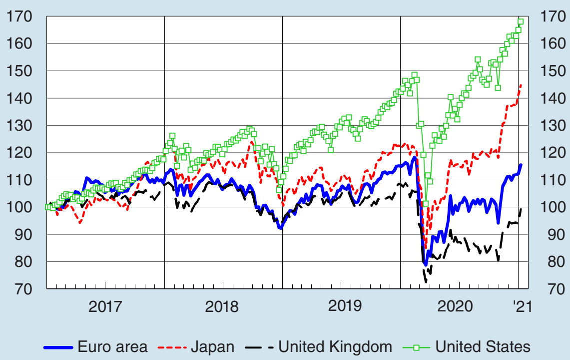


Source: Based on Bloomberg data.

Figure 14

Equity prices (1)

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



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

regards government securities, returned to the levels reported before the public health emergency (Figure 15).

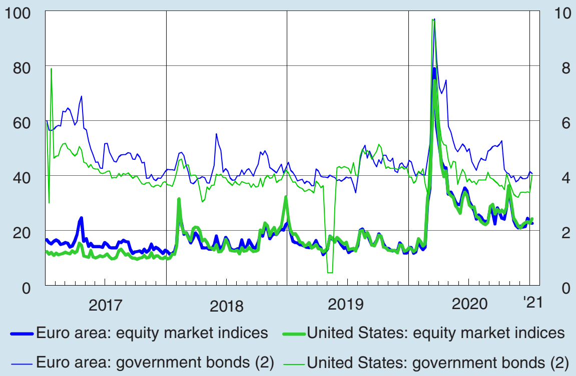
The euro appreciates against the dollar

Since early October, the euro has appreciated by 4.3 per cent against the dollar (Figure 16), mainly reflecting lower risk aversion on the global financial markets that typically coincides with higher demand for US dollar-denominated assets. Looking ahead, expectations of a further strengthening prevail: non-commercial operators' net long positions are positive and the cost of hedging against a sharp appreciation is slightly higher than that of hedging against a significant depreciation (Figure 17). In nominal effective terms, the euro has remained basically stable.

Figure 15

Implied volatility of equity and government bond prices (1)

(average weekly data; percentage points)

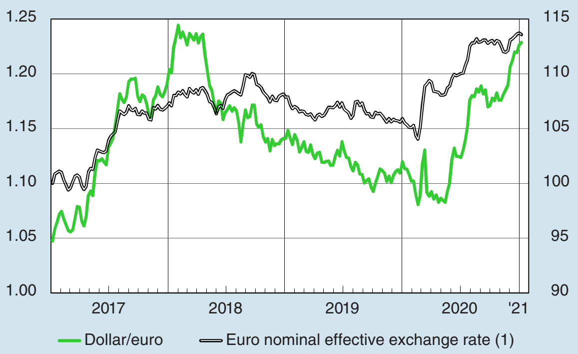


Source: Based on Refinitiv data.
(1) Equity indices: VSTOXX for the euro area and VIX for the United States. Government bonds: volatility implied by the prices of options on German Bund futures for the euro area and on Treasury Notes for the United States. – (2) Right-hand scale.

Figure 16

Exchange rates

(average weekly data; dollars per euro and indices)

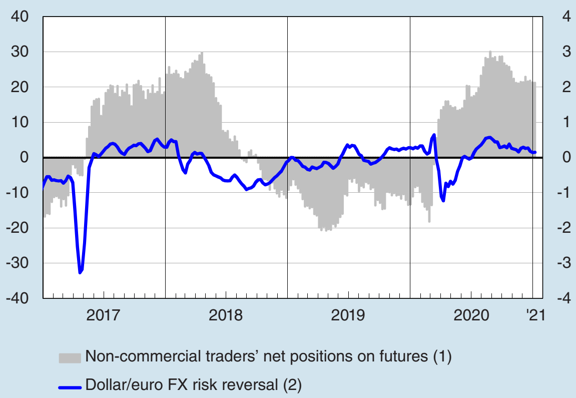


Sources: ECB, Bloomberg and Refinitiv.
(1) An increase in the nominal effective exchange rate indicates an appreciation of the euro. Index: 1st week of January 2017=100. Right-hand scale.

Figure 17

Dollar/euro exchange rates: net positions and risk reversal

(end-of-week 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 (4-week 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 CYCLICAL DEVELOPMENTS

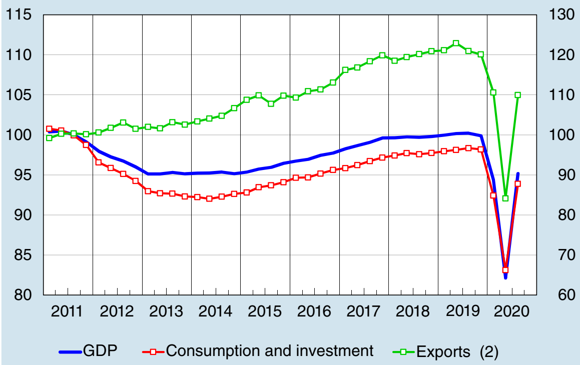
Growth in the summer months of 2020 was greater than expected, indicating that Italy's economy has a significant capacity to recover. Nevertheless, in the fourth quarter as a whole, the economy began to decline again with the resurgence of the pandemic. Based on the available data, the central value of the fall in GDP is currently around -3.5 per cent on the previous quarter, but this estimate is affected by significant uncertainty.

GDP grows in the third quarter ...

In the third quarter, GDP increased by 15.9 per cent (Figure 18 and Table 6). The economy was driven by the sharp upturn of both exports and national demand (especially marked for gross fixed investment), which surpassed the levels recorded at the end of 2019. Value added rose in all sectors; in construction, it outpaced the levels seen before the outbreak of

Figure 18

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
	Q4	Q1	Q2	Q3	
GDP	-0.3	-5.5	-13.0	15.9	0.3
Total imports	-2.4	-5.3	-17.8	15.9	-0.6
National demand (2)	-0.8	-4.7	-11.0	11.9	-0.1
National consumption	-0.2	-5.5	-8.5	9.2	0.3
Household spending (3)	-0.2	-6.8	-11.5	12.4	0.4
General government spending	-0.1	-1.1	0.3	0.7	-0.2
Gross fixed investment	-0.1	-7.6	-17.0	31.3	1.6
Construction	-0.4	-6.7	-22.2	45.1	2.5
Capital goods (4)	0.2	-8.3	-12.7	21.2	0.9
Change in stocks (5) (6)	-0.6	1.2	-0.9	-1.0	-0.7
Total exports	-0.7	-7.9	-23.9	30.7	1.0
Net exports (6)	0.5	-1.0	-2.3	4.0	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) Includes, as well as investment in plant, machinery and arms (which also include transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous quarter; percentage points.

the pandemic. The service sector saw a partial recovery in segments such as retail, transport, hotels and restaurants, professional services, and recreational, cultural and personal care services.

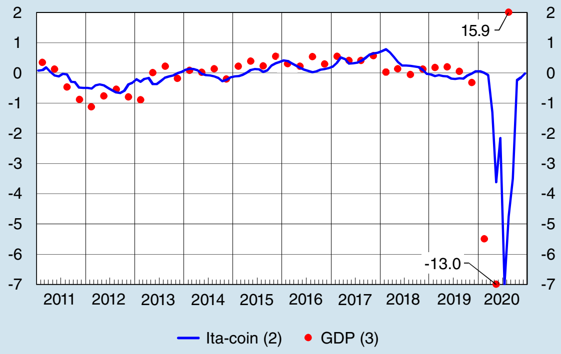
....but declines again in the fourth quarter

The latest indicators suggest that GDP began to decline again in the last quarter of 2020, following a sizeable increase in the number of cases of infection. According to the economic data currently available (qualitative and quantitative), it appears that the reduction in growth is marked in services but marginal in manufacturing (see the box 'Economic activity in the fourth quarter of 2020'). At the end of the year, the Ita-coin indicator rose to levels close to zero, driven by the improved business confidence observed in the manufacturing industry (Figure 19). In December electronic payments made at points of sale benefited to a certain extent from the government's cashback scheme.

Figure 19

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

(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Istat.
(1) Further details are available on the Bank of Italy's website: 'Ita-coin coincident cyclical indicator'. Since November 2019, the dataset used for the Ita-coin estimate has been expanded with new data on services, which has meant adjusting the indicator profile. – (2) Monthly estimates of changes in GDP on the previous quarter net of the most erratic components. – (3) Quarterly data; percentage change on previous quarter.

ECONOMIC ACTIVITY IN THE FOURTH QUARTER OF 2020

The resurgence of the pandemic made necessary new measures to restrict economic activity and personal mobility, although they are far less intense than those implemented in the spring. The activities suspended by the measures in force since 24 October 2020 represent a share of overall value added of around 4 per cent, against 28 per cent in the spring (see *Economic Bulletin*, 2, 2020).[1] The indirect effects on consumption and production patterns are, however, indicated by the performance of various qualitative and quantitative indicators.

The available information tallies in showing a fall in GDP in the fourth quarter, the size of which is, however, within a very wide estimated interval. Based on the set of models used by the Bank of Italy, it is currently plausible to assume a 3.5 per cent decrease in GDP compared with the previous quarter, but with a significant estimate dispersion around this central value.

The decline in economic activity reflects disparate developments across sectors. The effects of the second wave of infection and of the subsequent measures to combat its spread have weighed more heavily on services, while manufacturing has been less affected.

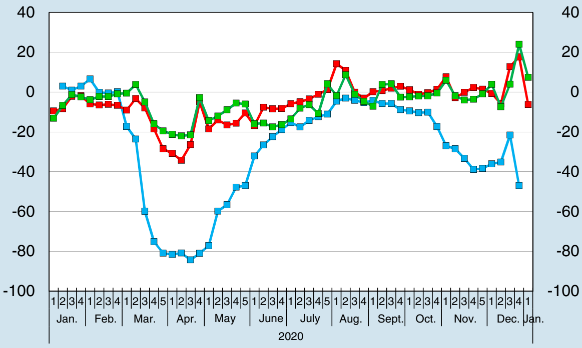
In the fourth quarter, taking account of the values observed up until November and of our estimates for December, industrial production weakened slightly following the sharp increase in the summer months, falling by around 1 per cent compared with the previous period. This trend seems consistent with those of some important indicators that are rapidly available, such as the decline, albeit modest, in the consumption of gas for industrial use and of electricity and the sharp fall in motorway traffic over the entire period (Figure A). The business confidence indices were affected by the worsening of the public health emergency between October and November, but they improved in December

[1] This estimate does not take account of the additional containment measures introduced at the end of December and limited to the Christmas period, which in any case only had a modest effect on the average for the quarter.

Figure A

High frequency cyclical indicators (1)

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

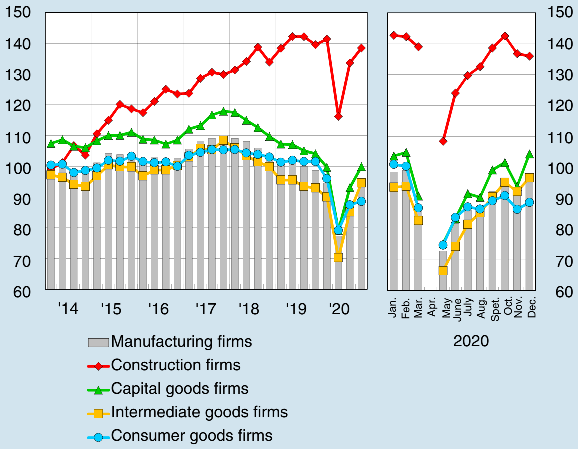


Sources: Based on ASPI, Snam and Terna data.
(1) Weekly data: percentage changes compared with the same week of 2019. The changes for the week of 20 April are affected by Easter falling on 21 April last year.

Figure B

Business confidence indices (1)

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



Source: Based on Istat data.
(1) On the left, average level in the reference quarter. The average for the second quarter of 2020 is calculated based on the values for May and June; the figure for April is not available as the survey was suspended because of the public health emergency.

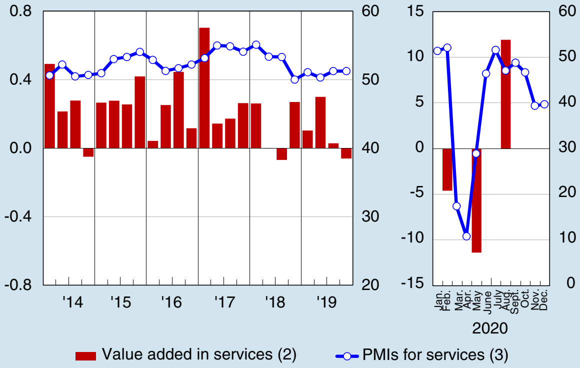
thanks to the positive news of the availability of vaccines (Figure B). The purchasing managers' indices (PMIs) remained just above the threshold compatible with expansion (see Figure 20.b).

In the services sector, the most affected by the containment measures, value added recorded a fall in the fourth quarter, albeit a smaller one than that observed in the spring. In the same period, the PMI for the sector declined, following the partial recovery in the summer (Figure C). In October and November, compared with the same months of the previous year, Confcommercio's indicator

Figure C

PMI and value added in services (1)

(monthly and quarterly data; diffusion indices and percentage changes)

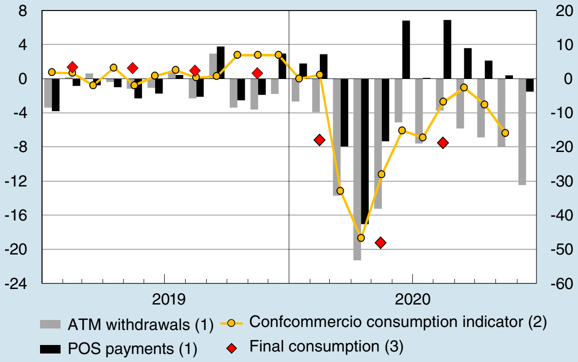


Sources: Based on Istat and Markit data.
(1) For the PMI, on the left, average level in the reference quarter. For value added in services, percentage change on the previous period, seasonally adjusted. For graphical reasons, the data for 2020 are plotted on a different scale from that used for previous years. – (2) The figure for value added in the fourth quarter of 2020 is not available yet. – (3) Right-hand scale.

Figure D

Consumption expenditure and ATM withdrawal and POS payment amounts

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



Sources: Based on data from the Bank of Italy, Istat and Confcommercio.
(1) Data 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 payment systems'. – (2) Right-hand scale; the figure for December 2020 is not available yet. – (3) Final consumption expenditure of resident and non-resident households on the economic territory; current prices; the series are calendar adjusted.

showed a significant reduction in spending on services, particularly for recreation and tourism and a smaller decrease in purchases of goods (Figure D).

Indications of weakening economic activity in the quarter overall also come from payment flows. Between October and December, ATM withdrawals continued to contract; after the marked recovery that followed the end of the first lockdown, the transactions made at POS terminals slowed considerably (Figure D), despite the increase recorded in the two weeks prior to the Christmas holidays, also thanks to the effects of the refunds obtainable via cashback.

A decline in value added in construction is expected for the last three months of the year; it had reached higher levels in the summer than those of the fourth quarter of 2019. The negative performance of construction output and the findings of the surveys of construction firms have contributed to this assessment.

2.2 FIRMS

The available data suggest that, after rising sharply in the summer, industrial production fell slightly in the final months of the year. Our surveys reveal that firms' assessments have become less favourable, but are still far removed from the levels of pessimism in the first half of 2020. Firms plan to increase their expenditure on investment this year.

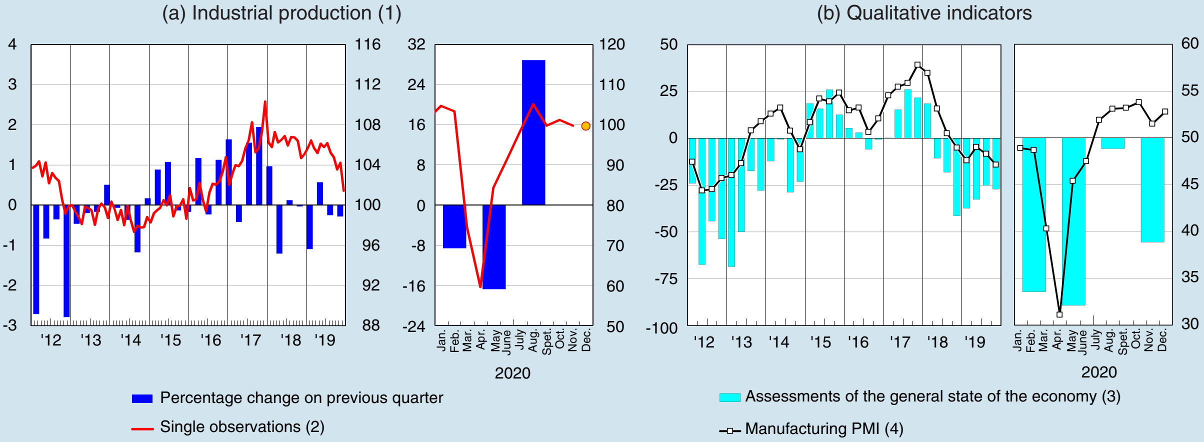
Industrial production declines slightly in the fourth quarter

After the recovery in the third quarter, in November industrial production decreased by 1.4 per cent compared with October, falling to levels 4.7 per cent lower than in January 2020. According to our estimates, industrial activity fell slightly, by around 1 per cent, in the fourth quarter as a whole; it decreased by more than 10 per cent for the year 2020, compared with -1.0 per cent in 2019 (Figure 20.a; see the box 'Economic activity in the fourth quarter of 2020').

Figure 20

Industrial production and qualitative indicators (1)

(monthly and quarterly data)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data adjusted for seasonal and calendar effects. For graphic design reasons, the data for 2020 are plotted on a different scale to the one used for previous years. – (2) Monthly data. Indices: 2015=100. The yellow dot represents the estimate for December. Right-hand scale. – (3) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, *Statistics Series, 13 January 2021*). – (4) Average quarterly data (left-hand panel) and monthly data (right-hand panel). Diffusion indices of economic activity in the manufacturing sector based on purchasing managers' assessments. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. Right-hand scale.

Industrial firms' assessments remain positive

Firms believe that investment conditions have worsened, although they expect to increase their investment during the year, especially those in industry (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). In December, the purchasing managers' indices (PMIs) fell, although in manufacturing they remain above the threshold compatible with an expansion (Figure 20.b). Services – which have been more heavily impacted by the spread of the virus and the restrictions imposed to contain it – are still far below that level.

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

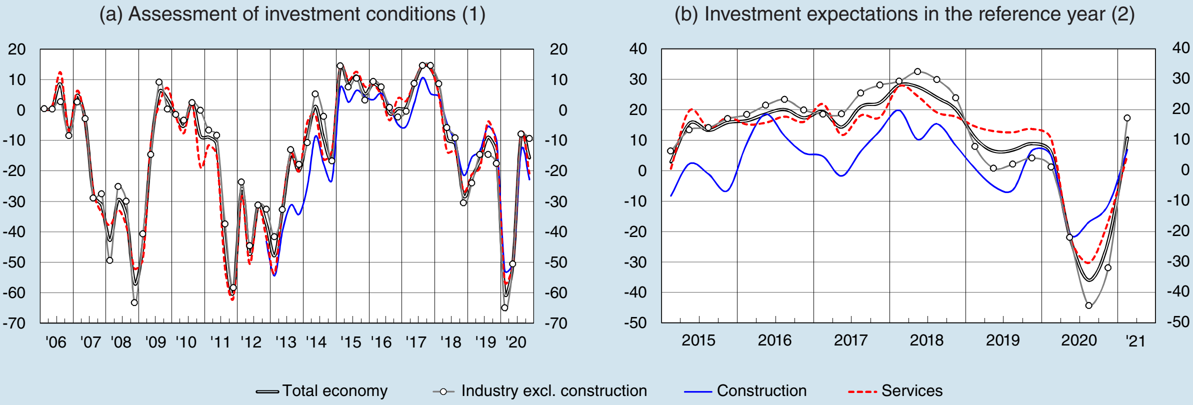
Between 23 November and 15 December, the Bank of Italy conducted its quarterly survey on inflation and growth expectations on a sample of about 1,200 firms with 50 or more employees in industry excluding construction, services and construction (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 January 2021).

The second wave of the pandemic, which swept across Italy in the autumn, was reflected in firms' opinions about the general economic situation: assessments were less favourable, even if they were still well above the minimum levels recorded in the first half of the year. Some 61 per cent of firms thought that the economic situation was worse than in the previous three months – a higher percentage compared with September's survey (35 per cent) but significantly lower than in June (92 per cent); about 6 per cent indicated an improvement (against almost 30 per cent in the previous survey). The balance of assessments pointing to an improvement and a deterioration was lower in services than in manufacturing (-63 and -47 percentage points respectively).

Opinions about the current trend in demand, even though less optimistic than in September, remained positive overall in industry but not in services. In non-construction industry, the share of firms expecting the demand for their products to increase in the three months after the survey still exceeds that expecting a reduction (by 8 percentage points); however, the difference is narrower than in September. The balance turned negative in services (6 percentage points lower).

Figure

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



Source: Survey on Inflation and Growth Expectations, Banca d'Italia, Statistics Series, 13 January 2021.
(1) Balance between assessments of an improvement and of a deterioration compared with the previous quarter. Construction firms are included in the total economy from 2013 Q1. – (2) Balance between expectations of an improvement and of a deterioration compared with the previous year. The first expectations for the reference year are surveyed in the last quarter of the preceding year.

Some 77 per cent of firms in industry excluding construction reported that their current production levels were still below those recorded before the outbreak of the pandemic, as in the previous survey; in services and construction, the shares were 73 and 67 per cent respectively (up from September, when they were 67 and 54 per cent). The amount of time needed for the respondent's firm to fully recover is currently estimated at 15 months on average, the range of replies being relatively narrow at between 14 and 16 months.

The balance of the share of firms whose assessments point to an improvement in investment conditions and the share of those indicating a worsening widened slightly compared with September's survey, from -8.4 to -15.7 percentage points (see Figure), but it is still far from the very negative balance of -50.6 points recorded last June.

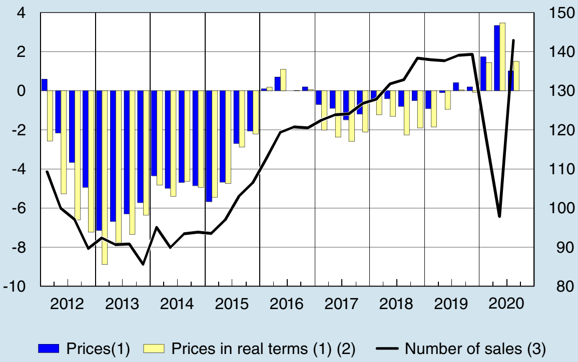
In this scenario, firms expect to increase their investment spending in the current year. The balance between expectations of an increase and those of a decrease in investment in 2021 turned positive, by around 11 percentage points, which is higher than pre-pandemic levels but still lower than in the three years 2016-18 (see Figure). For the first half of the year, this balance is higher in industry than in services (18.4 and 1.7 percentage points respectively) and better than in the second half of 2020.

The property market shows signs of recovery, but the outlook has worsened

In the third quarter, the volume of house sales rose, while price growth slowed (Figure 21). According to the Italian Housing Market Survey conducted between November and December, however, the estate agents' outlook for the property market has worsened markedly, in both the short and medium term. 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, the rebound in sales may have come to a halt in the fourth quarter.

Figure 21

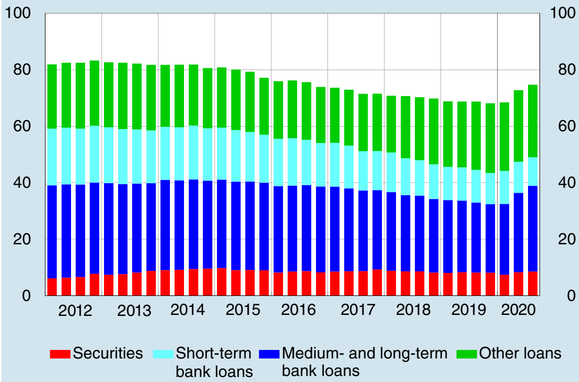
House prices and sales
(quarterly data; indices: 2015=100)



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

Figure 22

Debt of non-financial corporations (1)
(quarterly data; per cent of GDP)



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

Firms' debt rises

The support measures have eased non-financial corporations' increasing need for liquidity and have contained insolvency risk; however, they have further increased firms' indebtedness,[1] to 74.7 per cent of GDP (Figure 22) in the third quarter of 2020, a level nonetheless still much lower than the euro-area average (equal to 115.4 per cent).

2.3 HOUSEHOLDS

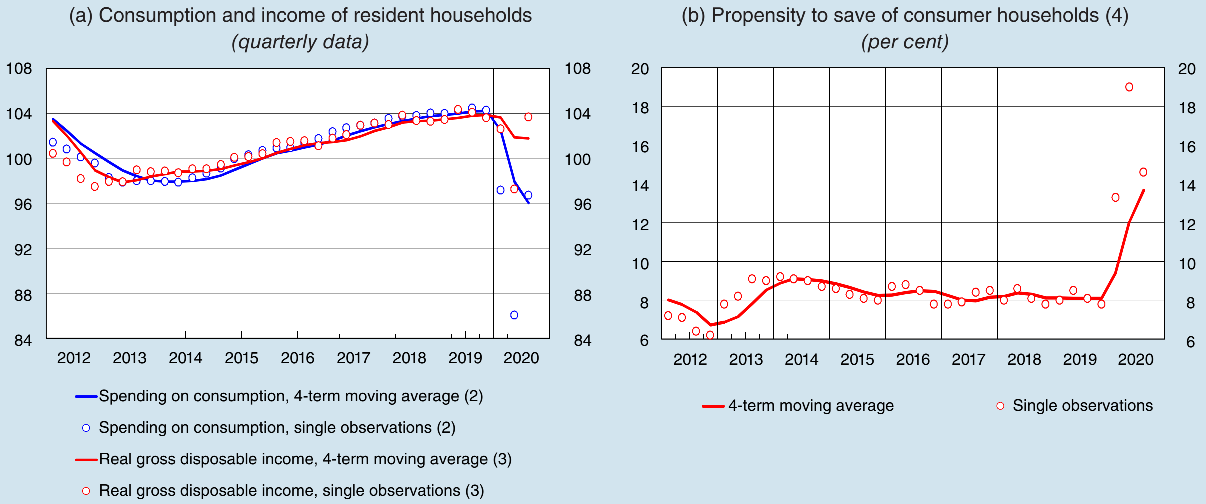
Following the recovery in the summer, the latest data indicate a weakening in household spending in the last part of the year. The propensity to save is still high. According to the households interviewed by the Bank of Italy, spending on services has continued to be held back by the fear of infection rather than by restrictive measures.

Consumption recovers in the third quarter ...

After the strong contraction in the first half of the year, spending in the third quarter rose by 12.4 per cent on the previous quarter, with a widespread increase across all components and, in particular, in purchases of durable goods. Disposable income in real terms also recovered strongly, by 6.6 per cent on the previous quarter (Figure 23.a), although it was still below pre-pandemic levels. The propensity to save fell significantly, but remained high at 14.6 per cent (Figure 23.b), reflecting both precautionary financial reasons and decisions not to make certain purchases to avoid infection (see the box 'Italian households during the epidemic: the Bank of Italy's survey').

Figure 23

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



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

... but may have been affected by the resumption of infections in the autumn

The latest cyclical indicators suggest that consumption weakened in the fourth quarter. Confcommercio's indicator showed a sharp fall in spending on services in October and November, especially those connected to recreational activities and tourism, whereas purchases of goods held up. The daily data on payments indicate that spending contracted at the start of November (see the box

[1] See the box 'The effects of the pandemic on banks' exposure to credit risk', in *Financial Stability Report*, 2, 2020.

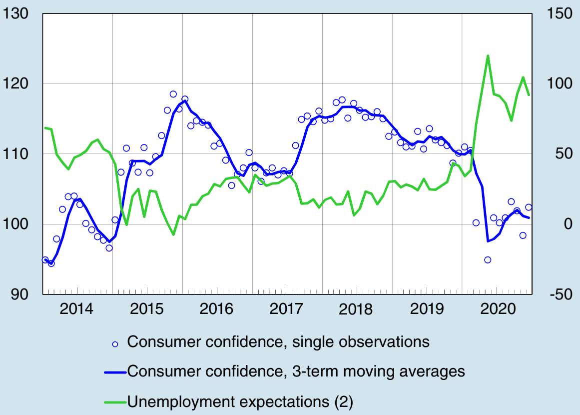
'Economic activity in the fourth quarter of 2020'). Household confidence improved again in December, driven above all by the forward-looking component, even if the level of the index is still much lower than before the pandemic (Figure 24). According to our survey, just under half of households think that the drop in spending is the result of less disposable income while, among the other reasons given, the risk of infection prevails (see the box 'Italian households during the epidemic: the Bank of Italy's survey').

Household debt increases but is still low

In the third quarter of 2020, household debt as a percentage of disposable income rose to 63.6 per cent (Figure 25), a level still below the euro-area average

Figure 24

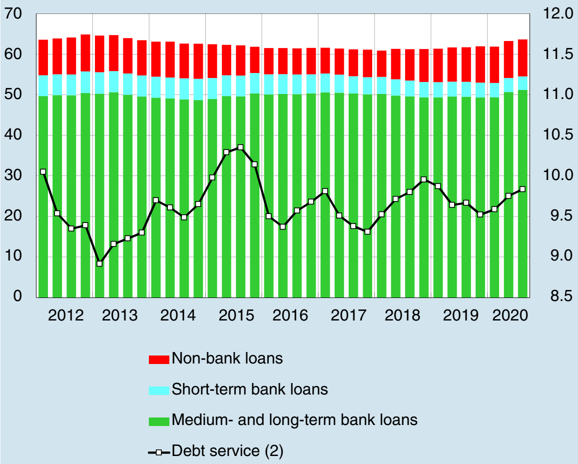
Consumer confidence (1)
(monthly data; indices: 2010=100 and percentage points)



Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of data for April, the moving average for April, 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 25

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.

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

At the end of November, the Bank of Italy conducted the third edition of the Special Survey of Italian Households to gather information on developments in their financial situation and expectations during the second wave of the COVID-19 epidemic.[1]

The assessments of the general outlook for the Italian economy have worsened since the summer survey,[2] but are less pessimistic than the responses formulated between the end of April and the

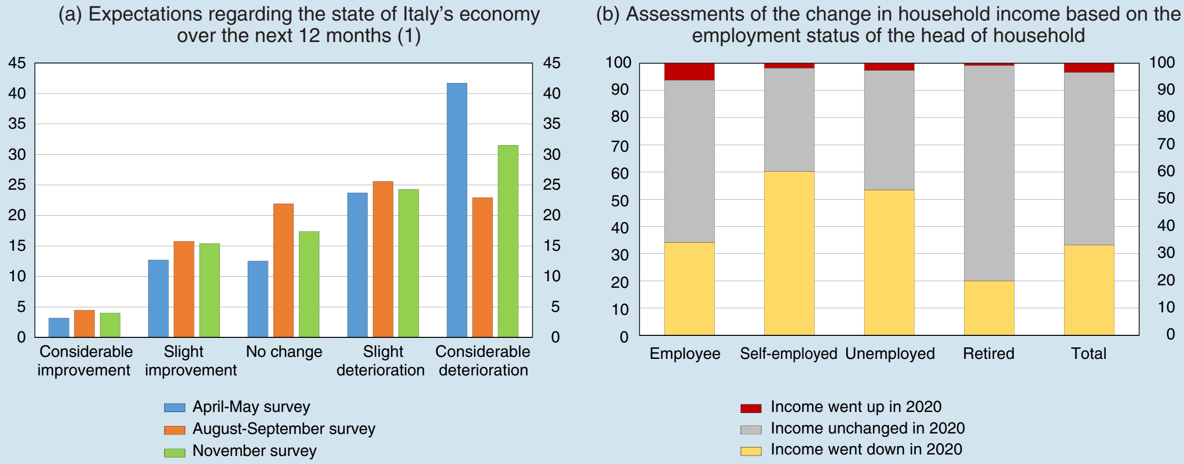
[1] The interviews were conducted remotely using a multimedia touchscreen device on a sample of over 2,000 households that had also taken part in the second edition of the survey.

[2] The second edition of the survey was carried out from late August to early September 2020; the main findings and the methodology used are described in C. Rondinelli and F. Zanichelli, 'The main results of the second wave of the special survey of Italian households in 2020', Banca d'Italia, *Note COVID-19*, 19 November 2020, and in the box 'Italian households during the epidemic: the Bank of Italy's survey', in *Economic Bulletin*, 4, 2020.

start of May,[3] during the first wave of infections. The percentage of households in the latest edition that expect a significant deterioration over the next twelve months increased by 9 percentage points compared with the previous edition (see panel (a) of Figure A), mainly due to the greater pessimism expressed by households in the regions most severely hit by the epidemic at the time of interview (red and orange zones).[4] The assessments of the outlook for the labour market for the next twelve months also deteriorated and remain less favourable for self-employed workers.

Figure A

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



Sources: Based on data from the Bank of Italy's Special Survey of Italian Households, 1st, 2nd and 3rd editions.
(1) The figure does not include responses of 'I don't know'.

One third of households assert that they have suffered a decline in household income for 2020 as a whole compared with the year before, and almost one sixth of the total report a contraction of more than 25 per cent. Over half of households headed by a self-employed worker or someone unemployed state that they have experienced a drop in income (see panel (b) of Figure A). More than 60 per cent of households expect their income in 2021 to be the same as that reported in 2020; 20 per cent expect it to be lower. Among households that indicate that their income fell last year, more than 40 per cent expect their income to decline further this year and only one fifth expect it to recover (see panel (a) of Figure B).

Based on the responses of households regarding their financial resources, it can be estimated that, in the absence of income and transfer payments, more than half of the population would be unable to

[3] 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 and third editions. To make the results comparable, only the component of the sample interviewed using the touchscreen device was used in analysing the data from the first edition. The main findings and the methodology used are described in A. Neri and F. Zanichelli, 'The main results of the special survey of Italian households in 2020', Banca d'Italia, *Note COVID-19*, 26 June 2020, and in the box 'Italian households' assessments and expectations during the current public health emergency', Chapter 5, *Annual Report for 2019*, 2020.

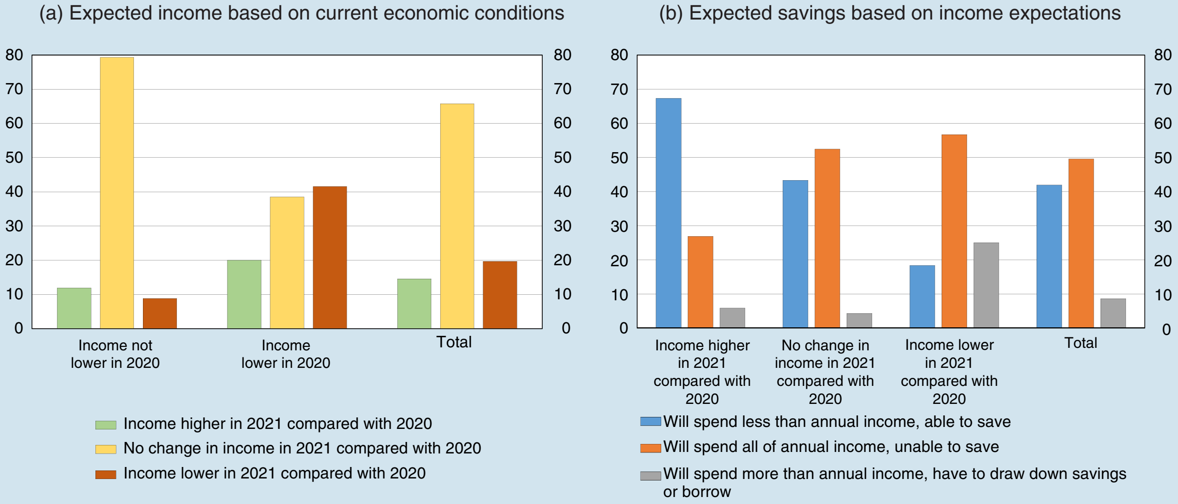
[4] When the survey began, the red zones were the Autonomous Province of Bolzano and the regions of Calabria, Campania, Lombardy, Piedmont, Tuscany and Valle d'Aosta; the orange zones were Abruzzo, Basilicata, Emilia-Romagna, Friuli Venezia Giulia, Liguria, Le Marche, Puglia, Sicily and Umbria. All the other regions and the Autonomous Province of Trento were designated yellow zones (Prime Minister's Decree (DPCM) of 3 November 2020 and subsequent ordinances).

maintain a minimal standard of financial well-being for at least three months,[5] in line with what was reported in the spring. Almost 40 per cent of renters and over 30 per cent of indebted households state that they have difficulty meeting their rent or loan payments.

More than 40 per cent of households expect to spend less than their annual income in the next twelve months (see panel (b) of Figure B). A high share not only of households that expect their income to increase (67 per cent) but also of those that expect their income to fall (just under 20 per cent) plan to save.

Figure B

Expected income and savings
(per cent)



Source: Based on data from the Bank of Italy's Special Survey of Italian Households, 3rd edition.

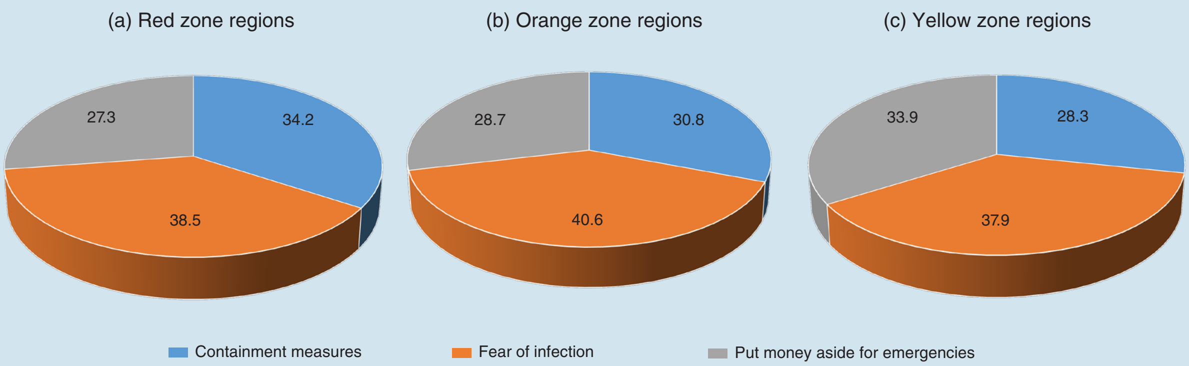
Saving expectations reflect both economic precautionary motives, given the risk of a drop in income, and the choice to cut consumption in response to fear of infection. Around 80 per cent of households report that they have patronized some establishments less regularly – hotels, coffee bars and restaurants – and have made less frequent purchases in clothing stores than prior to the pandemic; about two thirds have cut spending on beauty and personal care services. The decline in these categories of consumption items was greater in the regions most hit by the public health emergency.

Just under half of the households say that the reduction in consumption is due to less economic resources. Among the other reasons given, fear of infection is the main driver (around 40 per cent), regardless of the severity of the restrictions imposed in the interviewees' regions of residence. The forced reduction in spending due to measures taken to contain the epidemic has had a lesser impact overall (32 per cent on average), although it is greater for households that reside in red zones. Putting money aside for unexpected events accounts for about 29 per cent on average, with a higher importance in yellow zones (Figure C).

[5] The estimate refers to the share of population that lives in households that state that they own fewer financial assets (cash, current accounts, savings accounts, stock, bonds and government securities) than would allow them to maintain a standard of living at the poverty line for 3 months. This poverty threshold, estimated based on the data from the 2016 Survey on Household Income and Wealth (SHIW) and adjusted for inflation, is defined as 60 per cent of the median equivalized income, obtained by dividing the household income by the square root of the number of household members.

Figure C

Reasons for reducing spending based on the severity of restrictions (1)
(per cent)



Source: Based on data from the Bank of Italy's Special Survey of Italian Households, 3rd edition.
(1) Less economic resources is not included among the reasons for reducing spending.

A little less than one third of Italian households think that they will further reduce their consumption of non-durable goods and services over the next three months; about half of them plan to cut their spending by more than 20 per cent. The decrease is seen largely among households in the regions most exposed to the health emergency; moreover, just over one fourth of those that expect their income to increase in 2021 plan to cut spending.

(96.9 per cent). As a share of GDP, household debt stood at 44.4 per cent, against 61.6 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.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Italian exports of goods and services recovered strongly in the third quarter, significantly more so than world trade. Foreign trade appeared to slow in the autumn. The current account surplus increased and capital flows and purchases of Italian public sector securities by non-residents started up again. The Bank of Italy's TARGET2 balance improved. After more than thirty years of negative balances, Italy's net international position turned positive.

Trade expands strongly in the third quarter ...

The recovery of exports in the third quarter was greater in volume terms than that of imports, 30.7 and 15.9 per cent respectively, on the previous quarter (Table 7).

Table 7

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

	2020 Q2	2020 Q3
Exports	**-23.9**	**30.7**
Goods	-22.4	29.6
to euro-area markets	-20.9	29.0
to non-euro area markets (2)	-23.3	30.1
Services	-31.7	36.5
Imports	**-17.8**	**15.9**
Goods	-16.2	19.5
from euro-area markets	-19.4	25.2
from non-euro area markets (2)	-13.5	15.2
Services	-23.7	0.8

Source: Based on Istat's national accounts and foreign trade data.
(1) Chain-linked volumes; quarterly data adjusted for seasonal and calendar effects. – (2) Includes unallocated countries and territories and, for exports, goods procured in Italian ports by foreign carriers.

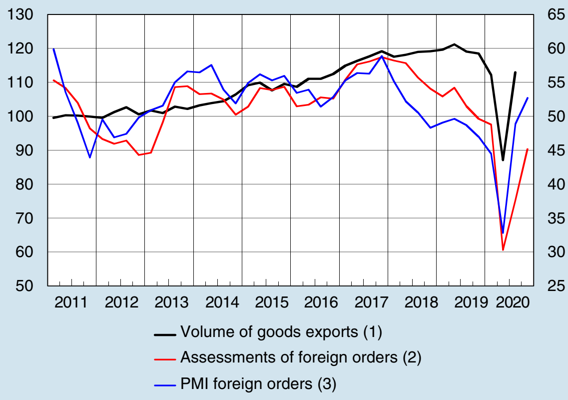
Exports of goods rose by 29.6 per cent, a figure only just below that recorded in Spain (30.3 per cent) and above that in France (26.8 per cent) and Germany (21.3 per cent). In Italy, the increase was the same for both the euro-area markets and those in the rest of the world. Growth was driven above all by sales of transport equipment, mechanical machinery and equipment, leather goods, and clothing. Exports of services rose more decisively (36.5 per cent), including as a result of the partial recovery in international tourism linked to the improved public health situation in the summer months.

... but slows in the autumn

In the two-month period October-November, growth in goods exports towards non-EU markets slowed, expanding by 5.0 per cent on the third quarter average (at current prices and seasonally adjusted). In October, exports to EU countries stagnated. However, indicators of manufacturing firms' assessments of foreign orders are around the threshold compatible with an expansion in exports (Figure 26). The resurgence

Figure 26

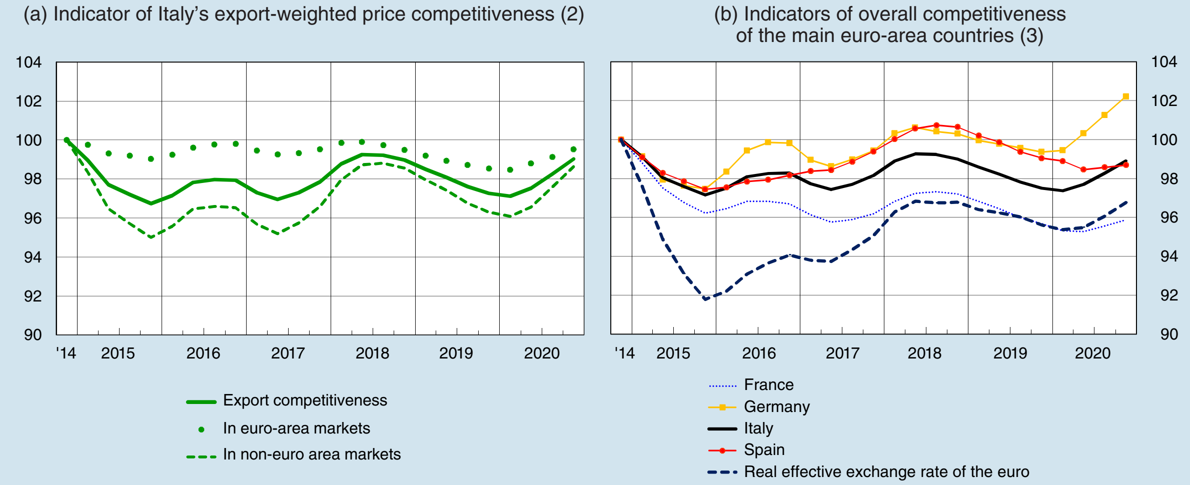
Manufacturing firms' assessments of foreign orders
(quarterly data)



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', 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 27

Price competitiveness indicators of the main euro-area countries and the real effective exchange rate of the euro (1)
(index numbers: Q4 2010=100; 4-quarter moving averages)



Source: For the real effective exchange rate of the euro, ECB.
(1) Based on producer prices of manufactures and weighted by trade flows of 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).

of the pandemic weighs more heavily on trade in services and, in particular, on tourism services.

On average in 2020, Italy's export price competitiveness and overall competitiveness (calculated in relation to both euro-area and non-euro area competition) appear to have deteriorated, albeit only moderately compared with 2019, above all in non-euro area markets (Figure 27), reflecting the appreciation of the nominal exchange rate of the euro.

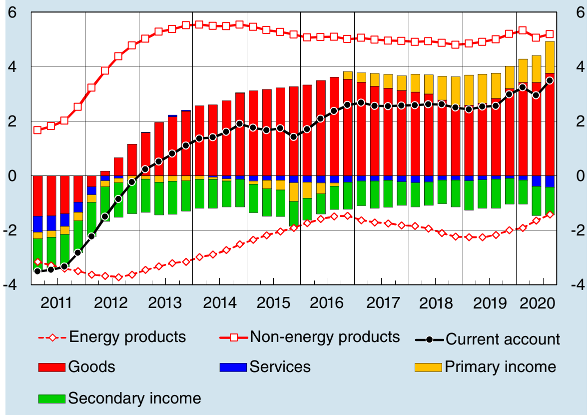
The current account surplus is rising

The current account surplus was equal to €46.2 billion in the first ten months of 2020 (Table 8), €3.6 billion more than in the same period last year, thanks to higher surpluses in goods and primary income. The merchandise trade surplus benefited from low oil prices, while the boom in health-related products helped to reduce the non-energy surplus. The services

Figure 28

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.

Table 8

Balance of payments (1)

(balances; billions of euros)

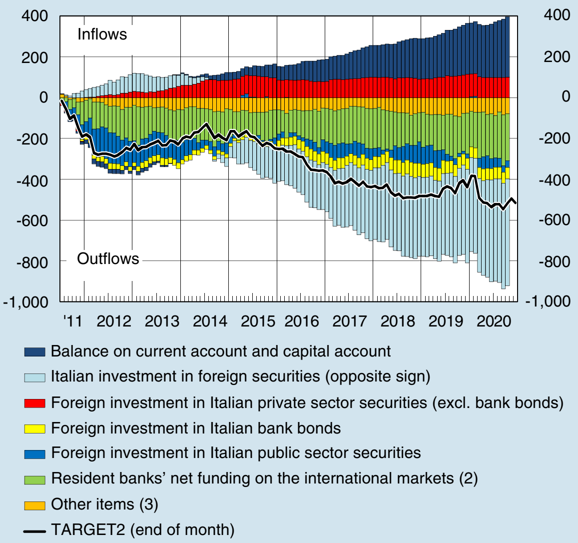
	2018	2019	Jan.-Oct. 2019	Jan.-Oct. 2020
Current account	**44.2**	**53.4**	**42.6**	**46.2**
Memorandum item: % of GDP	2.5	3.0		
Goods	45.6	57.2	46.9	52.0
Non-energy products (2)	85.1	93.0	77.4	69.6
Energy products (2)	-39.5	-35.8	-30.5	-17.6
Services	-2.8	-1.7	0.6	-5.0
Primary income	18.9	14.9	10.0	14.8
Secondary income	-17.5	-16.9	-14.9	-15.6
Capital account	**-0.6**	**-2.2**	**-1.5**	**-1.4**
Financial account	**26.7**	**48.0**	**31.3**	**44.9**
Direct investment	-4.1	1.3	-2.5	13.6
Portfolio investment	120.2	-51.2	-76.8	92.9
Financial derivatives	-2.7	2.5	1.6	-3.8
Other investment (3)	-89.3	92.2	105.9	-61.1
Changes in official reserves	2.6	3.2	3.1	3.3
Errors and omissions	**-16.9**	**-3.2**	**-9.7**	**0.2**

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

Figure 29

TARGET2 balance and cumulative balance of payments flows (1)

(monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's 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.

balance returned to negative territory as a result of the contraction of the tourism surplus (to €7.8 billion, from €16.3 billion in the same period of the previous year). The current account balance stood at 3.5 per cent of GDP, calculated as the average of the four quarters ending in September (Figure 28).

Foreign demand for Italian public sector securities continues

Purchases of Italian public sector securities by non-resident investors continued, totalling €26.1 billion between June and October, even if the balance for the first ten months of the year is still negative at -€14.7 billion due to net sales concentrated in the month of March.

Between January and October, residents invested in foreign portfolio assets for a total of €63.9 billion (up from €35.8 billion in the previous year), mostly purchasing debt securities and investment fund shares. In the same period, in connection with greater recourse to the Eurosystem's refinancing operations, Italian banks' net funding on the international market for loans and deposits fell by €27.7 billion.

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)	Foreign portfolio investment in Italian public sector securities	Foreign portfolio investment in Italian private sector securities (excl. bank bonds)	Foreign portfolio investment in Italian bank bonds	Net foreign funding of resident banks		Current account and capital account balance	Other items (2)	Italian portfolio investment in foreign securities
							of which: handled by resident central counterparties			
		(A) + (B) + (C) + (D) + (E) + (F) – (G)	(A)	(B)	(C)	(D)		(E)	(F)	(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	-4	-1	5	5	5	-7	39
Q3	-546	-10	17	..	2	-31	-19	25	-5	19
Q4	-516	30	....	....	....	....	....	....	....	....
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	-4	-2	5	2	-2	1	5
May	-517	-4	-1	..	..	17	-1	3	-11	12
June	-537	-19	12	..	1	-17	3	4	3	22
July	-522	15	3	1	-1	12	-10	10	-8	1
Aug.	-523	-1	3	..	..	-18	-4	7	16	8
Sept.	-546	-23	12	-1	3	-24	-6	8	-13	9
Oct.	-520	27	-3	2	-1	22	-1	8	4	6
Nov.	-495	25	....	....	....	....	....	....	....	....
Dec.	-516	-21	....	....	....	....	....	....	....	....

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

The Bank of Italy's negative balance on the TARGET2 European payment system narrowed in recent months following the recovery of capital flows and also thanks to the disbursement of the first emission of loans to the Italian public sector from the European Commission under its instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). At the end of December, the balance stood at €516 billion (Figure 29 and Table 9).

The net international investment position is positive

At the end of September 2020, after more than 30 years of continuously negative balances, Italy's net international investment position was marginally positive (€3.1 billion; 0.2 per cent of GDP). Compared with the situation at the end of June, more than three quarters of the improvement of €32 billion is attributable to the current account surplus.

2.5 THE LABOUR MARKET

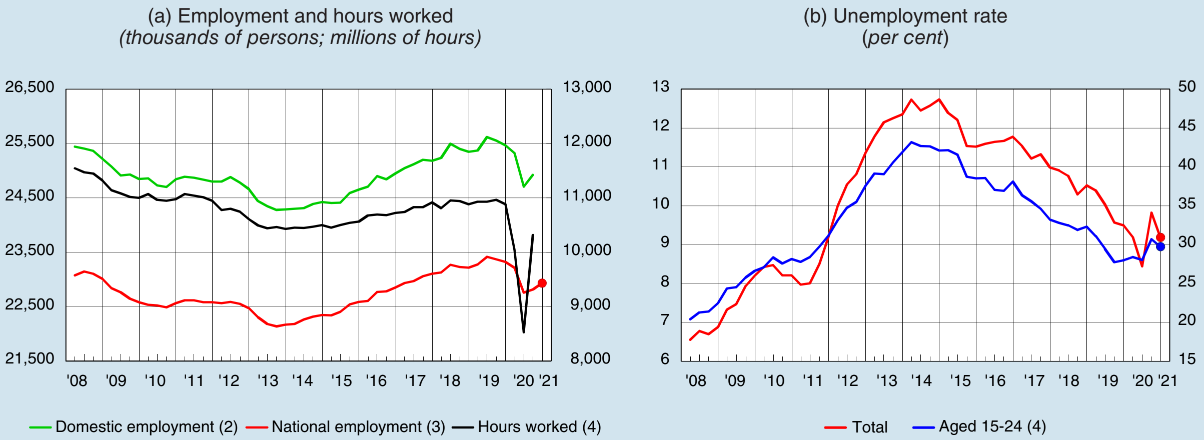
With the reopening of the activities suspended during the first wave of coronavirus cases, in the third quarter the number of hours worked rose sharply and recourse to wage supplementation schemes declined; the number of persons in employment increased. The latest available data nonetheless indicate a growing number of applications to the wage supplementation scheme (CIG) and a slowdown in job creation.

The pace of employment growth is strong in the third quarter ...

After the decline recorded during the spring (-15.1 per cent), in the third quarter the number of hours worked increased markedly (21.0 per cent; Figure 30.a and Table 10): the resumption of manufacturing activity was flanked by a pronounced fall-off in recourse to reduced-hours schemes such as the CIG and wage supplementation fund (FIS). The number of hours worked nonetheless remained below what it was in the fourth quarter of 2019, especially in private services (-9 per cent; -6.4 per cent in the non-farm private sector as a whole).

Figure 30

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 figure for the two-month period October-November. – (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			
	Q3 2020	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Persons employed	**24,924**	**-0.4**	**-0.5**	**-2,4**	**0.9**
of which: industry excl. construction	4,237	-0.3	0.0	-0.5	-0.2
private services (1)	10,857	-0.7	-1.1	-3.5	1.0
construction	1,549	0.9	-0.5	-1.1	2.2
Employees	19,123	-0.3	-0.5	-2.5	1.2
Self-employed	5,800	-0.6	-0.8	-2.3	-0.3
Total hours worked	**10,318**	**-0.7**	**-7.7**	**-15.1**	**21.0**
of which: industry excl. construction	1,814	-1.0	-8.8	-14.0	24.9
private services (1)	4,557	-1.0	-8.7	-20.5	25.4
construction	714	0.3	-12.4	-21.4	45.9
Employees	7,321	-0.5	-6.1	-12.9	16.6
Self-employed	2,998	-1.2	-11.3	-20.8	33.2

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).

The number of those in employment also turned upward (0.9 per cent), though it was still 2.1 percentage points below employment levels prior to the health emergency; the improvement was confined to payroll employment, while the number of persons in self-employment continued to decline (-0.3 per cent; -3.4 per cent compared with the fourth quarter of 2019).

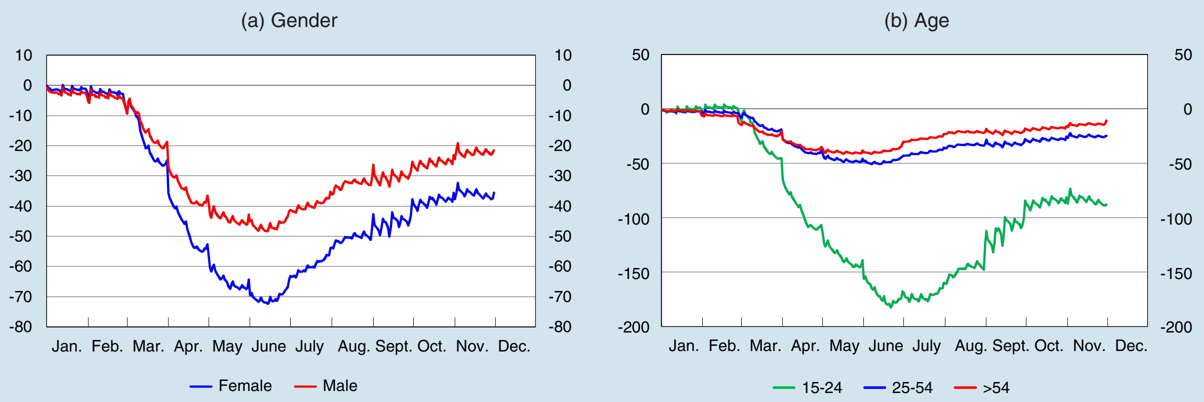
... but weakens after the summer

According to the administrative data drawn from mandatory reporting, which concern only some of Italy's regions, there have been signs of a slowdown in jobs creation since September. The recovery in payroll positions, which since the summer had primarily involved the youngest workers, came to a halt in November (Figure 31). The job losses underscore persistent gender and youth disparities in the labour market. Preliminary data from Istat suggest that in the two-month period October-November, the decline in temporary employment (-1.2 per cent compared with the previous two-month period; -13.2 per cent compared with the corresponding

Figure 31

Cumulative net new hires by gender and age category in selected Italian regions in 2020 (1)

(differences compared with the same date in 2019; units per 1,000 employees)



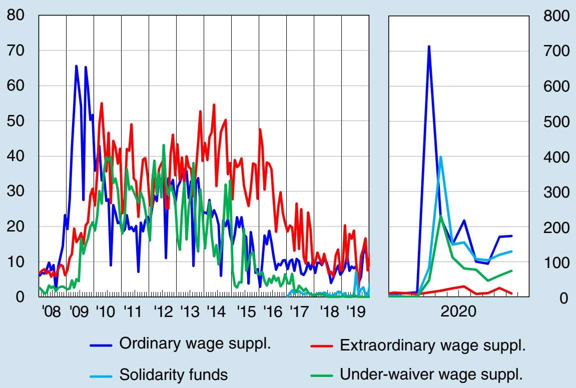
Sources: Based on Istat's labour force survey and on the mandatory reports provided by Piedmont's labour market observatory, Veneto Lavoro, the region of Friuli Venezia Giulia, the labour market observatory for the Autonomous Province of Bolzano and the Sardinian agency for active labour policies (ASPAL).
(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, Piedmont, Sardinia, Veneto and the Autonomous Province of Bolzano.

year-earlier period), which is more responsive to cyclical conditions, was offset by the resilience of permanent employment, which was supported by the extension until March 2021 of the freeze on dismissals.

After declining in the summer months, the number of hours of wage supplementation (which can now be authorized until 31 March 2021 for the ordinary scheme and up to 30 June for all the other schemes) rose again in the autumn (381.3 million on average in the two months October-November). Nevertheless, it remains well below the levels reached in the springtime during the health emergency (863.1 million on average in the two months April-May; Figure 32).

Figure 32

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.

The participation rate declines in the autumn

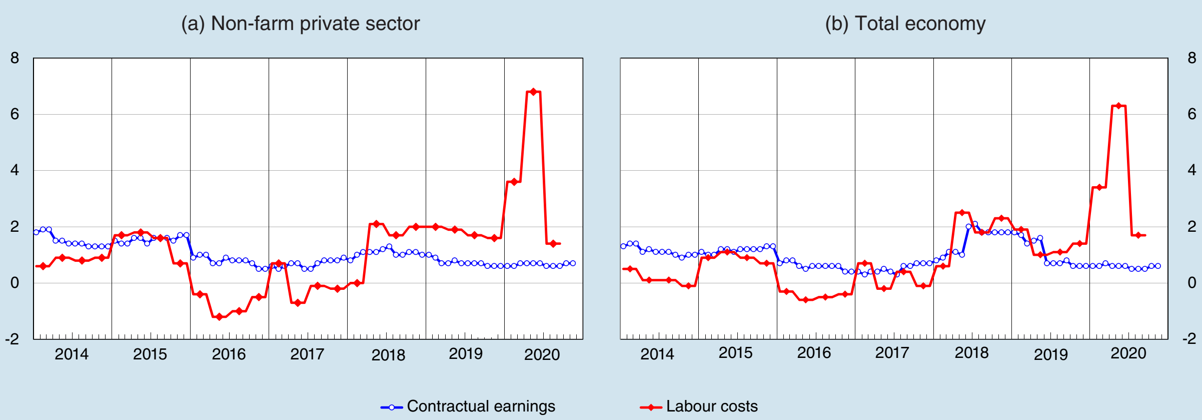
After the partial recovery recorded in the third quarter (64.3 per cent), the participation rate turned downward again (to 64.2 per cent in November, 1 percentage point below the level recorded prior to the health emergency). Lower labour market participation contributed to the decline in the unemployment rate, which was stable at 9.2 per cent on average over the two months October-November (10 per cent in the third quarter; Figure 30.b).

Wage growth remains weak

Contractual earnings in the non-farm private sector continue to record moderate growth, rising at an annualized rate of 0.7 per cent in the two months October-November, and by 0.6 per cent for the economy as a whole (Figure 33). The ongoing uncertainty linked to the health emergency could prolong negotiations for the renewal of numerous contracts that have expired (involving around 80 per cent of employees), holding back wage growth in the early months of 2021 as well.

Figure 33

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 earnings; seasonally adjusted quarterly data for labour costs.

In the third quarter, hourly labour costs for the non-farm private sector grew by 1.4 per cent on the corresponding year-earlier period (1.7 per cent for the economy as a whole), braking sharply with respect to the acceleration recorded during the spring which, however, was mostly the result of a merely statistical effect, attributable to the rules for classifying wage supplementation measures in the national accounts; the allowances disbursed to workers under the FIS have been included in employment income, while hours not worked have been excluded.

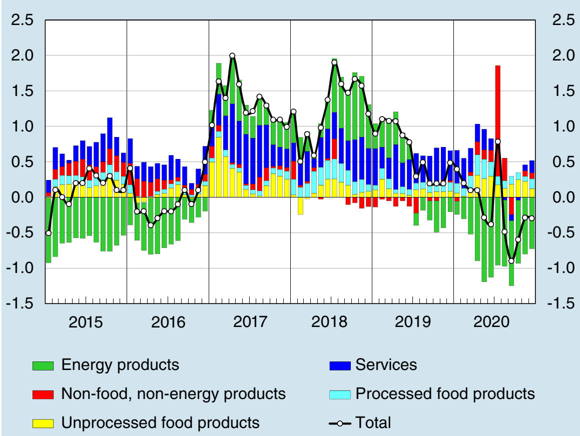
2.6 PRICE DEVELOPMENTS

The change in consumer prices was negative in the last months of 2020, reflecting the performance of the prices of energy goods and the price developments in the service sectors hit hardest by the crisis. The inflation expectations of analysts and

Figure 34

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

(monthly data; per cent and percentage points)



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

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	1.0
2019	0.6	0.5	0.6	0.6	–	0.5	0.0	0.7
2020	(-0.1)	(0.5)	....	(-0.2)	–	(0.5)	....	....
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	-1.0	-0.5	-1.1	-0.6	-0.2	0.0	-3.8	–
Oct.	-0.6	-0.1	-0.7	-0.3	0.5	0.3	-2.9	–
Nov.	-0.3	0.3	-0.4	-0.2	....	0.4	-2.8	–
Dec.	(-0.3)	(0.4)	....	(-0.1)	....	(0.6)	....	–

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

firms continue to point to very low values over the next twelve months.

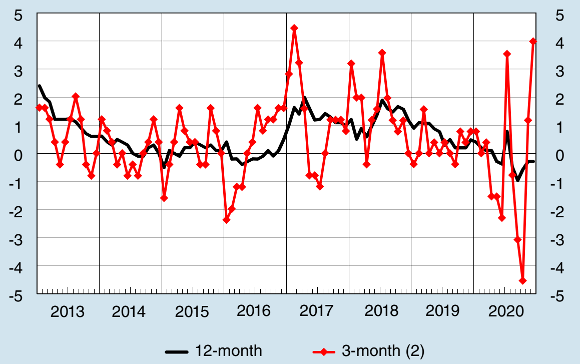
The change in consumer price inflation continues to be negative ...

Based on preliminary data, the twelve-month change in the harmonized index of consumer prices (HICP) stabilized at -0.3 per cent in December (Figure 34 and Table 11). The reduction in the prices of energy products and the weakness of the core component (0.4 per cent) impacted inflation. Contributory factors to the latter's performance are the modest growth in the prices of goods and the reduction of prices connected with tourism (especially transport and hotels), which have suffered most from the consequences of the pandemic. The prices of services have also been negatively impacted by the temporary effects of the abolition in September of the surcharges on outpatient and health treatments and the changes to university fees in October. The seasonally adjusted annualized three-month inflation rate showed marked fluctuations (Figure 35). For 2020 as a whole, inflation was equal to -0.1 per cent and to 0.5 per cent excluding the most volatile components (from 0.6 and 0.5 per cent respectively in 2019).

Figure 35

Consumer price inflation (1)

(monthly data; per cent)



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

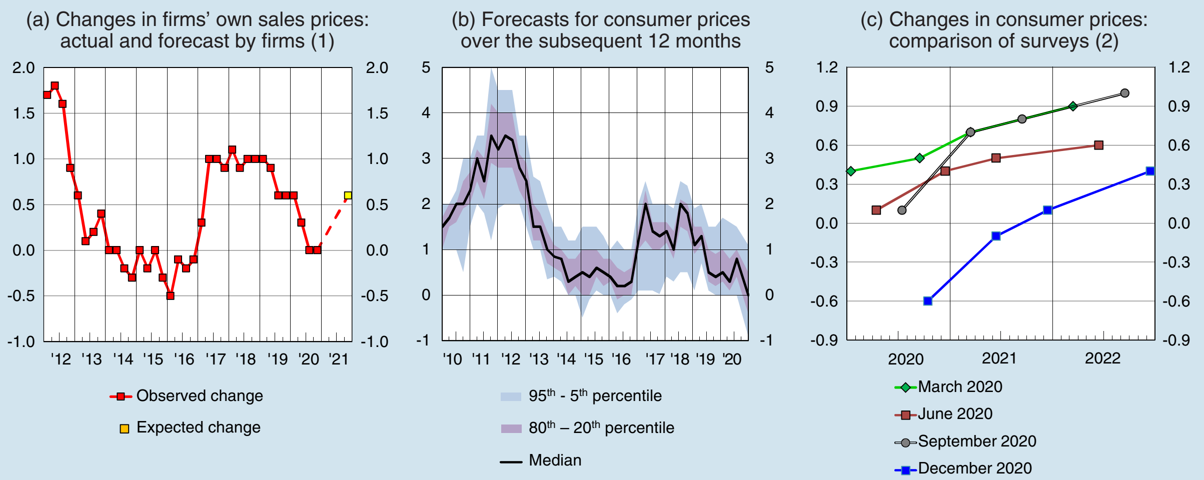
... as it is for producer prices

In November, the decline in the producer prices of industrial products sold on the domestic market continued (-2.8 per cent on a 12-month basis, from -2.9 per cent in October). In the third quarter, unit labour costs (on which the effects of a

Figure 36

Inflation expectations of industrial (excluding construction) and service firms

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



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

statistical nature continue to have an impact; see Section 2.5) slowed compared with the previous quarter, down from 1.3 to 0.7 per cent on a twelve-month basis.

Inflation expectations remain low

According to the professional forecasters surveyed in December by Consensus Economics, inflation will average 0.4 per cent in 2021. In the Bank of Italy's quarterly survey conducted in December, the expectations of the firms interviewed on the increase in their list prices over the next 12 months were stable at 0.6 per cent. Firms lowered their consumer inflation expectations across all time horizons (Figure 36). The survey carried out on households by the Bank of Italy at the end of November indicates that the percentage of households interviewed that expect an increase in prices over the next 12 months remained practically unchanged.

2.7 BANKS

Banks continued to meet demand for funds from firms. Supply conditions remained relaxed overall, also thanks to monetary policy and government measures to support liquidity. Banks' bond funding costs declined further, and rates on lending to firms and households stayed at low levels.

Lending continues to grow at a sustained pace

In November, lending to the non-financial private sector grew at a three-month rate of

Table 12

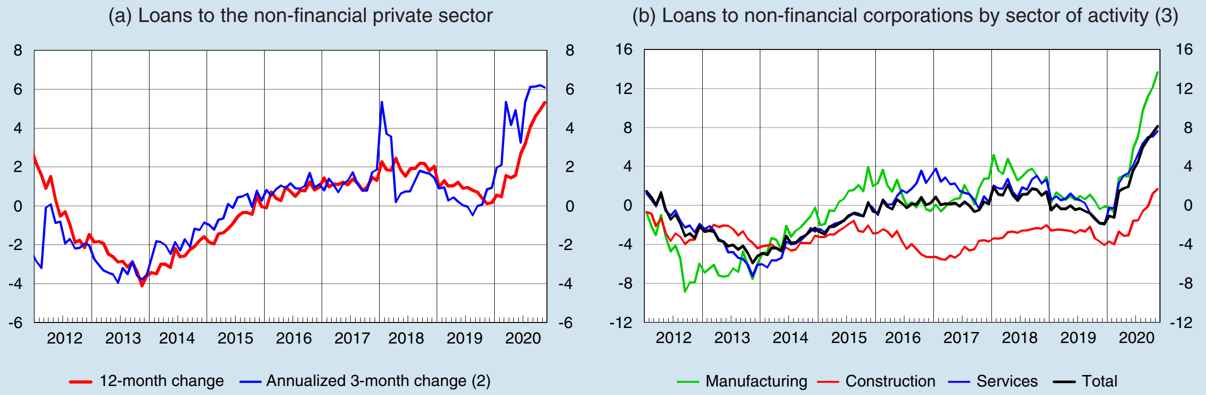
Bank lending as at November 2020 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**5.3**	**6.1**
Households	**2.2**	**4.1**
of which: loans for house purchase	2.2	....
consumer credit	-0.4	....
other loans (3)	4.1	....
Non-financial corporations	**8.1**	**8.9**
of which: manufacturing	13.7	....
services	7.6	....
construction	1.7	....

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.

Figure 37

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)	
	August 2020	November 2020	August 2020	November 2020
Assets				
Loans to Italian residents (3)	1,704	1,721	1.4	2.8
of which: to firms (4)	671	682	6.0	8.1
to households (5)	634	642	1.9	2.2
Claims on central counterparties (6)	82	63	-18.0	-39.6
Debt securities excluding bonds of resident MFIs (7)	598	579	11.9	5.5
of which: securities of Italian general government entities	451	433	10.3	7.4
Claims on the Eurosystem (8)	182	301	136.0	116.2
External assets (9)	458	461	8.9	8.3
Other assets (10)	744	769	1.1	7.3
Total assets	**3,768**	**3,893**	**6.0**	**7.9**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,695	1,742	6.1	7.5
Deposits of non-residents (9)	310	321	-6.5	-4.5
Liabilities towards central counterparties (6)	115	98	-5.0	-27.9
Bonds (12)	226	218	-6.3	-9.0
Liabilities towards the Eurosystem (8)	350	367	46.7	56.8
Liabilities connected with transfers of claims	127	124	11.9	-4.9
Capital and reserves	358	361	-1.3	-1.8
Other liabilities (13)	588	662	6.5	19.9
Total liabilities	**3,768**	**3,893**	**6.0**	**7.9**

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

6.1 per cent (on a seasonally adjusted and annualized basis; Table 12 and Figure 37.a). In contrast to the other main euro-area countries (see Section 1.2), growth in credit to non-financial corporations remained robust (8.9 per cent; Figure 37.b), still driven by firms' recourse to the loans covered by public guarantees. Household lending expanded at practically the same rate as in August (4.1 per cent). Mortgages accelerated slightly, while consumer credit was still weak. The guarantee schemes for new loans and the moratoriums on outstanding loans adopted by the Government to support the liquidity of firms and households have been extended to June 2021.

Banks' funding increases

Between August and November, the funding of Italian banks increased, especially owing to the acceleration in deposits by residents (to 7.5 per cent; Table 13), driven by greater liquidity preference on the part of firms and households. The expansion in liabilities to the Eurosystem also strengthened, following the settlement of the fifth

Table 14

Bank interest rates (1)
(per cent)

	August 2020	November 2020
Loans to firms	**1.1**	**1.3**
of which: up to €1 million	1.7	1.9
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	1.3

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

auction in the third series of targeted longer-term refinancing operations (TLTRO III), through which banks raised €22 billion.

The cost of funding stayed low, continuing to benefit from the highly accommodative monetary policy. Since the beginning of October, bank bond yields on the secondary market in Italy have fallen again, reaching 1.2 per cent at the start of January, a figure close to that observed before the health emergency. The yield spread with respect to the euro-area average diminished, to around 80 basis points.

The cost of credit for firms remains low

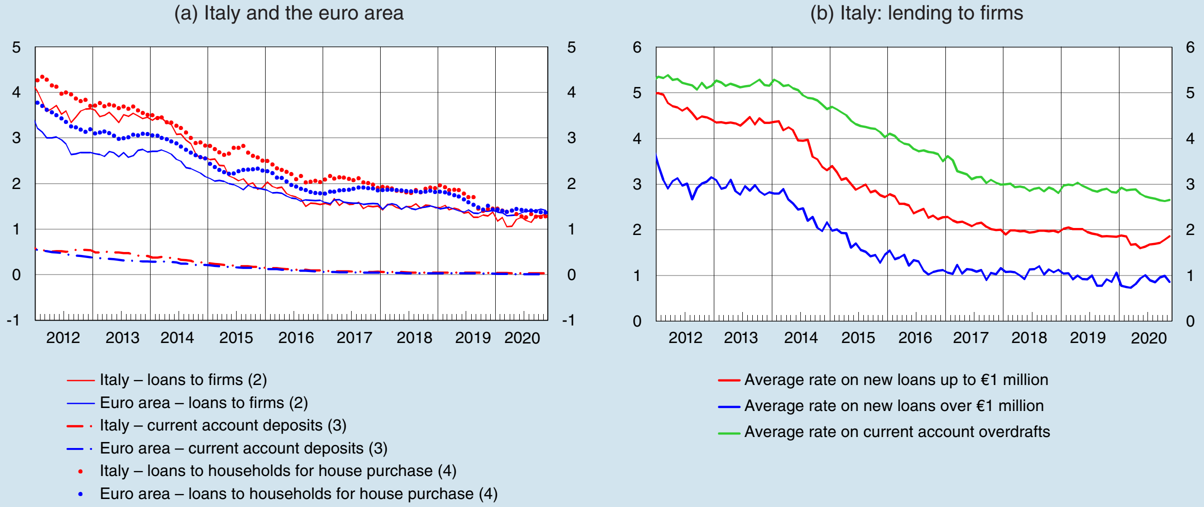
The interest rate on new bank loans to firms stayed low, at 1.3 per cent in November (Table 14 and Figure 38); the moderate increase compared with August concerned loans for an amount up to €1 million. In the same period, the average interest rate on new mortgage loans to households was stable, at 1.3 per cent.

Credit standards for loans to firms remain unchanged

The results of the euro-area bank lending survey on the third quarter of 2020, which ended on 6 October, only partly incorporate the initial assessments of the impact of the second wave of the pandemic. The Italian banks interviewed have reported unchanged supply conditions for lending to firms, also thanks to the positive impact of the monetary policy measures (see the box 'Credit supply and demand'). For the

Figure 38

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

The euro-area bank lending survey,[1] which ended on 6 October, refers to the third quarter of 2020 and therefore incorporates only some of the effects of the second wave of the pandemic. The

[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)'.

Figure A

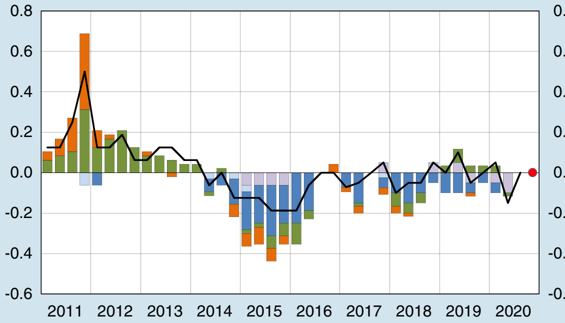
Credit standards and demand for loans in Italy (1)

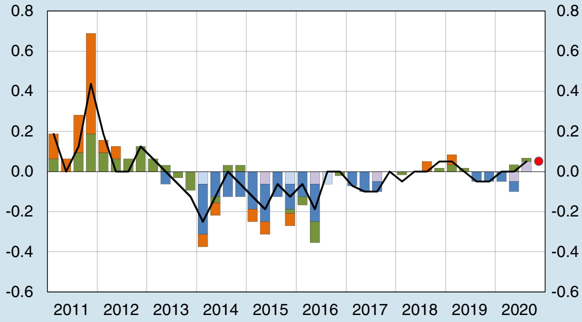
(quarterly data; diffusion indices)

(a) Loans to firms

(b) Loans to households for house purchase

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





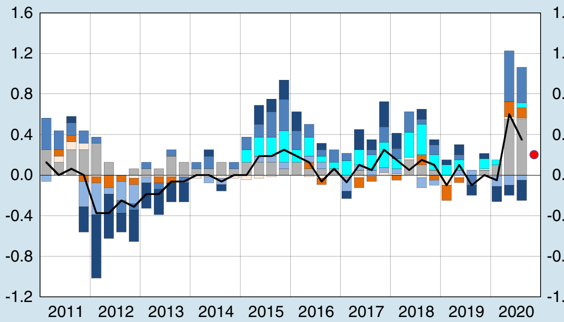
- Cost of funds and balance sheet constraints (2)
- Risk perception (3)
- Competition from other banks
- Competition from non-bank institutions and the market (4)
- Risk tolerance
- Index of supply tightening (realized) (5)
- Index of supply tightening (expected) (6)

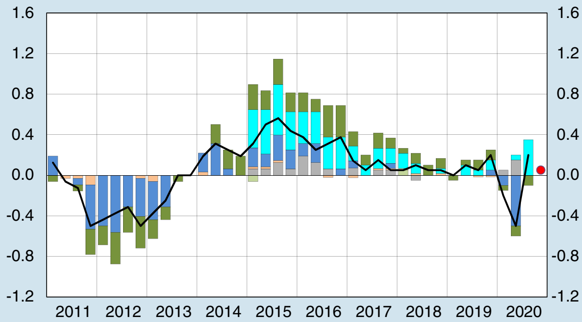
- Cost of funds and balance sheet constraints
- Risk perception (7)
- Competition from other banks
- Competition from non-bank institutions
- Risk tolerance
- Index of supply tightening (realized) (5)
- Index of supply tightening (expected) (6)

(c) Loans to firms

(d) Loans to households for house purchase

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





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

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

Source: Euro-area bank lending survey.
(1) Positive values indicate supply 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: bank's capital position: bank's capacity to obtain funds on the market; bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry- or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from other financing sources. – (5) For the quarter ending at the time of the survey. – (6) Forecasts prepared in the previous quarter; right-hand scale. – (7) Average of the following factors: general economic situation and outlook; housing market prospects; and borrower's creditworthiness. – (8) Average of the following factors: loans from other banks; loans from non-banks; issues/redemptions of debt securities; 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.

Italian banks interviewed for the survey reported that the credit standards applied to new business loans remained unchanged (Figure A). Nevertheless, the margins applied fell for both average and higher-risk loans.[2] Banks expected their own credit standards to continue to remain unchanged in the fourth quarter.

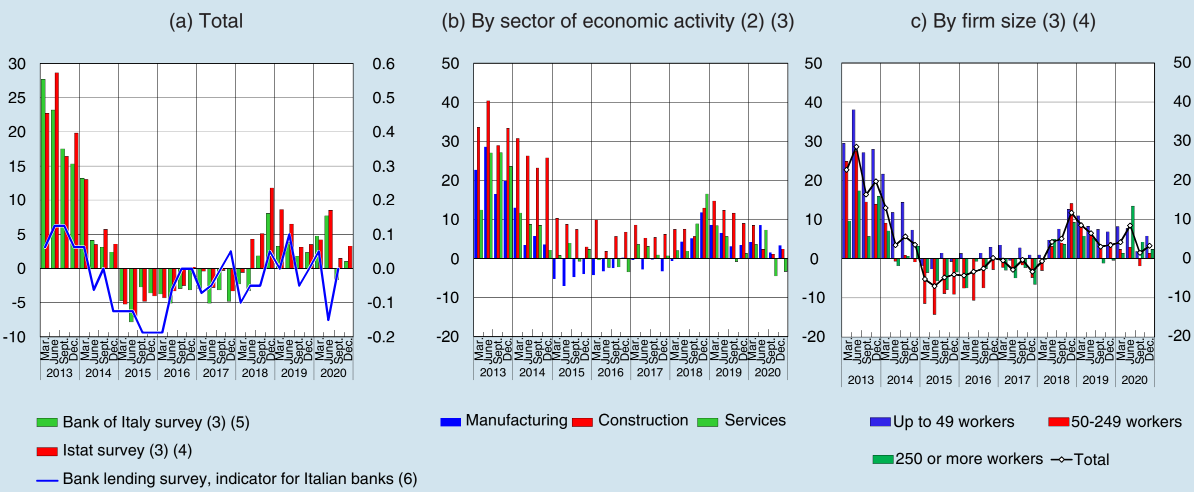
For loans to households, in the third quarter, banks' supply policies tightened moderately for both consumer credit and loans for house purchase. This was in line with the worsening of the general economic outlook and a reduction in banks' risk tolerance; the general terms and conditions for credit remained broadly unchanged. For the fourth quarter, banks expected a further slight tightening of their supply policies for the mortgage market.

Demand for business loans continued to increase markedly in the third quarter, still reflecting the exceptional need for liquidity arising from the public health emergency. After falling for two quarters running, the demand for mortgages and consumer credit began to rise again. For the fourth quarter, banks envisaged a more limited increase in the demand for business loans. The demand for mortgage loans on the part of households should also grow slightly.

The survey questionnaire included an assessment of the impact of the monetary policy measures adopted by the ECB. Based on the responses, in the six months ending last September the expanded asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) together with the third series of targeted longer-term refinancing operations (TLTRO III) had a positive

Figure B

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



1) The Bank of Italy survey (in collaboration with *Il Sole 24 Ore* until 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 surveys are taken from the end-of-quarter observations; in June 2013 some methodological changes involving the sample and data observation techniques were made that preclude direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Istat, business confidence surveys. – (3) Net percentage of firms reporting difficulty in obtaining credit. The net percentage is calculated as the difference between the percentage of replies indicating a worsening of credit access conditions and the percentage of those indicating an improvement. – (4) Istat's latest business confidence survey of the manufacturing sector. – (5) 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series. – (6) Right-hand scale.

[2] Banks in the other leading euro-area countries, unlike their Italian counterparts, reported that the credit standards applied to business loans had tightened; see ECB, 'October 2020 Euro area bank lending survey', press release, 27 October 2020.

effect overall on banks' liquidity, on borrowing conditions, and on banks' profitability. Banks also indicated that these measures facilitated an easing of the terms and conditions applied to lending and led to an increase in the volume of loans, especially those made to firms.

The surveys of firms carried out by Istat and the Bank of Italy regarding the fourth quarter of 2020 ended in December, and therefore incorporate the first assessments of the effects of the second wave of the pandemic (Figure B). In all sectors, credit access conditions remained relaxed overall, with a slight improvement for firms working in services.

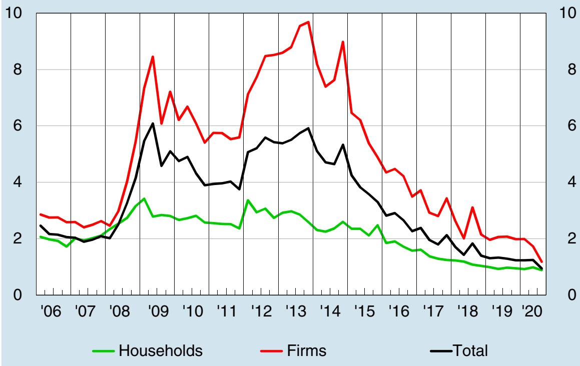
fourth quarter, banks expect a further, though smaller, increase in demand for funds from non-financial corporations.

The non-performing loan rate benefits from the measures adopted by the authorities

The flow of new non-performing loans in proportion to total loans declined in the third quarter (to 0.9 per cent, on a seasonally adjusted annualized basis, from 1.3 per cent in the second; Figure 39). Lending to both households and firms declined (from 1.0 to 0.9 per cent and from 1.7 to 1.2 per cent respectively). Trends in these indicators continue to reflect the measures to facilitate access to credit introduced by the Government (moratoriums and guarantees on new loans), as well as use of the flexibility allowed under the rules for classifying loans in accordance

Figure 39

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



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

Table 15

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

	June 2020	September 2020
Non-performing loans (NPLs) (2)		
Gross NPL ratio	6.1	5.4
Net NPL ratio	3.0	2.6
Coverage ratio (3)	52.6	53.8
Regulatory capital		
CET1 ratio	14.8	15.1
	January-September 2019	January-September 2020
Profitability (4)		
ROE (5)	7.8	2.2
Net interest income (6)	-5.6	-4.8
Gross income (6)	-4.7	-4.7
Operating expenses (6)	-3.4	-3.9
Operating profit (6)	-6.9	-6.7
Loan loss provisions (6)	-0.1	36.4

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

with the indications of the supervisory authorities. 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 increased, mainly owing to loan loss provisions recorded by an intermediary ahead of a disposal.

Banks' profitability declines ...

In the first nine months of 2020, the profitability of the significant groups was down on the same period in the previous year. Net of extraordinary components, the return on equity (ROE) fell by more than two thirds, mainly owing to the increase in loan loss provisions. Total profits fell, though the downturn slowed in the course of the third quarter. Operating costs continued to fall; 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 a reduction in the cost-income ratio of more than 2 percentage points compared with the first nine months of 2019, to 62.8 per cent.

... but their financial situation continues to strengthen

In the third quarter, the capitalization of the significant groups, measured based on the ratio between common equity tier 1 and risk-weighted assets (CET1 ratio), rose by about 30 basis points, to 15.1 per cent. Growth came from the decline in risk-weighted assets (-3 per cent), which in turn was attributable to the shift in bank portfolios towards less risky assets and the granting of public guarantees. The fall in risk-weighted assets more than offset the slight reduction in the highest quality capital.

2.8 THE FINANCIAL MARKETS

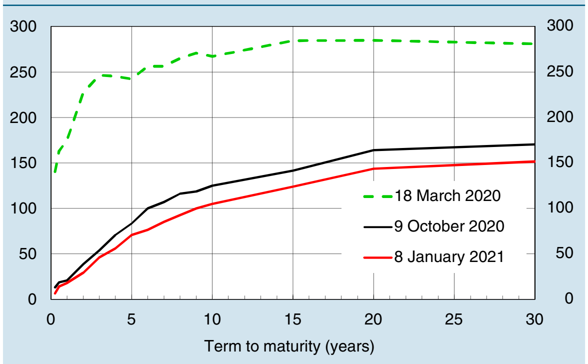
Conditions on the financial markets in Italy, as in the rest of the world, have been driven by optimism following the announcement of effective vaccines, by further monetary policy and fiscal support, and by the end to the uncertainty surrounding the presidential elections in the United States. Nevertheless, the outlook for the financial markets is still conditioned by possible future scenarios regarding the pandemic.

Italian government bond yields diminish

From mid-October, the yields on Italian government bonds began to diminish at all maturities, mainly as a result of the decline in the sovereign risk premium. The yield spread between Italian and German ten-year government bonds fell by 20

Figure 40

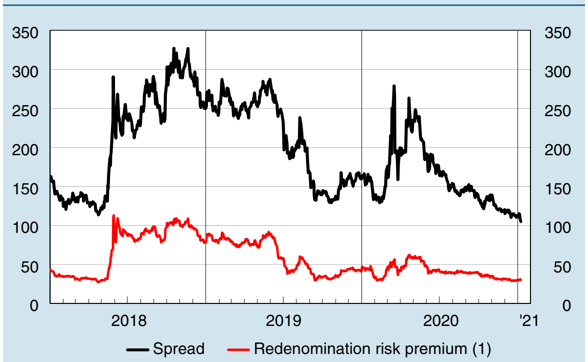
Term structure of sovereign spreads (1)
(basis points)



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

Figure 41

Spread between Italian and German 10-year government bonds and 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.

basis points, remaining at lower levels than those observed before the pandemic (Figure 40) and premiums for redenomination risk remained stable at low levels (Figure 41). The volatility implied by derivatives on Italian ten-year bonds remained very limited (Figure 42).

Figure 42

Implied volatility of options on BTP futures (1)
(daily data; per cent)

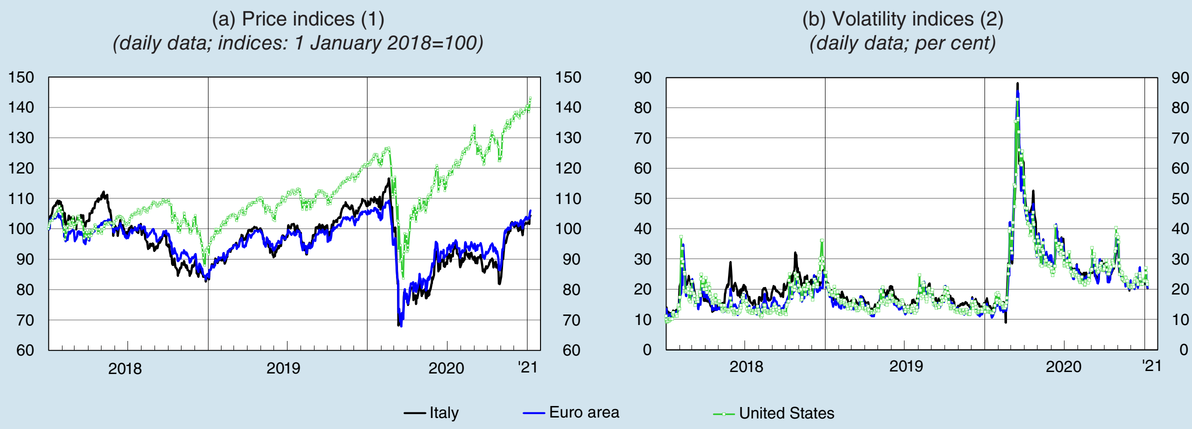
Source: Based on Refinitiv data.
(1) Implied volatility of at-the-money options with a 1-month maturity on 10-year BTP futures traded on the Eurex.

Equity prices rise

After initial decreases connected with renewed fears about the increasing infections in October, equity prices rose sharply in November, benefiting mainly from announcements on the effectiveness of the vaccines (Figure 43.a). The general share index in Italy rose by 16 per cent, which was more than the euro-area average of 12 per cent. The banking sector component increased in line with the general index (14 per cent), but less than the growth observed for this sector in the euro area (35 per cent). The volatility of equity prices diminished (Figure 43.b).

Figure 43

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.

Funding costs continue to decline

The funding costs of both banks and firms continued to decline. Since mid-October, the average yields on bonds issued on the secondary market by Italian banks and non-financial corporations have diminished by 43 and 18 basis points respectively (Figure 44). This is in line with the average fall observed in the euro area.

Corporate net bond issues increase

Italian non-financial corporations recorded net bond issues amounting to €2.3 billion in the third quarter (compared with €1.6 billion in the second quarter), while net placements by banks were virtually nil (compared with €7.6 billion in the second quarter). According to preliminary data from Bloomberg, banks' and firms' gross bond issues still appear to be in line with the average for the three months ending in December.

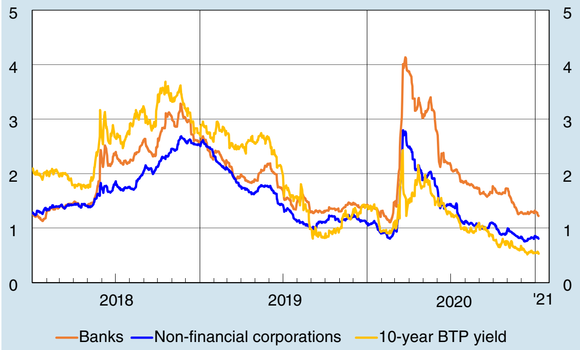
Net subscriptions to investment funds remain positive in the third quarter

According to Assogestioni data, the net inflow of savings towards open-end investment funds was positive again in the third quarter of 2020 (€9.7 billion) and was wholly attributable to foreign investment funds. Investors' preferences were mainly directed towards bond funds (€6.8 billion), but the other main segments also recorded significant net subscriptions (€5.9 billion to equity funds, €1.1 billion to balanced funds and €0.5 billion to money market funds). Net subscriptions to Italian open-end investment funds amounted to €2.2 billion in October and €1.5 billion in November.

Figure 44

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

(daily data; per cent)



Sources: Based on ICE BofAML and Bloomberg data.
(1) The data refer to the average yields (to maturity) of a basket of euro-denominated bonds issued by Italian banks and non-financial corporations 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 marked deterioration in the public accounts in 2020 reflected both the decline in economic activity and the expansionary measures adopted by the Government in the course of the year. Official assessments indicate that, compared with the current legislation scenario, the budget law approved at the end of December raises net borrowing by 1.4 per cent of GDP in 2021 and by more than 0.6 per cent in 2022, while it lowers it by almost 0.2 per cent in 2023.

In 2020 net borrowing stands at around 10 per cent of GDP

In response to the resurgence of the health crisis, in the last quarter of 2020, the Government enacted additional expansionary measures to support households and firms (see the box 'Measures to support firms and workers affected by the new restrictions to combat the pandemic').[2] The available preliminary data confirm that the deterioration of the macroeconomic outlook and the economic support measures have led to a significant worsening of the public accounts in the year as a whole.[3]

MEASURES TO SUPPORT FIRMS AND WORKERS AFFECTED BY THE NEW RESTRICTIONS TO COMBAT THE PANDEMIC

The impact on the public finances. – In response to the resurgence of the pandemic during the autumn months, the Government passed four decree laws – collectively the 'relief' decrees, subsequently converted

[2] Decree Law 18/2020 ('Cure Italy' decree), converted by Law 27/2020, Decree Law 23/2020 ('Liquidity Decree'), converted by Law 40/2020, Decree Law 34/2020 ('Relaunch Decree'), converted by Law 77/2020, and Decree Law 104/2020 ('August Decree'), converted by Law 126/2020. For a description of the first three decree laws, see the box 'The fiscal policy response to the emergency', *Economic Bulletin*, 3, 2020; for the fourth, see *Economic Bulletin*, 4, 2020.

[3] Last November, in its autumn forecasts, the European Commission indicated increases in the deficit-to-GDP ratio of 9.2, 7.5, 7.4 and 9.4 percentage points for Italy, Germany, France and Spain respectively. The debt-to-GDP ratios were instead expected to rise in the same countries by 24.9, 11.5, 17.8 and 24.8 percentage points respectively.

into a single Law[1] – approving expansionary measures for 2020 and 2021. The resources for 2020, which amount to €17.8 billion (see the table), primarily went to the firms and workers affected by the measures to contain the epidemiological emergency included in the Prime Minister's Decrees (DPCM) of 24 October 2020 and of 3 November 2020.[2]

The decree laws identified €9.8 billion in financial coverage stemming primarily from expenditure savings (€8.8 billion) on some of the emergency interventions adopted in the previous months; the remainder of the coverage came from lower outlays on other measures not linked to the emergency. According to official assessments, the decrees raised net borrowing in 2020 by €8 billion (0.5 per cent of GDP; see the table), equal to the budgetary deviation requested by the Government in its *Report to Parliament* of 20 November, which was authorized on 26 November.

In light of the revision to the deficit under current legislation published in the *Report to Parliament* and of the most recent measures, net borrowing in 2020 is estimated to have reached around 10.9 per cent of GDP. For this year and the next two years, the official estimate of the deficit is instead unchanged with respect to the forecasts set out in the Update to the 2020 Economic and Financial Document (7 per cent in 2021; 4.7 per cent in 2022; and 3 per cent in 2023).

The main measures. – The bulk of the expansionary measures approved by the decrees for 2020 (€15.3 billion) went on support for firms operating in the sectors and regions affected by the constraints on economic activity introduced in the previous months. In particular, the measures envisaged: (a) the postponement to 2021 of the tax and social security payments owed for the last two months of 2020[3] (€8.7 billion); (b) grants to self-employed workers and firms (€5.5 billion), including the institution and refinancing of funds to support specific sectors, as well as the creation of a fund to help meet the costs stemming from possible further curtailments of economic activity; (c) the extension until the end of 2020 of the tax credit on rentals of non-residential properties (€0.5 billion); (d) exemption from the payment of social contributions for a few specific sectors (€0.4 billion); and (e) the abolition of the second instalment of the IMU property tax (€0.2 billion).

Further allowances were also envisaged for workers in the tourism, sporting and entertainment industries (€1.4 billion). Additional resources were allocated to the establishment of a fund in favour of the Municipalities for the adoption of urgent food solidarity measures (€0.4 billion); to support the internationalization of

[1] Namely, Decree Law 137/2020 ('Relief Decree'), Decree Law 149/2020 ('Relief-*bis*' decree'), Decree Law 154/2020 ('Relief-*ter*' decree) and Decree Law 157/2020 ('Relief-*quater*' decree'), approved between 27 October and 30 November 2020. The law converting Decree Law 137/2020 (Law 176/2020) also incorporated the other three decrees, which were abrogated whilst maintaining the validity of the acts and provisions adopted and preserving the legal effects and relationships arising from the decrees themselves. For Decree Law 137/2020, see the Report by the Bank of Italy for the Fifth (Budget, Treasury and Planning) and Sixth (Finance and Treasury) Committees of the Senate of the Republic which met in joint session, 'Draft law 1994, converting into law Decree Law 137/2020 containing additional urgent measures to protect public health, to support workers and businesses, justice and security, linked to the COVID-19 epidemiological emergency', Senate of the Republic, Rome, 10 November 2020.

[2] The DPCM of 24 October 2020 decreed the closure of cinemas, theatres, and of most amateur sports activities, and imposed a 6pm curfew on restaurants, coffee bars and pubs. The DPCM of 3 November 2020 identified three different risk levels for classifying Italian regions and prescribed the application of different measures to contain the virus for each one. The assignment of different risk levels to the regions, with the automatic application of the corresponding constraints on economic activity, can be modified by ordinance of the Ministry of Health depending on the slope of the epidemic curve at regional level.

[3] This principally concerns the firms whose activities were suspended by the DPCM of 3 November 2020, and SMEs (with up to €50 million in turnover) which, though they were not shut down by the same DPCM, nonetheless recorded heavy losses equal to at least 33 per cent of turnover (a) in the first six months of 2020 compared with the year-earlier period (specifically, income tax and the regional tax on productive activities (IRAP) payable for 2020); and (b) in November of last year compared with the same month in 2019 (specifically, the suspension of taxes on payroll income, and of VAT, social security contributions and welfare benefits for the month of December). According to official assessments, the deferral to 2021 of the tax payments owed for 2020 was recorded on a cash basis, leading to an increase in net borrowing last year and to an improvement this year. Based on the statistical rules agreed at European level, if this were instead recorded based on the criterion of economic competence, it would have no impact on the deficit in 2020 or in 2021.

Table

Overall impact on the general government profit and loss account of the measures included in Law 176/2020 converting Decree Law 137/2020 ('Relief Decree')
(millions of euros)

	2020	2021	2022	2023
USE OF FUNDS	**17,800**	**151**	**141**	**29**
Higher expenditure (A)	**8,478**	**8,404**	**138**	**24**
Grants to firms affected by the DPCMs of 24 October and 3 November (net effect)	5,052	1,049	0	0
Allowances for workers in the tourism, sporting and entertainment industries	1,393	124	0	0
Creation of an equalization fund for the tax and relief measures taken between March and November	0	5,300	0	0
Fund for costs stemming from additional limits on economic activity (1)	481	190	0	0
Tax credits on rentals by firms affected by the DPCMs of 24 October and 3 November	459	229	0	0
Creation of a fund for emergency food solidarity measures	400	0	0	0
Other measures to support firms	305	699	0	0
Grant to the regions administered under ordinary statute to support economic activities subject to restrictions	0	360	0	0
Other	389	453	138	24
Lower revenue (B)	**-9,322**	**8,253**	**-3**	**-5**
Extension of tax payment deadlines for firms affected by the DPCMs of 24 October and 3 November	-8,734	8,708	0	0
Exemptions from social security contributions for specific sectors and firms that do not request CIG	-385	-372	-3	-5
Exemption from payment of second instalment of IMU for firms affected by the DPCMs of 24 October and 3 November	-203	-83	0	0
SOURCES OF FUNDS	**9,815**	**161**	**141**	**33**
Higher revenue (C)	**72**	**462**	**-288**	**55**
Restructuring of tax credit for holidays (net effect)	0	376	-284	53
Other (net effect)	72	86	-4	3
Lower expenditure (D)	**-9,743**	**301**	**-429**	**22**
Savings on measures to address the emergency approved between March and August	-8,799	280	0	0
Savings on wage supplementation schemes	-1,338	0	0	0
Savings on allowances for the self-employed and specific sectors	-1,037	0	0	0
Restructuring of tax credit for holidays (net effect)	-860	280	0	0
Reduction in last-resort income support and compensation for domestic workers	-147	0	0	0
Savings included in the current legislation scenario of the 2021 Draft Budgetary Plan (2)	-5,417	0	0	0
Use of budget funds (net effect)	-726	-3	-429	22
Other expenditure not linked to the emergency	-219	25	0	0
Change in net revenue (E=B+C)	**-9,249**	**8,715**	**-291**	**50**
Change in net expenditure (F=A+D)	**-1,265**	**8,706**	**-291**	**46**
Change in net borrowing (G=F-E)	**7,985**	**-10**	**0**	**-4**
Per cent of GDP (3)	0,5	0,0	0,0	0,0
Memorandum items: refunding of the CIG (4)	0	1,288	0	0

Source: Based on the official assessments contained in Decree Law 137/2020 and Law 176/2020.
(1) The total endowment of the fund established amounted to €1.7 billion in 2020 (almost €0.3 billion in 2021). The table provides an estimate of the residual resources of the fund, calculated based on the costs stemming from the measures funded by it, as identified in the technical report of the conversion decree. Decree Law 172/2020 ('Christmas Decree'), approved on 17 November 2020, approved the use of some of these resources to cover the costs stemming from the disbursement of non-repayable contributions to the catering sector, whose activities were suspended by the same decree law from 24 December 2020 to 6 January 2021 (almost €0.5 billion in 2020 and €0.2 billion in 2021). – (2) According to official assessments, these savings are not included among the savings on outlays, but in practice are used to cover the measures envisaged by the decrees. – (3) Based on the nominal GDP in the policy scenario reported in the Update to the 2020 Economic and Financial Document. – (4) Based on the findings of the technical report of the 'Relief Decree', the financial effects of this measure have already been absorbed in the current legislation scenario outlined in the 2021 Draft Budget Plan.

firms (€0.3 billion); and for other initiatives – involving limited amounts – mostly linked to the public health emergency and primarily targeting the health system, schools and law enforcement (€0.4 billion).

Finally, the freeze on economically motivated layoffs was extended until 31 January 2021 and wage supplementation schemes covering workers furloughed owing to the COVID-19 pandemic were extended by a further six weeks (to be availed of from 16 November 2020 to 31 January 2021).[4] The 2021 Budget Law later extended the first measure until 31 March 2021 and approved an additional twelve weeks of wage supplementation for furloughs due to COVID-19.[5]

For 2021, the 'relief' decrees prescribed expansionary measures amounting to €8.4 billion, entirely covered by the revenues generated by the deferral of tax payments for 2020. Most of these resources (€5.3 billion) were used to create a fund for the total or partial cancellation[6] of payments – initially deferred until 2021 – by firms reporting heavy losses in turnover in 2020. Further resources were allocated to firms penalized by the latest restrictions on economic activity (€1 billion), the transport sector[7] (€0.7 billion) and to regions administered under ordinary statute to support the economic sectors affected by restrictions relating to the epidemiological emergency (€0.4 billion).

4 According to the official assessments, higher expenditure attributable to this measure (€1.3 billion) – recorded on a cash basis in 2021 – is not expected to increase net borrowing insofar as it is already incorporated in the current legislation scenario set out in the 2021 Draft Budgetary Plan.

5 Available from 1 January 2021 to 31 March 2021 for ordinary wage supplementation schemes (CIG), and from 1 January 2021 to 30 June 2021 for the ordinary wage supplement (*assegno ordinario*) and the under-waiver supplemental wage scheme (CIG in deroga). The periods of wage supplementation previously requested and authorized pursuant to the first 'Relief Decree', recurring – even partially – in periods subsequent to 1 January 2021, are imputed to the twelve weeks foreseen by the budget law.

6 If the operation were accounted for in accordance with the criterion of economic competence, based on the statistical rules agreed on at European level, the portion of the payments that will actually be cancelled could raise net borrowing in 2020 (unlike what would happen in the case of a simple one-off postponement).

7 The resources are mostly allocated to supporting local and regional public transport firms and those operating in the air, shipping and road transport sectors.

In the first eleven months of 2020, the general government borrowing requirement amounted to €150.5 billion, €101.8 billion more than in the corresponding period of 2019. Taking account of the preliminary data for December and of the main factors linking the borrowing requirement to net borrowing (financial operations and cash/accruals differences), it is estimated that in 2020 the deficit-to-GDP ratio stood at around 10 per cent, against 1.6 per cent in 2019.[4] This assessment, which relies on mostly cash-based figures, is subject to a particularly high degree of uncertainty, owing to possible delays in payments relating to the measures approved for 2020, and to how the deferrals approved under the emergency decrees of some tax payments from 2020 to subsequent years will be accounted for, as well as about the amounts involved.

The state sector borrowing requirement in 2020 was equal to almost €159 billion, €117 billion more than in 2019 (Figure 45).

4 The estimate for the deficit-to-GDP ratio contained in the Update to the 2020 Economic and Financial Document (10.8 per cent) was revised on several occasions in the last quarter of the year. On the one hand, this was to take account of the lower-than-expected take-up of allocations for some of the measures introduced by the emergency decrees approved at the end of August and the better-than-expected performance of revenue and, on the other, of the pandemic situation in the autumn and the effects of the emergency decrees approved at that time. Based on the current legislation estimates contained in the *Report to Parliament* of 20 November and the impact of the 'Relief-*quater*' decree, official assessments estimate net borrowing of 10.9 per cent of GDP in 2020.

Based on the estimates of the quarterly accounts released by Istat, in the first nine months of last year net borrowing stood at 10.1 per cent of GDP, a disimprovement of more than 7 percentage points compared with the corresponding year-earlier period.

Debt rises by more than 20 percentage points of GDP

At the end of November, general government debt stood at €2,586.5 billion, €140.1 billion more than in the same period in 2019. Based on the preliminary data for December, it is estimated that at the end of 2020, the debt-to-GDP ratio rose by more than 20 percentage points, to around 156 per cent.[5]

The average residual maturity of the debt lengthened slightly, from 7.3 years at the end of last year to 7.4 years in November. The average cost of the debt came down to 2.4 per cent at the end of September, from 2.5 per cent at the end of 2019 (Figure 46); in recent months, yields at issue have fallen significantly.

Parliament approves the budget for the next three years

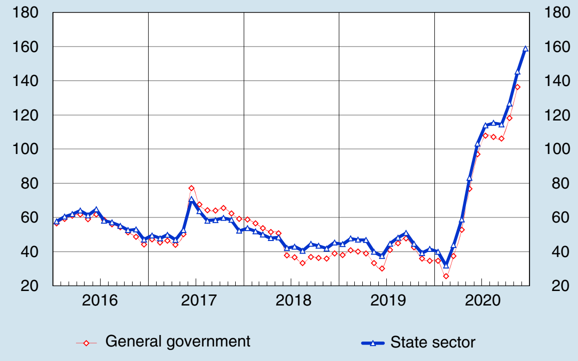
The budget law for the three years 2021-23, approved by Parliament at the end of December, raises the deficit with respect to the current legislation figures by 1.4 per cent of GDP in 2021 and by more than 0.6 per cent in 2022; it lowers it by 0.2 per cent in 2023. Expansionary measures amounting to €38 billion, €40 billion and €33 billion are envisaged in 2021, 2022 and 2023 respectively, almost three quarters of which come from spending increases (Table 16).

An additional expansionary impulse compared with the budgetary provisions is expected to come from further measures that will be defined under the European Union's new recovery programme, Next Generation EU (NGEU). Much of the financial coverage for the budget measures will come from a portion of the NGEU resources (estimated at €9.5 billion, €10.4 billion and €8.9 billion,

Figure 45

12-month cumulative borrowing requirement (1)

(monthly data; billions of euros)

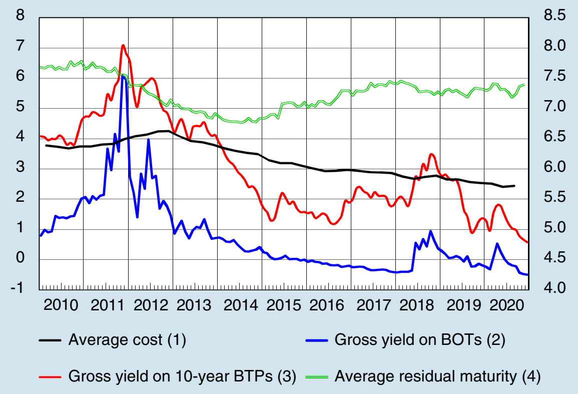


Source: For the state sector, Ministry of Economy and Finance.
(1) Excluding privatization receipts by the State.

Figure 46

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.

[5] The increase, which for more than 0.5 percentage points of GDP reflects the rise in liquid balances, appears lower than forecast by the Government (23.3 percentage points).

Table 16

Overall impact on the general government profit and loss account of the 2021 budgetary provisions

(millions of euros)

	2021	2022	2023
SOURCES OF FUNDS	**13,318**	**28,526**	**36,441**
Higher revenue (A)	**11,715**	**28,311**	**33,575**
Additional revenue owing to higher economic growth	0	12,900	20,500
Next Generation EU (1)	9,529	10,421	8,864
Indirect effects of social security contribution relief, public sector employment measures and pensions (net effect)	1,009	2,896	2,798
Measures to combat tax evasion	379	547	547
Other (net effect)	798	1,547	866
Lower expenditure (B)	**-1,604**	**-215**	**-2,865**
Current account (net effect)	-151	-44	-638
Capital account	-1,453	-171	-2,227
Revaluation of the Development and Cohesion Fund (net effect)	-319	-171	-2,169
Reduction of the tax credit allocation for the sanitization of workplaces	-1,000	0	0
Other	-134	0	-58
USE OF FUNDS	**37,855**	**40,345**	**32,843**
Lower revenue (C)	**-10,313**	**-9,431**	**-11,595**
Social security contribution relief and exemptions	-6,772	-6,435	-6,808
Social security contribution relief to support employment in disadvantaged areas (2)	-5,524	-5,603	-5,690
Social security contribution exemptions for hiring of young people and women	-248	-832	-1,118
Social security contribution relief for self-employed and professional workers	-1,000	0	0
Stabilization of payroll income tax credits valid from July 2020 (net effect)	-2,150	-1,887	-1,886
Extension of tax deductions for property renovations (net effect)	257	-637	-2,211
Postponement of the introduction of taxes on plastic and sugar (net effect)	-603	145	-128
Other (net effect)	-1,045	-616	-562
Higher expenditure (D)	**27,541**	**30,914**	**21,248**
Current account	16,319	16,116	13,848
Tax reform fund, universal allowance and household services	3,063	8,000	7,000
Public sector employment	2,693	2,556	2,930
Allowances and new hires in the health system	1,582	1,069	1,073
Renewal of public-sector employee contracts	401	400	400
Other	710	1,087	1,457
Refinancing operations included in Section II of the 2021 draft budget law	1,739	2,052	1,058
Fund to support firms affected by the epidemiological emergency	1,657	105	105
Healthcare expenditure linked to the epidemiological emergency	1,580	0	0
Fund for active labour policies and other measures for employment (2)	1,055	274	30
Funds for local government (net effect)	802	757	414
Measures for schools and universities	503	217	328
Wage supplementation measures linked to the epidemiological emergency	572	0	0
Measures on pensions	385	801	994
Refinancing of the budget funds	243	535	401
Measures for local public transport in connection with the epidemiological emergency	353	6	0
Other (net effect)	1,674	815	588
Capital account	11,222	14,798	7,400
Investment incentives for firms	8,521	10,817	7,669
Tax credits for investment (2)	5,279	6,095	5,969
Extension of the tax credit for the South and Islands	1,132	1,179	179
Incentives for business mergers	772	2,316	0
R&D, innovation and training (2)	0	570	990
Contributions for tech-intensive investments (2)	250	250	250
Other	1,089	408	281
Refinancing and rescheduling under Section II (net effect)	1,011	2,813	-2,821
Contributions to investments and other measures for local government	337	208	203
Increase in the SME guarantee fund and extension of the moratorium on lending (2)	300	500	1,000
Extension of tax credits for property renovations (2)	-190	-127	688
Other (net effect)	1,244	587	661
Change in net revenue (E=A+C)	**1,401**	**18,880**	**21,980**
Change in net expenditure (F=B+D)	**25,938**	**30,699**	**18,383**
Current account	16,168	16,073	13,210
Capital account	9,769	14,627	5,172
Change in net borrowing (G=F-E)	**24,536**	**11,819**	**-3,597**
Per cent of GDP (3)	1.4	0.6	-0.2

Source: Based on official documents from the parliamentary acts for the 2021 draft budget law.
(1) For the measures financed, in all or in part, by Next Generation EU, Annex 3 of the parliamentary acts for the draft budget law shows the net impact on budget balances. This table instead shows both the expansionary measures and, among the higher revenue items, the corresponding transfers from NGEU. The latter are calculated as the sum of the expansionary measures financed by NGEU according to the official documents and assuming that the impact of these measures on net borrowing (not reported in Annex 3) is equal to that on the State budget balance. – (2) Includes the measures covered by transfers from NGEU. As part of this, the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) aims to implement the first EU measures to combat the pandemic crisis. – (3) Calculated based on the nominal GDP in the policy scenario reported *in* the Update to the 2020 Economic and Financial Document.

respectively, in the three years)[6] and, over the next two years, from higher revenue (estimated at €12.9 billion in 2022 and €20.5 billion in 2023) linked to economic growth spurred by the budget and other measures that the Government plans to enact under NGEU.[7]

The main expansionary measures introduced by the budget law[8] are: (a) the allocation of additional resources for the introduction of a single and universal children's allowance (from the second half of 2021), as well as for the launch of the tax reform (from 2022); (b) the extension of social security contribution relief for firms operating in the South and Islands; (c) the extension and strengthening of the measures to support private investment. Moreover, some of the measures introduced in the course of 2020 to mitigate the immediate impact of the pandemic have been continued and refunded due to the prolongation of the emergency.

Table 17

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 payments	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

Source: Update to the 2020 Economic and Financial Document.
(1) Outturns for 2019 and official objectives for 2020-22. Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to EMU countries. The figure indicated for 2019 in the Update to the 2020 Economic and Financial Document (134.6 per cent) was revised in the report transmitted to Eurostat on 30 September as part of the Excessive Deficit Procedure.

With the publication of its *Report to Parliament* on 20 November, the Government confirmed its budget objectives for this year and the next two years as outlined in the Update to the 2020 Economic and Financial Document. The deficit is estimated to come to 7 per cent of GDP this year and to then decline further, reaching 3 per cent in 2023; the debt-to-GDP ratio is expected to fall by more than 2 percentage points on average in each of the three years (Table 17). In light of the resurgence of the public health emergency, the budget objectives could be revised to take account both of the new macroeconomic forecasts and of the impact of the budgetary deviation for which the Government announced in recent weeks it intended to seek approval from Parliament.

[6] With respect to the draft budgetary law, following talks with the European Commission the text approved by Parliament partly revised the allocation of European resources for the two years 2021-22. In particular, while the amount of NGEU transfers utilized to fund social security contribution relief for firms operating in the South of Italy were reduced (from €7 billion to €4 billion over the two years 2021-22), other funds were assigned to cover healthcare sector measures, guarantees for SMEs, social security contribution relief for female and youth employment and for universities. For 2023, the share of NGEU resources allocated to cover the measures set out in the budget law were increased (from €7.2 to €8.9 billion); the additional resources were used to extend up to the end of June 2022 (for some measures and subject to a number of conditions, including for work carried out after that date) tax credits of 110 per cent for the *ecobonus* (environment) and *sismabonus* (earthquake-proofing interventions) introduced by the 'Relief Decree' and due to expire at the end of 2021.

[7] On the whole and according to official assessments, the transfers envisaged under the programme, also considering the resources already utilized under the budget law, are expected to amount to around €67.5 billion over the next three years (at 2018 prices). Based on the criteria published by the European Commission last September, the Government will have to draw up a National Recovery and Resilience Plan, which will be assessed by the Commission and approved, by a qualified majority, by the Council. The actual disbursement of the funds will be conditional on the satisfactory achievement of the intermediate and final objectives indicated in the national plan.

[8] The structure of the budget has not significantly changed with respect to the draft budget law presented by the Government last November. The most notable change regards the cancellation of the fund to support businesses affected by the epidemiological emergency (€3.8 billion), whose resources were primarily used to finance social security contribution relief for the self-employed and professional categories, hires in the healthcare sector and measures for firms in the tourism and transport sectors. For an analysis of the main measures envisaged in the draft budgetary law, see 'Preliminary testimony on the budget for the three years 2021-23', testimony by E. Gaiotti, Director General for Economics, Statistics and Research at the Bank of Italy, before the Chamber of Deputies, Rome, 24 November 2020.

2.10 PROJECTIONS

The projections for the Italian economy presented here update those prepared as part of the Eurosystem staff macroeconomic projections published on 11 December.[9] The technical assumptions incorporate the information available at 8 January 2021 and take into consideration the national accounts data released by Istat on 1 December.

The projections assume a gradual abatement of the epidemic ...

The projections continue to be highly dependent on how the pandemic unfolds and on the measures taken, on the one hand, to counter the spread of COVID-19, and on the other, to mitigate its impact on the economy. The baseline projections presented here assume that, following the second wave of cases last autumn, the pandemic will gradually come under control in the first half of this year and that the health emergency will be completely resolved by the end of 2022, thanks above all to the vaccination campaign.

... strong support from fiscal policies ...

Substantial support for economic activity is being provided by fiscal policy and the use of European funds available under the Next Generation EU programme (NGEU). Based on the traditional fiscal multipliers and the – as yet incomplete – data on the scheduled interventions, it is estimated that measures included in the budget law, including those financed using EU funds, may raise the level of GDP by about 2.5 percentage points overall over the three years 2021-23. The achievement of these results, which are incorporated in the projections, nonetheless depends not only on the fine print of further measures which, for the most part, are expected to be drawn up over the next few months and included in the national recovery and resilience plan,[10] but also on their swift implementation.

... a very expansionary monetary policy ...

In the scenario considered, monetary and financial conditions remain extremely favourable, thanks in part to the action taken by the Eurosystem, national governments and European institutions. In line with the expectations incorporated in market prices, the yields on ten-year Italian government bonds are projected to remain at historically low levels in 2021 (0.7 per cent), and then increase very gradually over the forecasting horizon. The spread with German ten-year government bond yields is expected to fluctuate between 130 and 150 basis points over the three-year forecasting period. Persistently low interest rates and the support measures adopted by the Government have largely mitigated the liquidity and insolvency risks faced by firms; under this scenario, it is assumed that the economic policy measures can ensure that the repercussions of the crisis on firms' debt and on credit quality remain limited and do not translate into a significant tightening of lending conditions. The average cost of borrowing for firms, which fell a little in 2020 (to 1.5 per cent, from 1.7 per cent in 2019), is expected to rise slightly.

... and growth in international trade

After the strong recovery in the summer of last year, international trade continued to expand through the end of 2020, benefiting from the recovery in the industrial sector around the world. The baseline scenario assumes that after having fallen by 10.9 per cent in 2020, foreign demand for Italian products, weighted by outlet market, will expand by an average of 5 per cent per year over the 2021-23 period (see the box 'The assumptions underlying the macroeconomic scenario').

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by the Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published each June and December following

[9] See the Bank of Italy's website, 'Macroeconomic projections for the Italian economy', 11 December 2020.
[10] See Section 2, footnote 7.

the release of the euro-area projections by the European Central Bank.[1] The macroeconomic projections for Italy presented here update those released on 11 December 2020 and are based on the information available at 8 January.

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

a) foreign demand, weighted by the outlet markets for Italian exports, decreases by 10.9 per cent in 2020; it expands by 6.9 per cent in 2021 and by just over 4 per cent on average in the two years 2022-23;

b) the euro/dollar exchange rate, equal to 1.14 in 2020, stays at 1.23 in the three years 2021-23;[2]

c) the price of a barrel of Brent crude oil, based on the prices of futures contracts, is about $52.1 in 2021 ($42.4 in 2020), and gradually reaches $49.7 in 2023;

d) the three-month interest rate on the interbank market (Euribor) remains stable at -0.5 per cent on average over the forecasting horizon;

e) the yield on ten-year BTPs, equal to 1.2 per cent on average in 2020, falls to 0.7 per cent in 2021, increasing gradually to 1.2 per cent in 2023, in line with the values of forward rates implied by the term structure of interest rates on government bond yields;

f) the scenario incorporates the budget measures decided since the beginning of the pandemic, the budget for the three years 2021-23 and the use of European funds as part of the Next Generation EU programme (NGEU).

Table

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

	2020	2021	2022	2023
Potential foreign demand	-10.9	6.9	5.0	3.5
Dollar/euro (1)	1.14	1.23	1.23	1.23
Nominal effective exchange rate (2)	-1.3	-1.3	0.0	0.0
Crude oil prices (1) (3)	42.4	52.1	50.4	49.7
3-month Euribor (1)	-0.4	-0.5	-0.5	-0.5
1-year BOTs (1)	-0.1	-0.4	-0.4	-0.4
10-year BTPs (1)	1.1	0.7	0.9	1.1

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

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

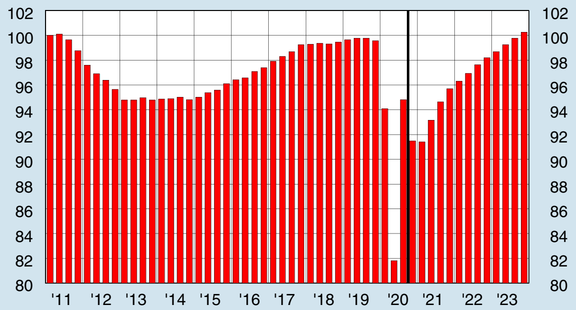
[2] The technical assumptions on interest rates, exchange rates and oil prices are calculated based on the spot and forward prices observed in the markets in the ten working days prior to 8 January.

GDP strengthens in the spring ...

Based on these assumptions, it is estimated that GDP, which continued to be weak at the start of the year, will rise significantly in the spring, in concomitance with the expected improvement in the coronavirus situation. Starting in the second half of 2021 and continuing over the next two years, the economic support and recovery measures financed through the national budget and using EU funds should provide a further boost. On average, after contracting by 9.2 per cent in 2020, GDP is assumed to increase by 3.5 per cent this year, 3.8 per cent next year and by 2.3 per cent in 2023, returning to pre-pandemic levels in 2023 (Table 18; Figures 47 and 48).

Figure 47

GDP projections: quarterly profile (1)
(quarterly data; indices: Q1 2011=100)



Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted. Actual data up to Q3 2020; projections thereafter.

... and the number of hours worked upward again

Employment, measured in terms of hours worked, is expected to recoup last year's losses by the end of 2023. The number of persons in employment, which has fallen more modestly (1.9 per cent on average in 2020) thanks to extensive use of the wage supplementation scheme (*cassa integrazione guadagni*, CIG),[11] is expected to continue to decline on average this year as well, reflecting the delayed impact of the crisis. It should turn upwards again over the subsequent two-year period.

Support measures mitigate the fall in disposable income

Fiscal policy is expected to provide a significant stimulus to demand: through wage supplementation schemes and other measures to support households, it should help attenuate fluctuations in disposable income, which are expected to be less marked than those in GDP. Household disposable income in 2020 is estimated to fall by around 3 percentage points, compared with a 9.2 percentage point drop in GDP; in the years thereafter, as GDP growth outpaces disposable income, this gap should progressively close.

Table 18

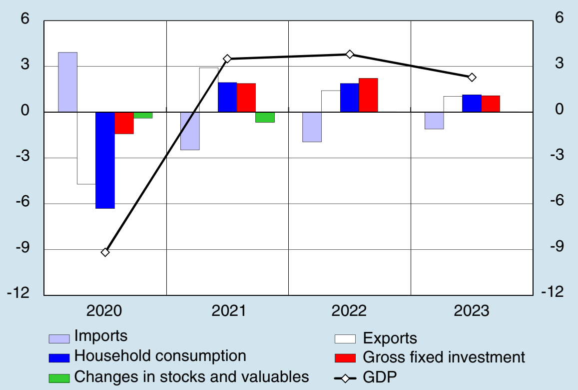
Macroeconomic scenario
(percentage change on previous year unless otherwise indicated)

	2020	2021	2022	2023
GDP (1)	-9.2	3.5	3.8	2.3
Household consumption	-10.4	3.2	3.1	1.9
Government consumption	-1.3	-0.9	1.4	0.5
Gross fixed investment	-7.8	10.1	11.2	5.2
of which: in capital goods	-8.5	8.6	13.9	7.0
Total exports	-14.9	9.8	4.5	3.3
Total imports	-13.4	9.0	6.6	3.6
Changes in stocks (2)	-0.4	-0.6	0.0	0.0
Memorandum item: GDP, raw data (3)	-9.1	3.5	3.7	2.2
Prices (HICP)	-0.1	0.7	0.8	1.1
HICP net of food and energy	0.5	0.2	0.5	0.9
GDP deflator	1.1	0.9	0.7	1.0
Employment (hours worked)	-11.0	5.3	3.6	2.2
Employment (persons employed)	-1.9	-0.9	1.7	1.3
Unemployment rate (4)	9.3	10.5	10.0	9.5
Export competitiveness (5)	-1.4	-0.5	0.6	0.5
Current account balance of the balance of payments (6)	3.5	3.5	3.0	2.7

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

Figure 48

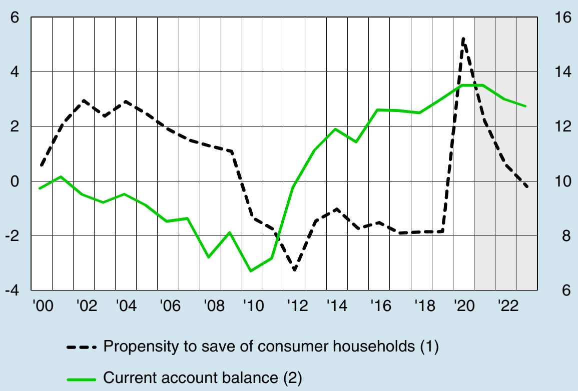
GDP growth and contributions of the main demand components and of imports (1)
(quarterly and annual data; percentage changes and percentage points)



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

Figure 49

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



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

[11] The technical assumptions include the extension of the prohibition on dismissals until 31 March, as provided for in the budget law.

Spending decisions are still marked by great caution …

It is estimated that, in 2020, consumption by households fell slightly more than did GDP, owing to the contraction in employment and in income (albeit softened by the support measures), the restrictions on mobility and the forgoing of some types of expenditure due to epidemic-related fears (see Section 2.3). Under the macroeconomic scenario for the three years 2021-23, consumption is expected to recover significantly, although less markedly than GDP, while the sharp increase in the saving rate, including for precautionary motives, is expected to be reabsorbed only gradually. Consumption is expected to rise by just over 3 per cent on average this year and the next, and then slow in 2023. The household saving rate, which rose to 15 per cent in 2020, is expected to decline slowly over the forecasting horizon, remaining above the pre-crisis levels of around 8 per cent for the entire three-year period (Figure 49).

… investment rebounds also thanks to EU funds

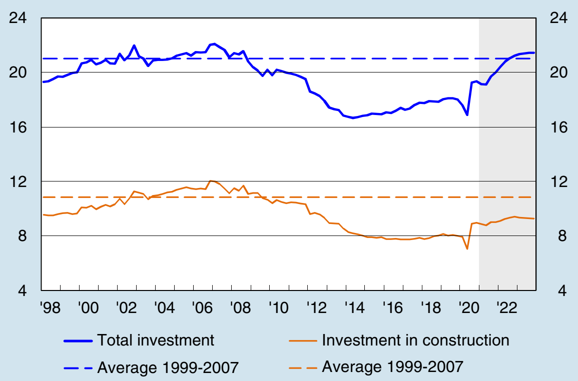
After the steep decline recorded in 2020, investment is expected to pick up at a rapid pace (around 10 per cent per year in 2021-22 and 5 per cent in 2023). The recovery is expected to be driven by favourable credit access conditions and fiscal policy measures, including those funded through Next Generation EU (NGEU). The machinery, equipment and transport equipment component is projected to rise by more than 9 per cent on average per year during the three-year forecasting period, benefiting to a particularly large extent from incentives financed using European Union funds, as occurred in the past with similar measures. The ratio of investment to GDP is expected to increase to over 21 per cent in 2023, reaching levels close to those observed in the years prior to the global financial crisis; the ratio for the construction component is expected to remain more than 2 percentage points below the 2007 peak (Figure 50).

Exports grow in line with foreign demand

Exports declined overall in 2020 by almost 15 per cent, although they staged a robust recovery in the third quarter. A sharp increase is projected for this year, driven by goods exports, which should return to pre-crisis levels in

Figure 50

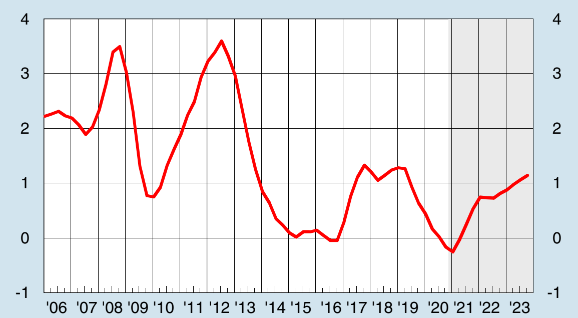
Investment as a percentage of GDP (1)
(quarterly data)



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

Figure 51

Consumer price inflation (1)
(quarterly data; year-on-year percentage changes)



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

Table 19

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

	GDP (1)		Inflation (2)	
	2021	2022	2021	2022
IMF (October)	5.2	2.6	0.6	0.9
OECD (December)	4.3	3.2	0.4	0.8
European Commission (November)	4.1	2.8	0.7	1.0
Consensus Economics (December)	4.9	–	0.4	–

Sources: IMF, *World Economic Outlook,* October 2020. OECD, *OECD Economic Outlook*, December 2020; European Commission, *European Economic Forecast Autumn 2020,* November 2020; *Consensus Economics, Consensus Forecasts,* December 2020.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP.

the first few months; instead services are expected to continue to be affected for a longer time by the weakness of international tourism. During the 2022-23 period, exports are expected to grow in line with foreign demand. Imports should follow a similar path, buoyed by the rebound in investment in capital goods with high levels of foreign inputs. The current account surplus of the balance of payments, which rose last year in part due to the decline in GDP, is expected to fall slightly over the forecasting horizon (Figure 49).

Inflation gradually picks up ...

Inflation is projected to stay below 1 per cent this year and the next, owing to ample margins of spare capacity which will slow wage growth and constrain firms' pricing policies; it should then increase to 1.1 per cent in 2023. Core inflation is expected to reflect the weakness in demand, remaining at levels on average below 0.5 per cent in 2021-22 and approaching 1.0 per cent only in the final year of the forecasting horizon. Domestic inflation, measured by the GDP deflator, is projected to decline to under 1 per cent in 2021 (1.1 per cent in 2020), driven by sluggish wage growth, and will rise once again only in 2023 (Figure 51).

The recovery lags behind last July's projections

Compared with the baseline scenario presented in last July's *Economic Bulletin*, the average growth rate has been revised downward by more than 1 percentage point, mainly owing to the negative carryover from the expected decline in GDP in the latter part of 2020. From the second quarter onwards, growth is expected to be more rapid and to pick up significantly in 2022, in connection with the expected easing of the pandemic and with the increased stimulus provided by the measures included in the budget law and the use of EU funds under NGEU.

Growth projections for 2021-22 are in line with the estimates of other forecasters

The recovery in GDP projected for the two years 2021-22 is consistent with the estimates of other forecasters (Table 19), though we see it as being more moderate this year and stronger in the next. Under the most recent scenarios – published in November and December respectively – the European Commission and the OECD expect GDP to increase by just over 4 per cent this year and by close to 3 per cent in 2022. The differences between our projections and those of these forecasters rest primarily in the assessments of the impact of the second wave of coronavirus cases (more negative in the short term, but with a more pronounced rebound thereafter, according to our estimates) and to the inclusion of the effects of the interventions introduced under NGEU (excluded from the European Commission's scenario).

Persistently high risks must be countered

The risks are linked primarily to whether the epidemic worsens at global level, which could have repercussions on consumption and investment patterns, international trade, and financial conditions, jeopardizing the outlook for growth if their reverberations are not effectively countered by economic policies. By way of example, it can be assumed that: (a) foreign demand stagnates this year due to the prolongation of the health emergency while restrictions on economic activity in Italy also persist for a longer period; (b) credit supply tightens, to a degree close to that observed during the global financial crisis. These assumptions would result in additional declines of respectively -2.5 and -0.9 percentage points in GDP in 2021; and of -1.7 and -0.7 percentage points in 2022; instead, in 2023, economic activity is expected to record more significant growth because of the improvement in the COVID-19 crisis in that year.

Compared with the estimates set out here, GDP growth could be higher if faster progress is made in controlling the number of cases in the coming months, which could spur a quicker recovery in household consumption. However, it is critical that support measures remain in place for as long as necessary and that the EU funds made available under NGEU are used effectively.

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	115.1	112.5	124.2	94.9	94.5	89.7
2015	105.9	105.1	132.3	93.5	90.9	87.4
2016	105.6	103.8	126.0	90.2	91.4	89.5
2017	111.8	105.3	126.3	93.3	90.9	89.2
2018	117.2	104.6	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	102.5	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	90.4	89.2
Q4	115.5	103.7	122.7	89.2	90.0	88.9
2020 – Q1	114.9	102.6	124.1	87.8	89.4	89.6
Q2	112.2	101.2	125.1	86.3	90.3	92.1
Q3	117.1	104.5	124.0	86.4	91.4	92.6
2019 – Jan.	116.1	102.4	127.2	92.2	90.8	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	102.5	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.	115.5	103.8	122.6	88.8	90.1	89.0
Nov.	115.4	103.5	123.2	89.7	90.0	88.8
Dec.	115.7	103.9	122.3	89.0	90.1	88.8
2020 – Jan.	115.8	104.3	123.5	89.2	89.3	88.8
Feb.	114.8	103.8	123.6	87.9	89.0	88.7
Mar.	114.1	99.8	125.1	86.2	89.7	91.5
Apr.	112.1	100.2	126.8	86.6	89.7	92.3
May	109.8	100.8	125.3	85.9	90.4	92.1
June	114.8	102.5	123.2	86.3	90.9	92.0
July	116.2	102.9	123.1	86.3	91.2	92.1
Aug.	117.7	105.2	123.2	86.3	91.6	92.9
Sept.	117.2	105.5	125.7	86.5	91.4	92.8
Oct.	116.8	104.7	127.5	88.4	91.3	92.6

(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	62.7	98.9	113.8	86.4	108.6	93.7
2015	60.3	96.1	107.7	91.5	105.9	102.6
2016	67.9	97.2	109.4	83.2	106.6	104.6
2017	64.0	97.1	111.2	78.4	108.0	103.4
2018	63.2	97.9	112.7	79.4	109.3	103.3
2019	66.1	96.5	113.6	79.7	107.6	105.7
2019 – Q1	64.4	96.8	113.0	80.2	107.6	104.6
Q2	65.0	96.3	114.0	79.9	108.0	106.0
Q3	67.3	96.5	113.5	77.8	107.4	106.3
Q4	67.5	96.3	114.0	81.0	107.2	106.2
2020 – Q1	67.8	96.3	114.6	81.1	107.0	106.4
Q2	69.6	97.6	114.0	80.3	106.1	108.0
Q3	68.4	98.8	115.7	79.6	107.9	105.2
2019 – Jan.	65.3	97.3	113.2	79.3	107.4	104.1
Feb.	64.2	96.8	112.7	80.1	107.6	104.3
Mar.	63.8	96.4	112.9	81.1	107.9	105.3
Apr.	63.6	96.0	113.6	80.5	108.0	105.9
May	65.1	96.3	114.2	80.2	108.3	106.6
June	66.3	96.5	114.1	78.9	107.8	105.5
July	65.9	96.2	113.2	77.9	107.7	105.4
Aug.	68.3	96.8	113.9	76.9	107.0	106.6
Sept.	67.7	96.4	113.5	78.7	107.5	106.7
Oct.	68.0	96.4	113.9	79.9	107.4	106.5
Nov.	67.4	96.2	113.6	81.1	107.1	106.3
Dec.	67.1	96.2	114.6	82.2	107.2	105.7
2020 – Jan.	66.6	96.0	114.7	81.6	107.3	105.0
Feb.	67.0	95.6	114.2	82.2	106.8	105.7
Mar.	69.8	97.3	115.1	79.4	107.0	108.4
Apr.	70.1	97.4	113.6	81.3	106.1	107.9
May	69.9	97.4	113.7	80.2	105.7	109.1
June	68.7	98.0	114.6	79.5	106.6	106.8
July	68.7	98.2	115.3	79.4	107.6	106.6
Aug.	68.3	99.2	116.0	80.3	108.3	104.9
Sept.	68.2	99.0	115.9	79.3	107.9	104.2
Oct.	68.0	98.9	115.8	79.2	107.8	104.1

(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
2018 – Q1	0.2	2.4	3.7	1.3	-2.2
Q2	2.2	1.6	2.8	1.2	0.6
Q3	1.1	-0.4	0.7	1.1	1.5
Q4	1.9	-0.9	-1.1	-0.1	2.9
2019 – Q1	2.5	-1.4	-0.3	1.2	4.0
Q2	2.0	-0.5	-0.7	-0.1	2.5
Q3	1.2	0.3	-0.4	-0.6	1.0
Q4	2.2	-0.4	-1.5	-1.1	2.6
2020 – Q1	4.6	0.0	-10.2	-10.2	4.6
Q2	2.6	-6.7	-27.6	-22.3	10.0
Q3	-1.5	-2.5	-5.5	-3.0	1.0
			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
2018 – Q1	0.6	-0.2	0.8	1.0	0.7
Q2	2.7	-0.4	0.7	1.1	3.2
Q3	2.2	-0.1	0.5	0.5	2.3
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	1.1	0.1	0.7	0.6	1.0
Q4	1.3	0.4	0.4	0.0	0.9
2020 – Q1	3.4	3.6	-4.4	-7.7	-0.2
Q2	8.3	8.7	-15.5	-22.2	-0.3
Q3	3.0	2.3	-5.5	-7.6	0.7
			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
2018 – Q1	0.6	0.7	1.4	0.7	-0.1
Q2	2.5	-0.1	1.1	1.2	2.5
Q3	1.8	-0.4	0.6	1.0	2.2
Q4	2.3	0.4	0.1	-0.3	1.9
2019 – Q1	1.9	-0.8	0.3	1.1	2.7
Q2	1.0	0.6	0.3	-0.3	0.4
Q3	1.1	0.2	0.4	0.2	1.0
Q4	1.4	0.0	0.0	0.0	1.4
2020 – Q1	3.4	2.7	-5.6	-8.1	0.7
Q2	6.3	4.9	-18.1	-22.0	1.3
Q3	1.7	1.0	-5.0	-5.9	0.7

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.

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	2.0	2.8	3.4	0.6	-0.8
2018	2.0	0.3	1.7	1.4	1.7
2019	2.1	-1.1	-0.9	0.3	3.2
2018 – Q1	2.0	2.2	3.3	1.1	-0.2
Q2	2.2	1.3	2.9	1.6	0.8
Q3	2.1	-0.2	1.0	1.2	2.3
Q4	2.0	-1.5	-0.5	1.0	3.5
2019 – Q1	1.8	-1.8	-0.3	1.5	3.6
Q2	2.1	-1.2	-1.0	0.2	3.4
Q3	2.5	-0.8	-0.6	0.2	**3.3**
Q4	1.7	-0.8	-1.4	-0.6	2.5
2020 – Q1	3.3	-0.7	-4.9	-4.2	4.0
Q2	6.5	-3.8	-19.0	-15.8	10.7
Q3	1.4	-0.3	-5.9	-5.6	1.7
			Services		
2017	2.1	1.2	2.5	1.3	0.9
2018	2.0	0.3	2.0	1.7	1.7
2019	2.2	0.6	1.7	1.1	1.6
2018 – Q1	2.2	1.1	2.5	1.4	1.1
Q2	1.8	0.3	2.2	1.9	1.5
Q3	2.2	0.0	1.7	1.7	2.2
Q4	2.3	0.2	1.7	1.5	2.0
2019 – Q1	1.7	0.0	1.8	1.8	1.7
Q2	2.5	0.8	1.8	1.0	1.7
Q3	2.2	0.8	1.8	0.9	1.4
Q4	2.2	0.6	1.5	0.9	1.6
2020 – Q1	4.6	1.3	-2.4	-3.6	3.3
Q2	10.3	4.4	-13.8	-17.5	5.6
Q3	3.7	0.9	-4.1	-5.0	2.8
			Total economy		
2017	2.1	1.5	2.6	1.1	0.5
2018	1.9	0.2	1.9	1.7	1.7
2019	2.2	0.4	1.3	0.9	1.8
2018 – Q1	2.1	1.3	2.6	1.3	0.8
Q2	1.8	0.4	2.3	1.9	1.3
Q3	2.1	-0.2	1.6	1.8	2.4
Q4	2.1	-0.2	1.2	1.4	2.3
2019 – Q1	1.7	-0.3	1.5	1.8	1.9
Q2	2.4	0.5	1.3	0.7	1.9
Q3	2.3	0.7	1.3	0.7	1.6
Q4	2.0	0.4	0.9	0.5	1.6
2020 – Q1	4.3	0.9	-2.9	-3.8	3.3
Q2	9.3	2.6	-14.7	-16.8	6.5
Q3	3.0	0.3	-4.4	-4.7	2.7

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

Table A4

Consumer prices: Italy, euro area and main economies

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

	Italy		France		Germany		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
2017	1.3	0.8	1.2	0.5	1.7	1.3	1.5	1.0
2018	1.2	0.6	2.1	0.9	1.9	1.3	1.8	1.0
2019	0.6	0.5	1.3	0.6	1.4	1.3	1.2	1.0
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.	-1.0	-0.5	0.0	0.4	-0.4	0.3	-0.3	0.2
Oct.	-0.6	-0.1	0.1	0.3	-0.5	0.1	-0.3	0.2
Nov.	-0.3	0.3	0.2	0.4	-0.7	-0.1	-0.3	0.2
Dec.	(-0.3)	(0.4)	(0.0)	….	(-0.7)	….	(-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 investment	Portfolio investment			Financial derivatives	Other investment	Official reserves	Total	Total as a percentage of GDP	Change in total stocks	Valuation adjustments (2)	Financial account flows
		Total	Equity and investment funds	Debt securities						(a)=(b)+(c)	(b)	(c)
							Assets					
2016	544	1,265	758	507	92	504	129	2,534	149.4	99	23	76
2017	558	1,391	864	527	76	523	126	2,675	154.0	141	-7	148
2018	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	161.8	-85	-120	35
Q2	611	1,516	903	612	83	576	175	2,960	174.6	97	85	12
Q3	616	1,557	936	621	85	565	178	3,002	179.1	42	8	33
							Liabilities					
2016	445	1,269	217	1,052	136	886	–	2,736	161.3	-19	-62	43
2017	456	1,308	263	1,045	107	938	–	2,808	161.7	72	-28	101
2018	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	165.1	-53	-82	29
Q2	519	1,262	230	1,032	132	1,076	–	2,989	176.3	67	51	16
Q3	520	1,291	220	1,071	135	1,052	–	2,999	179.0	10	9	..
							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	253	673	-420	-49	-500	175	-29	-1.7	30	35	-5
Q3	95	266	716	-450	-50	-487	178	3	0.2	32	-1	33

(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	5,339	11,796	-2,612	1,008	-4,853	-404	-103	-301
Q3	25,285	19,893	3,182	6,208	-3,998	-441	-433	-8
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.	-1,896	-285	-845	718	-1,484	-153	-45	-108
May	3,108	5,735	-1,073	-189	-1,366	-143	-25	-118
June	4,127	6,345	-694	479	-2,003	-108	-33	-75
July	10,268	9,460	822	1,238	-1,252	-128	-142	13
Aug.	7,014	4,435	1,443	2,495	-1,359	-112	-120	9
Sept.	8,003	5,998	917	2,475	-1,387	-201	-171	-30
Oct.	(8,174)	(7,290)	(-844)	(2,917)	(-1,189)	(97)	(-156)	(253)

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

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

(12-month percentage changes)

	Italy (2)				Euro area (3)			
	Private sector (4)	Non-financial private sector	Non-financial corporations	Households	Private sector (4)	Non-financial private sector	Non-financial corporations	Households
2013	-3.7	-3.6	-5.2	-1.3	-2.4	-1.6	-3.2	-0.3
2014	-1.6	-1.6	-2.3	-0.6	-0.3	-0.6	-1.6	0.1
2015	-0.3	-0.0	-0.6	0.7	0.7	1.0	0.6	1.4
2016	1.1	1.0	0.3	1.9	2.4	2.2	2.4	2.0
2017	1.8	1.3	0.1	2.8	2.9	3.0	3.2	2.9
2018	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	3.4	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	2.8	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	3.1	2.8
Dec.	1.8	1.3	0.1	2.8	2.9	3.0	3.2	2.9
2018 – Jan.	2.7	2.3	1.9	2.8	3.3	3.1	3.5	2.9
Feb.	2.3	1.8	1.1	2.8	3.1	3.0	3.3	2.9
Mar.	2.3	1.8	1.1	2.8	3.0	3.1	3.4	2.9
Apr.	2.9	2.5	2.1	2.9	3.1	3.1	3.4	2.9
May	2.4	1.9	1.1	2.8	3.4	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	4.2	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	3.3	3.6	3.9	3.3
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	3.4	3.2	3.6
2020 – Jan.	0.6	0.6	-1.1	2.5	3.7	3.4	3.2	3.6
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	4.8	4.7	7.1	3.0
Aug.	3.6	4.1	6.0	1.9	4.6	4.8	7.1	3.0
Sept.	3.8	4.6	6.8	2.1	4.6	4.8	7.1	3.1
Oct.	4.3	4.9	7.4	2.1	4.6	4.7	6.8	3.2
Nov.	4.6	5.3	8.1	2.2	4.7	4.7	6.9	3.1

(1) Loans include bad loans and repos, as well as the securitized component of these not recognized in banks' balance sheets. The percentage changes are calculated net of reclassifications, changes in exchange rates, valuation adjustments and other changes not associated with transactions. For more information on the euro-area data, see 'Monetary Developments in the Euro Area' on the ECB website. – (2) Loans to Italian residents. – (3) Loans to euro-area residents. – (4) The series are based on the new definitions for monetary aggregates and counterparties adopted by the ECB in September 2012, which exclude repo transactions with central counterparties (for the euro area, starting with the June 2010 data).

Table A8

Net bond issues: Italy and euro area (1)
(billions of euros)

	Banks	Other financial corporations (2)	Non-financial corporations	Total
		Italy		
2018	-29.5	15.6	-4.6	-18.5
2019	-2.0	25.8	-3.6	20.2
2019 – Q1	-4.9	-0.3	-1.5	-6.8
Q2	1.4	-2.2	2.3	1.5
Q3	3.2	-1.1	-5.4	-3.3
Q4	-1.7	29.3	1.1	28.8
2020 – Q1	-14.5	-7.6	-3.6	-25.7
Q2	7.6	4.1	1.6	13.3
Q3	0.0	-2.0	2.3	0.3
		Euro area		
2018	85.7	80.6	41.1	207.4
2019	119.7	165.6	62.4	347.7
2019 – Q1	58.6	21.6	15.8	96.0
Q2	17.1	27.6	16.5	61.2
Q3	22.1	38.0	20.3	80.4
Q4	22.0	78.4	9.8	110.2
2020 – Q1	33.1	4.4	10.4	47.9
Q2	136.7	45.2	106.5	288.5
Q3	1.3	60.9	35.8	98.0

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.

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	23.8	-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	0.0	-0.5	-20.7	43.7	-10.0	23.1	0.0
Oct.	-0.2	1.2	1.2	6.5	-0.0	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	1.2	0.2	35.0	-38.6	-6.0	-3.6	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	17.8	0.0
May	-4.2	0.2	10.9	32.7	0.6	-0.1	39.9	-14.5	-2.5	25.4	0.0
June	-0.7	-0.3	1.4	20.3	-1.5	0.2	19.7	0.8	0.0	20.5	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	18.4	-1.5	-0.3	18.3	-16.8	1.5	1.5	0.0
Sept.	-1.6	-0.3	-0.3	7.2	0.9	-0.4	5.9	16.3	-6.0	22.1	0.0
Oct.	-1.0	-0.3	-4.1	-2.0	0.5	0.4	3.8	6.1	-1.0	9.9	0.0
Nov.	3.5	-0.5	-1.5	-8.1	-0.4	-0.1	-0.0	16.9	0.5	16.8	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	2,467.6	94.8	16.0	35.6	58.2
Aug.	241.7	68.6	118.2	1,926.2	129.3	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	2,448.4	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	2,444.3	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	1,962.1	128.5	48.1	33.5	2,510.5	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	2,033.4	125.8	48.5	33.5	2,578.8	100.7	2.5	36.6	57.8
Sept.	229.7	66.0	139.6	2,039.7	126.7	48.1	33.5	2,583.8	84.5	8.5	36.4	57.8
Oct.	228.7	65.7	135.4	2,037.1	127.2	48.5	33.5	2,587.0	78.4	9.5	36.8	57.8
Nov.	232.2	65.1	134.0	2,028.6	126.8	48.3	33.5	2,586.5	61.5	9.0	39.7	57.8

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