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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

OVERVIEW

The global outlook improves but uncertainties remain

The ongoing vaccination campaigns and the support of economic policies are being reflected in the improved global outlook; in the United States, the Biden administration's fiscal stimulus plan has raised expectations for growth and long-term yields. In the short term, however, uncertainties remain about the course of the pandemic and its impact on the economy, due to delays in rolling out vaccinations and the spread of new variants.

It is vital to preserve favourable financial conditions in the euro area

Economic activity in the euro area has been affected by a new increase in cases of infection; despite a temporary rise in inflation, the outlook for prices continues to be weak. The ECB Governing Council decided to step up securities purchases under the pandemic emergency purchase programme, to prevent the transmission of the higher yields on international markets from translating into a premature tightening of financial conditions in the area, which would not be justified by the current economic outlook.

In the early months of the year, economic activity remains largely stable in Italy

In Italy, the economy has proven resilient but the rise in the number of cases has taken a toll. In the fourth quarter of 2020, the decline in GDP, while significant, was smaller than expected. According to the available indicators, economic activity was virtually stable in the first three months of this year: a stronger performance in industry was accompanied by the still weak performance of services. These estimates remain subject to a high degree of uncertainty linked to the effects of the pandemic.

Investment and consumption are expected to recover gradually

According to our surveys, firms are planning to resume investment in the remaining part of the year. The households interviewed by the Bank of Italy reported a gradual increase in expected consumption, but the saving rate remains high; the bulk of the savings accumulated in 2020, concentrated among the households least impacted by the pandemic, will not be spent in the course of this year.

Foreign trade recovers

In the fourth quarter of 2020, Italian exports of goods grew in line with world trade. They returned to levels just below those preceding the pandemic, offsetting the fall in international tourist flows, which contracted again following the recovery observed during the summer. Foreign demand for Italian securities strengthened; after the current account recorded a surplus, Italy's positive net international investment position increased.

Total hours worked have declined but employment has risen

Following the social distancing measures decided in the autumn, the number of hours worked in the last quarter of 2020 declined again and recourse to wage supplementation increased, but to a much lesser extent than during the first wave of the pandemic. The number of persons in employment increased, but it remains well below what it was prior to the public health emergency. In the first two months of the year, payroll employment was stable. Labour market conditions suggest that wage growth will continue to be low in the coming months.

Inflation turns positive thanks to the developments in energy prices

The change in consumer prices, which had been negative in the final months of 2020, reached 0.6 per cent in March, influenced by the developments in energy prices. Core inflation returned to lower levels after being driven up in the first two months of the year by the postponement of the seasonal sales. Producer price pressures are modest: households and firms have revised their inflation expectations upwards, although they remain low.

Financial and credit conditions remain relaxed

Conditions on the financial markets continue to be relaxed. The upward pressure on Italian government securities yields stemming from the US markets has been countered by the decisions taken by the ECB Governing Council and by the reduction in the sovereign risk premium. Lending to firms continues to expand at a steady pace, reflecting above all continued strong demand for State-guaranteed loans: supply conditions are accommodative.

The Government adopts new support measures

Given the new interventions to limit infection, the Government has adopted further support measures, especially for households and firms. Additional resources have also been allocated to strengthen the vaccination campaign and to other actions within the health system to combat the pandemic. According to official assessments, the measures raise the deficit for 2021 by almost €32 billion overall compared with the current legislation projections. Other interventions may be decided in light of the Government's new request for authorization by the Parliament to raise net borrowing. An update on the public accounts is given in the 2021 Economic and Financial Document, approved on 15 April.

The National Recovery and Resilience Plan is being finalized

Under the Next Generation EU programme, the Government is drawing up the National Recovery and Resilience Plan. According to the initial indications, the resources available amount to almost €192 billion, of which around €123 billion in the form of loans; a share of about 13 per cent will be made available as pre-financing, following the Plan's approval by the European Council.

Expansionary measures can support growth

The better than expected performance of GDP in the fourth quarter of 2020 has had a positive carryover on growth for this year. According to the leading forecasters, GDP could expand by more than 4 per cent in 2021, with a significant recovery in the second half of the year, aided by the global context. A scenario of a return to sustained and long lasting growth is plausible, though not without risks; it assumes that support to the economy will continue and that the measures being introduced under the National Recovery and Resilience Plan will prove effective. The outlook hinges above all upon the progress in the vaccination campaign and upon a downward trend in COVID-19 cases.

1 THE WORLD ECONOMY

1.1 THE WORLD TRADE CYCLE

Global economic activity continued to expand in the first few months of 2021. The continuing vaccination campaign and the strong monetary and fiscal policy support are reflected in a clear improvement in the medium-term outlook, but the resurgence of the pandemic weighs on growth in the short term, especially in the service sector. According to current estimates, global GDP should return to its pre-pandemic levels at the end of the year.

Vaccinations proceed but infections rise

The medium-term outlook for the world economy is markedly better thanks to the vaccination campaign which is being rolled out on a vast scale, albeit extremely unevenly across the different areas: more quickly in the United States and in the United Kingdom, more slowly in the European Union, and with long delays in the emerging countries. Nevertheless, in the early months of this year, the spread of variants of the virus led to an increase in infections, such that uncertainty remains high as regards short-term developments.

The global recovery is strong but uneven

In the fourth quarter of 2020, the recovery of economic activity has been sizeable (Table 1) and it appears to have continued in the first quarter of 2021, albeit unevenly across the different countries and sectors. In March, the purchasing managers' index (PMI) for manufacturing remained above the expansion threshold in all the main advanced countries (Figure1.a). In services, the sector hit hardest by the pandemic, the indicators continue to signal a weak growth outlook for the euro area and Japan, whereas they are consistent with expansion in the United States and the United Kingdom (Figure 1.b).

At the end of last year, in the United States, Japan and the United Kingdom, GDP was still below pre-pandemic levels, by 2.4, 1.1 and 7.8 per cent respectively. In China, the return to pre-crisis growth levels had already been achieved by the third quarter.

Table 1

GDP growth and inflation
(percentage changes)

	GDP growth			Inflation (1)
	2019	2020 Q3 (2)	2020 Q4 (2)	2021 March (3)
Advanced countries				
Japan	0.3	22.8	11.7	-0.4
United Kingdom	1.4	87.1	5.2	0.4
United States	2.2	33.4	4.3	2.6
Emerging countries				
Brazil	1.4	-3.9	-1.1	6.1
China	6.0	4.9	6.5	0.4
India	4.8	-7.4	0.4	5.5
Russia	2.0	-3.5	-1.8	5.8

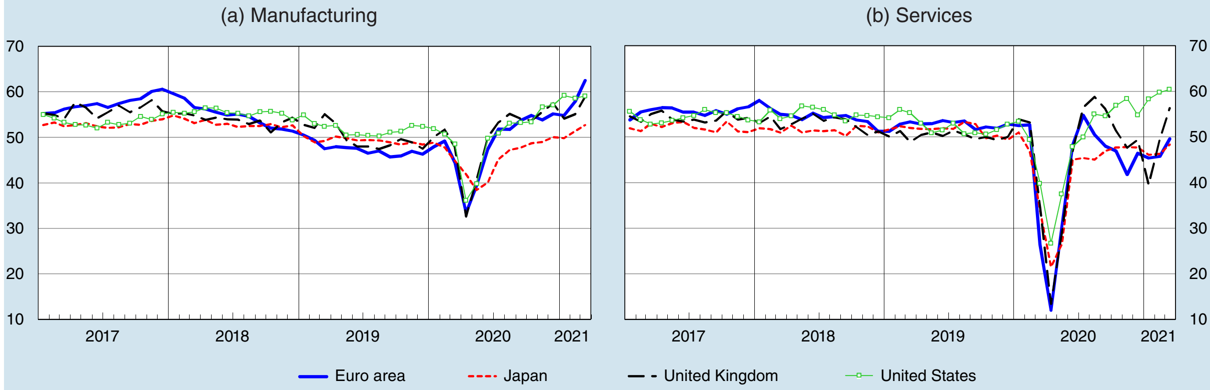
Source: National statistics.
(1) Consumer price index, year-on-year change. – (2) Quarterly changes, annualized and seasonally adjusted for the advanced countries; year-on-year changes for the emerging countries. – (3) February 2021 data for Japan and the United Kingdom.

World trade is reviving

World trade has continued to recover (Figure 2). In the early months of 2021, trade appears to have continued to expand, although the recovery in services was curbed by a resurgence of infections in some areas. For the rest of the year, the developments should be more positive and, according to our estimates, world trade should increase by 9.3 per cent overall in 2021.

Figure 1

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



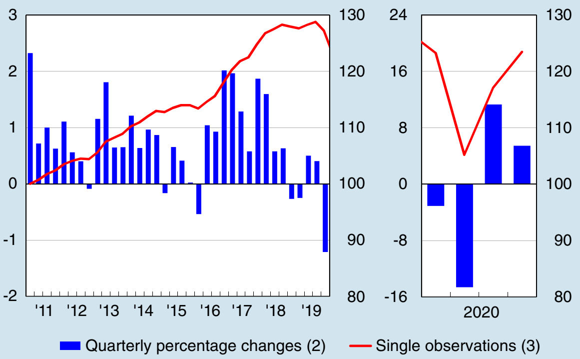
Sources: Markit and Refinitiv.
(1) Diffusion indices of economic activity in the manufacturing and service sectors based on purchasing managers' assessments. Each index is obtained by adding half of the percentage of replies of 'stable' economic activity to the percentage of replies of 'increasing' economic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

The Biden plan stimulates growth in the United States

The United States Congress approved the Biden administration's American Rescue Plan Act of 2021, containing a fiscal stimulus package of $1.9 trillion for the next ten years, concentrated mainly over the two years 2021 and 2022. Expectations for economic activity have greatly improved: the OECD estimates that the plan, together with progress in vaccinations, should raise GDP in the United States by more than 3 percentage points in the current year.[1] The approval of the plan led to an increase in medium-term inflation expectations; the market-implied effect over a five-year horizon stood at around 2.6 per cent at the beginning of April.

Figure 2

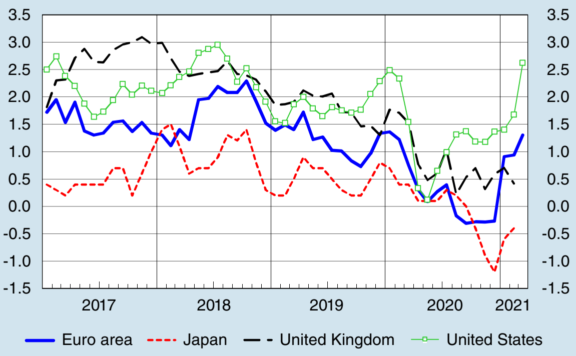
World trade (1)
(quarterly data; percentage changes and single observations)



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

Figure 3

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



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

[1] OECD, *OECD Economic Outlook, Interim Report,* March 2021.

Inflation rises

Consumer price inflation in the main advanced economies rose again in the early months of the year, but it is still low overall. In the euro area, the increase is in part due to temporary factors, in addition to the performance of the energy component (see Section 1.2). The latter drove inflation in March in the United States as well (Figure 3).

Global prospects are revised upwards

According to the IMF's baseline scenario released in April, world GDP is expected to expand by 6 per cent in 2021, surpassing pre-pandemic levels by the end of the year and by 4.4 per cent in 2022 (Table 2). Compared with January, the IMF has revised its global economic activity forecasts upwards by 0.5 percentage points for 2021 and 0.2 points for 2022, as a result of the new government stimulus in the United States and the vaccination campaigns under way. Nevertheless, the global recovery will depend on the path of the pandemic, economic policy action and future developments in financial conditions.

Table 2

Macroeconomic projections
(changes and percentage points)

	2020	Forecasts (1)		Revisions (2)	
		2021	2022	2021	2022
GDP					
World	**-3.3**	**6.0**	**4.4**	**0.5**	**0.2**
of which:					
Advanced countries					
Euro area	-6.6	4.4	3.8	0.2	0.2
Japan	-4.8	3.3	2.5	0.2	0.1
United Kingdom	-9.9	5.3	5.1	0.8	0.1
United States	-3.5	6.4	3.5	1.3	1.0
Emerging countries					
Brazil	-4.1	3.7	2.6	0.1	0.0
China	2.3	8.4	5.6	0.3	0.0
India (3)	-8.0	12.5	6.9	1.0	0.1
Russia	-3.1	3.8	3.8	0.8	-0.1
World trade	**-8.4**	**9.3**	–	**2.1**	–

Sources: IMF, *World Economic Outlook*, April 2021, and Banca d'Italia, based on national accounts and customs data for world trade.
(1) Percentage changes. – (2) Percentage points. For GDP, revisions compared with IMF, *World Economic Outlook Update*, January 2021. For world trade, revisions compared with the forecasts published in January 2021 (see Banca d'Italia, *Economic Bulletin*, 1, 2021. – (3) The data refer to the fiscal year starting in April.

Oil prices rise again

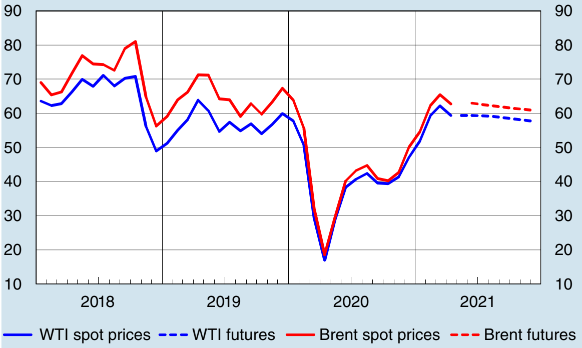
Oil prices have risen, reflecting the better global outlook for growth. On the supply side, prices were boosted both by the fall in production in the United States during a period of extremely cold weather and by a lower-than-expected recovery in production in the OPEC+ countries. Futures indicate a slight fall in prices in the medium term (Figure 4).

Monetary policy remains expansionary

The Federal Reserve, the Bank of Japan and the Bank of England have confirmed the expansionary stance of their respective monetary policies. Expectations for short-term interest rates have remained essentially stable and no increases are expected before the end of the

Figure 4

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



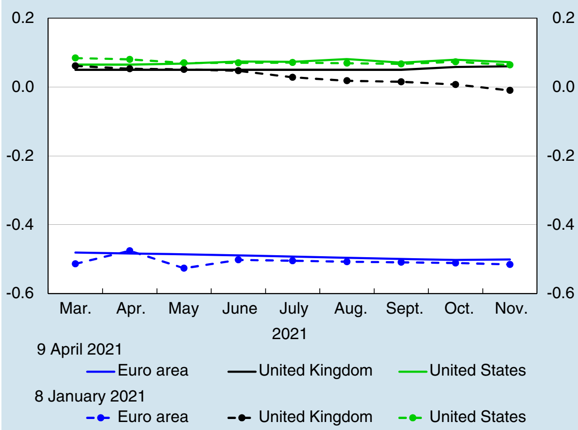
Source: Refinitiv.
(1) For the spot prices, average monthly data up to March 2021; the latest figure refers to the daily average for the period from 1 to 9 April 2021.

year in the main advanced countries (Figure 5). In China, the central bank has left its reference rates unchanged but it has nevertheless taken a more restrictive stance since the start of this year, which has resulted in a significant slowdown in the provision of financing to the economy.

Figure 5

Overnight interest rates implied by derivative instruments (1)

(monthly maturities; percentage points)



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

1.2 THE EURO AREA

The euro-area economy has been affected by the new wave of infections; despite a temporary rise, the outlook for inflation remains weak. The ECB Governing Council deems it necessary to prevent a premature tightening of financing conditions and has decided to increase the pace of asset purchases under the pandemic emergency purchase programme (PEPP).

GDP falls again

After the robust recovery in the summer quarter, euro-area GDP fell in the last three months of 2020 (Table 3), reflecting the negative contribution of services, against a positive contribution from manufacturing. GDP rose slightly in Germany, remained stationary in Spain, but fell in France and Italy. According to the latest data, GDP appears to have fallen in the first quarter of this year. The €-coin indicator rose again in March (Figure 6).

ECB staff projections released in March indicate that GDP will grow by 4.0 per cent in 2021, and by 4.1 per cent and 2.1 per cent respectively in 2022 and 2023.

Table 3

Euro-area GDP growth and inflation

(percentage changes)

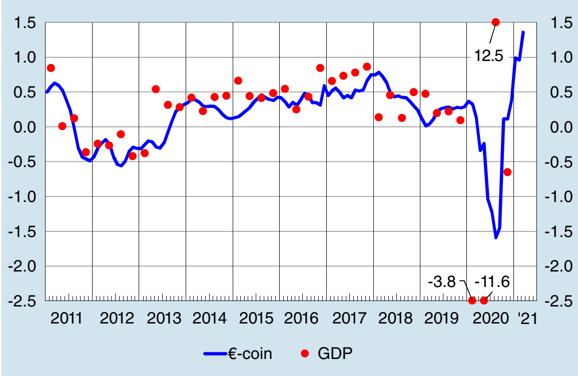
	GDP growth			Inflation
	2020	2020 Q3 (1)	2020 Q4 (1)	2021 March (2)
France	-8.1	18.5	-1.4	(1.4)
Germany	-4.9	8.5	0.3	(2.0)
Italy	-8.9	15.9	-1.9	(0.6)
Spain	-10.8	17.1	0.0	(1.2)
Euro area	-6.6	12.5	-0.7	(1.3)

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

Figure 6

€-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', in *Economic Bulletin*, July, 2009. The indicator underwent some revisions, the details of which are available on the Bank of Italy's website, '€-coin: March 2021'. For GDP, quarterly data; percentage changes on the previous quarter. For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components.

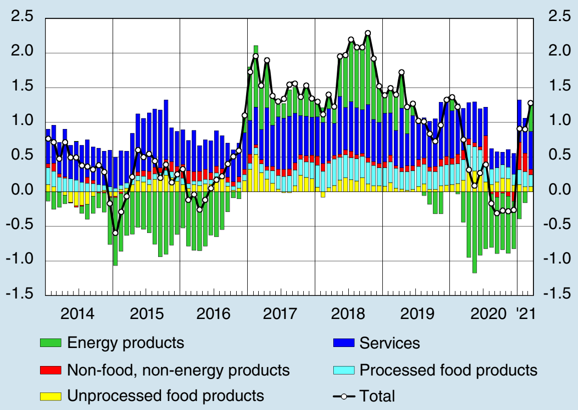
Inflation rises temporarily

According to preliminary data, in March, inflation reached 1.3 per cent on a twelve-month basis (Figure 7) and 0.9 per cent excluding the most volatile components. In addition to the performance of the energy component, the increase compared with the end of 2020 reflected a number of idiosyncratic factors, the impact of which is expected to be reabsorbed during the year: (a) the end of the effects of the value-added tax rate reduction in Germany; (b) the delay of seasonal sales periods in Italy and France; and (c) the update in January of the weights of items included in the basket underlying the HICP.

According to the ECB staff projections published in March, the change in consumer prices will be 1.5 per cent in 2021, 1.2 per cent in 2022 and 1.4 per cent in 2023, in line with the December 2020 forecasts.

Figure 7

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

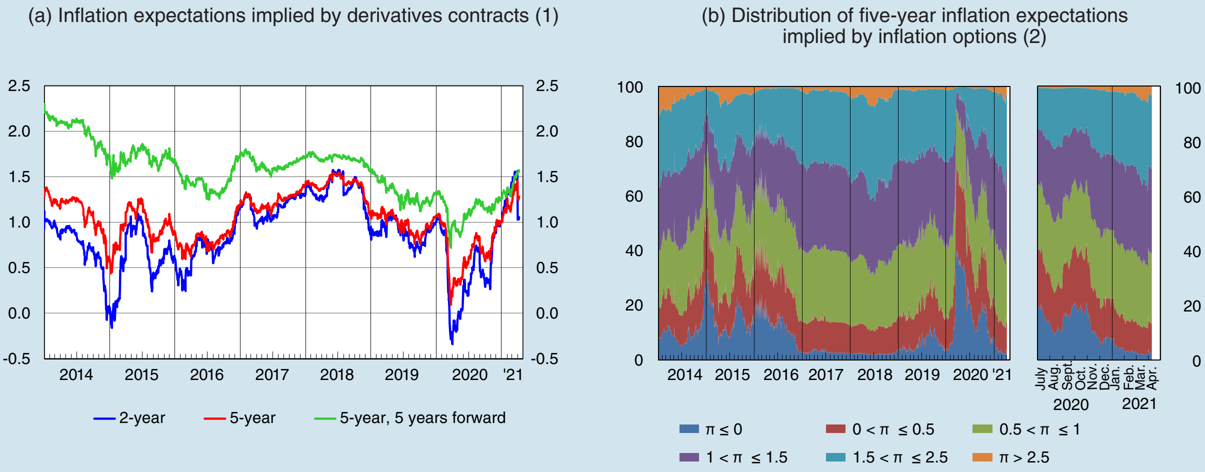


Sources: Based on Eurostat and ECB data.
(1) Twelve-month change in the harmonized index of consumer prices (HICP). For March, preliminary estimates.

Inflation expectations have risen across all time horizons. In the first ten days of April, those derived from inflation swap yields over the two- and five-year horizons stood at 1.1 and 1.3 per cent (they were both equal to 1.0 per cent at the end of 2020; Figure 8.a). Given that these swaps are indexed to the change in consumer prices with a lag of three months, the decrease that occurred on 1 April suggests that market participants regarded the increase in inflation last January as temporary.

Figure 8

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 five-year, five years forward expectations also increased to 1.6 per cent, from 1.3 per cent at the end of 2020.

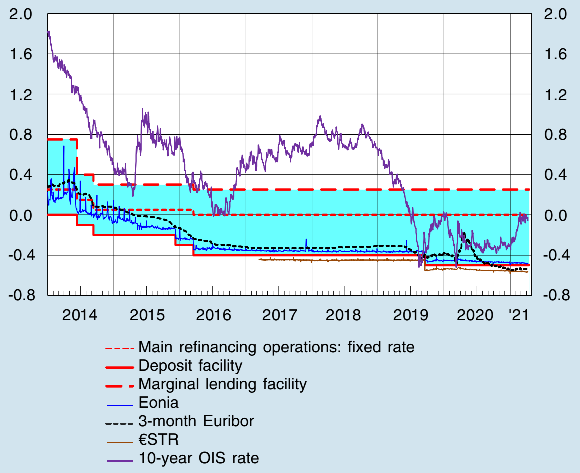
The ECB Governing Council expands its asset purchase programme

To counter the risk that the rise in yields observed since the start of the year on international markets could lead to a premature tightening of financing conditions in the euro area (Figure 9), the ECB Governing Council decided to significantly increase the pace of monthly asset purchases under the PEPP in the second half of March and in the current quarter, compared with the early months of this year. The programme will continue to be used flexibly and decisively to keep financing conditions favourable and to counter the repercussions of the pandemic on the projected path of inflation.

Figure 9

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

(daily data; per cent)



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

Net asset purchases of public and private sector securities under the expanded asset purchase programme (APP) continued regularly. The pace of those under the PEPP increased following the decision of the Governing Council. At the end of March, the book value of the two portfolios of securities stood at €2,963 billion and €938 billion respectively (Table 4).

Table 4

Securities held under the APP and PEPP

(billions of euros)

	Private sector securities (1)	Public sector securities (1)	*of which:* Italian public sector securities (2)	*of which:* Italian government securities purchased by the Bank of Italy (2)
APP				
January 2021	571	2,355	415	373
March 2021	584	2,379	422	378
PEPP				
January 2021	42	765	136	123
March 2021	44	894	157	141

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.

On 24 March, the seventh auction of the third series of targeted longer-term refinancing operations (TLTRO III) was settled, allocating €331 billion to euro-area counterparties, of which €77 billion to Italian counterparties (Table 5). The total value of the funds disbursed under these operations rose to €2,080 billion for the euro area and €427 billion for Italy.

Lending expands

In February, lending to non-financial corporations in the euro area grew by an annualized quarterly rate of 1.9 per cent, from 0.3 per cent in November (adjusted for seasonal factors and the accounting effect of securitizations; Figure 10.a).

Table 5

Eurosystem refinancing operations
(billions of euros)

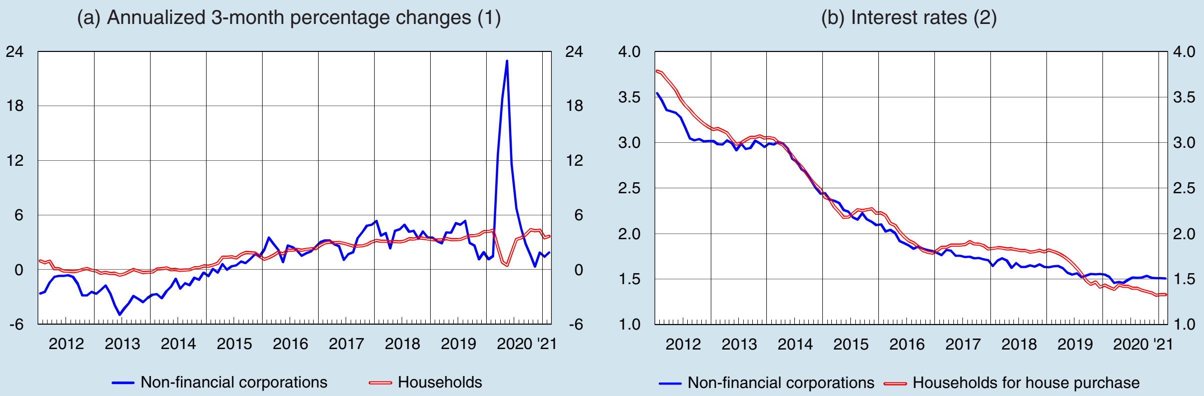
	Euro area		Italy	
	Amount	Number of counterparties	Amount	Number of counterparties
Total refinancing at 31 March 2021 (1)	**2,108**		**448**	
Refinancing under TLTRO III	2,080		427	
of which: last operation settled in March 2021 (gross)	331	425	77	69
last operation settled in March 2021 (net) (2)	315		74	

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 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.

The expansion in lending was significant in Italy (3.6 per cent; see Section 2.7) and in France and Germany (4.0 and 3.6 per cent); it was moderate in Spain (0.6 per cent). Lending to households slowed to 3.7 per cent (from 4.3 per cent in November). Between November and February, the interest rates applied to new loans granted to non-financial corporations and to households for house purchase held stable and remained very low, at 1.5 and 1.3 per cent respectively (Figure 10.b).

Figure 10

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 and medium-long term loans, with weights equal to the 24-month moving average of new loan disbursements; for non-financial corporations, includes overdrafts.

NGEU close to being under way

On 11 February, the regulation establishing the Recovery and Resilience Facility (RRF) was approved; it will distribute almost 90 per cent of the resources of the European Union's recovery package, Next Generation EU (NGEU), equal to €750 billion overall. The total RRF funding to be distributed among the Member States amounts to €672.5 billion (of which €360 billion in the form of loans) and is to be used to finance the investment and reform programmes outlined in the national recovery and resilience plans, focusing on six strategic objectives: (a) the green transition; (b) digital transformation; (c) smart, sustainable and inclusive growth and jobs; (d) social and territorial cohesion; (e) health and resilience; and (f) policies for the next generation, including education and skills. For the funds to be made available, it will be necessary not only for the European Council to approve the national plans, but also for all the Member States to ratify the EU's own resources decision.

1.3 GLOBAL FINANCIAL MARKETS

The improvement in the global situation and the approval of the fiscal stimulus package have led to a marked increase in long-term yields in the United States, which has partially extended to the other advanced economies. This increase has been limited in the euro area, thanks to the ECB Governing Council's confirmation of its expansionary monetary policy stance.

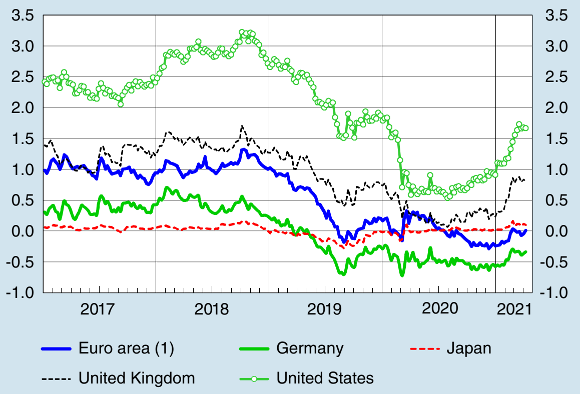
Long-term yields increase

The rise in US interest rates was triggered by more favourable assessments of growth prospects, in large part attributable to the approval of the Biden administration's considerable fiscal stimulus. The increase in yields has spread from the United States to the rest of the world; the spillover to the euro area has been more limited, in part due to the decisions taken in March by the ECB Governing Council (see Section 1.2).

On 9 April, the yields on ten-year public sector securities stood at 1.7 per cent in the United States, 0.8 per cent in the United Kingdom, 0.1 per cent in Japan, and -0.3 per cent in Germany. The increase compared with end-2020 is around 80 basis points in the United States, 60 basis points in the United Kingdom and lower in the other economies (Figure 11). Since the end of the first ten days of January, the yield spreads with the corresponding German Bund have remained essentially stable in euro-area countries (Figure 12; see Section 2.8).

Figure 11

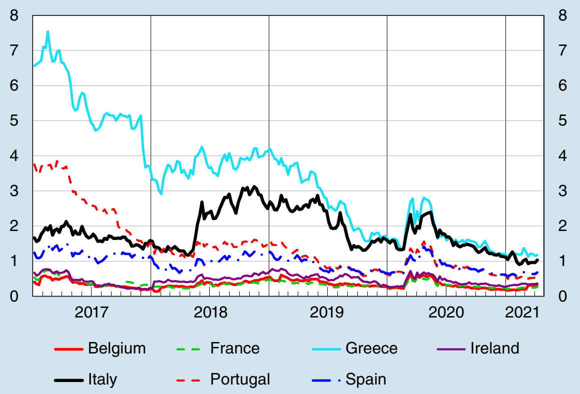
Yields on 10-year government bonds
(end-of-week data; per cent)



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

Figure 12

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

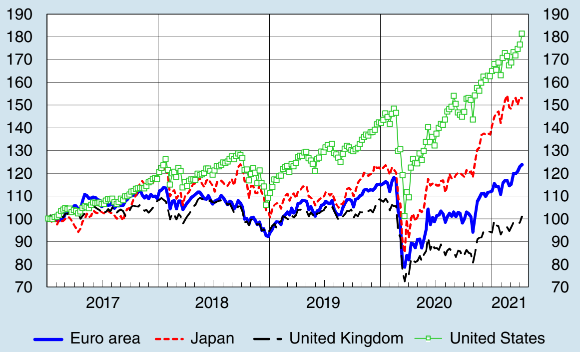


Source: Based on Bloomberg data.

Equity prices have risen since January in all the leading advanced economies (Figure 13). Implied volatility has gone up in the United States in the government bond market, coinciding with the increase in long-term interest rates (Figure 14).

Figure 13

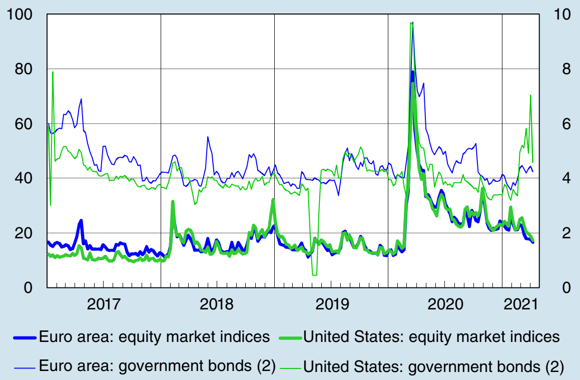
Equity prices (1)
(end-of-week data; indices: 1st week of January 2017=100)



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

Figure 14

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



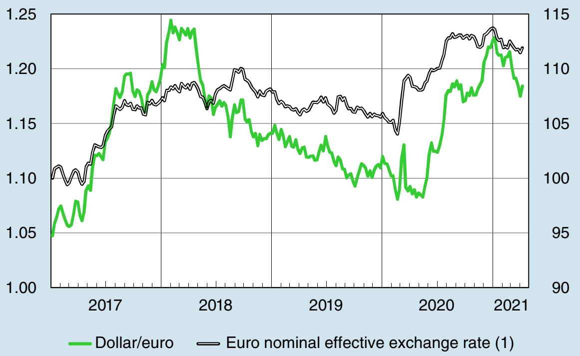
Source: Based on Refinitiv data.
(1) Equity indices: VSTOXX for the euro area and VIX for the United States. Government bonds: volatility implied by the prices of options on German Bund futures for the euro area and on Treasury Notes for the United States. – (2) Right-hand scale.

The euro depreciates against the dollar

The euro has depreciated by 3 per cent against the dollar since mid-January (Figure 15), in conjunction with the approval of the new fiscal stimulus package in the United States. Looking ahead, however, signs of a strengthening euro prevail and non-commercial operators' long positions are predominant overall (Figure 16). In nominal effective terms, the euro has depreciated by about 1 per cent.

Figure 15

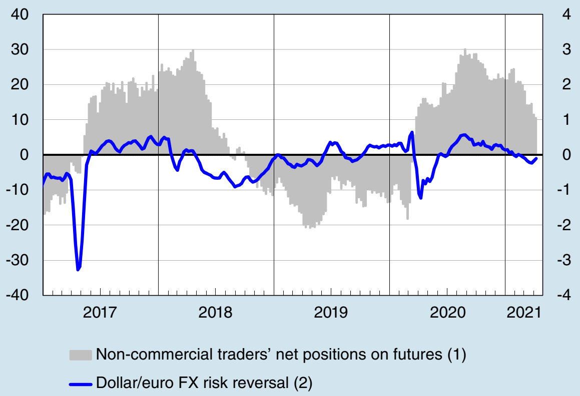
Exchange rates
(average weekly data; dollars per euro and indices)



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 16

Dollar/euro exchange rates: net positions and risk reversal
(end-of-week data; per cent)



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

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

Following the resurgence of the pandemic, economic activity contracted in the fourth quarter of last year, though less than expected. According to the available indicators, GDP held practically stable in the first three months of 2021, with a recovery in industry but still persistent weakness in services.

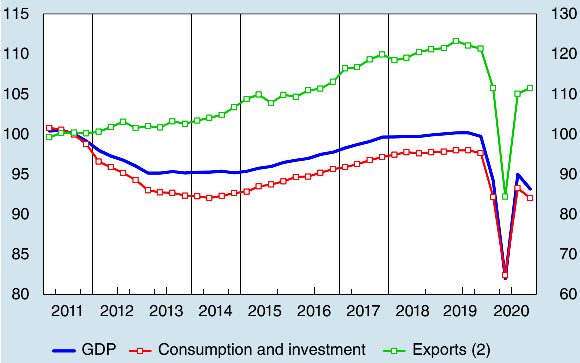
GDP turns downwards again in the fourth quarter ...

In the fourth quarter of 2020, GDP fell by 1.9 per cent compared with the previous quarter (Figure 17 and Table 6), after the strong increase recorded during the summer. However, the contraction, due to the resurgence of the pandemic, was less pronounced than expected (see *Economic Bulletin*, 1, 2021), as investment held stable. Value added decreased slightly in manufacturing and more markedly in services (Figure 19).

Figure 17

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 and percentage points)

	2020				2020
	Q1	Q2	Q3	Q4	
GDP	-5.5	-13.0	15.9	-1.9	-8.9
Total imports	-5.7	-18.1	14.1	5.4	-12.6
National demand (2)	-4.7	-10.9	11.5	-1.0	-8.4
National consumption	-5.1	-9.2	10.0	-1.6	-7.8
Household spending (3)	-7.1	-11.9	13.2	-2.7	-10.7
General government spending	1.4	-1.4	1.6	1.5	1.6
Gross fixed investment	-7.9	-17.1	29.1	0.2	-9.1
Construction	-6.3	-20.5	41.3	-2.2	-6.3
Capital goods (4)	-9.1	-14.3	19.7	2.3	-11.4
Change in stocks (5) (6)	0.9	-0.3	-1.7	0.3	-0.3
Total exports	-8.1	-24.3	30.5	1.3	-13.8
Net exports (6)	-1.0	-2.4	4.4	-1.0	-0.8

Source: Istat.
(1) Chain-linked volumes; the quarterly data are adjusted for seasonal and calendar effects. – (2) Includes the change in stocks and valuables. – (3) Includes non-profit institutions serving households. – (4) Include, as well as investment in plants, machinery and arms (which also comprise transport equipment), cultivated biological resources and intellectual property. – (5) Includes valuables. – (6) Contributions to GDP growth on previous period; percentage points.

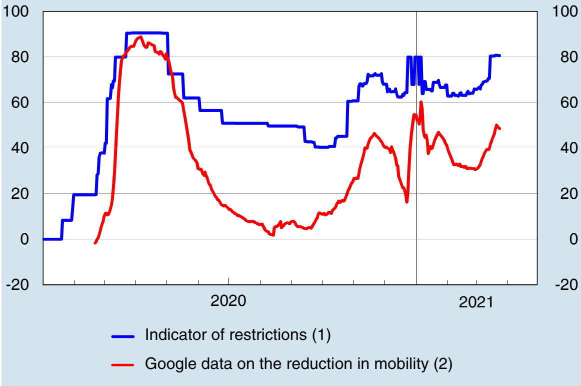
According to the available indicators, the restrictions were more targeted during the second wave of the pandemic,[1] and this translated into a reduction in mobility which, though significant, was more limited than that observed in the spring of 2020 (Figure 18).

... and appears to have held practically stable in the first quarter of 2021

Based on the latest indicators, GDP appears to have remained practically stable in the early months of the year, the recovery in industry being accompanied by a still weak performance in services (see the box 'Economic activity in the first quarter of 2021'). Qualitative indicators of the economic situation point to a strengthening of the recovery for manufacturing and an improvement in the outlook for services, which nevertheless remains weak (Figure 19). In March, the Ita-coin indicator stayed at the levels recorded in the previous month, supported by the favourable trend in business confidence observed for manufacturing firms (Figure 20).

Figure 18

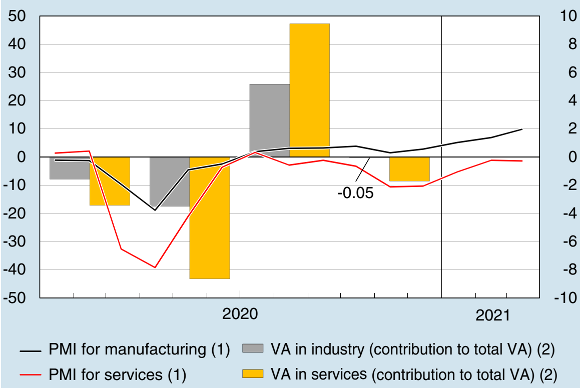
Restrictions and reduction in mobility in Italy
(daily data)



Sources: Based on regional data; Google Covid-19 Community Mobility Reports.
(1) Qualitative indicator based on the presence of daily restrictions, at local level, applying to schools, production and trade activities, restaurants and catering businesses, gatherings, public events, transport, domestic and international travel, and information campaigns (see F.P. Conteduca, 2021, op. cit.). An index value of 100 signals a situation of maximum restrictions. – (2) Changes in visits to retail establishments. Opposite sign: an increase represents a reduction in mobility compared with the period 3 January-6 February 2020. 7-day moving average.

Figure 19

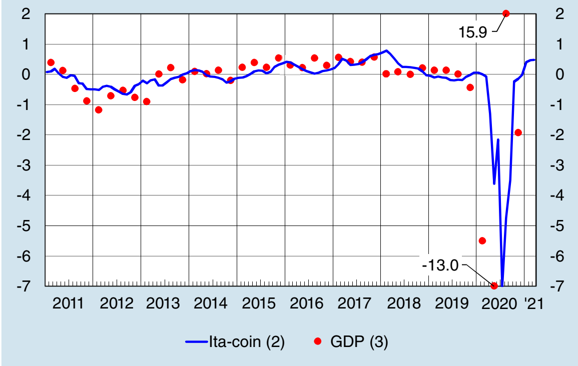
Value added in industry and services
(monthly and quarterly data)



Sources: Based on Istat and Markit data.
(1) Diffusion indices implied in the purchasing managers' indices (PMIs). Distance from the value of 50, which represents the threshold compatible with expansion for the sector. – (2) Sector's contribution to the quarterly change in value added (VA); percentage points; right-wing scale.

Figure 20

Ita-coin coincident cyclical indicator and GDP in Italy (1)
(monthly and quarterly data; percentage changes)



Sources: Bank of Italy and Istat.
(1) Further details are available on the Bank of Italy's website: 'Ita-coin coincident cyclical indicator'. Since November 2019, the data sample 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.

[1] OECD, *OECD Economic Outlook, Interim Report*, March 2021 and F.P. Conteduca, 'Measuring Covid-19 restrictions in Italy during the second wave', Banca d'Italia, *Note Covid-19*, 24 March 2021.

ECONOMIC ACTIVITY IN THE FIRST QUARTER OF 2021

Following their easing at the beginning of the year, restrictions on personal mobility and on some economic activities were gradually tightened again and extended to a large part of the country to contain the spread of infection. However, the value added of the sectors affected by the containment measures in force at the end of March 2021 accounted for a limited share, about 6 per cent, of the total value added for 2019. It was 4 per cent in the autumn and 28 per cent during the first wave, in the spring of last year.[1]

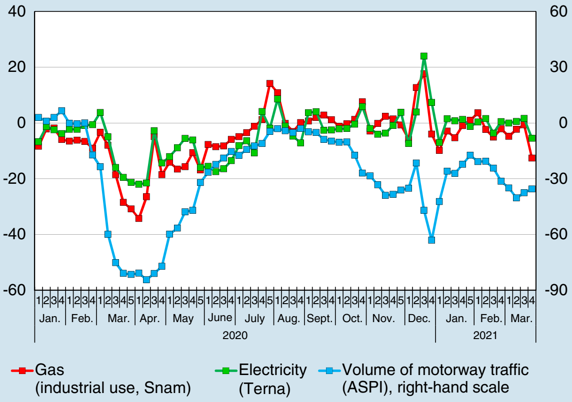
The Bank of Italy's models point to economic activity remaining practically unchanged in the first quarter compared with the previous three months, though with heightened uncertainty about these developments and with heterogeneous dynamics across sectors. Services likely continued to be affected by fears of the spread of infection and by the impact of the restrictions, while manufacturing appears to have expanded.

Taking into account the values observed up to the end of February and our estimates for March, in the first three months of the year industrial production likely rose by just under 1 per cent on the last quarter of 2020. This estimate is based on developments – which are favourable overall – in the available indicators, such as the consumption of electricity and of gas for industrial use and motorway traffic (Figure A), as well as in the business confidence of industrial firms, which improved especially in the capital and intermediate goods segments. Over the same period, the purchasing managers' index (PMI) for the manufacturing sector reached historically high levels (see Figure 21.b).

The rise in the number of COVID-19 cases and in the resulting restrictions appear to be behind the weak performance of value added in services, which nevertheless looks set to improve compared

Figure A

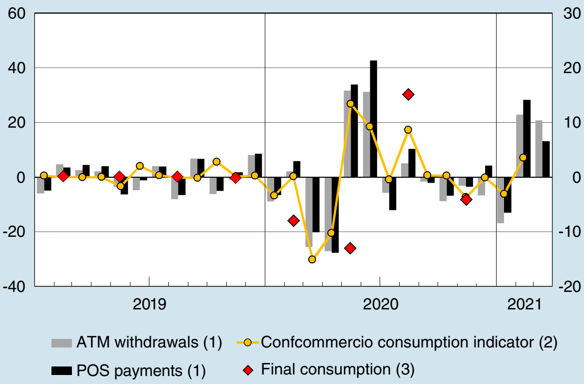
High frequency cyclical indicators (1)
(weekly data; percentage changes)



Sources: Based on ASPI, Snam and Terna data.
(1) Changes compared with the same week of 2020. Starting from the 9th week of 2021, the changes are calculated using 2019 as the base year, owing to the anomalous developments caused by the pandemic in the corresponding weeks of 2020. The changes for the weeks of 20 April 2020 and 4 April 2021 are affected by Easter falling in those weeks.

Figure B

Consumption expenditure, ATM withdrawals and POS payment amounts
(monthly and quarterly 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, seasonally adjusted. For more details, see the Bank of Italy's website: 'BI-Comp and CABI: retail payment systems'. – (2) Data seasonally adjusted; the figure for March 2021 is not yet available. – (3) Final consumption expenditure of resident and non-resident households throughout the economic territory; current prices; the series are calendar adjusted. The figure for the first quarter of 2021 is not yet available. Right-hand scale.

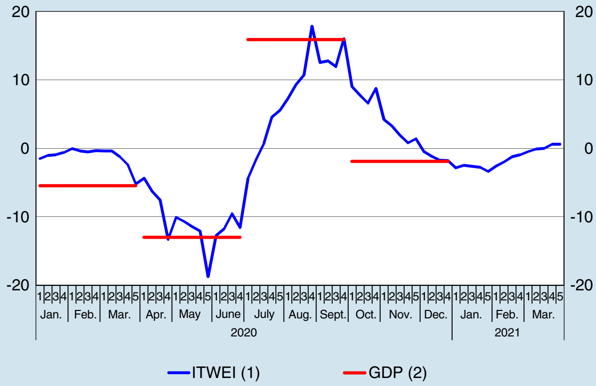
[1] The quantification in terms of value added of the restrictions introduced in the autumn of 2020 is based on the provisions in force at 24 October 2020 and does not take into account the measures subsequently enacted by government at the end of December (see *Economic Bulletin*, 1, 2021). The quantification of the restrictions introduced in the spring of 2020 is based on the provisions adopted on 22 March 2020 (see *Economic Bulletin*, 2, 2020).

with the autumn months. This is confirmed by the gradual recovery in the PMI for the sector, though it is still below the threshold compatible with expansion (see Figure 19).

In the first two months of the year, Confcommercio's consumption indicator continued to record lower levels compared with one year earlier, particularly for spending on services connected to tourism and the restaurant and catering industry. In February, the indicator rose compared with the previous month. These data are consistent with the dynamics observed in payment flows, which confirm the gradual expansion of consumer spending: in February and March total transactions made at POS terminals – in part incentivized by the cashback scheme – and in ATM withdrawals, recorded an increase (Figure B).

Figure C

Italian weekly economic index (ITWEI)
(weekly and quarterly data; percentage changes)



Sources: Bank of Italy and Istat.
(1) The indicator reports the change obtained considering the average for the last 13 weeks (corresponding to approximately one quarter) compared with the average for the previous 13 weeks. For further details, see D. Delle Monache, S. Emiliozzi and A. Nobili, op. cit. – (2) Quarterly data; percentage change on previous quarter.

In construction, value added appears to have risen marginally in the first three months of the year, in line with the growth in the sector's output in January and the strong improvement in business confidence for construction firms, which is likely influenced by the tax incentives on construction activity.

The Italian weekly economic index (ITWEI; Figure C) is a composite indicator developed to monitor GDP performance on a weekly basis, at a time of sharp volatility such as that generated by the pandemic.[2] ITWEI signals a weakening in economic activity in January, followed by a recovery in February and March, resulting in a barely positive change in the first quarter as a whole.

[2] For further details, see D. Delle Monache, S. Emiliozzi and A. Nobili, 'Tracking economic growth during COVID-19: a weekly indicator for Italy', Banca d'Italia, *Note COVID-19*, 27 January 2021.

According to the international organizations and analysts surveyed by Consensus Economics, GDP will expand by more than 4 per cent this year (Table 7), with a significant recovery in the second half of the year, driven by the global context. An update of the projections published in the *Economic Bulletin* issued last January indicates that developments in line with these figures are plausible. The carryover effect for the current year benefits from GDP developments in the fourth quarter of 2020, which were less unfavourable than was expected in January.[2] However, this scenario is not without risks; it

Table 7

GDP growth in Italy: forecasts of the major organizations
(percentage change)

	GDP	
	2021	2022
IMF (April)	4.2	3.6
OECD (March)	4.1	4.0
Consensus Economics (March)	4.2	4.0

Sources: IMF, *World Economic Outlook*, April 2021; OECD, *OECD Interim Economic Outlook*, March 2021; Consensus Economics, *Consensus Forecasts*, 8 March 2021.

[2] The carryover effect for 2021 stands at around 2.3 per cent. The figure implied in the situation presented in the Economic Bulletin issued in January was around 1 per cent (see *Economic Bulletin*, 1, 2021).

assumes that support to the economy will continue and that the measures being introduced under the National Recovery and Resilience Plan (NRRP) will prove effective. The outlook hinges above all upon the success of the vaccination campaign and favourable developments in the number of new COVID-19 cases.

2.2 FIRMS

The available data suggests that industrial activity strengthened in the first quarter of the year. Our surveys reveal that firms' assessments of the general economic situation have become less unfavourable and are still more optimistic than they were in the first half of 2020. A large proportion of businesses intends to increase investment this year, following the sharp reduction in 2020.

Industrial production appears to have increased in the first quarter

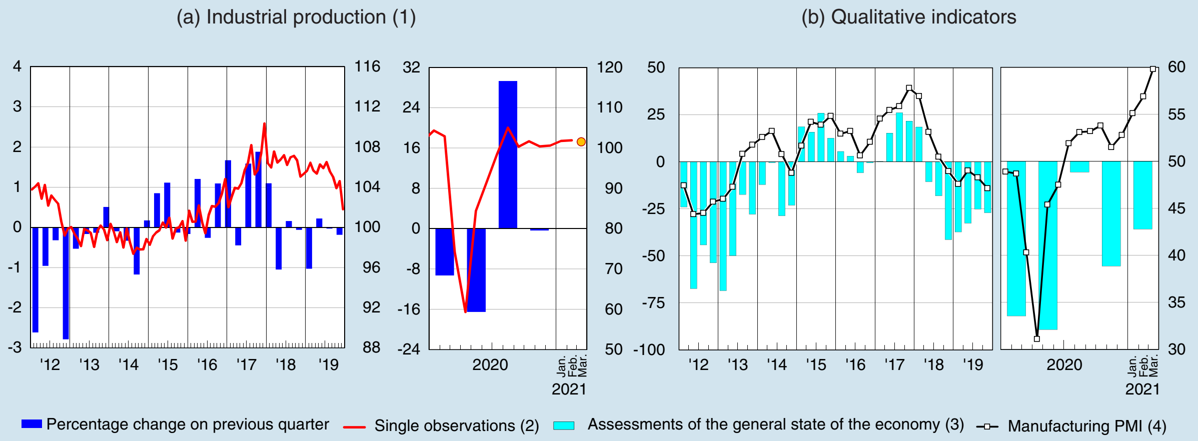
Following an increase in January, industrial production rose by 0.2 per cent in February. Our estimates indicate a decrease in March, to levels that are still almost 3 per cent lower than those recorded before the pandemic. In the first quarter as a whole, growth is estimated at just under 1 per cent, compared with -0.4 per cent in the fourth quarter of 2020 (see Figure 21.a and the box 'Economic activity in the first quarter of 2021').

Investment is expected to return to growth gradually

Firms report that investment conditions have become slightly more favourable and many of them expect an increase in investment spending over the course of this year, especially in industry (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). The qualitative indicators point to an expansion in manufacturing during the quarter (Figure 21.b), but are weaker as regards services.

Figure 21

Industrial production and qualitative indicators
(monthly and quarterly data)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data seasonally and calendar adjusted. For graphic design reasons, the scale used for plotting the 2020 and 2021 data is different from that used for the previous years. – (2) Monthly data. Indices: 2015=100. The yellow dot represents the estimate for March 2021. Right-hand scale. – (3) Balance, in percentage points, of the responses 'better' or 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 12 April 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.

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

Between 25 February and 19 March, the Bank of Italy conducted its quarterly survey on inflation and growth expectations, based on a sample of about 1,500 firms with 50 or more employees in industry excluding construction, services and construction (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 12 April 2021).

Firms, whose assessments had worsened in December following the spread of the second wave of the pandemic, expressed less negative opinions about the general economic situation. The proportion of firms that considered the state of the economy to be less favourable was smaller than in the previous quarter (45 per cent, down from 61 per cent in December). This is a lower percentage than that recorded respectively in March and June of last year, during the first wave of the pandemic, even though it is still higher than the lowest point reached at the end of the summer. The balance between assessments of an improvement and of a deterioration remained negative, but less so in industry excluding construction (-25 percentage points, compared with -46 points in services and -43 points in construction).

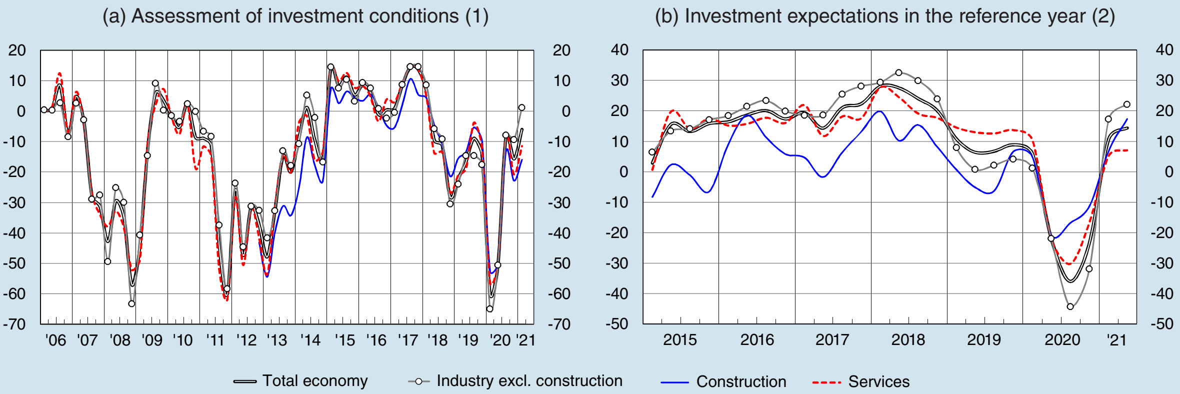
Firms' opinions regarding demand for their own products improved. In industry excluding construction, for the first time since the start of the pandemic, the balance of opinions between those expecting an increase and those expecting a decrease in sales turned positive to stand at 15 points (up from -8 points). Looking ahead, the share of firms expecting an increase in sales in the next three months is almost 30 points greater than that expecting a decline (compared with a 2 point lead in the previous survey). This improvement also encompassed the service sector, where expectations of an increase in demand in the next three months began to predominate again over those of a decrease.

Overall, about 75 per cent of firms think that their level of activity is still lower than in the period preceding the public health crisis. The time needed to return to pre-pandemic production standards is currently estimated at 16 months on average. Just under 8 per cent of firms reported that they do not think they will be able to return to pre-pandemic production levels in the future.

Following the exceptional fall in 2020, investment should start to increase again gradually. The balance of assessments pointing to an improvement or to a deterioration in investment conditions, while remaining negative overall, improved (-6 percentage points, up from -16 points in December),

Figure

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



Source: Survey on Inflation and Growth Expectations, Banca d'Italia, Statistics Series, 12 April 2021.
(1) Balance of opinion between positive and negative assessments compared with the previous quarter. Construction firms are included in 'Total economy' starting from 2013 Q1. – (2) Balance of opinion between positive and negative assessments compared with the previous year. The first expectations for the reference year are surveyed in the last quarter of the preceding year.

and the balance turned positive in manufacturing (1 point; see the figure). About a third of firms expected investment spending to increase again in the first half of 2021. In relation to this period, the balance of opinion between an improvement and a deterioration is 12 percentage points, with an increase compared with the previous survey, mainly thanks to more optimistic expectations in the service sector. The investment projections for 2021 as a whole have strengthened moderately in all sectors, with better results for manufacturing firms (see the figure).

Data received from the Bank of Italy's branch network show that the economic outlook is still markedly less favourable for small businesses than for large ones, especially in the Centre and South of Italy. Investment conditions have picked up again slightly, especially in the North-East, after the sharp deterioration observed in the surveys following the outbreak of the public health emergency. Although there is still a high level of uncertainty, investment activity appears to be driven by the largest firms and by those with the greatest capacity for self-financing.

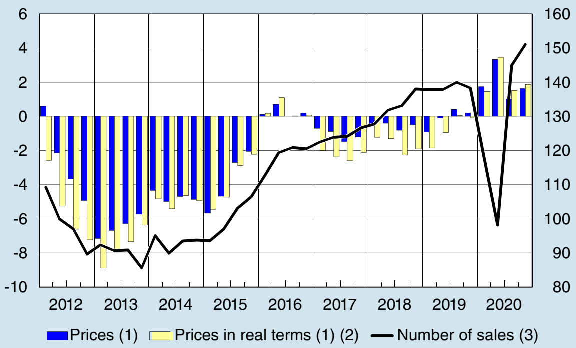
The property market shows signs of recovery

After the generalized lull in the spring months of 2020, property sales continued to recover in the fourth quarter but this did not entirely compensate for the contraction in the first half of the year; the drop in sales was 7.6 per cent over the year as a whole. Based on the listings on the Immobiliare.it online platform, our calculations show that, in the first three months of this year, the demand for residential properties is still high, especially in small municipalities. House prices continued to rise in the closing months of 2020, by 1.6 per cent (Figure 22); the annual growth was equal to 1.9 per cent overall. According to the Italian Housing Market Survey, conducted in January and February, real estate agents' outlook for their own market has improved since the last survey, although it is still mostly pessimistic.

Figure 22

House prices and sales

(quarterly data; percentage changes and index numbers)



Sources: Based on data from the Osservatorio del Mercato Immobiliare, Bank of Italy, Istat and *Consulente Immobiliare*.
(1) Year-on-year percentage changes. – (2) House prices deflated by the consumer price index. – (3) Adjusted for seasonal and calendar effects. Indices: 2015=100 Right-hand scale.

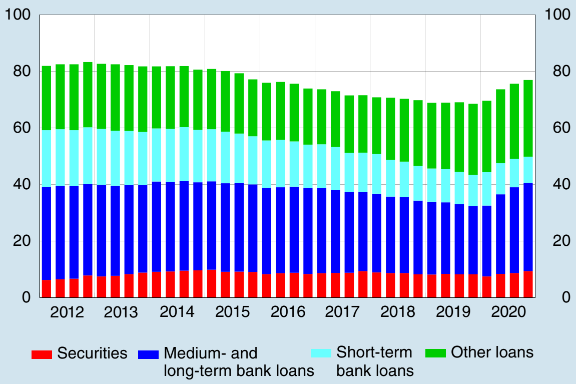
Firms' debt and deposits are rising

Italian non-financial corporations' debt increased in the fourth quarter of 2020, reaching 76.9 per cent of GDP (Figure 23), compared with 115.5 per cent for the euro area. There has also been an increase in the liquidity held by firms in their deposit and current accounts (see Section 2.7), both as a result of the support measures and of the sharp contraction in investment spending in contrast with the large losses incurred owing to the pandemic. This has led to a positive financial balance for firms overall.[3]

Figure 23

Debt of non-financial corporations (1)

(quarterly data; per cent of GDP)



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

[3] For a discussion of developments in the first half of 2020, see L. Infante, F. Lilla, G. Marinelli, M. Marinucci, G. Semeraro and F. Vercelli, 'The economic and financial accounts during the COVID-19 public health crisis', Banca d'Italia, *Note COVID-19*, 14 January 2021.

However, the trends are uneven across the different sectors, with a much more marked increase in debt for firms in the service sector, in particular those segments hit hardest by the pandemic.

2.3 HOUSEHOLDS

Following the decrease recorded at the end of last year, consumption stabilized in the first quarter of 2021. The propensity to save remains high and at the end of 2020, it was still much higher than before the pandemic. According to the Bank of Italy's survey, only a portion of the savings accumulated will be used in the current year; household spending is still partly held back by fears of the spread of infection.

Consumption falls in the fourth quarter

Household spending declined in the last three months of 2020 (-2.7 per cent compared with the previous quarter), with a widespread fall across all components, which was particularly marked for services. The propensity to save remained high, at 15.2 per cent (Figure 24.b), reflecting both precautionary financial reasons and decisions not to make certain purchases to avoid the risk of infection or because of the restrictions adopted to cope with the pandemic.

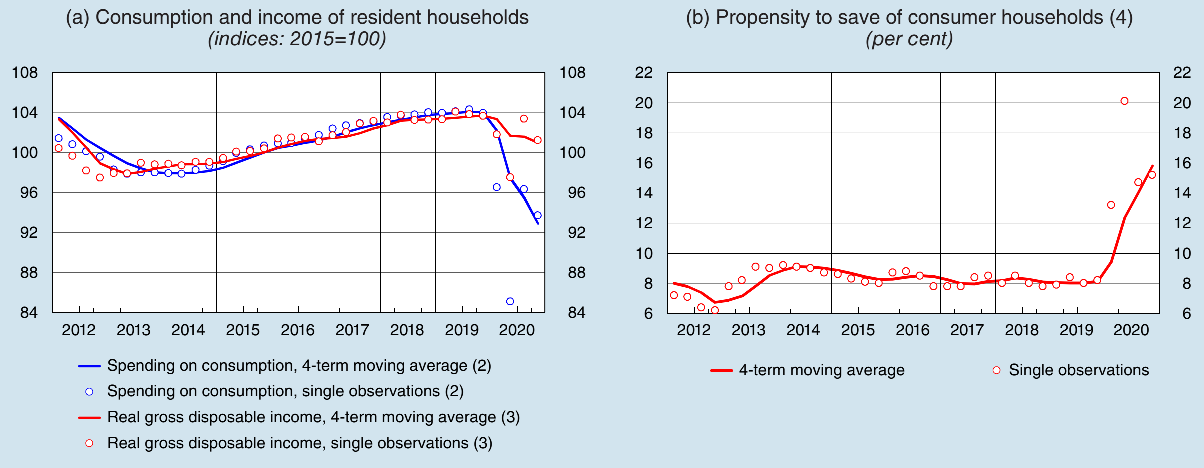
Disposable income is supported by the Government's measures

In the fourth quarter, disposable income decreased by 2.1 per cent compared with the previous quarter (Figure 24.a). Over the year as a whole, the contraction, equal to 2.8 per cent in nominal terms and much lower than that in GDP (7.8 per cent), was alleviated by the support measures drawn up by the Government to help households during the pandemic. It is estimated that, in the absence of interventions on social benefits, the fall in income would have been about 4 percentage points greater.

Figure 24

Consumption, income and propensity to save (1)

(quarterly data)



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

Household spending stabilizes at the start of this year

The latest cyclical indicators suggest that consumption remained stationary in the first quarter. According to Confcommercio's indicator, purchases of goods and services recorded a partial recovery in the two months January-February compared with the previous period, in part thanks to the easing of some restrictions.

The daily data on payments indicate a slight increase in spending since the beginning of January (see the box 'Economic activity in the first quarter of 2021'). Household confidence declined slightly in March, although it remained at the levels observed at the end of 2020 in the quarter as a whole (Figure 25). According to our survey on Italian households, expectations for the labour market also improved, despite remaining negative (see the box 'Italian households during the epidemic: the Bank of Italy's survey').

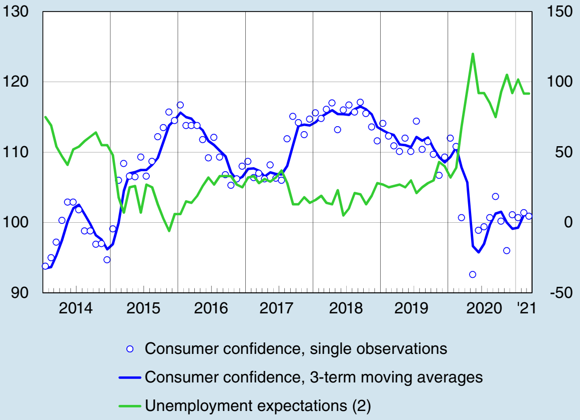
Household debt increases

In the fourth quarter of 2020, household debt as a percentage of disposable income rose, reaching 64.7 per cent (Figure 26), a level still below the euro-area average (97.6 per cent). As a share of GDP, household debt stood at 45.2 per cent (62.7 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, to around 10 per cent.

Figure 25

Consumer confidence (1)

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

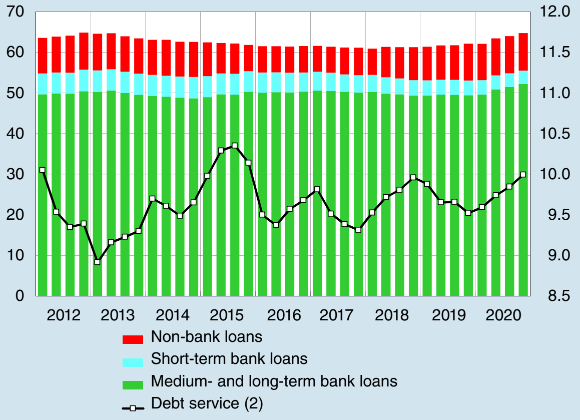


Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of the figure for April, the moving average for April, May and June 2020 is constructed on the basis of the only two observations available. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating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

Figure 26

Household debt (1)

(quarterly data; per cent of gross disposable income)



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

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

Between the end of February and the start of March, before the new tightening of the measures to limit the spread of the virus (Decree Law 30/2021), the Bank of Italy conducted the fourth edition of its Special Survey of Italian Households to collect information on the financial situation and expectations of households.[1]

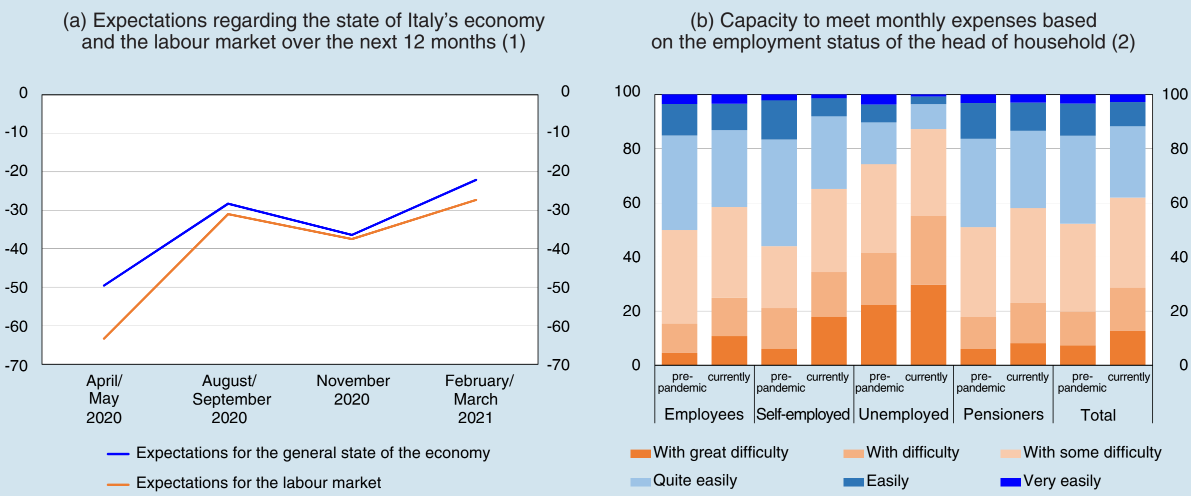
[1] The interviews were conducted remotely on a sample of over 2,800 households, using a multimedia touchscreen device; about 1,800 of these households had also taken part in the third edition of the survey. As of April 2020, four editions of the survey have been carried out. The main findings and the methodology used in the third edition are described in the box 'Italian households during the epidemic: the Bank of Italy's survey' in *Economic Bulletin*, 1, 2021, and in C. Rondinelli and F. Zanichelli, 'The main results of the third wave of the special survey of Italian households in 2020', Banca d'Italia, *Note COVID-19*, 30 March 2021.

Despite remaining negative, the balance of answers on the general outlook for the economy has improved and is better than in the summer months, following the first wave of the pandemic (see panel (a) of Figure A). The percentage of households in the latest edition that expect a significant deterioration over the next twelve months has fallen by 9 percentage points compared with the survey conducted in November, reaching 23 per cent. The assessments of the outlook for the labour market for the next twelve months are also more favourable; households whose heads are self-employed remain more pessimistic.

Figure A

Assessments of economic and financial conditions

(percentage points and per cent)



Source: Based on Bank of Italy data from the 1st, 2nd, 3rd and 4th editions of the Special Survey of Italian Households. For the 1st edition, only the data collected with the same interview technique as in subsequent editions were used.
(1) Balance between reports of improvement and deterioration. For the 1st edition, expectations for the labour market refer to the trend in the number of unemployed over the next 12 months. – (2) Percentage of households that declare they get to the end of the month with: great difficulty, difficulty, some difficulty, quite easily, easily or very easily. The question was asked with reference both to a household's current situation and to that prior to the public health emergency.

Households do not expect the health emergency to be resolved in the near future: only 16 per cent believe it will come to an end during 2021, while one third think it will continue at least until 2023.

Almost 70 per cent of households expect their income for this year to be the same as that earned in 2020. Just over one sixth expect it to be lower; this figure rises to one fourth among those who think that the health emergency will continue for longer (for at least another two years).

Some 30 per cent of households report having earned a lower income last month than before the outbreak of the pandemic; the fall is more widespread among households whose head is self-employed or unemployed and in the areas hardest hit by the health emergency at the time of the interview (orange and red zones). The worsening in income conditions has continued to be mitigated by the income support measures:[2] one fourth of households benefited from such measures between December 2020 and February 2021.

[2] The income support measures considered included: the wage supplementation scheme (*Cassa integrazione guadagni*), the ordinary allowance from the wage supplementation fund (*Fondo di integrazione salariale*) and the solidarity funds (*Fondi di solidarietà*), the New Social Insurance for Employees (NASpI) and for farm workers (*disoccupazione agricola*), the new minimum income scheme (*Reddito di cittadinanza*), emergency income (*Reddito di emergenza*), measures in support of self-employed workers and professionals, and the vouchers for the purchase of baby-sitting services and other types of bonus.

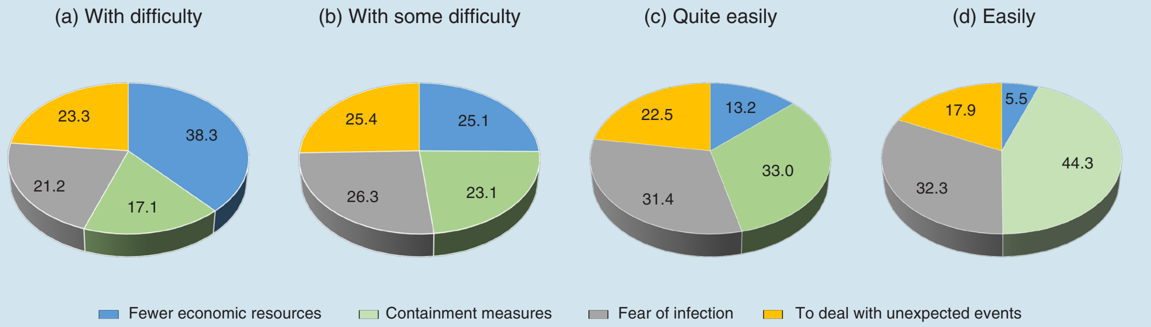
More than 60 per cent of households declare that they are struggling to get to the end of the month, 10 percentage points more compared with the pre-pandemic period; the percentage has increased by over 20 points (to 65 per cent) for households whose head is self-employed (see panel (b) of Figure A). Just under 40 per cent of households report that in the last 12 months they have found that their income was not enough to meet expenses; almost half of these households report that in the absence of any income or transfers they would not have enough financial resources to meet essential expenses for even one month.

Households' consumption patterns continue to be affected by the public health emergency. Over 80 per cent report that they have reduced spending on hotels, coffee bars and restaurants and have made less frequent purchases in clothing stores than prior to the pandemic; about two thirds report spending less on beauty and personal care services. For households that struggle to reach the end of the month, the contraction mainly depends on having fewer economic resources; for those under less financial strain, it is above all due to the containment measures and the fear of infection (Figure B).

Figure B

Reasons for reducing consumption (1)

(based on the capacity to meet monthly expenses; average score)



Source: Based on data from the Bank of Italy, 4th edition of the Special Survey of Italian Households.
(1) Households were asked to distribute 100 points among the following reasons for reducing consumption: fewer economic resources, containment measures, fear of infection and to deal with unexpected events.

Just over one fourth of households think that they will reduce their consumption of non-durable goods and services over the next three months, compared with about one third in the November edition. The decline in consumption appears to be more pronounced for households whose income decreased between January and February and that have more difficulty in meeting their monthly expenses (see panel (a) of Figure C). However, this will also affect some (more than one fifth) of those expecting an increase in income in 2021.

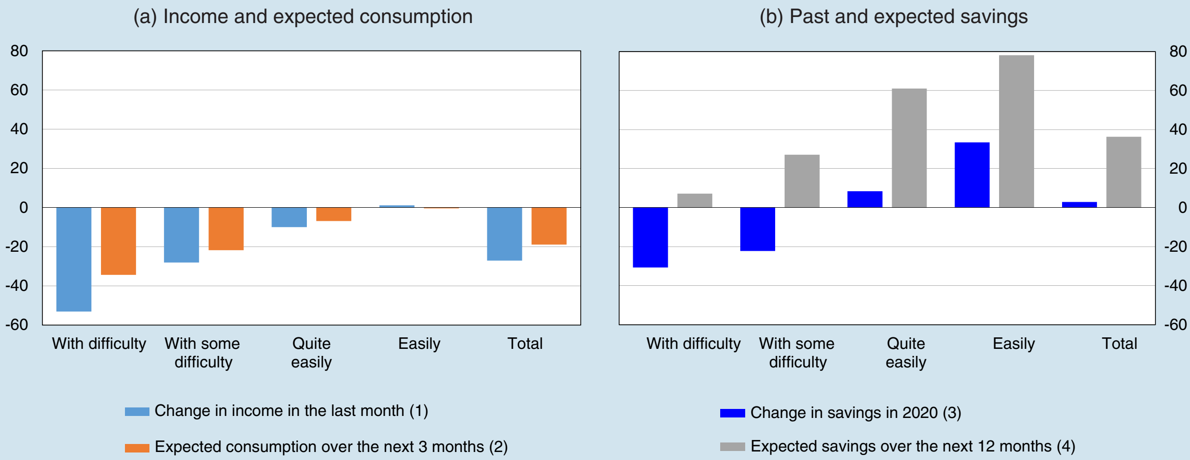
A significant share of households have put money aside over the last year. Around 40 per cent report having spent less than their annual income in 2020, thereby managing to accumulate some savings;[3] among these, nearly one third saved more than in 2019. The increase in saving is, however, only prevalent among households that get to the end of the month easily or quite easily (see panel (b) of Figure C).

[3] According to data from the Survey on Household Income and Wealth (SHIW), about one third of households declared they had spent less than their annual income and managed to put some money aside in 2016.

Figure C

Assessments of income, consumption and saving

(based on the capacity to meet monthly expenses; percentage points)



Source: Based on data from the Bank of Italy, 4th edition of the Special Survey of Italian Households.
(1) Balance between the percentage of households whose income increased last month and the share of those whose income decreased compared with before the pandemic. – (2) Balance between households expecting an increase in their consumption of non-durables over the next three months and those expecting a decrease. – (3) Balance between the percentage of households that saved more in 2020 than in 2019 and the share of those that saved less (among households that saved in 2020). – (4) Balance between the percentage of households that expect to be able to make some savings and those that expect to use some savings or take on a debt.

Only one third of the savings accumulated in 2020 are likely to be spent in 2021; just over half will be held in the form of deposits or other forms of investment and the rest will be used to repay debts. Some 45 per cent of households expect to spend less than their annual income over the next 12 months. The percentage of households expecting to save is also prevalent among those declaring greater economic difficulties (see panel (b) of Figure C).

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Exports are increasing despite the sharp decline in tourism flows, with goods exports rising in line with the performance of world trade. The current account surplus has further improved and contributed to the improvement in Italy's positive net international investment position. Foreign demand for Italian securities has picked up.

Exports increase in the fourth quarter ...

Exports of goods grew in the fourth quarter, despite the fall in the service sector component, due to the drop in international tourism following the resurgence of the pandemic (Table 8). Imports increased at a greater pace.

Goods exports returned to levels only slightly below those prior to the spread of the pandemic, with an increase driven mainly by sales of mechanical machinery, metal products, chemicals, and transport equipment.

... slowing in the early months of the year, also because of Brexit

Exports of goods, valued at current prices and seasonally adjusted, increased significantly towards EU markets in January compared with the average for the fourth quarter of last year. Exports to non-EU countries declined slightly

Table 8

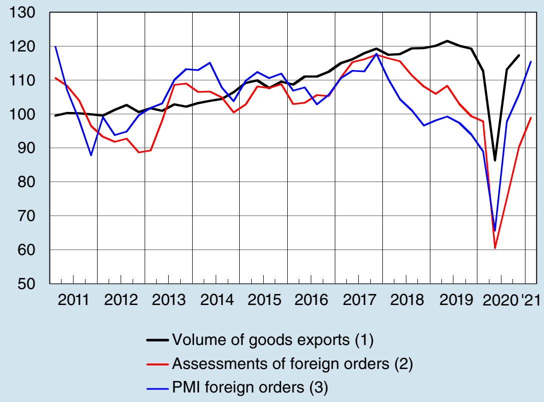
Italy's imports and exports (1)
(percentage change on previous period)

	2020 Q3	2020 Q4
Exports	**30.5**	**1.3**
Goods	31.0	3.6
to euro-area markets	30.3	3.1
to non-euro area markets (2)	31.5	3.9
Services	27.6	-11.4
Imports	**14.1**	**5.4**
Goods	19.2	3.9
from euro-area markets	24.5	5.8
from non-euro area markets (2)	15.1	2.4
Services	-6.8	12.9

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.

Figure 27

Manufacturing firms' assessments of foreign orders
(quarterly data)



Sources: Istat, Markit and Refinitiv.
(1) National accounts data. Chain-linked volumes; the data are adjusted for seasonal and calendar effects. Indices: 2011=100. – (2) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' or 'decreasing' foreign orders, minus the average since the start of the time series (January 2000) plus 100. Q2 2020 is the average of two months; no data was gathered in April due to the pandemic emergency. Seasonally adjusted data. – (3) Diffusion indices, quarterly averages. The index is obtained by adding half of the percentage of replies of 'stable' foreign orders to the percentage of replies of 'increasing' foreign orders. Seasonally adjusted data. Right-hand scale.

on average in January and February. Nevertheless, our estimates indicate that there was marginal growth if we exclude trade with the United Kingdom, which was affected by the entry into force of the new agreement on trade and cooperation between the European Union and the United Kingdom and by the introduction of customs controls on the part of the EU. The indicators of manufacturing firms' assessments of foreign orders for the first quarter are compatible with an expansion in sales (Figure 27).

On average, for the four quarters ending in March 2021, price competitiveness appears to have deteriorated in Italy, above all in non-euro area markets, as a result of the nominal appreciation of the euro (Figure 28).

The current account surplus increases further

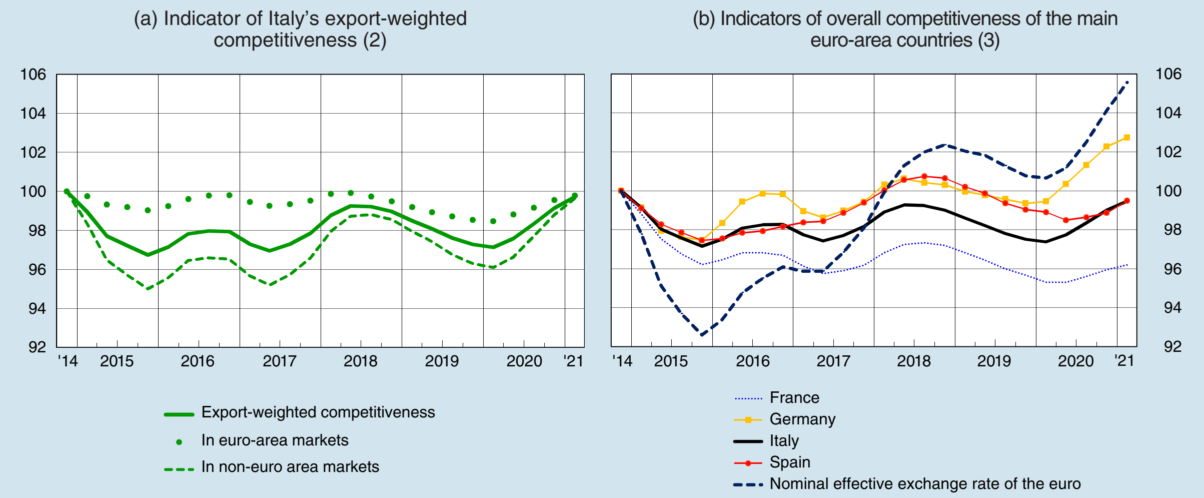
The current account surplus rose to €58.6 billion in 2020 (equating to 3.5 per cent of GDP; Table 9), €1.2 billion higher compared with the previous year, thanks in part to the greater surplus in goods, as a result of the reduction in energy costs, and also to a further expansion of the primary income surplus (Figure 29). However, the services deficit increased, reflecting the contraction of the tourism surplus (to €7.8 billion, from €17.2 billion in 2019).

Foreign investment in Italian securities continues

Since September 2020, in a context of greater optimism on the financial markets, non-resident investors continued to purchase Italian portfolio securities (€32.8 billion up to January). Foreign demand was mainly directed not only towards securities issued by banks and firms (purchases totalling €20.7 billion, concentrated in December) but also towards public sector securities (€9.5 billion). According to data from Emerging Portfolio Fund

Figure 28

Price competitiveness indicators of the main euro-area countries (1)
(index numbers: Q4 2014=100; 4-quarter moving averages)



Source: For the nominal effective exchange rate of the euro, ECB.
(1) 4-quarter moving average. 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 can be decomposed into two separate indicators: euro-area markets and non-euro area markets (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). All the indicators are calculated using producer prices of manufactures and weighted by trade flows of manufactures. – (3) These represent a weighted average of import competitiveness, which measuers the capacity of a country to compete in its domestic market with imported goods, and of export competitiveness (see A. Felettigh, C. Giordano, G. Oddo and V. Romano, 'New indicators to assess price competitiveness developments in the four largest euro-area countries and in their main trading partners', *Journal of Economic and Social Measurement*, 41, 3, 2016, 203-235, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 280, 2015). Unlike the indicators shown, the effective exchange rate of the euro is in nominal terms, calculated for 42 non-euro area countries and weighted by trade flows of manufactures and services.

Table 9

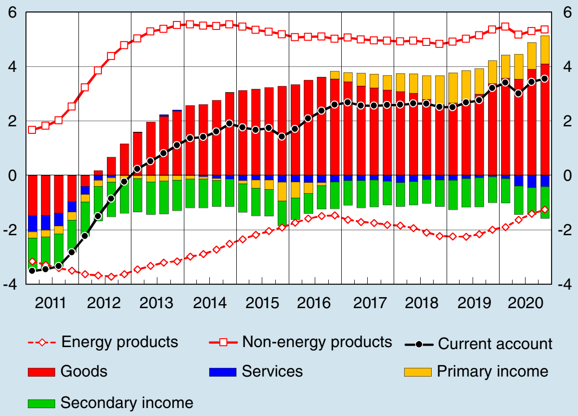
Balance of payments (1)
(balances; billions of euros)

	2019	2020	Jan. 2020	Jan. 2021
Current account	**57.4**	**58.6**	**-1.0**	**0.7**
Memorandum item: % of GDP	3.2	3.5		
Goods	60.2	67.6	1.0	1.8
Non-energy products (2)	95.9	88.4	4.2	4.0
Energy products (2)	-35.7	-20.8	-3.2	-2.2
Services	-0.8	-6.8	-1.3	-0.5
Primary income	15.2	17.0	0.6	1.0
Secondary income	-17.1	-19.3	-1.3	-1.6
Capital account	**-1.8**	**-0.4**	**-0.1**	**-0.2**
Financial account	**46.5**	**49.1**	**3.7**	**3.5**
Direct investment	1.5	9.4	-9.2	-3.1
Portfolio investment	-52.8	109.7	-22.3	-4.4
Financial derivatives	2.5	-2.9	0.6	-0.4
Other investment (3)	92.2	-71.1	34.6	12.1
Change in official reserves	3.2	4.0	..	-0.7
Errors and omissions	**-9.1**	**-9.1**	**4.9**	**3.0**

(1) Based on the international standards set in the IMF's sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6), 2009. For January 2021, provisional data. – (2) Based on Istat foreign trade data. – (3) Includes the change in the TARGET2 balance.

Figure 29

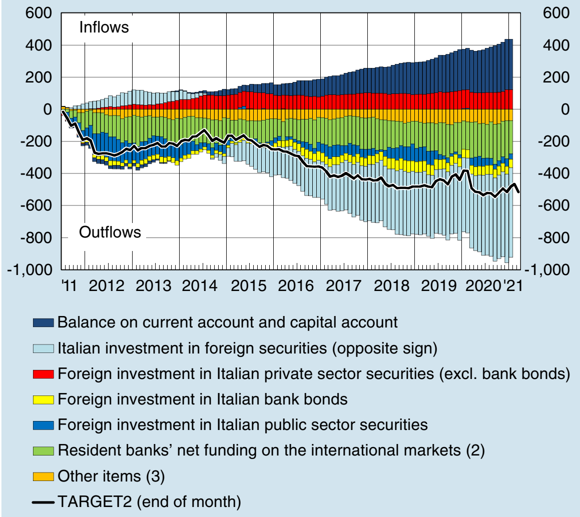
Current account balance and main components (1)
(quarterly data; per cent of GDP)



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

Figure 30

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



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's negative 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 flows since July 2011. – (2) Net funding in the form of loans, deposits and other investments by the banking sector, including those managed by resident central counterparties. – (3) Direct investment, derivatives, residual items in other investment, official reserves, errors and omissions.

Research (EPFR) in relation to a sample of international investment funds, the propensity to invest in Italian securities consolidated in the two months February-March.

Investments by residents in foreign portfolio assets (equal to €48.2 billion from September to January) were mainly made by households – exclusively in investment fund units – and by insurance companies.

There was a marked reduction in the first two months of the year in the Bank of Italy's negative balance on the TARGET2 European payment system, which stood at €467 billion at the end of February (Figure 30 and Table 10). The balance rose in March to €516 billion, most likely following a fall in resident banks' net funding abroad, connected with the settlement of the seventh auction of TLTRO III (see Section 1.2) and with the effects linked to the closing of the quarter. Besides the current account surplus and foreign demand for Italian securities, the improvement between the end of August and the end of January also benefited from the disbursement of loans from the European Commission under its instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE).

The positive net international investment position is increasing

At the end of 2020, Italy's net international investment position was positive by €30.4 billion (1.8 per cent of GDP), up from the €15.2 billion recorded at the end of September. The increase is entirely due to the current account surplus.

Table 10

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: managed 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	-20	46
2019 – Q1	-475	7	17	2	..	-5	-18	4	-12	-1
Q2	-448	27	34	9	..	-20	-3	14	-4	6
Q3	-468	-20	22	4	6	-40	-27	18	-4	27
Q4	-439	29	11	11	4	7	1	20	12	36
2020 – Q1	-492	-52	-25	-12	..	-24	15	7	2	..
Q2	-537	-45	-4	-4	-1	5	5	5	-7	39
Q3	-546	-10	17	2	2	-31	-19	24	-5	19
Q4	-516	30	-15	19	4	13	4	22	21	34
2020 – July	-522	15	3	1	-1	12	-10	10	-8	2
Aug.	-523	-1	3	1	..	-18	-4	7	16	9
Sept.	-546	-23	12	-1	3	-24	-6	8	-13	9
Oct.	-520	27	-3	3	-1	22	-1	8	1	3
Nov.	-495	25	-7	4	1	9	9	7	16	5
Dec.	-516	-21	-5	11	4	-17	-4	7	4	25
2021 – Jan.	-482	34	13	-1	-2	29	16	1	..	6
Feb.	-467	15	....	....	....	....	....	....	....	....
Mar.	-516	-49	....	....	....	....	....	....	....	....

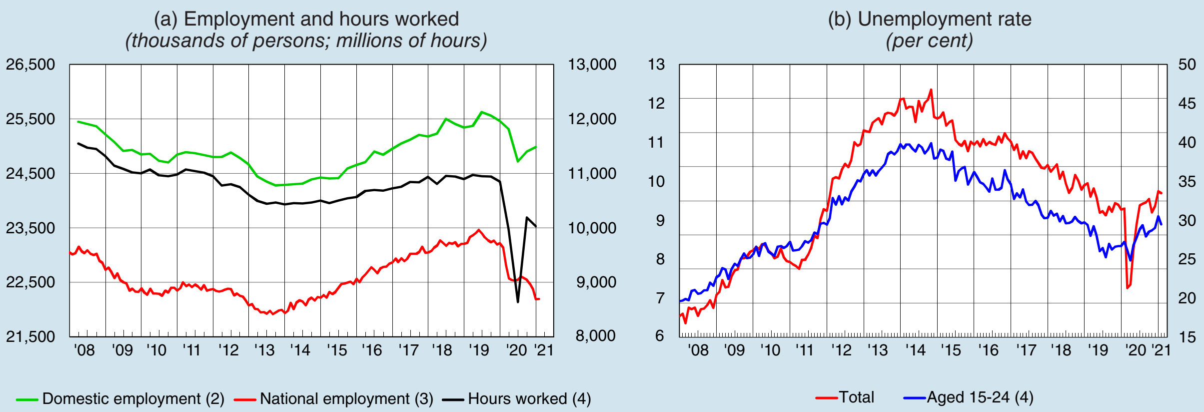
(1) A negative change in the TARGET2 balance indicates an increase in the Bank of Italy's liabilities in TARGET2. The data are available on the Bank of Italy's website in the Statistical database (BDS), see Table TBP60200. For January 2021, provisional data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

2.5 THE LABOUR MARKET

Following the social distancing measures introduced last autumn, the number of hours worked contracted again and recourse to wage supplementation increased, but to a much lesser extent than

Figure 31

Employment and unemployment (1)
(monthly and quarterly data)



Sources: Istat's quarterly national accounts for domestic employment and hours worked. Istat's labour force survey for national employment and for the unemployment rate (monthly data).
(1) Seasonally adjusted data. – (2) Includes all persons engaged in production activity in the economic territory of the country. – (3) Includes all resident employed persons, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale.

in the first wave of the pandemic. The latest available data suggest that the job creation rate remained stable in the first two months of the year. Wage growth is still low.

Hours worked decline in the fourth quarter ...

In the fourth quarter of 2020, with the second wave of cases, the number of hours worked decreased by 1.5 per cent, after the marked increase in the summer months (Figure 31.a and Table 11); it is still 7.5 per cent lower than in the corresponding year-earlier period. The fall affected both manufacturing (-1.8 per cent) and private services (-1.0 per cent).

Table 11

Employment and hours worked

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

	Stocks	Changes			
	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Persons employed	**24,983**	**-0.6**	**-2,4**	**0.7**	**0.3**
of whom: industry excl. construction	4,256	0.0	-0.4	0.0	0.2
private services (1)	10,937	-1.0	-3.5	0.7	0.9
construction	1,559	-0.2	-0.9	2.1	-0.1
Employees	19,166	-0.5	-2.4	1.1	0.2
Self-employed	5,817	-0.9	-2.3	-0.4	0.7
Total hours worked	**10,031**	**-8.1**	**-13.3**	**17.9**	**-1.5**
of which: industry excl. construction	1,743	-9.5	-13.5	23.1	-1.8
private services (1)	4,459	-8.9	-16.6	19.2	-1.0
construction	690	-10.7	-19.0	37.5	-2.9
Employees	7,130	-6.7	-11.7	14.2	-0.8
Self-employed	2,901	-11.3	-17.4	27.7	-3.3

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

The fall in labour demand in the fourth quarter was largely absorbed by recourse to wage supplementation schemes; between October and December, over one billion hours of wage supplementation (CIG) and solidarity funds were authorized (with an increase of 3.7 per cent compared with the three previous months). The number of applications was in any case lower than that recorded during the first wave of the pandemic (over two billion hours in the three months April-June; Figure 32).

... but the number of employed persons rises

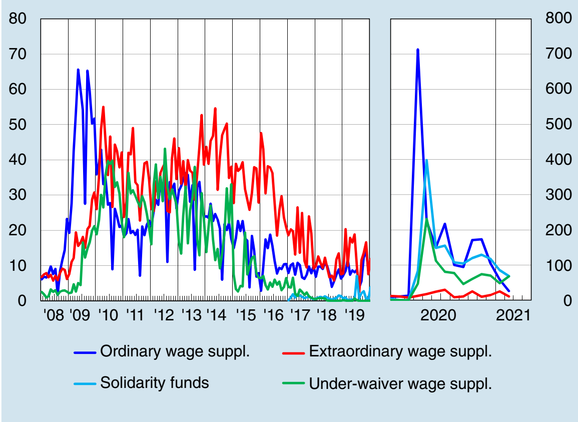
The growth in employment, though gradually weakening, instead remained positive on average in the fourth quarter (0.3 per cent, from 0.7 per cent in the summer months). Despite this, however, employment levels remain well below those prior to the public health emergency (-1.9 per cent compared with the fourth quarter of 2019, -1.6 per cent for payroll employment and -2.9 per cent for self-employment).

According to the administrative data drawn from mandatory reporting, the number of temporary

Figure 32

Hours of wage supplementation authorized (1)

(monthly data; millions of hours)



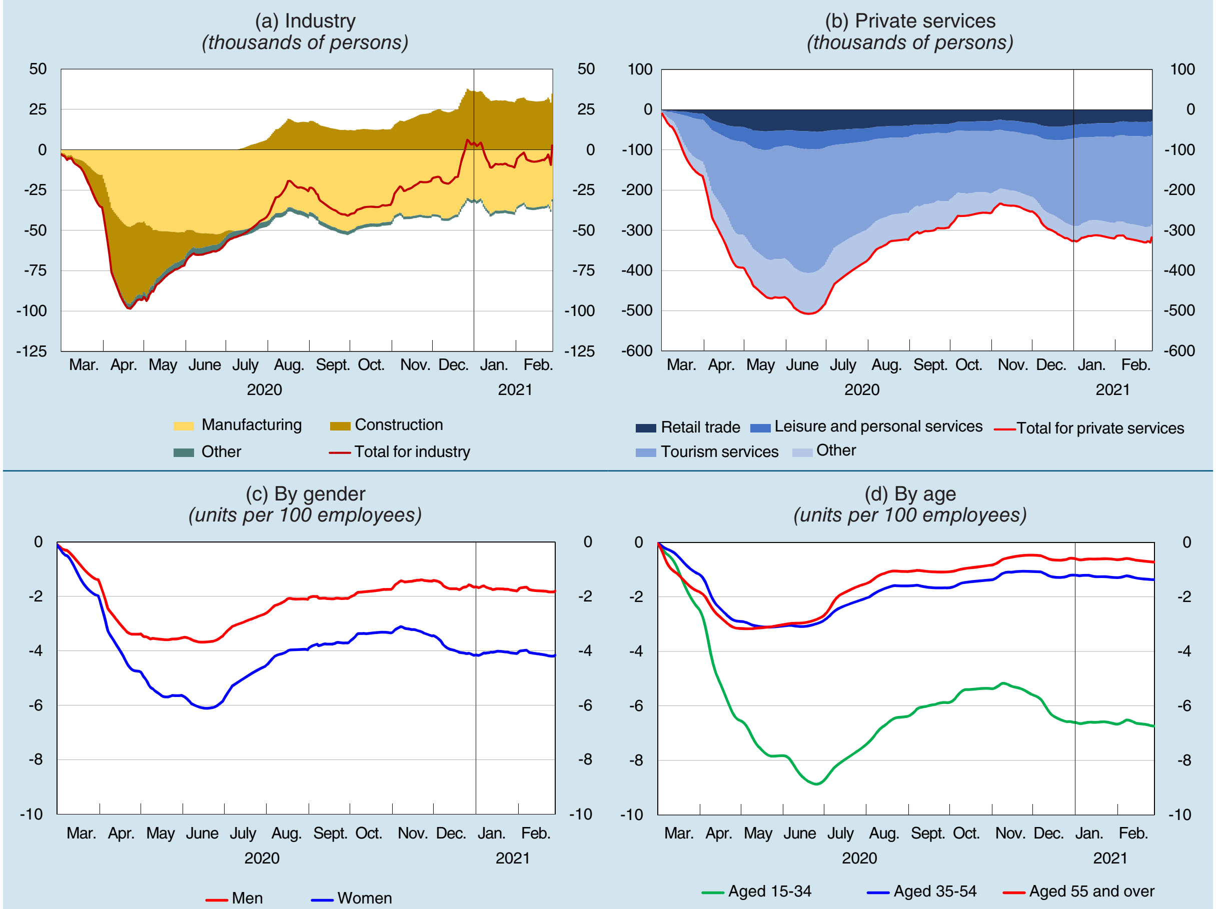
Source: Based on INPS data.
(1) For graphic design reasons, the data for the two years 2020-21 are plotted on a different scale from that used for the preceding years.

jobs fell by about 250,000 in 2020, more than offset by an increase of more than 260,000 in permanent contracts.[4] The resilience of permanent employment has been assisted by the freeze on dismissals, by wage supplementation and by other support measures for firms:[5] according to our estimates, around 400,000 stable jobs were protected by these measures in 2020. Since the start of the health emergency, the overall number of payroll jobs has declined markedly in private services and among the young and women (Figure 33).

Figure 33

Cumulative net new hires (1)

(cumulative balances since 1 March 2020; difference compared with previous 12 months)



Sources: Based on data from Istat's labour force survey and from the mandatory reporting of the Ministry of Labour and Social Policies. See Banca d'Italia and Ministry of Labour and Social Policies, 'Labour market: data and analyses'. *Mandatory Reporting*, 2 March 2021.
(1) 7-day moving averages. The item 'other' in industry includes: supply of water and gas and waste management. The item 'other' in services includes: transportation and warehousing, information and communication, financial, insurance and real estate firms, services for firms and other professional activities and other sectors not included in the aggregates specifically considered.

[4] For more details, see the Bank of Italy and the Ministry of Labour and Social Policies, *The labour market: data and analyses. Mandatory Reporting*, 2 March 2021.

[5] According to the data from the recently published mandatory reporting, in 2020, there were around 330,000 dismissals in the non-farm private sector, 200,000 more than in November (see E. Viviano, 'Preliminary estimates of the labour market effects of some support measures', Banca d'Italia, *Note COVID-19*, 16 November 2020 (only available in Italian), largely due to the possibility, under Decree Law 104/2020 ('August Decree', converted by Law 126/2020), to leave a job in the event of the definitive closing down of business activity or of the failure of a company.

The number of payroll jobs stabilized in the first two months of 2021. In order to implement Regulation (EU) 2019/1700, Istat recently revised the criteria for defining employment status in its labour force survey: those who, at the time of the survey, have been absent from work for three months (e.g. because they are receiving wage supplementation) or expect to be absent for a further three months, are no longer considered to be employed.[6] Even though these persons have an employment contract, they are now counted among the inactive if they are not actively seeking new employment. According to this new definition, the number of employed persons fell by 1 per cent in the first two months of 2021 compared with the previous period.

The participation rate falls

Following the partial recovery in the summer months, the participation rate contracted again after the last quarter of 2020, standing at 63.0 per cent on average in the two months January-February (2.2 percentage points lower than in the corresponding year-earlier period), the lowest figure since 2013. The unemployment rate rose to 10.2 per cent on average in those two months (0.5 percentage points higher than in the corresponding period in 2020; Figure 31.b).

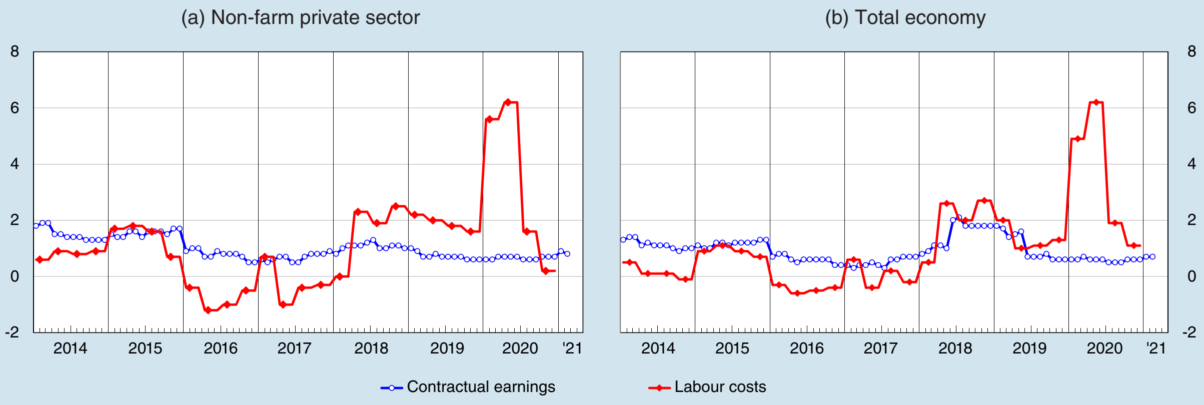
Wage growth remains modest

Growth in contractual earnings in the non-farm private sector increased slightly (0.8 per cent on a 12-month basis on average for the two months January-February; 0.7 per cent in the economy as a whole; Figure 34), above all because of the disbursement of wage increases provided for in contractual renewals in 2019. Over the next few months, wage growth will nevertheless remain modest, reflecting the share of expired collective bargaining agreements (involving more than 60 per cent of payroll employees). This is still high, despite the renewal last February of the national collective bargaining agreement for metalworkers (about two million employees).

In the fourth quarter, hourly labour costs for the non-farm private sector increased by 0.2 per cent on the year-earlier period (1.1 per cent for the economy as a whole). The marked volatility of this indicator in 2020 is largely due to a merely statistical effect, attributable to the rules for classifying the wage supplementation measures in the national accounts (see *Economic Bulletin*, 4, 2020).

Figure 34

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



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

[6] The review has been implemented since 1 January 2021. The time series have been reconstructed, albeit still provisionally, so as to permit comparisons over time. Employees that have not worked for at least three months are considered as not employed, unless their absence is due to maternity leave, illness, vertical part-time, training paid for by employers, paid parental leave or some kinds of seasonal work.

2.6 PRICE DEVELOPMENTS

Inflation, which had entered negative territory in the closing months of 2020, turned positive again in the first quarter, thanks to developments in energy prices. The increase in the first two months of the year was stronger than expected, mainly owing to temporary factors. Producer price pressures appear to be modest, for now; the expectations of analysts and firms remain low.

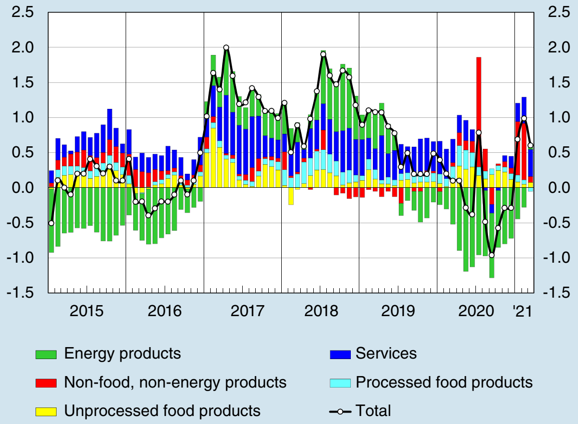
Inflation turns positive, reflecting developments in energy prices

Based on preliminary data, the twelve-month increase in consumer prices was 0.6 per cent in March (Figure 35 and Table 12). Inflation dynamics are no longer affected by the negative contribution of energy prices, which have begun to rise for the first time since July 2019. Core inflation fell to lower levels (to 0.7 per cent in March) after

Figure 35

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

(monthly data; per cent and percentage points)



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

Table 12

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	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	-0.2	–	0.4	-4.4	….
2019 – Jan.	0.9	0.6	0.9	0.9	0.2	0.5	4.4	–
Feb.	1.1	0.4	1.0	1.0	0.1	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	-0,3	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	0.0	0.5	-1.0	–
Aug.	0.5	0.6	0.4	0.4	0.1	0.5	-2.1	–
Sept.	0.2	0.5	0.2	0.3	-0.2	0.5	-2.4	–
Oct.	0.2	0.7	0.1	0.2	0.3	0.6	-4.1	–
Nov.	0.2	0.7	0.1	0.2	0.0	0.7	-3.6	–
Dec.	0.5	0.6	0.4	0.5	0.0	0.6	-3.1	–
2020 – Jan.	0.4	0.5	0.3	0.5	0.2	0.7	-3.4	–
Feb.	0.2	0.5	0.1	0.3	-0.2	0.7	-3.8	–
Mar.	0.1	0.6	0.0	0.1	0.1	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	-0.3	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	1.2	0.3	-4.5	–
Aug.	-0.5	0,3	-0.6	-0,5	-1.3	0.1	-4,0	–
Sept.	-1.0	-0.5	-1.1	-0.6	-0.7	0.0	-3.8	–
Oct.	-0.6	-0.1	-0.7	-0.3	0.7	0.3	-2.9	–
Nov.	-0.3	0.3	-0.4	-0.2	0.2	0.4	-2.8	–
Dec.	-0.3	0.4	-0.4	-0.2	0.1	0.6	-2.3	–
2021 – Jan.	0.7	1.3	0.7	0.4	1.3	0.8	-0.4	–
Feb.	1.0	1.5	1.0	0.6	0.1	1.0	0.7	–
Mar.	(0.6)	(0.7)	….	(0.8)	….	(0.9)	….	–

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally because of the different method for recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Index calculated by Istat by subtracting from selling 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.

being supported in the first two months of the year by temporary factors connected with the postponement of the seasonal sales periods.

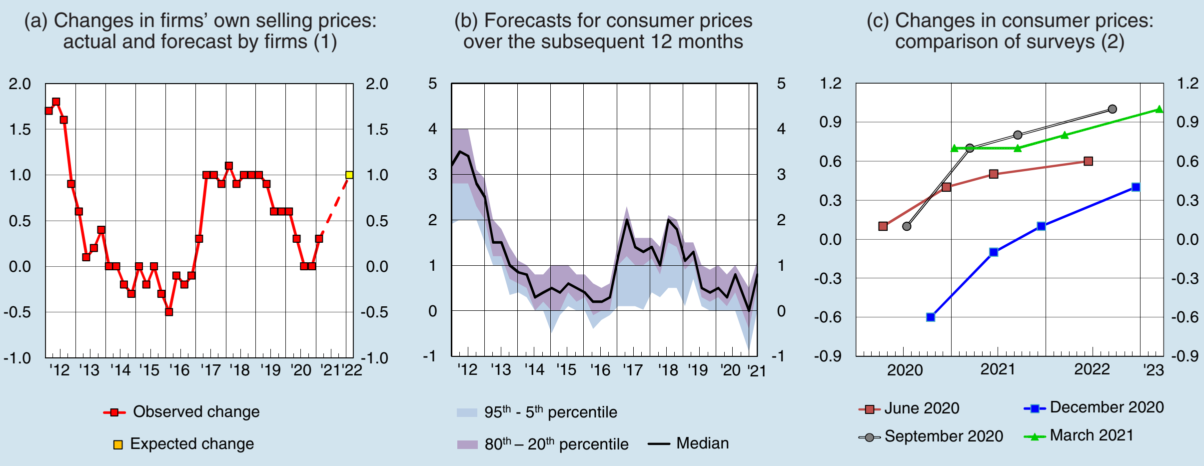
Producer price pressures are still moderate

In February, the producer prices of industrial products sold on the domestic market began to rise again, to a twelve-month rate of 0.7 per cent (compared with -0.4 per cent in January), owing to the disappearance of the negative contribution of energy prices. In the fourth quarter of 2020, unit labour costs (whose volatility is still partly influenced by statistical measurement effects) continued to fall, although at a slower pace (-0.3 per cent on a 12-month basis, from -0.5 per cent), while hourly wage growth was moderate and continued to be so into the early months of 2021 (see Section 2.5).

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' selling prices over the past 12 months and the change expected over the next 12 months. – (2) The key below indicates the month in which the survey was conducted. The first point of each curve is the definitive figure for inflation available at the time of the survey, which is provided to respondents in the questionnaire to use as a reference 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.

Inflation expectations rise slightly

The professional forecasters surveyed in March by Consensus Economics expect inflation to average 0.8 per cent in 2021, 0.3 percentage points higher than in the previous survey. In the Bank of Italy's quarterly Survey on Inflation and Growth Expectations conducted in March, firms indicated that they expect their selling prices to increase further, by 1.0 per cent, especially those in the manufacturing sector. Firms also revised their consumer inflation expectations upward across all time horizons, although they remain low (Figure 36). The Bank of Italy's Special Survey of Italian Households, carried out at the end of February and the start of March, indicates that the percentage of households interviewed that expect an increase in prices over the next 12 months rose slightly.

2.7 BANKS

Lending to firms has continued to grow at an intense pace, accompanied by strong demand for State-guaranteed loans. Credit supply conditions have remained relaxed. Both bank funding costs and the rates on new loans were unchanged at very low levels. The non-performing loan rate rose slightly, while staying at low levels, also thanks to the liquidity support measures.

Lending continues to grow at a sustained pace

In February, lending to the non-financial private sector grew at a three-month rate of 3.4 per cent (on a seasonally adjusted and annualized basis; Table 13 and Figure 37.a). Lending to non-financial corporations slowed, but the pace of expansion was still quite solid, reflecting consistently ample demand for loans with public guarantees. The twelve-month growth rate in lending remained robust for companies in manufacturing and in services (Figure 37.b); credit continued to recover in construction.

Lending to households continued to expand (at 3.8 and 2.4 per cent over three and twelve months respectively) supported by loans for house purchase; consumer credit instead contracted.

Table 13

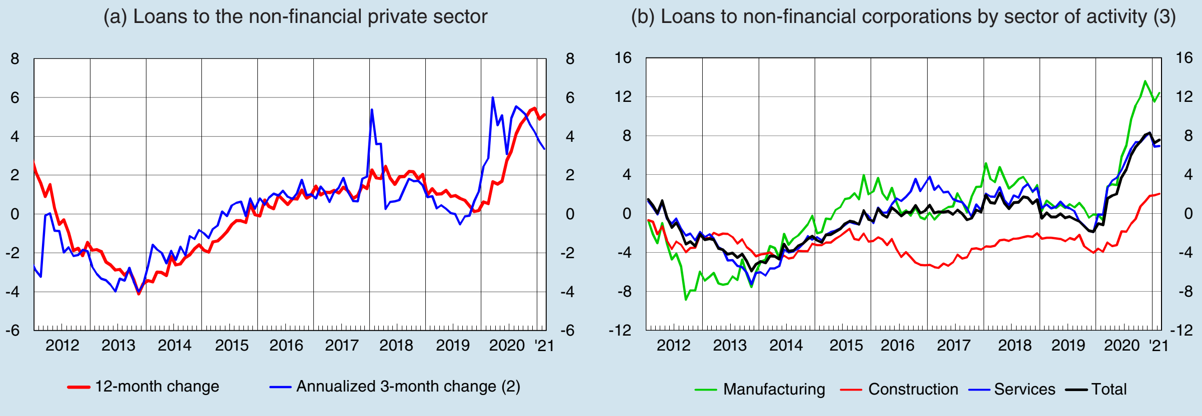
Bank lending as at February 2021 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**5.1**	**3.4**
Households	**2.4**	**3.8**
of which: loans for house purchase	2.5	....
consumer credit	-1.9	....
other loans (3)	5.0	....
Non-financial corporations	**7.6**	**3.6**
of which: manufacturing	12.4	....
services	6.9	....
construction	2.0	....

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.

Deposits of firms and households increase

Between November and February, Italian banks' funding remained robust. Growth in deposits by residents strengthened (10.2 per cent; Table 14), in line with the strong preference for liquidity on the part of households and firms and the low opportunity cost of holding it. Liabilities to the Eurosystem increased, following banks' participation in the sixth auction of TLTRO III, settled on 16 December.

Table 14

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

	End-of-month stocks		12-month percentage changes (2)	
	November 2020	February 2021	November 2020	February 2021
Assets				
Loans to Italian residents (3)	1,721	1,711	2.8	3.2
of which: to firms (4)	682	668	8.1	7.6
to households (5)	642	642	2.3	2.4
Claims on central counterparties (6)	63	53	-39.6	-34.9
Debt securities excluding bonds of resident MFIs (7)	589	581	7.4	7.9
of which: securities of Italian general government entities	433	435	7.5	10.3
Claims on the Eurosystem (8)	301	314	116.2	150.8
External assets (9)	461	439	7.5	0.9
Other assets (10)	769	757	6.1	4.1
Total assets	**3,903**	**3,855**	**7.8**	**8.0**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,742	1,782	7.5	10.2
Deposits of non-residents (9)	321	298	-4.5	-12.9
Liabilities towards central counterparties (6)	98	108	-27.9	-11.6
Bonds (12)	218	215	-6.8	-6.0
Liabilities towards the Eurosystem (8)	367	374	56.8	73.5
Liabilities connected with transfers of claims	136	124	4.3	-2.2
Capital and reserves	362	351	-1.5	-0.4
Other liabilities (13)	658	604	15.9	6.0
Total liabilities	**3,903**	**3,855**	**7.8**	**8.0**

Source: Supervisory reports.
(1) The data for February 2021 are provisional. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (3) Excludes transactions with central counterparties. – (4) Harmonized definition, excludes producer households. – (5) Harmonized definition, includes producer households, non-profit institutions serving households, and households not classified elsewhere. – (6) Only repos. – (7) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (8) Includes the accounts with the Eurosystem for monetary policy operations; see Tables 3.3a and 3.3b in 'Banks and Money: National Data', Banca d'Italia, Statistics Series. – (9) In the period considered, these refer mainly to interbank transactions. – (10) Includes bonds issued by resident MFIs; loans to resident MFIs; shares and other equity of resident companies; cash; money market fund units; derivatives; movable and immovable goods; 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.

Funding conditions remained relaxed: between the end of 2020 and the first ten days of April, yields on bank bonds in the secondary market in Italy were virtually unchanged at very low levels (1.2 per cent); the yield spread with respect to the euro-area average diminished further, to around 70 basis points.

The cost of credit for firms declines further

The interest rate on new bank loans to firms decreased to 1.1 per cent in February (Table 15 and Figure 38); the reduction concerned both loans of more than €1 million and, to a lesser extent, those for lower amounts. The average interest rate on new loans to households for house purchase was unchanged, at 1.3 per cent.

Table 15

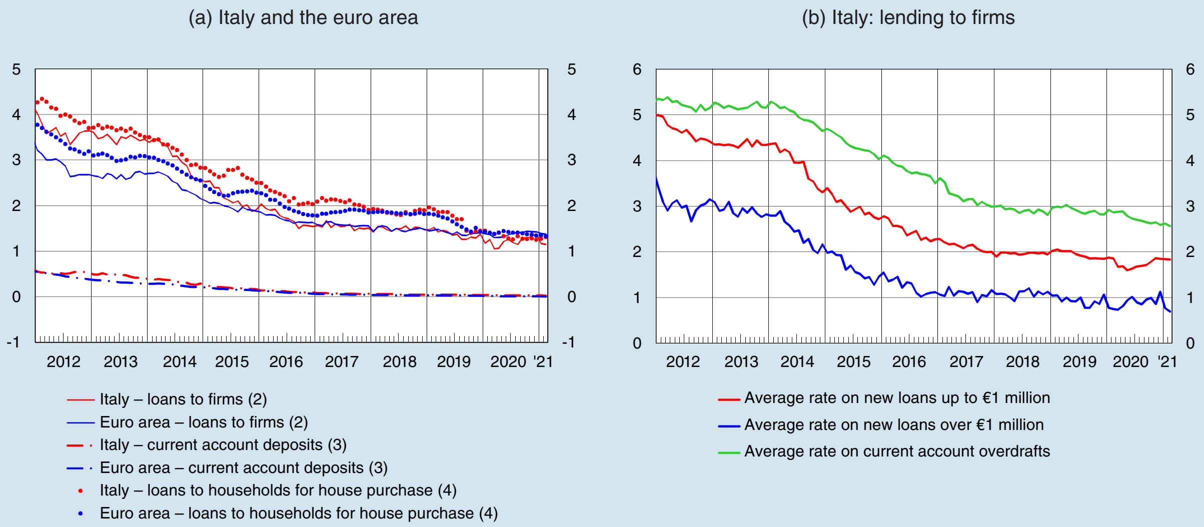
Bank interest rates (1)
(per cent)

	November 2020	February 2021
Loans to firms	**1.3**	**1.1**
of which: up to €1 million	1.9	1.8
over €1 million	0.9	0.7
Loans to households for house purchase	**1.3**	**1.3**
of which: fixed-rate (2)	1.3	1.3
variable-rate (3)	1.3	1.3

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

Figure 38

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



Sources: Bank of Italy and ECB.
(1) Averages. The data on lending and deposit rates refer to transactions in euros and are collected 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.

Support measures help keep credit supply abundant

In the euro area bank lending survey, referring to the fourth quarter of 2020, Italian banks reported that supply policies for lending to non-financial corporations continued to be relaxed. This was also thanks to the positive effects of the public guarantee schemes and monetary policy support, which facilitated disbursements to meet demand for funds by firms (see the box 'Credit supply and demand'). A slight tightening of credit standards for loans to firms was expected for the first quarter.

CREDIT SUPPLY AND DEMAND

The Italian banks[1] that took part in the euro area bank lending survey (BLS), referring to the fourth quarter of 2020, reported that both credit standards and the terms and conditions applied to business loans were unchanged (Figure A), also thanks to recourse to government-guaranteed loans in the second half of the year; this phenomenon was observable to a lesser extent in Germany, France and Spain, which instead reported a tightening of credit supply policies on business loans.[2] For the first quarter of 2021, Italian banks expected corporate lending standards to be only marginally less accommodative.

For loans to households, the Italian intermediaries surveyed indicated that credit standards for house purchase loans were unchanged, while those for consumer credit became moderately more relaxed, owing to greater risk tolerance on the part of banks. For the first quarter of this year, supply policies

[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)'.

[2] For more details, see ECB, 'January 2021 Euro area bank lending survey', press release, 19 January 2021.

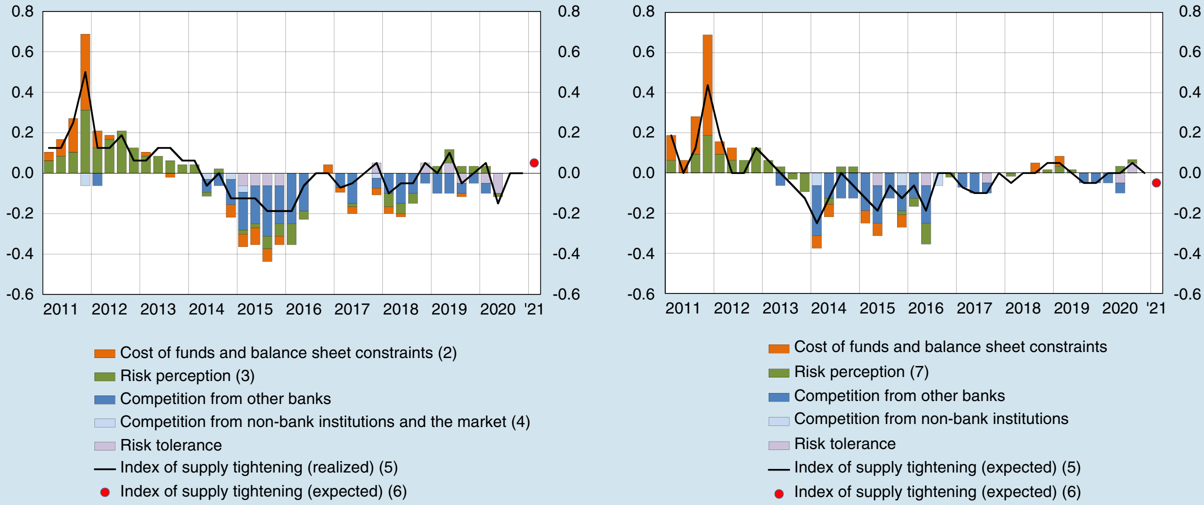
Figure A

Credit standards and demand for loans in Italy (1)

(quarterly data; diffusion indices)

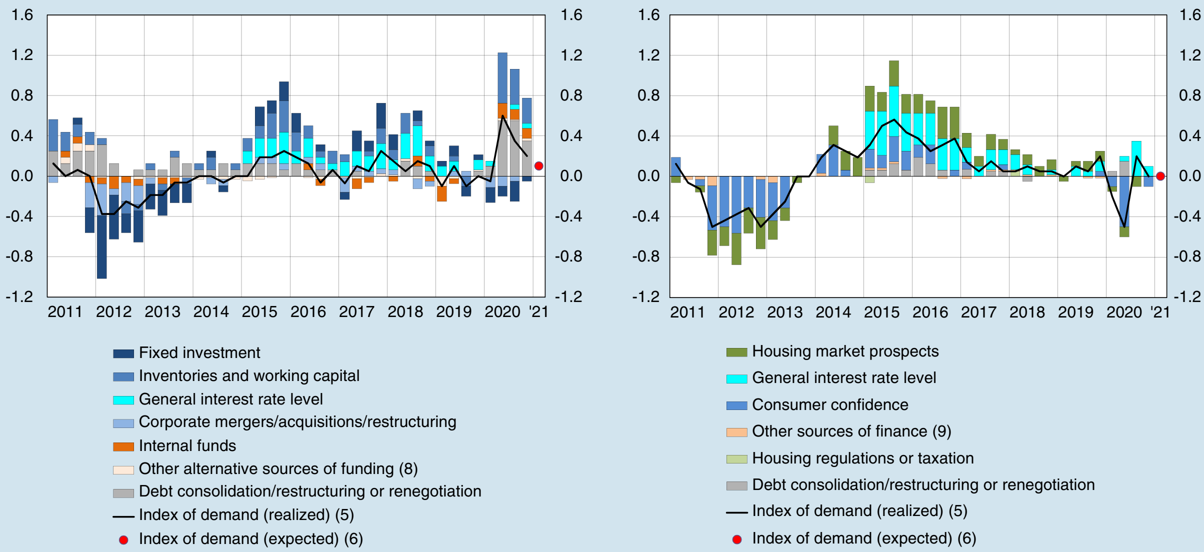
(a) Loans to firms | (b) Loans to households for house purchase

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



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

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



Source: BLS.
(1) Positive values indicate supply tightening/demand expansion compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened 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 the 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. – (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; issuance/redemptions of debt securities; issuance/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.

for mortgage loans were expected to ease a little and those for consumer credit loans to undergo a slight tightening.

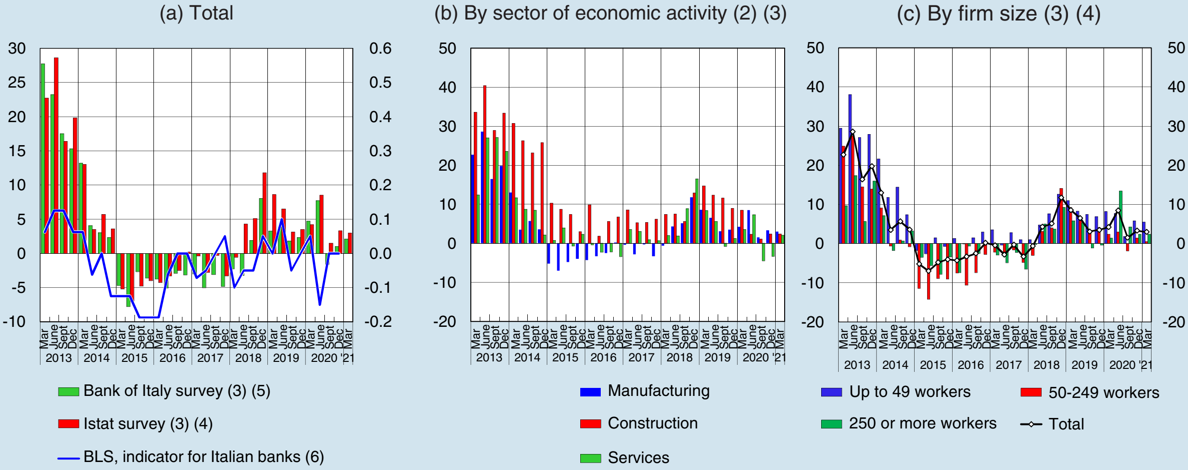
Demand for funds by firms rose again, though by less than in the previous quarters; the increase continues to mostly reflect financing needs connected with inventory and working capital, in addition to those relative to refinancing and to debt restructuring and renegotiation. For the first three months of 2021, banks expected a further moderate increase in demand for loans by firms. Demand for credit by households was unchanged for house purchase loans, while that for consumer credit contracted. For the first quarter of this year, intermediaries expected demand to remain unchanged for mortgage loans and to increase for consumer credit.

As part of the survey, banks were asked to assess how the public guarantee schemes connected with the pandemic emergency had impacted supply and demand for business loans in the second half of 2020. The responses indicated that the credit standards for government-guaranteed loans, which were already very favourable in the first part of the year, were eased again; by contrast, banks reported a slight tightening for loans without a public guarantee. Regarding demand for funds, in the second half of the year, a new significant increase was reported for those backed by guarantees, while demand for unsecured loans was basically unchanged. For the first six months of this year, banks expect demand for guaranteed loans to rise again, though by less than in the second half of 2020.

According to the results of the surveys of firms carried out by Istat and the Bank of Italy regarding the first quarter of 2021, credit access conditions remained generally relaxed in all sectors, despite recording a small tightening compared with the end of 2020, especially for smaller firms.

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 survey are taken from the end-of-quarter observations; in June 2013, some methodological changes involving the sample and data observation techniques were made that preclude direct comparison with previous periods. For the BLS, see Figure A. – (2) Istat, business confidence surveys. – (3) Net percentage of firms reporting difficulty in obtaining credit, 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.

New non-performing loans remain limited

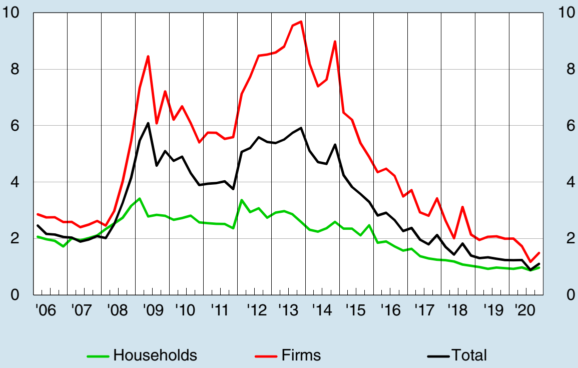
In the last quarter of 2020, the flow of new non-performing loans in proportion to total loans rose to 1.1 per cent (from 0.9 per cent in the third quarter, on a seasonally adjusted and annualized basis; Figure 39). The slight increase was recorded for both lending to households (1.0 per cent, from 0.9 per cent) and to firms (1.5 per cent, from 1.2 per cent); for the latter, the increase was greater for firms operating in services.

The flow of new non-performing loans stayed at low levels, helped by the measures to support household income and firms' activities, moratoriums (both legislative moratoriums and those granted independently by the banks), and public guarantees; the low NPL rate also reflects the typically delayed impact of a deterioration in economic activity on credit quality.[7]

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 16

Main indicators for the significant Italian banks (1)

(values and percentage changes)

	September 2020	December 2020
Non-performing loans (NPLs) (2)		
Gross NPL ratio	5.4	4.1
Net NPL ratio	2.6	2.0
Coverage ratio (3)	53.8	53.5
Regulatory capital		
Common equity tier 1 (CET1) *ratio*	15.1	15.5
	2019	2020
Profitability (4)		
ROE (5)	4.9	1.4
Net interest income (6)	-6.2	-4.7
Gross income (6)	-2.6	-6.2
Operating expenses (6)	-1.6	4.5
Operating profit (6)	-4.5	-26.6
Loan loss provisions (6)	0.8	31.5

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 December 2019 with the data for December 2018, the cooperative credit groups ICCREA and Cassa Centrale Banca were excluded; accordingly, the data refer to homogenous samples of significant banks. – (5) Net of extraordinary components. – (6) Percentage changes on previous year.

[7] See 'European regulations on calendar provisioning and on the classification of customers by banks', testimony by the Governor of the Bank of Italy, Ignazio Visco, before the parliamentary committee of inquiry into the banking and financial system, Rome, 10 February 2021.

The share of non-performing loans to total loans of the significant banking groups continued to decline in the fourth quarter of last year, both gross and net of loan loss provisions (Table 16), in part thanks to substantial sales of bad and unlikely-to-pay positions. The coverage ratio (i.e. the ratio of loan loss provisions to total non-performing loans) decreased slightly with respect to the previous quarter, following the sale of non-performing loans that had already been amply written down.

Banks' profitability declines ...

The profitability of Italian banking groups classified as significant declined in 2020. Net of extraordinary components, the annualized return on equity (ROE) fell markedly, mainly owing to the increase in loan loss provisions. A number of non-recurring items were recognized in the accounts, some of which referred to corporate restructurings. Total revenues declined, especially those from trading and the sale of financial assets, whose performance had been particularly positive in the last quarter of 2019. Operating costs increased as a result of expenses associated with corporate restructuring and consolidation operations, as well as with the extraordinary contributions to the National Resolution Fund; net of non-recurring outlays relating to the early termination of employment contracts, operating expenses would have decreased by 2.5 per cent and operating profit would have fallen by only 13.4 per cent.

... but their financial situation continues to strengthen

In the fourth quarter of 2020, the average capitalization level of the significant banking groups rose again, by almost 40 basis points. Both the rise in regulatory capital, partly owing to a capital increase by one intermediary[8] and, to a lesser extent, the decline in risk-weighted assets, contributed to the improvement.

2.8 THE FINANCIAL MARKETS

Financial market conditions in Italy have stayed favourable. Government bond yields have remained low: the decline in the sovereign risk premium and the decisions of the ECB Governing Council have offset the upward pressure stemming from US markets.

Government bond yields increase slightly

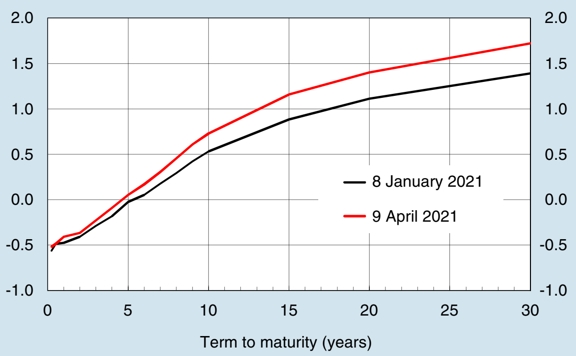
The yields on Italian government bonds decreased in the first half of February, mainly as a result of the reduction in the sovereign risk premium. They then rose to slightly higher levels than at the beginning of the year (Figure 40), affected by a shift common to all the main advanced economies, counteracted in the euro area, however, by the decisions of the ECB Governing Council (see Sections 1.2 and 1.3). The yield spread between Italian and German ten-year government bonds remained practically the same, at lower levels than those observed before the pandemic (Figure 41). The volatility implied by derivatives on Italian ten-year bonds continued to be very low (Figure 42).

Equity prices rise

Since the beginning of the year, equity prices in Italy have risen in line with those of the euro area,

Figure 40

Term structure of Italian government bond yields (1)
(per cent)

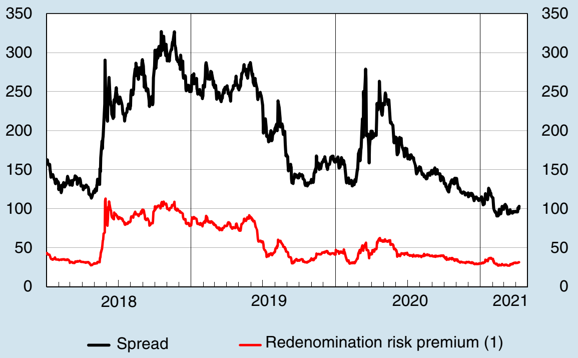


Source: Bloomberg.
(1) Term structure of Italian government bond yields on selected dates.

8 The capital increase was completed by the BPER group as part of the purchase of a business unit.

Figure 41

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



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

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.

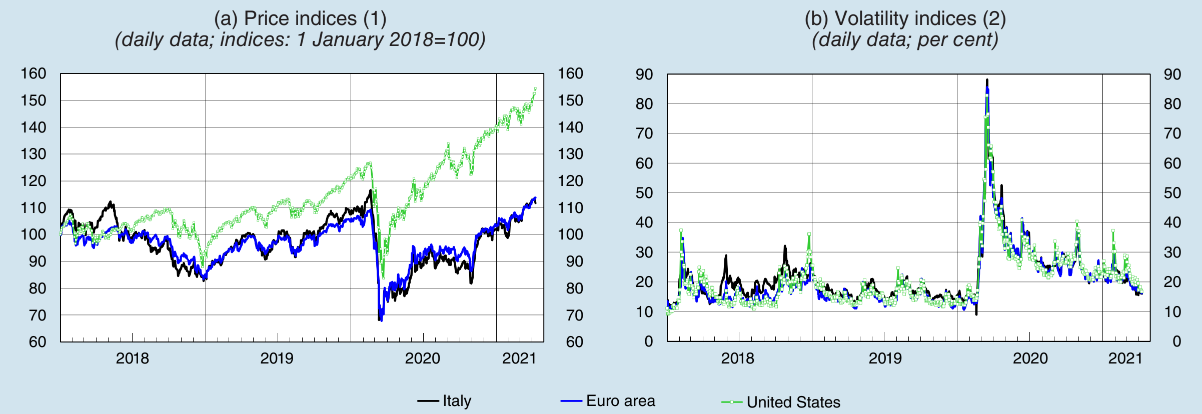
(7 and 8 per cent respectively; Figure 43.a). The consequences of the fears connected with the spread of COVID-19 variants and with vaccine supply difficulties have been more than offset by the effects of rebalancing portfolios towards assets that are riskier and more sensitive to improvements in the world economy, and by the effects of the better than expected financial results of listed companies. The index for the banking sector has risen sharply both in Italy and in the euro area, by 8 and 7 per cent respectively. The volatility of equity prices has fallen overall, albeit with some temporary increases, and in mid-April was more than 7 percentage points lower than the average for the last ten years (Figure 43.b).

The fall in funding costs comes to a halt

The funding costs of Italian banks have remained essentially unchanged, while those of non-financial corporations have risen; since the start of the year,

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.

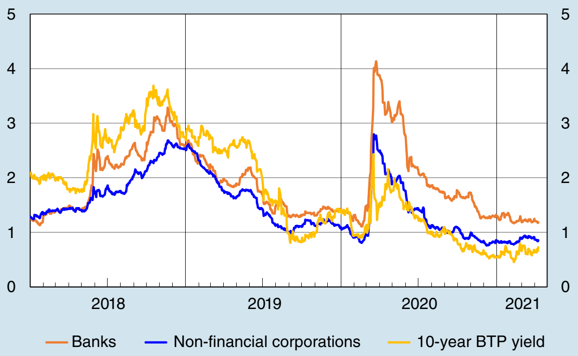
secondary market yields on bonds issued by the latter have increased by 5 basis points (Figure 44). The yields on bonds issued by banks and non-financial corporations both increased by around 7 basis points on average in the euro area.

Corporate net bond issues increase

In the fourth quarter of 2020, non-financial corporations recorded net bond issues amounting to €7 billion (from €2.3 billion in the third quarter); net redemptions by banks instead stood at €12 billion (against a balance of zero in the previous quarter). According to preliminary data from Bloomberg, gross bond issues increased significantly for banks and fell slightly for firms on average in the first quarter of 2021.

Figure 44

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



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

Net subscriptions to investment funds remain positive in the fourth quarter

According to Assogestioni data, the net inflow of savings towards open-end investment funds was positive in the fourth quarter of 2020 (€11.3 billion), which was wholly attributable to foreign investment funds. Investors turned not only to equity funds (with net subscriptions amounting to €10.4 billion) but also to bond funds (€7.2 billion) and balanced funds (€5.1 billion); hedge fund subscriptions totalled €0.2 billion. Instead, flexible funds and money market funds recorded negative net subscriptions (-€4.2 and -€7.3 billion respectively). The positive performance of net subscriptions to open-ended investment funds continued in January and February, reaching €4.7 and €2 billion respectively, against €2.8 billion in December of last year.

2.9 THE PUBLIC FINANCES

In response to the ongoing pandemic emergency and in view of the related restrictions on economic activity, the Government adopted additional measures in March, principally to support the firms and workers affected by these constraints. According to official assessments, compared with the current legislation projections, the measures raise the deficit for this year by almost €32 billion overall. The Government has requested authorization from Parliament to increase the deficit further, and has provided an update of its estimates for the public accounts in the 2021 Economic and Financial Document.

In 2020 net borrowing increases by less than forecast in October

According to the outturns released by Istat, in 2020 general government net borrowing came to 9.5 per cent of GDP (against 1.6 per cent in 2019;

Table 17

Main indicator of the general government accounts (1)
(per cent of GDP)

	2017	2018	2019	2020
Net borrowing	2.4	2.2	1.6	9.5
Primary surplus	1.4	1.5	1.8	-6.0
Interest payments	3.8	3.6	3.4	3.5
Tax burden	41.8	41.7	42.4	43.1
Borrowing requirement	3.4	2.2	1.9	9.5
Net borrowing requirement (2)	3.4	2.2	1.9	9.5
Debt	134.1	134.4	134.6	155.8

Source: for the general government national accounts, based on Istat data (see Istat, 'General government quarterly accounts, household income and savings and corporate profits', Flash Statistics, 2 April 2021).
(1) Rounding of decimal points may cause discrepancies in totals. – (2) Excludes state privatization receipts.

Table 17). This was 1.3 percentage points below the estimate contained in the Update to the 2020 Economic and Financial Document published last October, and confirmed in the letter sent by the Government to the European Commission on 20 January.[9] The deterioration with respect to 2019 reflected both the fall in the primary balance (from a surplus of 1.8 per cent of GDP to a deficit of 6 per cent), which in turn was due to the increase in primary expenditure (8.5 percentage points of GDP; Table 18) connected above all with the emergency measures adopted during the year.

Table 18

General government expenditure and revenue
(billions of euros and percentage changes)

			% change on previous year	
	2019	2020	2019	2020
EXPENDITURE				
Compensation of employees	172.9	173.4	0.2	0.3
Intermediate consumption	101.4	104.2	0.6	2.8
Social benefits in kind	45.6	46.6	-1.0	2.1
Social benefits in cash	361.2	399.4	3.7	10.6
Interest expense	60.4	57.3	-6.6	-5.0
Other expenditure	67.5	75.1	2.3	11.2
Current expenditure	**809.0**	**855.9**	**1.3**	**5.8**
% of GDP	45.2	51.8		
Current expenditure net of interest expense	**748.6**	**798.6**	**2.0**	**6.7**
% of GDP	41.8	48.4		
Investment (1)	41.4	44.2	9.5	6.7
Other capital expenditure	20.6	46.1	-0.9	123.8
Capital expenditure	**62.0**	**90.3**	**5.8**	**45.6**
Total expenditure net of interest expense	**810.7**	**888.9**	**2.3**	**9.7**
% of GDP	45.3	53.8		
TOTAL EXPENDITURE	**871.0**	**946.2**	**1.6**	**8.6**
% of GDP	48.6	57.3		
REVENUE				
Direct taxes	258.1	252.6	3.8	-2.1
Indirect taxes	257.8	228.9	1.3	-11.2
Social security contributions	242.2	228.6	3.3	-5.6
Production for market and for own use	44.4	39.4	1.0	-11.2
Other current revenue	36.3	35.8	10.8	-1.3
Current revenue	**838.8**	**785.3**	**3.0**	**-6.4**
% of GDP	46.8	47.5		
Capital revenue	**4.3**	**4.0**	**0.4**	**-7.0**
of which: capital taxes	1.3	1.0	-20.5	-23.5
TOTAL REVENUE	**843.1**	**789.4**	**3.0**	**-6.4**
% of GDP	47.1	47.5		
of which: tax burden	42.4	43.1		
NET BORROWING	**-27.9**	**-156.9**		
% of GDP	-1.6	-9.5		
Primary balance	**32.5**	**-99.6**		
% of GDP	1.8	-6.0		
Memorandum item:				
GDP	1,790.9	1,651.6		

Source: Based on Istat data (see Istat, 'General government quarterly accounts, household income and savings and corporate profits', Flash Statistics, 2 April 2021).
(1) Includes proceeds of property sales which are entered with a negative sign.

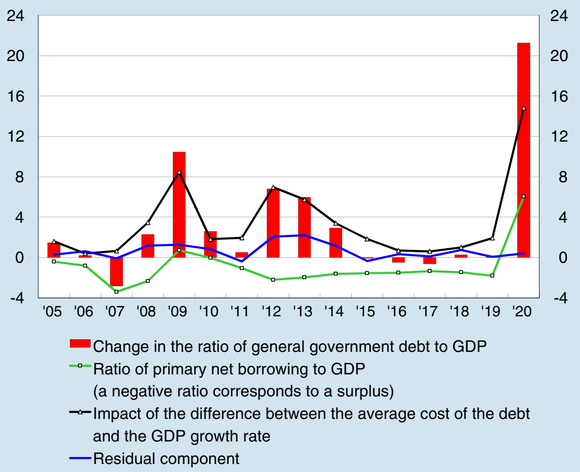
[9] In the letter, the Government notified the European Commission of its intention to request that Parliament authorize a higher deficit this year compared with the one indicated in the Update to the 2020 Economic and Financial Document.

The debt-to-GDP ratio rises by more than 20 percentage points

The debt-to-GDP ratio rose to 155.8 per cent (Figure 45), from 134.6 per cent in 2019. Both the impact of the recession, which widened the gap between the average cost of the debt and nominal GDP growth, and the formation of a primary deficit, were contributory factors. The increase in the debt-to-GDP ratio was nonetheless smaller with respect to last autumn's official forecasts (which had instead projected an increase of 23.4 percentage points). This reflected both the lower final figure for the deficit and a trend in nominal GDP that was slightly better than expected, though still very negative (-7.8 per cent, from 1.1 per cent in 2019).

Figure 45

General government debt: trend and determinants of the changes
(annual data; per cent of GDP)



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

Table 19

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

	2017	2018	2019	2020
Change in the debt = (a)+(b)+(c)+(d)	**43.7**	**51.6**	**29.0**	**163.4**
(a) Total borrowing requirement	59.1	39.0	34.6	156.5
of which: support to EMU countries	0.0	0.0	-0.4	-0.1
(b) Change in Treasury's liquid balances	-13.8	5.8	-2.2	9.6
(c) Issue discounts and premiums (1)	-1.2	6.8	-3.6	-2.3
(d) Euro equivalent of foreign currency liabilities	-0.4	0.1	0.1	-0.3

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

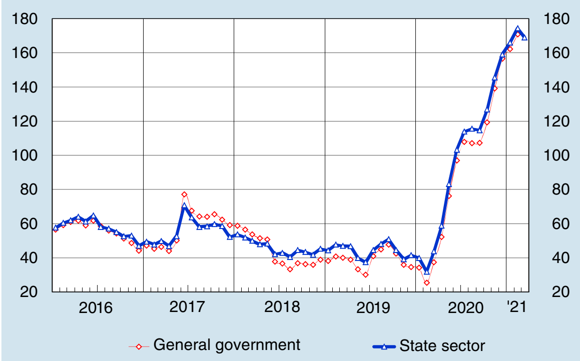
The increase in the debt in 2020 (€163.4 billion) surpassed the general government borrowing requirement (€156.5 billion), reflecting the expansion of the Treasury's liquid balances (€9.6 billion). The latter was only partly offset by the effect of the discounts and premiums at issue and at redemption, of the revaluation of inflation-indexed securities, and of changes in the exchange rate, which reduced the debt by €2.6 billion overall (Table 19).

The downward trend in interest rates on government bonds at issue observed in the second half of the year contributed to a reduction in the average cost of the public debt, which declined to 2.4 per cent at the end of 2020 (from 2.5 per cent in 2019); the average residual maturity lengthened slightly, to 7.4 years, from 7.3 years at the end of 2019.

In the first quarter of 2021, the state sector borrowing requirement amounted to €41 billion (Figure 46), up by around €10 billion compared with the corresponding period of 2020.

Figure 46

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



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

The Government adopts new support measures …

In March, the Government issued a decree law ('Support Decree'),[10] containing additional, mostly temporary, measures, aimed on the one hand at mitigating the economic and social repercussions of the health emergency on households and firms and, on the other, at strengthening the actions taken within the health system to combat the pandemic. The decree determines an increase in net borrowing in 2021 of almost €32 billion compared with the current legislation scenario,[11] about 90 per cent of which is attributable to higher expenditure. It allocates around €17 billion to firms and to supporting economic activity, just over €6 billion to interventions in favour of workers and households, over €5 billion to the national health and security systems, and around €3 billion to local government authorities, education and research and to other minor measures.

The Government requested Parliament's authorization to raise the deficit further. In the 2021 Economic and Financial Document, approved on 15 April, it updated the public finance estimates for this year and set out its objectives for the subsequent years, also in light of the updated macroeconomic outlook and the National Recovery and Resilience Plan (NRRP).

… and is now drafting the National Recovery and Resilience Plan

As part of the Next Generation EU programme, the Government is preparing the NRRP, which will be submitted to the European Commission by the end of April (see Section 1.2). According to initial indications,[12] the resources available for funding the investments and reforms envisaged under the plan will amount to almost €192 billion,[13] of which around €123 billion in the form of loans. The disbursement of an amount equal to 13 per cent of the value of the plan, in the form of pre-financing, will be possible following its approval by the European Council.

[10] Decree Law 41/2021, currently being converted; see the Report by the Bank of Italy prepared for the Fifth (Budget, Treasury and Planning) and Sixth (Finance and Treasury) Committees meeting in joint session, 'Draft law 2144, converting into law Decree Law 41/2021 containing urgent measures to support firms and economic operators, employment, health and local government services, linked to the COVID-19 epidemiological emergency', Senate of the Republic, Rome, 8 April 2021.

[11] As provided for under national legislation, the Government requested and obtained authorization from Parliament to increase this year's deficit compared with the deficit projected in the Update to the 2020 Economic and Financial Document.

[12] See the testimony of the Minister of Economy and Finance, Daniele Franco, as part of the examination of Doc. XXVII, No. 18 (Proposal for a National Recovery and Resilience Plan), Report presented to the Fifth, Sixth and Fourteenth Committees of the Senate of the Republic and Fifth, Sixth and Fourteenth Committees of the Chamber of Deputies, meeting in joint session, Senate of the Republic, Rome, 8 March 2021.

[13] To these resources, drawn from the Recovery and Resilience Facility, will be added those relative to the other instruments envisaged under Next Generation EU, such as the Recovery Assistance for Cohesion and the Territories of Europe (React-EU) and the Just Transition Fund (JTF), which should amount to around €14 billion.

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
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
2020	115.5	103.6	125.3	87.6	90.7	91.7
2020 – Q1	114.9	102.7	124.2	87.8	89.4	89.7
Q2	112.4	101.2	125.4	86.4	90.4	92.2
Q3	117.2	104.5	124.2	86.4	91.5	92.7
Q4	117.3	105.8	127.6	89.9	91.4	92.3
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.	114.2	99.8	125.4	86.3	89.8	91.5
Apr.	112.2	100.3	127.1	86.7	89.8	92.4
May	110.0	100.8	125.6	86.0	90.4	92.2
June	114.9	102.6	123.4	86.4	91.0	92.1
July	116.4	102.9	123.3	86.4	91.3	92.2
Aug.	117.8	105.1	123.4	86.3	91.7	92.9
Sept.	117.3	105.5	125.9	86.5	91.5	92.9
Oct.	116.9	105.3	127.6	88.6	91.4	92.6
Nov.	116.8	105.0	128.0	90.0	91.1	92.1
Dec.	118.3	107.2	127.3	91.0	91.6	92.1
2021 – Jan.	118.4	108.8	128.4	90.6	91.0	91.7

(1) The indicators of overall competitiveness shown in the table are based on 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.

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

(period averages; indices: 1999=100)

	Japan	Italy	Netherlands	United Kingdom	Spain	United States
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
2020	68.3	97.9	115.1	80.2	107.4	105.7
2020 – Q1	67.9	96.3	114.7	81.1	107.1	106.4
Q2	69.6	97.7	114.1	80.4	106.2	108.1
Q3	68.4	98.9	115.8	79.7	108.1	105.4
Q4	67.4	98.8	115.9	79.5	108.2	102.9
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.	69.9	97.4	115.2	79.4	107.1	108.5
Apr.	70.1	97.5	113.8	81.3	106.2	108.1
May	69.9	97.5	113.8	80.3	105.8	109.3
June	68.7	98.1	114.7	79.6	106.7	107.0
July	68.7	98.3	115.4	79.4	107.7	106.7
Aug.	68.3	99.3	116.1	80.3	108.4	105.1
Sept.	68.2	99.1	116.0	79.3	108.1	104.4
Oct.	68.0	99.0	115.8	79.2	108.0	104.1
Nov.	67.6	98.5	115.5	80.1	107.8	103.0
Dec.	66.8	98.9	116.4	79.1	108.8	101.7
2021 – Jan.	66.3	98.4	117.2	80.1	109.1	101.4

(1) The indicators of overall competitiveness shown in the table are based on 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		
2018	1.1	0.6	2.0	1.4	0.4
2019	2.4	-0.2	-0.5	-0.4	2.5
2020	2.4	-0.2	-11.1	-11.0	2.6
2018 – Q1	-0.2	2.1	3.5	1.3	-2.3
Q2	2.4	1.4	2.5	1.1	1.0
Q3	1.3	-0.2	0.7	0.9	1.6
Q4	2.1	-0.6	-0.8	-0.2	2.8
2019 – Q1	3.0	-1.5	-0.1	1.5	4.6
Q2	2.0	-0.3	-0.2	0.0	2.3
Q3	1.7	0.9	-0.1	-1.1	0.7
Q4	2.6	0.0	-1.8	-1.8	2.6
2020 – Q1	6.3	2.3	-9.7	-11.7	3.9
Q2	3.9	-5.0	-26.8	-23.0	9.3
Q3	-1.0	-0.8	-5.2	-4.5	-0.2
Q4	0.5	1.9	-3.6	-5.4	-1.4
			Services		
2018	1.9	-0.2	0.6	0.8	2.1
2019	1.0	0.0	0.4	0.4	1.0
2020	4.0	4.2	-8.1	-11.8	-0.1
2018 – Q1	0.6	0.2	0.9	0.8	0.4
Q2	2.8	-0.3	0.7	0.9	3.1
Q3	2.4	-0.1	0.4	0.5	2.4
Q4	3.2	0.9	0.5	-0.5	2.3
2019 – Q1	1.8	-1.0	0.2	1.3	2.8
Q2	0.5	0.1	0.5	0.4	0.4
Q3	0.9	0.1	0.6	0.5	0.8
Q4	1.0	0.9	0.3	-0.5	0.1
2020 – Q1	5.1	5.1	-4.4	-9.0	0.0
Q2	7.8	7.2	-15.6	-21.2	0.6
Q3	3.2	3.9	-5.2	-8.7	-0.7
Q4	1.2	1.6	-7.4	-8.8	-0.3
			Total economy		
2018	1.6	0.0	1.0	0.9	1.6
2019	1.4	0.0	0.2	0.2	1.4
2020	3.3	2.7	-8.6	-11.0	0.6
2018 – Q1	0.5	0.9	1.4	0.5	-0.3
Q2	2.6	0.0	1.0	1.0	2.6
Q3	2.0	-0.3	0.6	0.9	2.3
Q4	2.7	0.6	0.2	-0.4	2.0
2019 – Q1	2.0	-1.2	0.3	1.5	3.2
Q2	1.0	0.5	0.4	-0.1	0.5
Q3	1.1	0.3	0.4	0.0	0.8
Q4	1.3	0.3	-0.1	-0.4	1.0
2020 – Q1	4.9	3.9	-5.6	-9.1	1.0
Q2	6.2	3.8	-18.1	-21.1	2.3
Q3	1.9	2.4	-4.7	-6.9	-0.5
Q4	1.1	1.4	-6.2	-7.5	-0.3

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

Table A3

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
Total industry excluding construction					
2018	2.0	0.3	1.6	1.4	1.7
2019	2.1	-1.1	-0.9	0.2	3.3
2020	2.9	0.0	-7.6	-7.5	3.0
2018 – Q1	1.9	2.1	3.3	1.1	-0.2
Q2	2.2	1.3	2.8	1.5	0.9
Q3	2.2	-0.2	1.0	1.2	2.4
Q4	2.1	-1.6	-0.7	1.0	3.7
2019 – Q1	1.9	-1.6	-0.1	1.5	3.6
Q2	2.1	-1.2	-0.9	0.2	3.4
Q3	2.6	-0.9	-0.8	0.1	3.5
Q4	1.7	-0.7	-1.4	-0.7	2.5
2020 – Q1	3.5	-0.4	-4.9	-4.5	3.9
Q2	7.0	-3.1	-18.9	-16.3	10.5
Q3	1.2	0.0	-5.8	-5.8	1.2
Q4	2.5	3.5	-2.4	-5.7	-1.0
Services					
2018	2.0	0.3	2.0	1.7	1.7
2019	2.2	0.6	1.7	1.1	1.6
2020	6.0	1.8	-6.4	-8.1	4.1
2018 – Q1	2.2	1.2	2.5	1.3	1.0
Q2	1.9	0.3	2.2	1.9	1.5
Q3	2.3	0.0	1.7	1.7	2.3
Q4	2.3	0.2	1.7	1.4	2.1
2019 – Q1	1.7	-0.1	1.8	1.9	1.7
Q2	2.4	0.8	1.8	1.0	1.7
Q3	2.3	0.9	1.8	0.9	1.3
Q4	2.2	0.7	1.5	0.8	1.5
2020 – Q1	4.9	1.3	-2.4	-3.7	3.5
Q2	10.8	4.5	-13.7	-17.5	6.0
Q3	4.2	1.2	-4.0	-5.2	2.9
Q4	6.0	1.3	-6.0	-7.2	4.7
Total economy					
2018	1.9	0.2	1.9	1.7	1.7
2019	2.2	0.4	1.3	0.9	1.8
2020	5.2	1.3	-6.5	-7.7	3.9
2018 – Q1	2.1	1.3	2.6	1.3	0.7
Q2	1.8	0.4	2.3	1.8	1.4
Q3	2.2	-0.2	1.6	1.7	2.4
Q4	2.1	-0.2	1.2	1.4	2.3
2019 – Q1	1.7	-0.3	1.6	1.8	2.0
Q2	2.4	0.5	1.3	0.8	1.9
Q3	2.3	0.7	1.3	0.6	1.6
Q4	2.1	0.4	0.9	0.5	1.6
2020 – Q1	4.5	1.0	-2.9	-3.9	3.5
Q2	9.8	2.7	-14.6	-16.8	6.8
Q3	3.4	0.6	-4.3	-4.9	2.8
Q4	5.1	1.5	-5.1	-6.5	3.6

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
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
2020		-0.1	0.5	0.5	0.6	0.4	0.7	0.3	0.7
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	0.2	-0.7	-0.1	-0.3	0.2
2021 –	Jan.	0.7	1.3	0.8	1.1	1.6	2.0	0.9	1.4
	Feb.	1.0	1.5	0.8	0.6	1.6	1.7	0.9	1.1
	Mar.	(0.6)	(0.7)	(1.4)	….	(2.0)	….	(1.3)	(0.9)

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 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												
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	619	1,547	940	607	75	564	156	2,962	165.4	251	132	119
2020	614	1,656	1,011	645	81	564	172	3,086	186.9	125	11	114
2019 – Q1	595	1,431	867	564	80	559	138	2,803	157.8	92	72	20
Q2	601	1,457	882	575	83	567	145	2,852	160.4	50	31	19
Q3	611	1,504	902	601	87	577	157	2,935	164.4	83	34	49
Q4	619	1,547	940	607	75	564	156	2,962	165.4	26	-4	31
2020 – Q1	616	1,412	826	586	85	596	167	2,876	162.9	-86	-120	34
Q2	613	1,528	905	623	83	574	175	2,973	175.6	97	82	16
Q3	617	1,575	940	634	85	565	178	3,020	180.5	46	14	33
Q4	614	1,656	1,011	645	81	564	172	3,086	186.9	67	35	31
Liabilities												
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	157.8	-12	-90	77
2019	519	1,365	282	1,082	116	978	–	2,978	166.3	182	109	72
2020	524	1,342	252	1,090	130	1,061	–	3,056	185.0	78	13	65
2019 – Q1	489	1,210	250	960	117	1,044	–	2,860	161.0	64	45	19
Q2	499	1,263	249	1,015	127	1,003	–	2,892	162.6	32	27	5
Q3	509	1,352	262	1,089	140	1,002	–	3,003	168.2	111	71	40
Q4	519	1,365	282	1,082	116	978	–	2,978	166.3	-25	-33	8
2020 – Q1	522	1,228	206	1,022	133	1,048	–	2,930	166.0	-48	-85	37
Q2	523	1,263	231	1,032	132	1,075	–	2,993	176.8	62	45	17
Q3	525	1,293	222	1,071	135	1,052	–	3,004	179.5	12	9	2
Q4	524	1,342	252	1,090	130	1,061	–	3,056	185.0	51	43	8
Net position												
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	100	182	657	-475	-41	-414	156	-16	-0.9	69	23	47
2020	90	314	759	-445	-49	-496	172	30	1.8	47	-2	49
2019 – Q1	106	221	617	-396	-37	-485	138	-57	-3.2	29	27	1
Q2	102	193	633	-440	-44	-436	145	-39	-2.2	18	4	14
Q3	102	152	640	-488	-53	-426	157	-68	-3.8	-28	-37	9
Q4	100	182	657	-475	-41	-414	156	-16	-0.9	51	29	23
2020 – Q1	94	184	620	-436	-48	-452	167	-54	-3.1	-38	-36	-2
Q2	90	265	674	-409	-49	-501	175	-19	-1.2	35	37	-2
Q3	92	282	718	-437	-50	-487	178	15	0.9	35	4	30
Q4	90	314	759	-445	-49	-496	172	30	1.8	15	-8	23

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

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

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
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	44,763	54,372	-3,787	9,277	-15,098	1,243	-1,188	2,431
2018	44,487	45,926	-2,920	18,880	-17,399	-322	-1,482	1,160
2019	57,413	60,222	-849	15,167	-17,128	-1,761	-2,603	842
2020	58,585	67,612	-6,797	17,032	-19,263	-362	-1,106	744
2020 – Q1	7,205	13,193	-4,842	4,448	-5,594	-430	-713	283
Q2	4,864	12,288	-3,055	-75	-4,294	117	48	69
Q3	24,341	20,686	2,930	4,583	-3,858	-193	-384	191
Q4	22,175	21,446	-1,830	8,077	-5,518	143	-58	201
2020 – Jan.	-1,037	951	-1,325	647	-1,309	-149	-271	122
Feb.	4,830	6,395	-1,557	1,843	-1,851	-116	-235	119
Mar.	3,412	5,846	-1,959	1,959	-2,433	-164	-207	42
Apr.	-1,992	-85	-1,006	418	-1,319	-37	-9	-28
May	2,983	5,869	-1,209	-496	-1,180	-6	28	-33
June	3,873	6,504	-839	3	-1,794	160	29	130
July	10,017	9,771	662	791	-1,207	-41	-128	87
Aug.	6,627	4,627	1,413	1,895	-1,308	-25	-104	79
Sept.	7,696	6,288	854	1,898	-1,343	-127	-152	26
Oct.	8,111	7,834	-704	2,403	-1,422	184	-19	203
Nov.	6,835	6,910	-863	2,323	-1,534	116	-18	134
Dec.	7,229	6,702	-263	3,351	-2,562	-157	-20	-137
2021 – Jan.	(710)	(1.813)	(-499)	(1,000)	(-1,604)	(-182)	(-221)	(39)

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

Table A7

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

(12-month percentage changes)

	Italy (2)				Euro area (3)			
	Private sector (4)	Non-financial private sector	Non-financial corporations	Households	Private sector (4)	Non-financial private sector	Non-financial corporations	Households
2013	-3.7	-3.6	-5.2	-1.3	-2.4	-1.6	-3.2	-0.3
2014	-1.6	-1.6	-2.3	-0.6	-0.3	-0.6	-1.5	0.1
2015	-0.3	-0.0	-0.6	0.7	0.7	1.0	0.6	1.3
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	0.2	0.2	-1.9	2.6	3.7	3.5	3.2	3.6
2020	4.7	5.4	8.3	2.3	4.7	4.8	7.1	3.1
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	3.7	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	3.4
June	0.6	0.9	-0.5	2.5	3.5	3.6	3.9	3.3
July	0.8	1.0	-0.3	2.5	3.6	3.6	4.0	3.4
Aug.	0.6	0.8	-0.6	2.4	3.8	3.7	4.2	3.4
Sept.	0.6	0.7	-0.8	2.5	3.6	3.5	3.6	3.4
Oct.	0.4	0.4	-1.3	2.4	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.	0.2	0.2	-1.9	2.6	3.7	3.5	3.2	3.6
2020 – Jan.	0.6	0.6	-1.0	2.6	3.8	3.5	3.2	3.7
Feb.	0.4	0.5	-1.2	2.5	3.7	3.4	3.0	3.7
Mar.	1.5	1.7	1.5	1.8	5.0	4.3	5.5	3.4
Apr.	1.5	1.5	1.8	1.2	5.0	4.6	6.7	3.0
May	1.6	1.7	2.0	1.3	5.3	4.9	7.4	3.0
June	2.3	2.8	3.7	1.7	4.9	4.8	7.2	3.1
July	2.9	3.2	4.5	1.8	4.8	4.8	7.1	3.0
Aug.	3.7	4.1	6.0	2.0	4.7	4.8	7.2	3.0
Sept.	3.9	4.6	6.8	2.2	4.7	4.8	7.1	3.1
Oct.	4.3	4.9	7.4	2.2	4.6	4.7	6.8	3.2
Nov.	4.6	5.3	8.1	2.3	4.8	4.8	7.0	3.1
Dec.	4.7	5.4	8.3	2.3	4.7	4.8	7.1	3.1
2021 – Jan.	4.3	4.9	7.3	2.2	4.5	4.7	6.9	3.0
Feb.	4.5	5.1	7.6	2.4	4.5	4.7	7.1	3.0

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

Net bond issues: Italy and euro area (1)

(billions of euros)

	Banks	Other financial corporations (2)	Non-financial corporations	Total
		Italy		
2019	-2.0	25.8	-3.6	20.1
2020	-19.4	7.6	7.8	-4.0
2019 – Q1	-4.9	-0.3	-1.5	-6.8
Q2	1.4	-2.1	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	13.4
Q3	–	-2.0	2.7	0.7
Q4	-12.4	13.1	7.0	7.7
		Euro area		
2019	119.7	165.6	62.2	347.5
2020	134.3	111.0	165.4	410.6
2019 – Q1	58.6	21.6	15.8	95.9
Q2	17.1	27.6	16.5	61.1
Q3	22.1	38.0	20.2	80.4
Q4	22.0	78.4	9.7	110.0
2020 – Q1	32.9	4.4	10.6	47.8
Q2	136.2	45.2	105.6	287.0
Q3	1.0	41.0	36.4	78.4
Q4	-35.7	20.4	12.8	-2.6

Sources: Bank of Italy and ECB.
(1) Bonds with an original maturity of more than one year, at face value, issued by companies resident in Italy (top panel) or the euro area (bottom panel) and belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed. – (2) Includes insurance companies, other financial intermediaries, financial auxiliaries, lenders and captive financial institutions.

Table A9

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	European institutions 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	-4.6	–	0.9	44.7	-5.8	19.5	39.0	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	-2.4	22.4	1.4	20.0	0.0
Apr.	0.9	1.3	0.7	12.7	-0.2	–	-0.1	13.9	-11.6	-1.4	2.4	0.0
May	-1.0	-0.6	0.3	-10.1	1.0	–	-0.2	-10.0	11.3	3.0	1.3	0.0
June	-1.8	-1.1	-0.4	23.1	-0.5	–	0.7	21.0	-20.5	-3.0	0.5	0.0
July	5.8	1.6	-0.1	19.1	-2.3	–	1.2	23.7	-27.1	3.0	-3.3	0.0
Aug.	-0.1	-1.3	1.8	-4.5	0.1	–	-0.3	-3.0	5.3	-3.0	2.3	0.0
Sept.	1.8	-0.3	1.0	-23.0	0.0	–	-0.5	-20.6	43.7	-10.0	23.1	0.0
Oct.	-0.2	1.2	1.2	6.5	-0.1	–	0.2	7.6	-9.8	-3.4	-2.1	-0.2
Nov.	-5.2	-1.8	-0.0	3.6	0.4	–	-0.2	-1.5	0.1	2.0	-1.4	-0.2
Dec.	-10.8	-0.2	-6.6	-14.5	-4.7	–	0.0	-36.6	22.5	9.4	-14.1	0.0
2020 – Jan.	2.7	-1.7	5.8	25.1	1.1	–	-0.1	34.6	-38.6	-6.0	-4.0	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	–	0.1	-11.2	43.2	15.5	32.1	0.0
Apr.	-1.9	-0.0	10.1	25.7	0.6	–	-0.4	34.0	-16.8	11.5	17.2	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	20.4	-1.5	–	0.7	20.4	0.8	0.0	21.2	0.0
July	-0.8	-0.4	-3.0	34.7	0.2	–	-0.2	30.8	-23.3	-1.0	7.6	0.0
Aug.	0.3	-0.1	1.3	18.4	-1.5	–	-0.2	18.4	-16.8	1.5	1.6	0.0
Sept.	-1.6	-0.3	-0.3	7.4	0.9	–	0.5	7.0	16.3	-6.0	23.3	0.0
Oct.	-1.0	-0.3	-4.1	-1.8	0.5	10.1	0.0	3.7	6.1	-1.0	9.8	0.0
Nov.	3.5	-0.5	-0.6	-7.3	-0.4	6.6	-0.2	1.6	16.9	0.5	18.4	0.0
Dec.	-3.3	-0.1	-8.7	-3.5	-1.4	0.0	1.1	-15.8	19.1	1.0	3.3	0.0
2021 – Jan.	3.6	-1.6	5.6	25.5	-0.0	0.0	-0.3	34.4	-32.6	0.0	1.8	0.0
Feb.	-1.5	-1.1	-3.4	37.3	0.6	4.6	-0.6	37.0	-27.8	0.0	9.2	0.0

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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	European institutions 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	–	46.9	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	2,381.0	35.1	3.0	31.5	58.2
2019	227.3	67.6	113.8	1,895.5	124.9	–	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	2,379.2	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	2,389.0	48.4	12.9	33.8	58.2
July	239.6	72.4	113.2	1,876.5	132.6	–	46.3	33.9	2,408.3	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	2,381.0	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	–	47.4	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	–	47.6	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	–	49.0	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	124.9	–	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	–	48.4	33.5	2,444.0	71.5	27.0	36.4	57.8
Feb.	227.8	65.5	118.5	1,926.4	126.0	–	48.0	33.5	2,446.7	73.4	27.5	36.6	57.8
Mar.	238.5	66.9	118.3	1,901.4	127.3	–	48.1	33.5	2,433.6	30.1	12.0	36.4	57.8
Apr.	236.6	66.9	128.5	1,928.4	127.9	–	47.7	33.5	2,469.1	46.9	0.5	35.7	57.8
May	232.4	67.0	139.3	1,962.1	128.5	–	47.6	33.5	2,510.0	61.4	3.0	36.8	57.8
June	231.8	66.8	140.7	1,983.2	127.0	–	48.3	33.5	2,531.1	60.7	3.0	36.5	57.8
July	230.9	66.4	137.7	2,016.6	127.3	–	48.1	33.5	2,560.6	83.9	4.0	36.9	57.8
Aug.	231.3	66.2	139.0	2,034.9	125.8	–	47.9	33.5	2,578.9	100.7	2.5	36.6	57.8
Sept.	229.7	66.0	138.7	2,041.5	126.7	–	48.4	33.5	2,585.1	84.5	8.5	36.4	57.8
Oct.	228.7	65.7	134.6	2,039.2	127.2	10.0	48.5	33.5	2,588.2	78.4	9.5	36.8	57.8
Nov.	232.2	65.1	134.0	2,031.5	126.8	16.5	48.3	33.5	2,589.3	61.5	9.0	39.7	57.8
Dec.	228.9	65.1	125.3	2,027.9	125.5	16.5	49.4	33.5	2,573.4	42.5	8.0	38.5	57.7
2021 – Jan.	232.6	63.4	130.9	2,052.5	125.4	16.5	49.0	33.5	2,606.9	75.1	8.0	39.3	57.7
Feb.	231.1	62.3	127.4	2,089.9	126.0	21.0	48.4	33.5	2,643.8	102.9	8.0	39.3	57.7

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