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Economic Bulletin

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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 recovery strengthens in the United States and other advanced countries ...

Following the widespread slowdown in the third quarter, signs emerged of a return to stronger recovery in the United States and other advanced countries at the end of last year, in contrast to a prolonged weakness in the emerging economies. However, the resurgence of the pandemic and the persistent bottlenecks on the supply side are creating downside risks to growth. Inflation has risen further almost everywhere, mainly as a result of the increases in the prices of energy products and intermediate inputs and of the recovery of internal demand. The Federal Reserve and the Bank of England have begun to normalize their monetary policy.

... while it has slowed in the euro area

In the euro area, GDP instead decelerated sharply at the turn of the year, owing to the rise in the number of COVID cases and the ongoing tensions in the supply chains that are holding back production in manufacturing. Inflation has reached its highest level since monetary union began, because of the exceptional increases in the energy component, especially gas prices, which in Europe are also affected by geopolitical factors. According to the Eurosystem staff projections published in December, inflation will gradually decrease in 2022, reaching 3.2 per cent on average this year and 1.8 per cent in the two years 2023-24.

The ECB has decided to reduce purchases gradually and to maintain an accommodative monetary policy

The ECB Governing Council judges that the progress on economic recovery and towards its medium-term inflation target permits a step-by-step reduction in the pace of its asset purchases. The Council also reiterated the need for the monetary policy stance to remain accommodative and to maintain flexibility and optionality in the conduct of monetary policy in relation to the evolving macroeconomic outlook.

GDP decelerates sharply in Italy too

Growth in Italy remained high in the third quarter of 2021, driven by the increase in household consumption. GDP subsequently slowed: based on the Bank of Italy's models, it grew by around half a percentage point in the fourth quarter. The growth in value added weakened in both industry and the service sector.

The rise in COVID cases makes consumers more cautious

The rise in the number of COVID cases and the subsequent worsening of confidence have penalized above all spending on services. In the assessments of firms surveyed between November and December, a slowdown in investment is expected in 2022.

Growth in exports remains strong ...

In the third quarter, Italian exports continued to grow, propelled by the recovery in international tourism. The current account surplus remains large, despite the worsening energy balance, and the positive net international investment position widened.

... and employment and labour supply increase

The recovery in labour demand since the summer has translated into an increase in hours worked, a decline in recourse to forms of wage supplementation and an upturn in the number of hires on permanent contracts. The removal of the freeze on dismissals in all sectors has had no significant repercussions. The stagnating unemployment rate stems from the gradual recovery in labour supply, which is nearing pre-pandemic levels. Developments in contract renewals do not point to significant wage increases in 2022.

Inflation is driven by higher energy prices

Inflation has risen to high levels (4.2 per cent in December), driven by energy prices. Net of the volatile components, the annual change in prices remains moderate. The increases in *production costs have only passed through to retail prices to a modest degree so far.*

The pandemic and the expectations on the monetary policy stance have influenced market performance

Financial market trends have reflected fears concerning the rise in COVID cases around the world, uncertainty regarding the severity of the new Omicron variant and its effects on the economic recovery, and expectations on the monetary policy stance. Market volatility and investors' risk aversion have increased, which for Italy has meant a widening of the sovereign spread compared with German government bonds.

Firms' demand for credit remains moderate

In the autumn, growth in lending to non-financial corporations continued to be weak, reflecting the low demand for new loans, owing in part to the ample liquidity accumulated over the last two years. Lending to households continues to expand at a fast pace. Credit supply conditions remain relaxed. The new non-performing loan rate, while up slightly, is still very low and the share of performing loans for which banks recognized a significant increase in credit risk declined. In the first nine months of last year, banks' profitability improved, especially following the reduction in loan loss provisions.

Expansionary public finance measures are planned for the three-year period 2022-24 too

The available preliminary data for 2021 point to a significant improvement in general government net borrowing compared with 2020. The debt-to-GDP ratio is also estimated to have fallen, to around 150 per cent (compared with levels of about 155 and almost 135 per cent in 2020 and 2019 respectively). For the three years 2022-24, the budgetary package approved by Parliament in December raises the deficit by 1.3 per cent of GDP on average per year compared with the current legislation scenario.

The projections for Italy assume a gradual improvement in the public health situation

This Bulletin reports the macroeconomic projections for the Italian economy for the three years 2022-24, which update those published in December. The scenario presented here is based on the assumption that the latest resurgence in new COVID cases will have negative effects on mobility and consumption patterns in the short term but will not require a severe tightening of restrictions. It also assumes that the spread of the epidemic will lose momentum from the spring onwards.

GDP will likely return to pre-pandemic levels in mid-2022 ...

GDP, which at the end of last summer was 1.3 percentage points below pre-pandemic levels, is projected to return to those levels around the middle of this year. The expansion in economic activity should then continue at a robust pace, though less markedly compared with that observed following the reopenings of mid-2021. GDP is expected to increase by an annual average of 3.8 per cent in 2022, 2.5 per cent in 2023 and 1.7 per cent in 2024. The number of persons employed will likely increase more gradually and will regain pre-crisis levels at the end of 2022.

... and inflation appears set to diminish over the course of this year, returning to moderate levels in the next two years

Consumer prices are projected to rise by 3.5 per cent on average this year, 1.6 per cent in 2023, and 1.7 per cent in 2024. The core component is expected to be equal to 1.0 per cent this year and to increase gradually, reaching 1.6 per cent in 2024, driven by the reduction in spare capacity margins and wage developments.

However, uncertainty is high, with downside risks to growth

The growth projections are subject to multiple risks, mostly on the downside. In the short term, the uncertainty surrounding the forecasting scenario is linked to the public health situation and to tensions on the supply side, which could turn out to be more persistent than expected and be transmitted to the real economy to a greater extent. In the medium term, the projections are still conditioned by the full implementation of the spending programmes in the budget and the complete and timely realization of the interventions under the NRRP.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Following the widespread slowdown in economic activity in the third quarter, which has not characterized the euro area, signs are emerging of a stronger recovery in the United States and other advanced countries, set against a prolonged weakness in the emerging economies. The resurgence of the pandemic and the persistent bottlenecks on the supply side are, however, creating downside risks to economic activity. Inflation has risen further almost everywhere as a result of the increase in the prices of energy products and intermediate inputs and the recovery of domestic demand. The Federal Reserve and the Bank of England have begun to normalize their monetary policies.

Vaccinations mitigate the effects of the resurgence of the pandemic

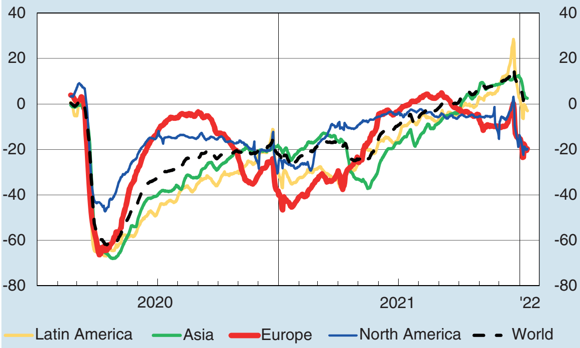
Since the start of November, COVID-19 infections have begun to rise again across the globe, although more sharply in Europe and in the United States, where the number of hospitalizations and deaths also rose. The latter have increased less steeply than in the previous waves of the epidemic, mainly thanks to the vaccination campaigns. Global mobility, which in the second half of 2021 had reached much higher levels than the year before (Figure 1), fell in the final weeks, owing in part to the spread of the Omicron variant.

Global economic activity slows in the third quarter of 2021 ...

GDP slowed in the third quarter both in the major advanced economies, with the exception of the euro area, and in the emerging ones (Table 1). The United States was affected by the deceleration of consumption due to the spread of the Delta variant during the summer months, while the economic cycle in the United Kingdom felt the

Figure 1

Mobility during the COVID-19 pandemic (1)
(daily data; index numbers)



Sources: Based on data from Google COVID-19 Community Mobility Reports.
(1) Percentage change in the number of visits to retail shops and leisure activities compared with the median value for the corresponding day of the week in the period from 3 January to 6 February 2020. Data at 14 January 2022. Seven-day moving average. The Asia and World aggregates do not include China, for which data are not available.

Table 1

GDP growth and inflation
(percentage changes)

	GDP growth			Inflation (1)
	2020	2021 Q2 (2)	2021 Q3 (2)	2021 December (3)
Advanced countries				
Japan	-4.5	2.0	-3.6	0.6
United Kingdom	-9.7	23.9	4.3	5.4
United States	-3.4	6.7	2.3	7.0
Emerging countries				
Brazil	-3.9	12.3	4.0	10.1
China	2.2	7.9	4.9	1.5
India	-7.0	20.1	8.4	5.6
Russia	-3.0	10.5	4.3	8.4

Source: National statistics.
(1) Consumer price index, year-on-year change. – (2) For the advanced countries, quarterly percentage changes, annualized and seasonally adjusted; for the emerging countries, year-on-year percentage changes. – (3) For Japan, November 2021.

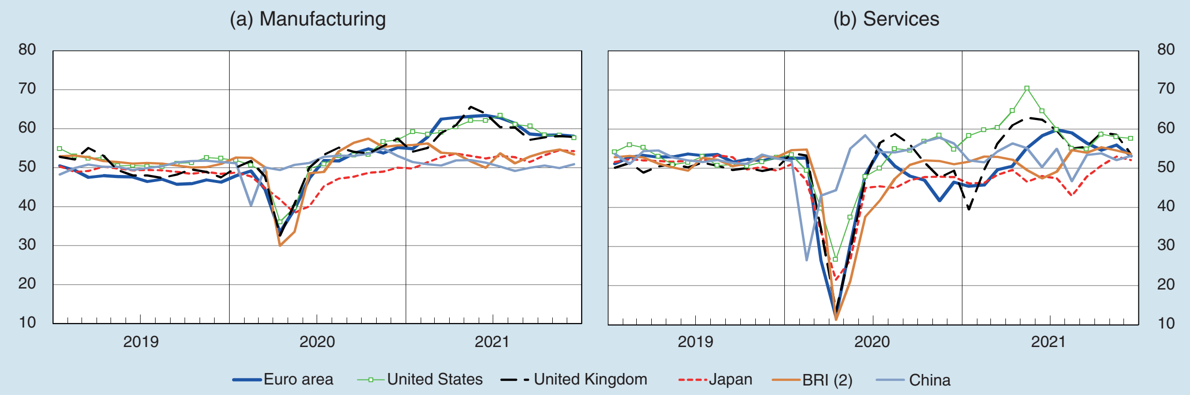
effects not only of the pandemic but also of persistent shortages in inventories and labour in the sectors linked to distribution (transport and logistics). In Japan, GDP declined mostly because of restrictions due to the state of emergency which had been declared in many areas of the country to contain the epidemic. China's economy also showed clear signs of a slowdown, mainly connected with the decline in the real estate sector.

... but signs of recovery emerge in the advanced economies in the fourth quarter

The purchasing managers' indices (PMIs) show widespread signs of cyclical recovery in the main advanced economies in the fourth quarter (Figure 2). The lifting of the state of emergency in Japan at the beginning of October encouraged the recovery of the PMI for services which, for the first time since the start of the pandemic, returned to a level above the threshold that indicates expansion. In the United States, the PMIs for industry and services remain at levels consistent with robust growth, in line with the leading private forecasters' expectations of a rapid acceleration of GDP in the fourth quarter. In contrast, the emerging economies' PMIs confirmed the weak cyclical conditions, especially in manufacturing.

Figure 2

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



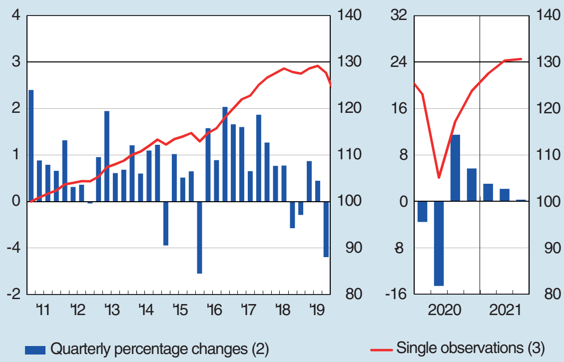
Sources: Markit and Refinitiv.
(1) Diffusion indices of economic activity in the manufacturing and services sectors, based on purchasing managers' assessments (PMIs). Each index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. The value of 50 represents the threshold compatible with expansion in the sector. – (2) Average of the forecasts for Brazil, Russia and India (BRI), weighted on the basis of each country's GDP in 2019.

World trade decelerates in the last part of the year

Starting in the summer, world trade in goods and services slowed (Figure 3), partly because of the continued and significant bottlenecks on the supply side (see the box 'Supply chain bottlenecks: the impact on the global economy'). Overall in 2021, our estimates show that trade grew by 10.8 per cent, 0.4

Figure 3

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, quarterly percentage changes for 2020 and 2021 are shown on a different scale from that used for the preceding years. – (3) Index: Q1 2011=100. Right-hand scale.

percentage points less than forecast in the previous macroeconomic projections (Table 2). Growth will likely stand at 4.8 per cent in 2022, with downside risks mainly linked to the course of the public health emergency. In China in particular, where the Government follows a strict containment policy to counter the spread of the virus, the emergence of new outbreaks has led to further interruptions in global supply chains.

Table 2

Macroeconomic projections
(percentage changes and points)

	2020 (1)	Forecasts (2)		Revisions (3)	
		2021	2022	2021	2022
GDP					
World	**-3.4**	**5.6**	**4.5**	**-0.1**	**0.0**
of which:					
Advanced countries					
Euro area	-6.4	5.2	4.3	-0.1	-0.3
Japan	-4.5	1.8	3.4	-0.7	1.3
United Kingdom	-9.7	6.9	4.7	0,2	-0.5
United States	-3.4	5.6	3.7	-0.4	-0.2
Emerging countries					
Brazil	-3.9	5.0	1.4	-0.2	-0.9
China	2,2	8.1	5.1	-0.4	-0.7
India (4)	-7.3	9.4	8.1	-0,3	0.2
Russia	-3.0	4.3	2.7	1.6	-0.7
World trade	**-8.4**	**10.8**	**4.8**	**-0.4**	**-**

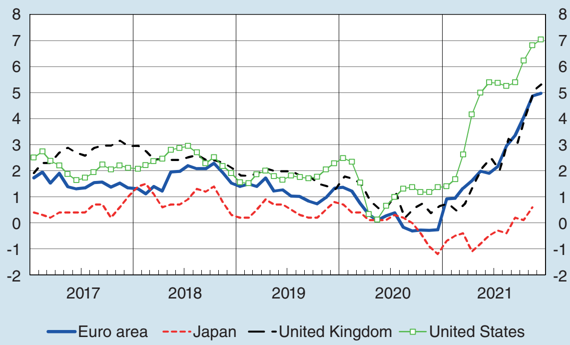
Sources: OECD, *OECD Economic Outlook*, December 2021 for GDP and Bank of Italy calculations based on national accounts and customs data for world trade.
(1) For Brazil and China, national accounts data. – (2) Percentage changes. – (3) Percentage points. Revisions compared with OECD, *OECD Intermim Economic Outlook,* September 2021 and, for world trade, compared with the Bank of Italy's *Economic Bulletin*, 4, 2021. – (4) The data refer to the fiscal year starting in April.

Inflationary pressures are not easing

Inflation began to rise again in the United States, reaching 7 per cent in December (Figure 4), the highest level since the early 1980s. Among other factors, this was the result of price rises for energy products, house rentals, and used cars (due to the lack of microprocessors and the ensuing delays in delivering new vehicles). Looking ahead, recent wage increases could play a part in keeping US inflation high. Nevertheless, long-term inflation expectations as implied by the financial markets remained anchored to values consistent with the Federal Reserve's objective. Inflation rose in both the UK (5.4 per cent in December) and in Japan (0.6 per cent in November). Inflation pressures remained high in some of the emerging countries as well: in Brazil and in Russia, the twelve-month growth in consumer prices was at 10.1 and 8.4 per cent respectively in December (Table 1).

Figure 4

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



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

The outlook for recovery is confirmed, although it will dampen slightly in 2022

According to the projections released in December by the OECD, the world economy will grow by 5.6 per cent in 2021, slowing to 4.5 per cent this year (Table 2). The outlook is still uneven across countries: in the advanced economies, GDP will resume the pre-pandemic trend next year while, in the emerging economies, the recovery will remain more fragile, especially in the poorer ones.

After falling sharply in November, the price of crude oil returns to over $80 a barrel

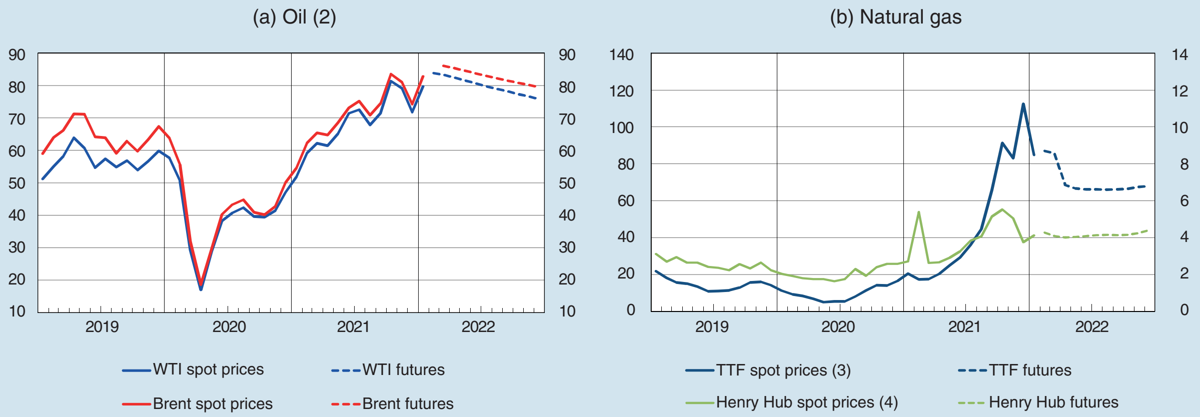
The rapid spread of the Omicron variant and fears of possible new lockdowns and a consequent weakening of global demand have had a significant impact on oil prices. On 26 November – the day when the discovery of the new variant was announced – the price of Brent crude oil fell by around 12 per cent to just above $70 a barrel (Figure 5.a). On the supply side, both the US decision to draw on its own oil reserves and the readiness of the OPEC+ countries to honour their commitment to increasing production led to downward pressure on prices. Nevertheless, at the start of January, oil prices showed definite signs of recovery, with the price of Brent once again above $80 a barrel, in connection with favourable indications about the impact of the Omicron variant on the demand for crude oil possibly being less than had been expected at the end of November. Futures contracts signal an increase in prices in early 2022, followed by a decrease in the second half of the year.

The price of gas remains high

The price of natural gas remains high in Europe, driven by a number of factors (Figure 5.b). Tensions with Russia over the temporary suspension of the use of the Nord Stream 2 gas pipeline, which have worsened since mid-November, the very low temperatures recorded in the Nordic countries and the high demand for electricity have significantly reduced inventories. However, the inflow of liquefied gas via cargo ships from the United States in the last few days of 2021 contributed to lowering prices. Based on futures prices, the rises observed in the second half of last year are likely to subside only partly in 2022.

Figure 5

Commodity prices (1)
(monthly data)



Source: Refinitiv.
(1) For the spot prices, average monthly data up to December 2021. The latest figure is the average of the daily data from 1 to 14 January 2022. For futures, the data refer to the prices on 14 January 2022. – (2) Dollars per barrel. – (3) Euros per megawatt hour. Price of European natural gas traded on the Title Transfer Facility (TTF) Dutch market. – (4) Dollars per millions of British thermal units (BTUs). Price of gas distributed via the Henry Hub in Louisiana (USA). Right-hand scale.

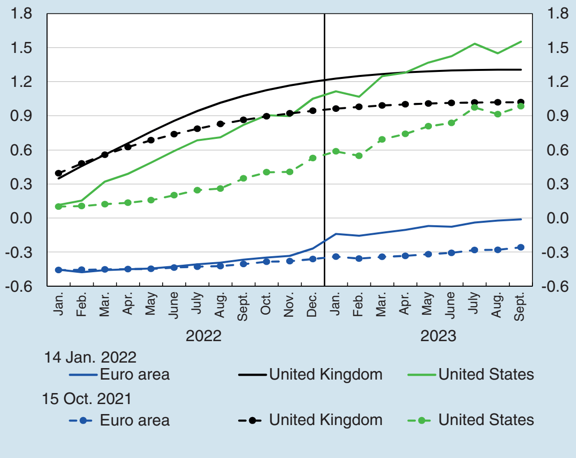
Monetary policy normalization begins

At the meeting held on 2 and 3 November 2021, the Federal Reserve, in view of the substantial progress made toward its inflation and employment objectives, began to taper its monetary easing: the initial monthly target of $120 billion for securities purchases was reduced by $15 billion in November and by the same amount in December. In the next meeting on 14 and 15 December, given the steady improvement in the labour market and further growth in inflation, the Fed decided to accelerate the tapering: in January there is a reduction of $30 billion. At this rate, the purchase programme will come to an end in March 2022. During that same meeting, it also emerged that the latest projections of the members of the Federal Open Market Committee (FOMC) envisage three increases in the target range for the federal funds rate in 2022 and three more in 2023. At its meeting of 16 December, the Bank of England raised the interest rate to 0.25 per cent from 0.1 per cent, indicating further possible increases in the next few months in order to bring the inflation rate down to its target of 2 per cent (Figure 6); its securities purchase programme also came to an end, having reached the threshold set at £895 billion. In Japan, the monetary policy stance remains expansionary. As regards the emerging countries, the sharp increase in price growth led to severe monetary tightening in Brazil and in Russia. In China, where inflation is still moderate, the central bank has recently decided to support economic activity by announcing a cut both in banks' minimum reserve requirement and in the benchmark rate on loans to customers and the interbank market.

Figure 6

Overnight interest rates implied by derivative instruments (1)

(monthly maturities; percentage points)



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

SUPPLY CHAIN BOTTLENECKS: THE IMPACT ON THE GLOBAL ECONOMY

In 2021, thanks to the containment of the pandemic made possible by the spread of vaccination, the recovery in global demand was swift and stronger than expected, driven above all by the clear recovery in demand for goods. The persistence in many countries of some containment measures to combat the emergency has continued to curb access to recreational services and tourism, albeit less so than in the most acute phases of the health crisis; household demand has mainly been driven by goods. At the same time, many firms that had revised their forecasts for new orders and investment plans downwards have rapidly depleted their stocks and considerably increased their demand for intermediate goods to replenish their inventories.

These general factors have been accompanied by some sectoral specificities: the marked acceleration in the digitalization process brought about by the pandemic triggered a rapid increase in the demand for electronic devices for remote working and training and for entertainment. These developments have translated into strong growth in demand for semiconductors, a fundamental component not only for electrical equipment but also for some durable goods, such as cars and household appliances.

Adjustments in supply have been slower for some types of product. In the case of semiconductors, for which expanding production capacity takes a relatively long time, the resulting scarcity led to a rise in prices and delays in production in many sectors.

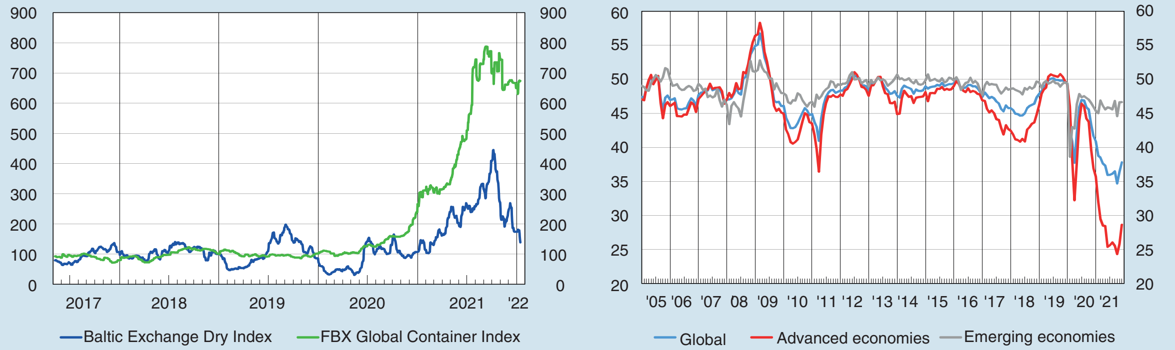
Demand-side pressures have been disruptive in transport and in international logistics, already hampered by the closure of important ports in China in order to combat the pandemic, which has led to heavy congestion and longer shipping times on the main routes from Asia to western countries. This has been matched by a marked increase in sea freight rates (see panel (a) of Figure A), just as costs have also risen for air transport, increasingly requested as an alternative to ship transport to guarantee the supply of components used in manufacturing.

Figure A

Changes in freight prices and suppliers' delivery times

(a) Global freight prices (1)
(daily data; index number 1 January 2019=100)

(b) PMIs of delivery times (2)
(monthly data; diffusion indices)



Sources: Markit and Refinitiv.
(1) Global prices in US dollars for ocean freight for dry bulk material (Baltic Exchange Dry Index) and containers (FBX Global Container Index) on the main global routes. – (2) Diffusion indices for suppliers' delivery times in the manufacturing sector based on purchasing managers' assessments (PMI). A fall in the index corresponds to an increase in delivery times. Each index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'.

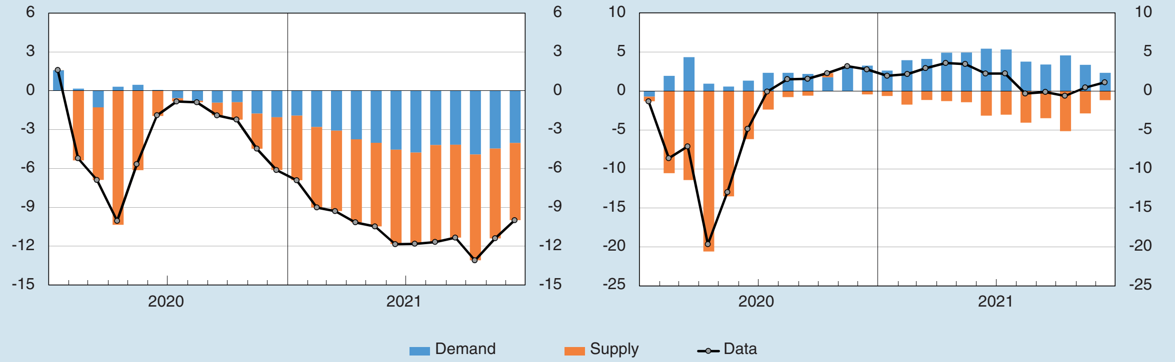
These imbalances have resulted in longer delivery times for suppliers, slowing down production and increasing backlogs in orders in manufacturing. These problems have been particularly intense in the advanced economies, whose industries are further downstream in international supply chains, especially in the sectors of cars and other means of transport that make greater use of semiconductors (see panel (b) of Figure A).

Figure B

Breakdown of global PMIs into supply and demand (1)
(monthly data; diffusion indices; contribution to the change from the historical average)

(a) Delivery times

(b) Production



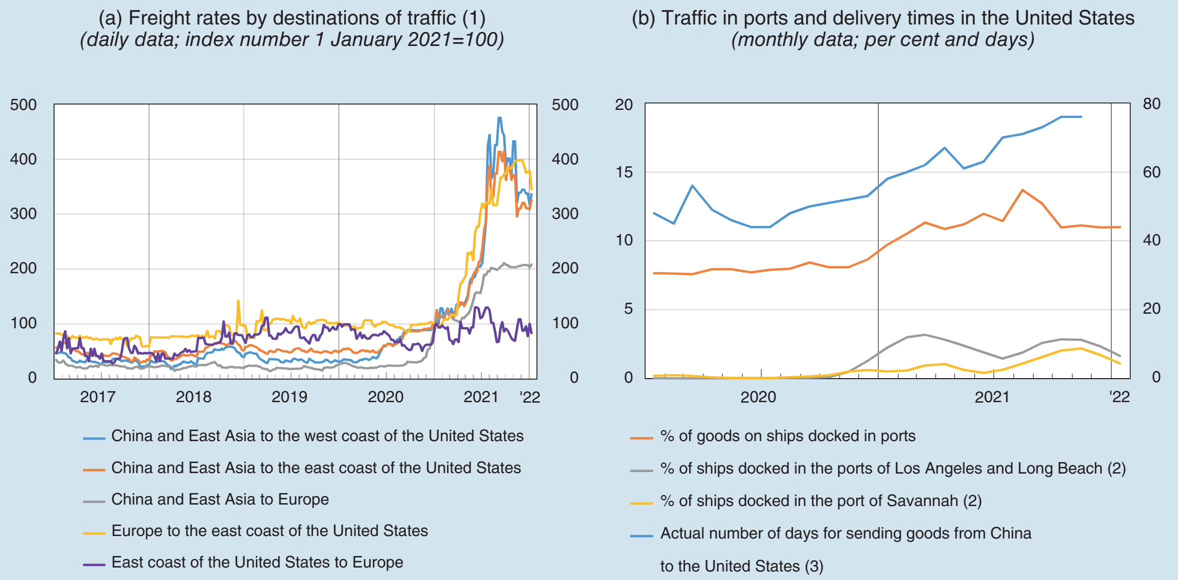
Sources: Based on Markit and Refinitiv data.
(1) The breakdown is obtained by using a vector autoregressive model identified through sign restrictions.

Our analyses make it possible to quantify the relative contribution of supply and demand factors to the longer delivery times and production trends indicated by PMIs starting from the beginning of 2020 (Figure B). When the pandemic broke out, supply factors played a predominant role both in delivery times and in production. In 2021, supply difficulties continued to exert strong pressure on delays in supplies, while the effect on production only became significant again in the second half of the year, counteracting the strong recovery in demand.

Demand factors have been particularly significant in the United States, where the acceleration in purchases of goods has been far more marked than in the other advanced countries. The huge transfers decided by the federal government in both 2020 and 2021 were a contributory factor, thanks to which the disposable income of US households grew by more than 7 per cent on average over the two years compared with 2019, despite the substantial fall in GDP during the pandemic. The sizeable increases in equity prices and in house prices also strengthened household budgets. The supply-side bottlenecks, partly due to shortages in labour and in local transport services, have also been considerable. This has resulted in much higher port traffic to the United States than to Europe (see panel (a) of Figure C), crowded American ports and much longer shipping times (see panel (b) of Figure C).

Figure C

Maritime traffic



Sources: Freightos, Goldman Sachs, Kiel Institute for the World Economy and Refinitiv.
(1) Prices in US dollars for dispatches on alternative routes. – (2) 60-day moving average. – (3) Right-hand scale.

In the United States, the unprecedented rebound in the consumption of goods was reflected in 2021 in a particularly marked rise in inflation that also affected the core components. Our estimates show that for the economy as a whole this is mainly attributable to the recovery in demand, while supply-side factors were important in specific sectors, such as the motor vehicle market (for the euro area, see Section 1.2).

1.2 THE EURO AREA

Based on the latest information available, following two quarters of strong expansion, economic activity in the euro area slowed down considerably in the last part of the year. This was the result of a rise in contagions, the consequent introduction of increasingly strict containment measures, and supply chain bottlenecks which are holding back production in manufacturing. Inflation reached its highest level since the monetary union was launched, mainly because of the exceptional price increases in the energy component. The ECB Governing Council announced its plan regarding the future implementation of public and private sector securities purchase programmes, emphasizing that its monetary policy stance will remain accommodative and that its conduct will maintain flexibility and optionality regarding the macroeconomic outlook.

Growth remains robust in the third quarter ...

Euro-area GDP increased further in the third quarter of 2021, by 2.3 per cent (Table 3), driven by the marked increase in household consumption and, to a limited degree, by net foreign demand. Growth in value added in the service sector accelerated, while value added declined in construction and stagnated considerably in non-construction industry, which mainly reflected the reduction recorded in Germany caused by firms' persistent supply problems. Varying degrees of GDP growth were observed across all the main euro-area economies.

... but slackens considerably in the fourth

According to the available indicators, economic growth weakened markedly in the fourth quarter. The December €-coin indicator stood at levels close to those recorded in the last part of 2020, indicating a very small expansion. This was the result of weaker consumer and business confidence and the sharp acceleration of producer prices (Figure 7). For the fourth quarter on average, the purchasing managers' indices (PMIs) are also consistent with a slowdown of activity in both manufacturing and services. Industrial production, above all in the automotive sector, continues to suffer from the shortage of semiconductors at global level, with particularly acute difficulties in Germany (see the box 'Supply chain bottlenecks: the impact on the global economy'). Despite some signs of improvement, delivery times for intermediate inputs, as reported by the corresponding PMI index (Figure 8), clearly continued to be longer than the historical average in the autumn months. A growing number of service firms signalled the scarcity of labour as one factor holding back their business activity.

Table 3

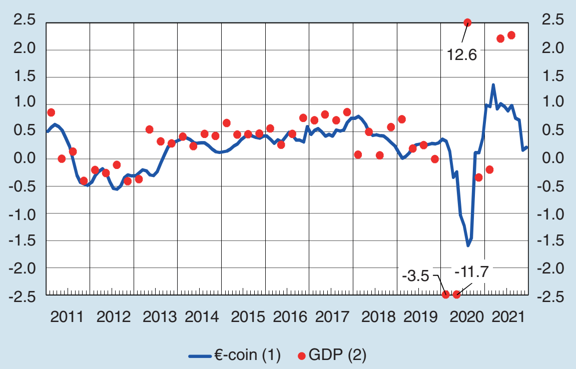
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2020	2021 Q2 (1)	2021 Q3 (1)	2021 December (2)
France	-7.9	1.3	3.0	3.4
Germany	-4.6	2.0	1.7	5.7
Italy	-8.9	2.7	2.6	4.2
Spain	-10.8	1.2	2.6	6.6
Euro area	-6.4	2.2	2.3	5.0

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

Figure 7

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



Sources: Bank of Italy and Eurostat.
(1) For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components. For the methodology used to construct the indicator, see the box 'The €-coin indicator and the economic situation in the euro area', in *Economic Bulletin*, July, 2009. The latest data on the indicator are available on the Bank of Italy's website, '€-coin: December 2021'. – (2) For GDP, quarterly data; percentage changes on previous quarter.

GDP is likely to return to pre-pandemic levels in the first quarter of 2022

The Eurosystem staff projections released in December indicate that GDP will grow by 5.1 per cent in 2021, and by 4.2 and 2.9 per cent in the following two years respectively. Compared with last September, the estimate for 2021 has remained basically unchanged, whereas it is lower by 0.4 percentage points for 2022 and 0.8 percentage points higher in 2023. The return of GDP to above pre-pandemic levels has been postponed by one quarter to the first quarter of 2022.

Energy price rises continue to direct inflation ...

The twelve-month change in consumer prices in December was 5.0 per cent, reaching the highest value recorded since monetary union began (Figure 9). Around half of this change is due to the energy component. It is also the result of temporary factors relating to the fiscal measures implemented in 2020 in Germany, the effects of which will begin to tail off from January 2022. Core inflation stood at 2.6 per cent. The slowdown in service prices was offset by the faster growth of those of non-energy industrial goods. The latter is also associated with the sharp increase in the prices of commodities and intermediate inputs, the global scarcity of which should come to an end in the course of 2022.

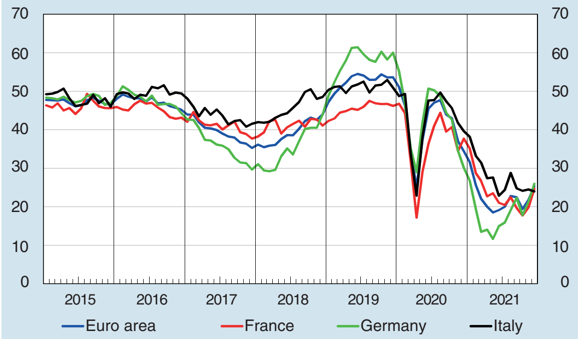
... which is expected to return to a level close to the price stability objective from 2023

Inflation was equal to 2.6 per cent in 2021 overall (up from 0.3 per cent in 2020), and the core component stood at 1.5 per cent (up from 0.7 per cent). The December Eurosystem staff projections indicate that inflation will reach 3.2 per cent in 2022 (1.5 percentage points higher than that predicted last September, mainly because of the energy component), and will then fall to 1.8 per cent in 2023 and 2024, a level that is fairly close to the medium-term price stability objective of 2 per cent.

Figure 8

PMIs of delivery times (1)

(monthly data; diffusion indices)

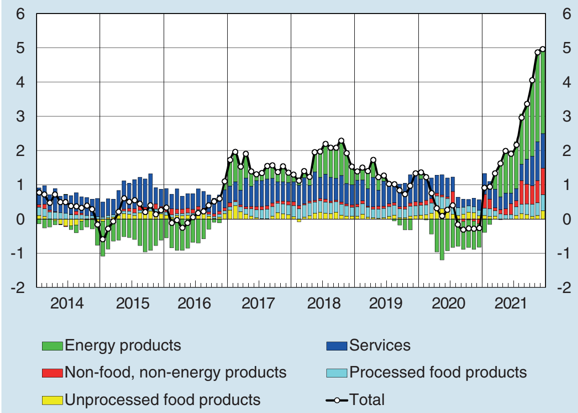


Source: Markit.
(1) Diffusion indices based on purchasing managers' assessments of delivery times. The index is obtained by adding half of the percentage of replies of 'stable' to the percentage of replies of 'increasing'. A reduction in the index points to longer delivery times.

Figure 9

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

(monthly data; percentage changes and points)



Sources: Based on Eurostat and ECB data.
1) Twelve-month changes in the HICP.

Wage growth remains moderate

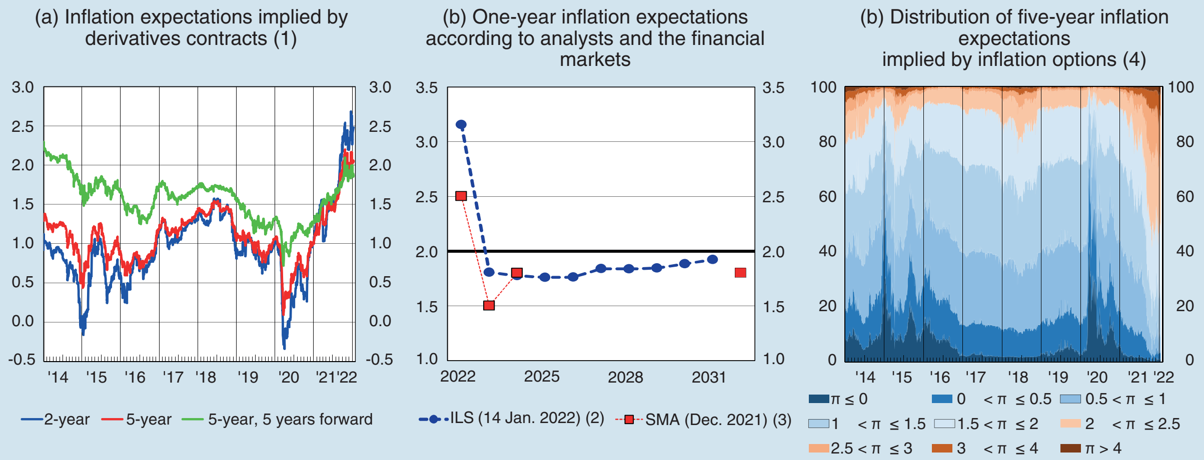
The increase in inflation has not as yet affected wage growth, which was still low in October, based on the increments agreed under collective bargaining, net of some temporary components in Germany (1.3 per cent in the third quarter, following the 1.8 per cent recorded in the second, partly driven by transitory factors).

Inflation expectations indicate still limited risks of persistent deviation from the objective

Inflation expectations continue to indicate a low risk of inflation that is persistently above the objective. In mid-January, the expectations derived from inflation swaps stood at 2.5 per cent at the two-year horizon (Figure 10.a); they were 2.0 and 1.9 per cent respectively at the five-year, five years forward horizon. Based on the one-year inflation expectations implied by these inflation swaps, price growth is likely to reach 3.2 per cent in 2022 and then return below the objective from next year, stabilizing at around 1.8 per cent in 2023 and 2024 (Figure 10.b). According to the experts interviewed in the Survey of Monetary Analysts, conducted by the ECB and ending on 2 December, inflation is likely to return to 1.5 per cent in 2023, well below the objective. Based on options prices, the probability of inflation being between 1.5 and 2.5 per cent on average over the next five years is more or less stable at around 45 per cent, almost double the probability of higher inflation (28 per cent; Figure 10.c).

Figure 10

Inflation expectations
(daily data; per cent)



Sources: Based on Bloomberg and ECB data.
(1) Expected inflation rates implied by 2-year, 5-year and 5-year, 5 years forward inflation-linked swaps (ILS). – (2) One-year expected inflation rates implied by inflation-linked swaps at various maturities. – (3) Median of the expectations of respondents polled as part of the Survey of Monetary Analysts (SMA) conducted by the ECB from 29 November to 2 December 2021. – (4) 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 euro-area HICP excluding tobacco.

The ECB outlines its plan for the future conduct of its purchase programmes

The Governing Council of the ECB judges that the progress made on economic recovery and towards its medium-term inflation target permits a step-by-step reduction in the pace of its asset purchases. The Governing Council also observed that, given the high uncertainty, the conduct of monetary policy would maintain flexibility and optionality as regards the monetary outlook (see the box 'The monetary policy measures adopted by the ECB in December 2021'), at the same time emphasizing the need to maintain an accommodative stance. It also confirmed that it expected purchases to continue for as long as necessary to reinforce the accommodative impact of its low policy rates, and it would end shortly before a rise in the key interest rates.

THE MONETARY POLICY MEASURES ADOPTED BY THE ECB IN DECEMBER 2021

In its meeting of 16 December, the European Central Bank's Governing Council judged that the progress on economic recovery and towards its medium-term inflation target permits a step-by-step reduction in its asset purchases from this quarter onwards. Nevertheless, the Council believes that monetary accommodation is still necessary for inflation to stabilize at the 2 per cent objective over the medium term and that, in an economic context of high uncertainty, the conduct of monetary policy must remain flexible and open to various options in relation to the evolution of the macroeconomic outlook.

In light of these considerations, the Council has set out how its two purchase programmes will be carried out in future.[1] With reference to the pandemic emergency purchase programme (PEPP), it envisages making net asset purchases at a slower pace in the first quarter of 2022 than in the fourth quarter of last year (when it averaged just over €60 billion per month) and to stop them at the end of March. It further announced that the horizon for reinvesting principal payments from maturing securities purchased under the programme will be extended until at least the end of 2024, and that the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary stance. In order to make the reduction in overall net purchases a gradual process, the Council also announced that those made through the asset purchase programme (APP) will go up from the current €20 billion per month to €40 billion in the second quarter of 2022 and to €30 billion in the third quarter; from October 2022, net purchases will continue at a monthly pace of €20 billion, running for as long as necessary to reinforce the accommodative impact of its policy rates, and ending shortly before it starts raising the key ECB interest rates.

The key interest rates and the forward guidance for their future path have been confirmed, and both factors are considered crucial for maintaining an appropriate degree of accommodation to stabilize inflation at 2 per cent over the medium term.[2]

The Council noted that flexibility in designing and conducting asset purchases during the pandemic crisis helped to counter malfunctions in monetary policy transmission and made the achievement of its goals more effective. It also announced that, under its mandate, flexibility will remain an element of monetary policy under stressed conditions. In particular, in the event of renewed fragmentation in financial conditions owing to the pandemic, it will be possible to adjust PEPP reinvestments flexibly across time, asset classes and jurisdictions at any time. Concurrently, net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks linked to the public health crisis.

Analyses carried out by Bank of Italy experts on the Eurosystem asset purchase programmes clearly indicate that implementing them with temporal flexibility was decisive in allowing the objective to be pursued effectively, with effects that added significantly to those that emerged when the programmes were announced.[3]

At a time of great uncertainty, the Council has also stated that it stands ready to adjust all of its instruments, as appropriate and in either direction, to ensure that inflation stabilizes at the 2 per cent objective over the medium term.

A gradual reduction in asset purchases under the APP and PEPP programmes overall had been expected by market participants and by analysts; the immediate reactions to the decisions have left monetary and financing conditions virtually unchanged.

1 ECB, 'Monetary policy decisions', press release, 16 December 2021.
2 ECB, 'Monetary policy decisions', press release, 22 July 2021.
3 M. Bernardini and A.M. Conti, 'Assessing the flexible implementation of the ECB's pandemic asset purchases', Banca d'Italia, *Note Covid-19*, 20 December 2021.

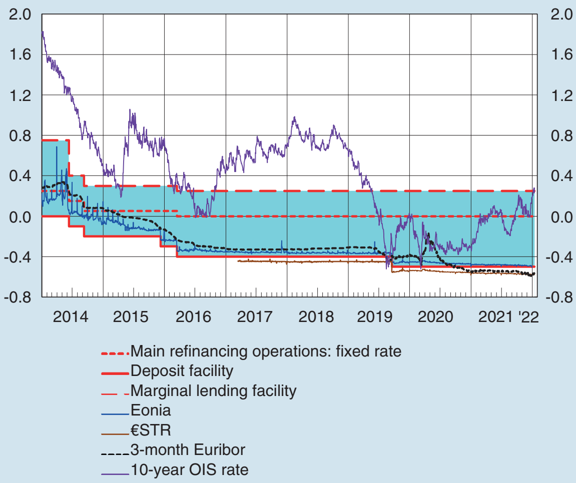
The ECB's key interest rates remain low

To guarantee the achievement of the symmetrical inflation objective of 2 per cent, in line with its new monetary policy strategy (see *Economic Bulletin*, 3, 2021), the ECB Governing Council envisages keeping the key interest rates at their present or lower levels (Figure 11) until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at 2 per cent over the medium term. The Eurosystem's net asset purchases of public and private sector securities under the asset purchase programme (APP) continued as usual, and at the end of December, their book value stood at €3,123 billion (Table 4). Net purchases under the pandemic emergency purchase programme (PEPP) brought the total book value of the portfolio of securities purchased under this programme to €1,536 billion at the end of November.

Figure 11

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

(daily data; per cent)



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

Table 4

Securities held in the Eurosystem 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 public sector securities purchased by the Bank of Italy (2)
APP				
September 2021	619	2,449	431	386
December 2021	636	2,487	429	386
PEPP (3)				
September 2021	47	1,353	230	206
November 2021	50	1,486	251	225

Sources: Bank of Italy and ECB.
(1) Book values at amortized cost. – (2) Difference between the acquisition cost of all purchase operations and the redeemed nominal amounts. – (3) PEPP data are published bimonthly.

On 22 December, the tenth and last auction of the third series of targeted longer-term refinancing operations (TLTRO III) was settled, allocating €52 billion to euro-area counterparties, of which €22 billion to Italian ones (Table 5). The total value of the funds disbursed under TLTRO III fell to €2,198 billion for the euro area after redemptions of €60 billion, of which €452 billion for Italy (€18 billion in redemptions). The first operation will expire in September 2022 and the last one in December 2024. The Governing Council will continue to monitor bank funding conditions and to ensure that the maturing of operations under TLTRO III does not hamper the smooth transmission of its monetary policy.

Table 5

Eurosystem refinancing operations
(billions of euros)

	Euro area		Italy	
	Amount	Number of counterparties	Amount	Number of counterparties
Total refinancing at 31 December 2021 (1)	**2,202**		**453**	
Refinancing under TLTRO III	2,198		452	
of which: last operation settled in December 2021 (gross)	52	159	22	33
of which: last operation settled in December 2021 (net) (2)	-8		4	

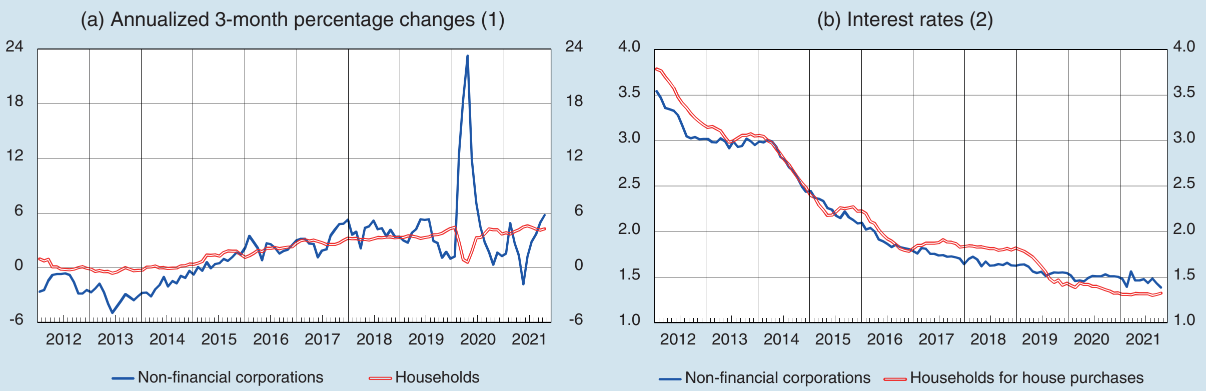
Sources: Bank of Italy and ECB.
(1) Includes the total amounts of main refinancing operations and longer-term refinancing operations, i.e. 3-month LTROs, TLTRO III, and pandemic emergency longer-term refinancing operations (PELTROs). – (2) The amount of the funds allotted is calculated excluding the amounts matured or redeemed under TLTRO III.

The growth in lending strengthens

The increase in lending to non-financial corporations continued into the autumn months, reaching an annualized quarterly rate of 5.8 per cent in November on the previous three months (from 2.8 per cent in August, adjusted for seasonal factors and the accounting effect of securitizations; Figure 12.a). The growth benefited from the recovery of the economic cycle and favourable lending conditions. Loan growth increased in all the main countries, standing at 8.9 per cent in Germany, 8.1 per cent in France and 3.1 per cent in Spain, returning to positive values in Italy (0.2 per cent), where weak growth is still influenced by the ample liquidity set aside over the past two years (see Section 2.7). Lending to households remained more or less stable at 4.3 per cent on average in the euro area.

Figure 12

Lending in the euro area
(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. 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.

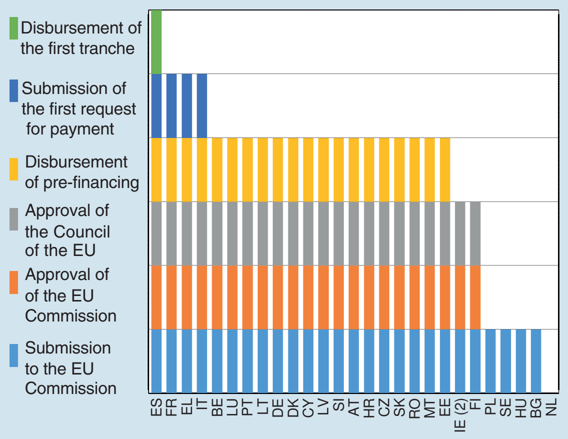
Between August and November, the interest rates on new loans to non-financial corporations remained unchanged, at 1.4 per cent (Figure 12.b) and the cost of credit to households for house purchases also remained unchanged, at 1.3 per cent.

The Next Generation EU funds are being disbursed

At the end of October, upon a proposal of the European Commission, the Council of the EU approved the national plans of Estonia, Finland and Romania under the Recovery and Resilience Facility (the main instrument of the Next Generation EU programme), which have now been added to the list of 19 other countries whose plans had already been approved (Figure 13). The total amount of funding disbursed as pre-financing payments is more than €56 billion.[1] In 2021, the Commission raised almost €96 billion on the capital markets, while in the first six months of this year, it expects to issue €50 billion of long-term bonds.

Figure 13

State of play of the National Recovery and Resilience Plans (1)



Sources: Based on official documents from the Council of the EU and European Commission.
(1) Updated to 13 January 2022. Countries on the x-axis are ordered based on the date of disbursement of the first tranche of financing, the submission of the related request, disbursement of the pre-financing or, in the event that funds have not yet been disbursed, based on the date of the plan's approval or presentation. – (2) Ireland did not request pre-financing of the funds allocated.

On 27 December, Spain received the first tranche of the funds under its own plan (€10 billion), following the Commission's positive assessment and the favourable opinion of the Economic and Financial Committee on the achievement of the targets and milestones required for disbursement of the initial funds. Between the end of November and the end of December, France, Greece and Italy submitted requests to the Commission for the disbursement of the first tranche of the resources under their individual plans (€7.4 billion, €3.6 billion and €21 billion respectively).

1.3 GLOBAL FINANCIAL MARKETS

News of the spread of the Omicron variant has affected the performance of the financial markets, influencing share prices and widening sovereign spreads in euro-area countries. The single currency has continued to depreciate against the dollar, owing to expectations of a less expansionary monetary policy in the United States.

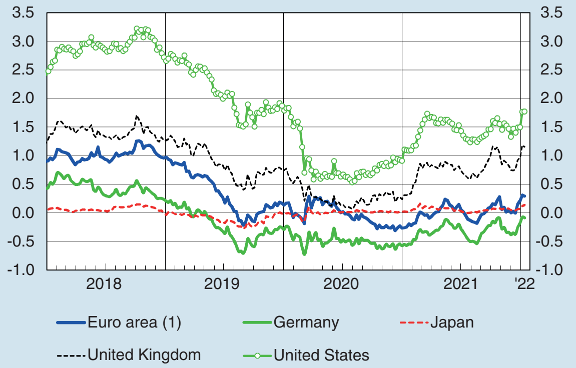
Risk aversion increases and sovereign spreads widen

The worsening of the pandemic observed since the beginning of November (see Section 1.1) has contributed to an increase in risk aversion, reflected in a general fall in long-term yields that is more marked in economies whose government bonds are considered to be safer, such as the United States and Germany (Figure 14). Nevertheless, yields have returned to growth since the beginning of the year, in part thanks to expectations of a more rapid normalization of US monetary policy. In mid-January, the yields on ten-year bonds stood at 1.8 per cent in the United States. Euro-area countries' yield spreads with the corresponding German Bund widened, with the most marked increases in those of Greece and Italy (Figure 15).

[1] Between December and January, Estonia, Malta and Romania received their respective quotas of funds and between August and October, the European Commission disbursed resources, in the form of pre-financing, to another 17 countries (see *Economic Bulletin*, 4, 2021).

Figure 14

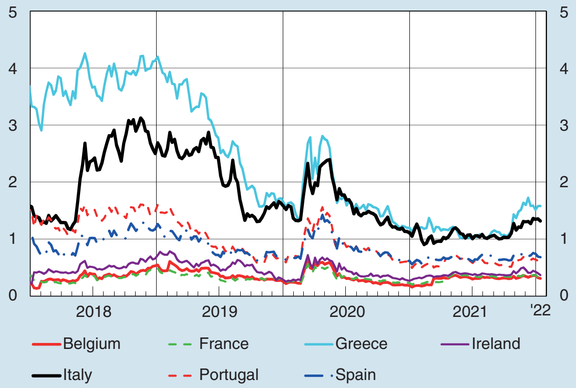
Yields on 10-year government bonds
(end-of-week data; per cent)



Source: Based on Refinitiv data.
(1) Average yields, weighted by 2019 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 15

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



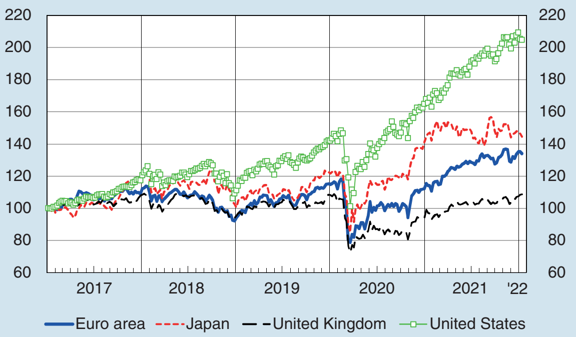
Source: Based on Bloomberg data.

Equity markets feel the effects of the spread of the Omicron variant

The negative impact on equity markets of the initial reports on the spread of the Omicron variant was significant, with an immediate fall of more than 2 per cent in the United States and of 4 per cent in the euro area, albeit a temporary one (Figure 16). Prices subsequently rose to around those recorded in mid-October. The implied volatility of equity prices initially increased strongly and then abated (Figure 17).

Figure 16

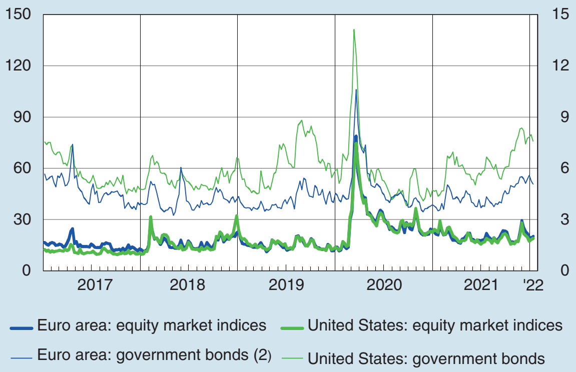
Equity prices (1)
(end-of-week data)



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. Index: 1st week of January 2017=100.

Figure 17

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



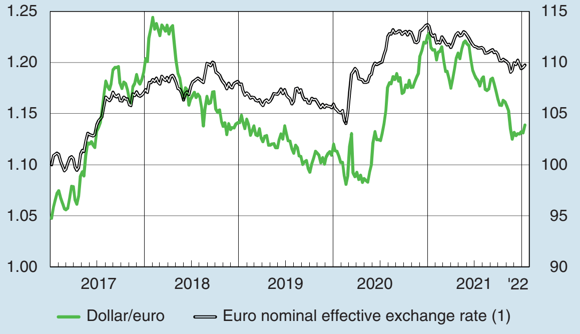
Source: Refinitiv.
(1) Equity indices: VSTOXX for the euro area and VIX for the United States. Government bonds: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury Notes for the United States (MOVE index). – (2) Right-hand scale.

The euro depreciates

The euro has continued to depreciate against the dollar, by around 1.5 per cent compared with mid-October (Figure 18), reflecting expectations of a less expansionary monetary policy in the United States than in the euro area. The single currency has also weakened slightly in nominal effective terms. Nevertheless, the indicators derived from the financial markets do not point to expectations of further significant changes in the euro/dollar exchange rate (Figure 19).

Figure 18

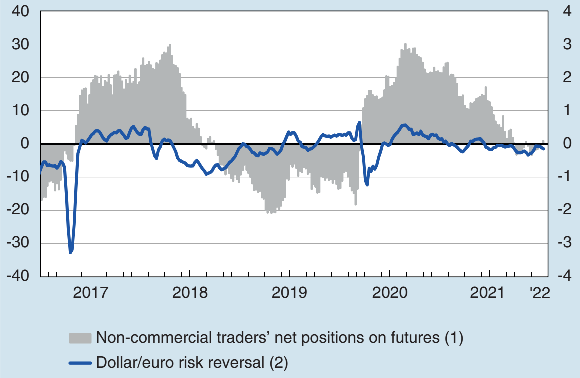
Exchange rates
(average weekly data; dollars per euro and index)



Sources: ECB, Bloomberg and Refinitiv.
(1) Index: 1st week of January 2017=100. Right-hand scale. A rise in the index corresponds to an appreciation of the euro.

Figure 19

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

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

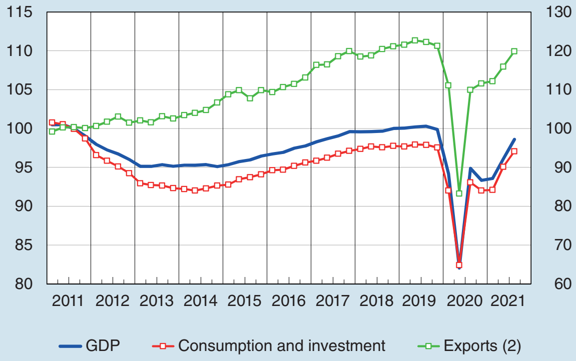
Growth in Italy continued at a swift pace in the third quarter of 2021, buoyed above all by household consumption. GDP recorded a marked slowdown in the fourth quarter, affected by the resurgence of the pandemic, in addition to persistent procurement problems for firms.

Recovery in GDP continues strongly in the summer months

In the third quarter, GDP rose by 2.6 per cent on the previous period (from 2.7 per cent in the second quarter; Figure 20), mainly driven by the further marked expansion in household consumption (Table 6). Starting in the spring, spending has regained momentum, especially in retail, transport and accommodation services (encouraged by the easing of the restrictive

Figure 20

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



Source: Based on Istat data.
(1) Chain-linked values; 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	2021			2020
	Q4	Q1	Q2	Q3	
GDP	-1.6	0.3	2.7	2.6	-8.9
Imports of goods and services	6.3	3.3	2.5	2.1	-12.9
National demand (2)	-0.5	1.0	2.4	2.2	-8.4
National consumption	-1.4	-0.9	3.4	2.2	-7.8
Household spending (3)	-2.7	-1.1	5.0	3.0	-10.7
General government spending	2.4	-0.5	-0.7	0.1	1.9
Gross fixed investment	0.0	4.2	2.4	1.6	-9.2
Construction	-1.1	6.0	3.5	0.3	-6.7
Capital goods (4)	1.0	2.6	1.4	2.9	-11.3
Change in stocks (5)	0.7	0.9	-0.8	0.1	-0.4
Exports of goods and services	1.5	0.5	3.4	3.4	-14.0
Net exports (6)	-1.2	-0.7	0.3	0.5	-0.8

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

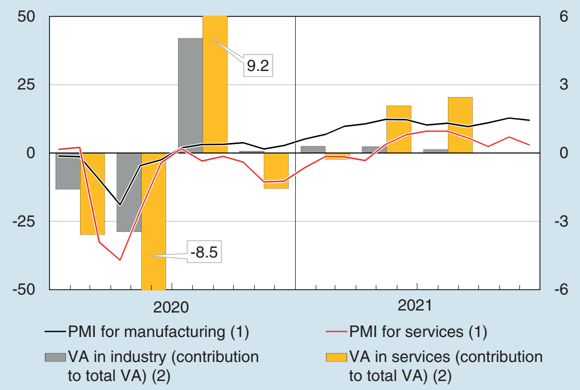
measures that had been adopted during the most acute phases of the pandemic), leading to accelerated activity across the entire service sector. Value added instead decelerated in construction and, to a lesser extent, in industry excluding construction, following the strong expansion in the early part of the year.

Economic activity slows in the fourth quarter

Based on the latest indicators, GDP recorded a significant deceleration in the last quarter of 2021, rising by 0.5 per cent on the previous quarter (see the box 'Economic activity in the fourth quarter of 2021'). The main reason for this was the impact on consumption of the resurgence of COVID cases, in addition to the persistent supply problems linked to the unavailability of some commodities and intermediate products at global level. The qualitative and quantitative cyclical indicators available so far indicate a slowdown in activity in both manufacturing and services. The composite purchasing managers' indices (PMIs; Figure 21) and confidence indicators of firms operating in the retail trade and services sectors, though remaining at historically high levels, fell in the latter part of the year to below the average levels attained in the summer. The Ita-coin indicator declined slightly in December compared with the previous month, reflecting the worsening in business confidence and the deterioration in the expectations of households for the general economic situation (Figure 22). For 2021 as a whole, GDP growth is expected to stand at 6.3 per cent, in line with what was projected in last October's *Economic Bulletin*.

Figure 21

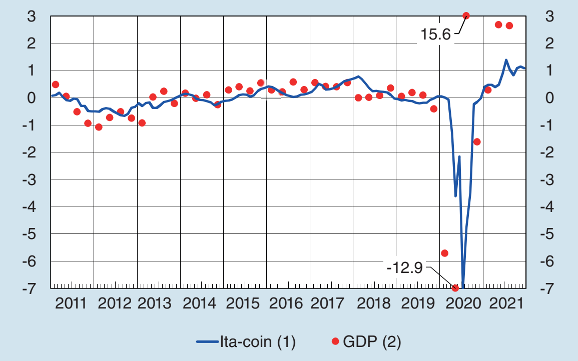
PMIs for industry and services and contributions to value added
(monthly and quarterly data)



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 in the sector. – (2) Sector's contribution to the quarterly change in value added (VA). Percentage points. Right-hand scale.

Figure 22

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



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

ECONOMIC ACTIVITY IN THE FOURTH QUARTER OF 2021

The Italian economy has slowed markedly since the autumn, owing to the resurgence of the pandemic and tensions in the global supply chains. Based on the set of models used by the Bank of Italy, it is estimated that GDP grew by 0.5 per cent in the fourth quarter, with an uncertainty quantifiable at half a percentage point above and below this central projection. Value added has decelerated in both industry and services.

The Italian weekly economic index (ITWEI; Figure A)[1] has been affected since the autumn by the weakness in consumption of electricity and gas for industrial use (excluding the increase in the week of Christmas, attributable to calendar effects; Figure B) and points to a halt in the recovery; following solid trends in spring and summer, ITWEI fell to barely negative levels in the fourth quarter overall (to -0.3 per cent, with significant uncertainty around this central value).

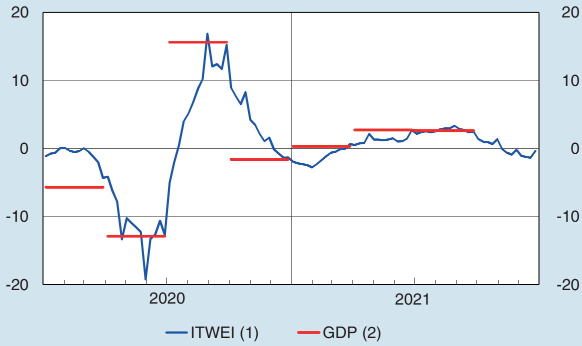
Taking into account the figures observed up until November and our estimates for December, industrial production continued to grow in the last quarter of 2021, though slowing down compared with the first nine months of 2021. Activity was curbed by the difficulties in the procurement of commodities and intermediate goods, albeit less pervasive than in other countries (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations'). High-frequency indicators show a moderate expansion in the manufacturing sector (Figure B); qualitative indicators, such as business confidence and the PMIs (see Figure 23.b), remained essentially stable, at high levels.

Activity in services, hit by the resurgence of the pandemic, grew modestly in the fourth quarter. The trend is consistent with that of the relative PMI and of business confidence in the sector: despite remaining at high levels, they both deteriorated compared with the summer months (see Figure 21).

The expansion of value added in construction regained momentum in the fourth quarter. This trend was confirmed by the increase in production in October and November and in the further improvement in confidence in the sector.

Figure A

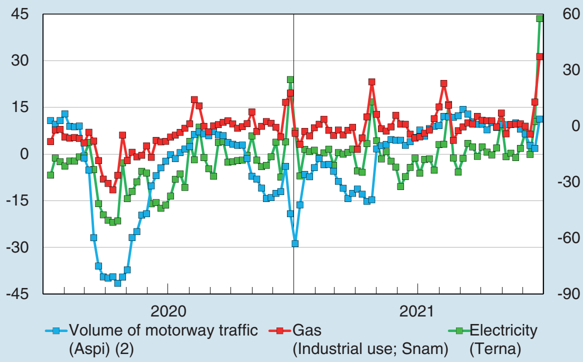
Italian weekly economic index (ITWEI)
(weekly and quarterly data; percentage changes)



Source: Bank of Italy for ITWEI; Istat for GDP.
(1) The indicator reports the change obtained by considering the average for the last 13 weeks (corresponding to approximately one quarter) compared with the average for the previous 13 weeks. – (2) Quarterly data; percentage changes on previous quarter.

Figure B

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



Sources: Based on data from ASPI, Snam and Terna.
(1) Changes compared with the same week of the previous year. 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; those for the last week of 2021 reflect a greater number of working days in 2021 than in the reference year (2019) because of how the Christmas holidays fell. – (2) Right-hand scale.

[1] The indicator monitors GDP growth by including a wide variety of information, including high-frequency data on payment flows and motorway traffic, as well as on consumption of electricity and of gas for industrial use. For further details, see D. Delle Monache, S. Emiliozzi and A. Nobili, 'Tracking economic growth during the Covid-19: a weekly indicator for Italy', Banca d'Italia, *Note Covid-19*, 27 January 2021.

2.2 FIRMS

According to the latest data, the expansion in industrial production, under way since the beginning of 2021 at a pace of around 1.0 per cent per quarter, weakened in the last three months of 2021. According to the assessments of the firms surveyed between November and December, the growth in investment will continue in 2022, though less so than in 2021. The real estate market continues to improve.

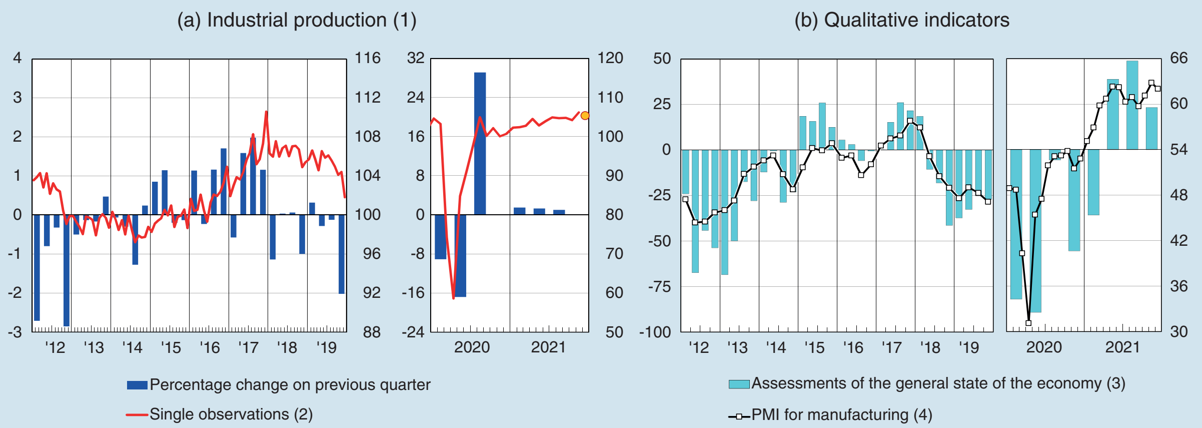
Industrial production slows in the fourth quarter

Industrial production increased in November (by 1.9 per cent on the previous month), having declined in October (-0.5 per cent). Based on our estimates, which use high-frequency data for electricity and gas consumption and for motorway traffic, as well as qualitative indicators from business surveys, production rose by about half a percentage point in the fourth quarter overall (Figures 23.a and 23.b; see the box 'Economic activity in the fourth quarter of 2021'). The weakness of economic activity was mainly attributable to the fall in the production of capital goods, partly in connection with the difficulties in supplying commodities and intermediate inputs.

Figure 23

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 data for 2020 and 2021 are shown on a different scale to the one used for previous years. – (2) Monthly data. Index: 2015=100. The yellow dot represents the estimate for December 2021. Right-hand scale. – (3) Quarterly data. Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 January 2022). – (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.

Investment growth weakens

In the third quarter, the growth in investment expenditure lost momentum (down from 2.4 per cent in the previous quarter to 1.6 per cent) owing to the marked slowdown in the construction component. Investment in plant and machinery instead accelerated. Nevertheless, the latest economic indicators suggest a widespread weakening in capital accumulation in the latter part of the year. According to calculations based on data from Assilea, the Italian leasing association, the value of lease financing contracts for industrial vehicles was essentially stable in the autumn months; there was moderate growth in the capital goods sector. Firms' assessments of investment conditions worsened and they anticipate a slowdown in investment expenditure in 2022 compared with 2021 (see the box 'Italian firms' assessments according to the Survey on Inflation and Growth Expectations').

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

Between 23 November and 15 December, the Bank of Italy conducted its quarterly survey on inflation and growth expectations on a sample of about 1,500 firms with 50 or more employees active in industry excluding construction, services and construction (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 January 2022).

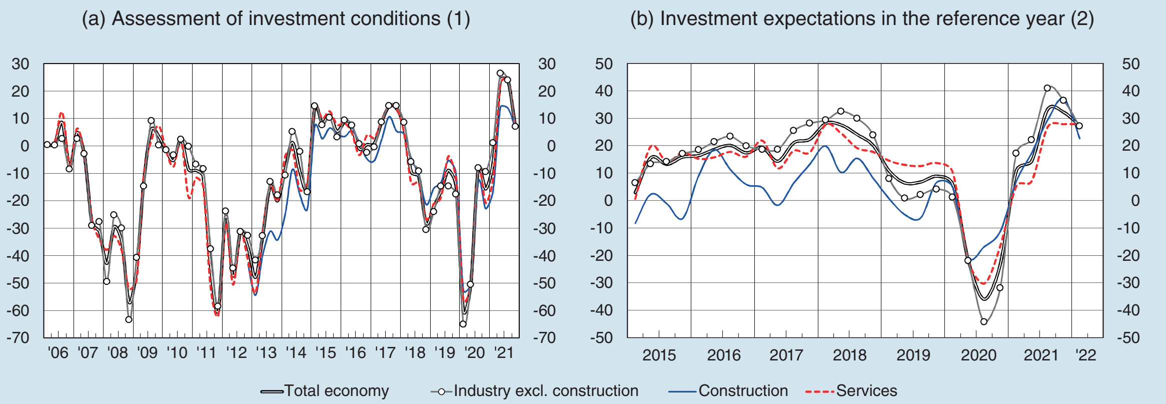
Firms' assessments of the general state of the economy have become more cautious. After having reached historically high levels between the spring and summer of last year, the net positive balance of expectations for the first quarter of 2022 of an improvement and those of a deterioration in operating conditions fell to 10 percentage points (from 25 points in the previous survey). The resurgence of the pandemic, problems in procuring production inputs and rising energy prices are a drag on the growth outlook. Some 54 per cent of industrial firms and 58 per cent of service firms point to the rise in COVID-19 cases since the autumn as a risk factor for their businesses. Tensions in supply chains were reported by over 70 per cent of manufacturing firms and 35 per cent of service firms. Almost 60 per cent of the firms affected by the supply bottlenecks report that they will have a negative impact on their activity in the first quarter of this year.

Demand will continue to support turnover in the first three months of the year: the share of manufacturing and service firms that expect sales to grow is more than 35 points higher than those that expect them to contract. Demand will remain robust, even in construction, where almost half of the firms expect an increase in orders, compared with a marginal share (less than 5 per cent) that expects a decrease. Around half of the firms in industry excluding construction and in services believe that foreign sales will increase.

Investment conditions are viewed as being less favourable than three months earlier. The balance between opinions indicating an improvement and those expecting a deterioration narrowed considerably (to 7 percentage points from 24 points in the autumn; see the figure), but the majority of firms still reported stable conditions (71 per cent). Investment will continue to expand in 2022, albeit less robustly than in 2021: the percentage of firms that expect it to increase compared with the previous year, while lower, especially in the construction sector, remained over 25 points higher than the share of those that expect a

Figure

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



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 13 January 2022.
(1) Balance between positive and negative assessments compared with the previous quarter. Construction firms are included in the total economy from 2013 Q1. – (2) Balance between expectations of an improvement and of a deterioration compared with the previous year. The first expectations for the reference year are surveyed in the last quarter of the preceding year.

contraction. Compared with the last six months of 2021, more than 40 per cent of the firms interviewed expect to increase investment in the first half of this year.

The outlook for the real estate market remains favourable

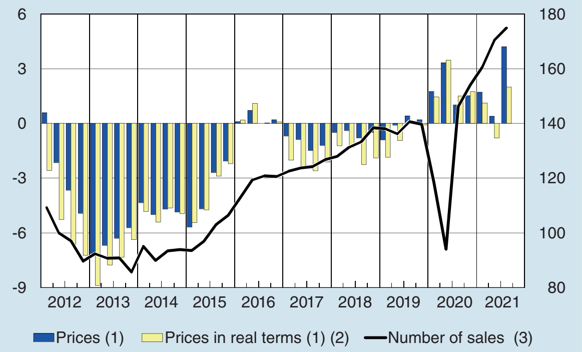
Growth in residential property sales continued in the summer (2.7 per cent on the previous period; Figure 24), a trend under way since the third quarter of 2020. Based on our calculations using the listings on the Immobiliare.it online platform, demand for residential properties continued to grow in the latter part of the year, with greater intensity compared with the quarter prior to the outbreak of the pandemic. House prices accelerated sharply in the third quarter of 2021 for both new and existing housing. According to the Italian Housing Market Survey conducted in September and October on a sample of real estate agents, the outlook for the domestic market has improved further. Estate agents believe that the expansionary effects on the demand for houses stemming from the pandemic crisis will continue until mid-2022, and report growing signs of upward pressure on sales prices.

Firms' debt continues to fall

The debt of Italian non-financial corporations fell in the third quarter of 2021 compared with the previous quarter, to 73.3 per cent of GDP (110.8 per cent in the euro area; Figure 25). Bank loans declined across all firm size classes; securities issues decreased for large and medium-sized firms, while they increased for small firms. The amount of liquidity held by firms in their deposit and current accounts rose slightly, though considerably more slowly than in the previous quarter (see Section 2.7).

Figure 24

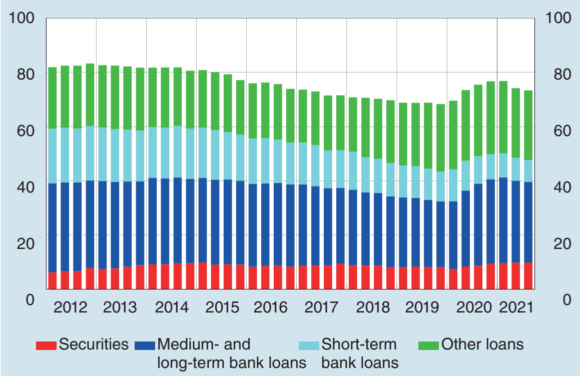
House prices and sales
(quarterly data; percentage changes and index numbers)



Sources: Based on data from the Revenue Agency, 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.

Figure 25

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.

2.3 HOUSEHOLDS

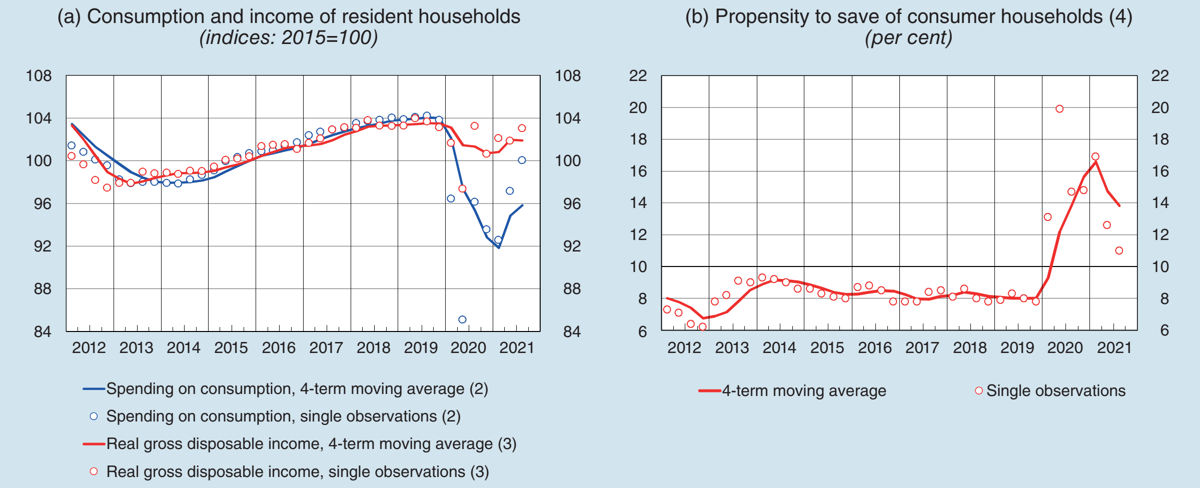
Following the strong expansion in the second and third quarters, the latest data indicate a marked slowdown in household consumption in the last part of 2021. The growth in the number of cases and the subsequent worsening of expectations concerning the general state of the economy led to consumers being more cautious in their purchases. The propensity to save continued to decline in the third quarter.

Further expansion in consumption in the summer months ...

Household spending continued to grow apace in the third quarter too (by 3.0 per cent on the previous quarter), driven by both purchases of goods and, above all, of services. Nevertheless, the latter were below pre-pandemic levels by 7.2 per cent, while there was an almost total recovery for goods. Real disposable income rose by 1.2 per cent on the previous quarter (Figure 26.a). The propensity to save therefore fell to 11.0 per cent, still around 3 percentage points above the levels prior to the public health crisis (Figure 26.b).

Figure 26

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



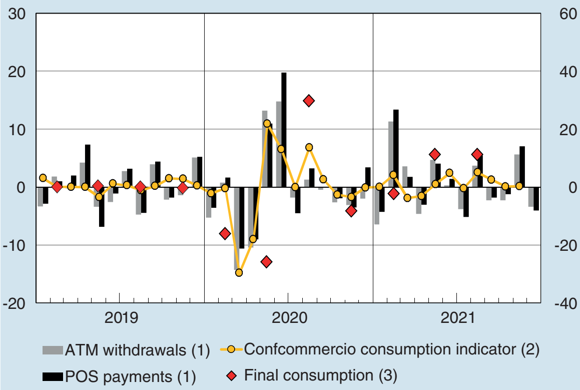
Source: Based on Istat data.
(1) Seasonally adjusted data. – (2) Chain-linked volumes. – (3) Net of the variation in the final consumption expenditure deflator for resident households. – (4) Consumer households' savings as a percentage of real gross disposable income.

... is followed by a slowdown in the fourth quarter

The latest cyclical indicators suggest that household spending slowed considerably in the fourth quarter. Confcommercio's consumption indicator recorded very small cyclical variations in the last months available for 2021. The high-frequency data on withdrawals and electronic payments show modest growth in spending in the final part of the year (Figure 27). New vehicle registrations continued to decline, albeit less than in the previous quarter. Consumer confidence instead remained high overall (Figure 28), but the expectations for Italy's general economic situation worsened considerably because of the deterioration in the epidemiological situation.

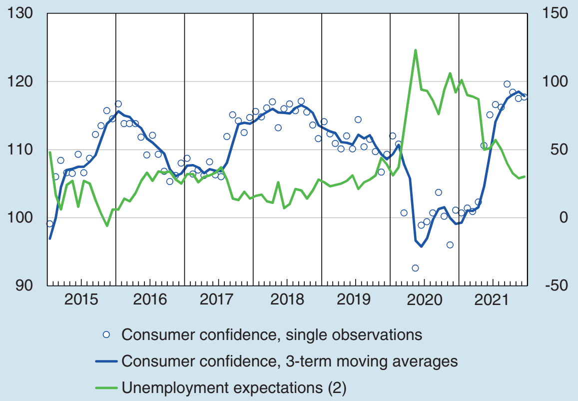
Figure 27

Consumption expenditure, ATM withdrawals and POS payment amounts
(monthly and quarterly data; percentage changes on the previous period)

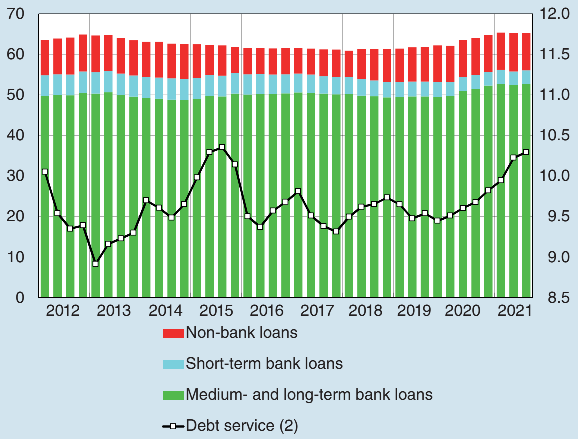


Sources: Based on data from the Bank of Italy, Confcommercio and Istat.
(1) Data obtained from the BI-COMP multilateral clearing system, seasonally adjusted (for more details, see the Bank of Italy's website, 'BI-Comp and CABI: retail payment systems'). Right-hand scale. – (2) Data seasonally adjusted. Right-hand scale. – (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 fourth quarter of 2021 is not yet available.

Figure 28	Figure 29
Consumer confidence (1) *(monthly data; indices: 2010=100 and percentage points)*	**Household debt** (1) *(quarterly data; per cent of gross disposable income)*



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



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.

Household debt remains stable

In the third quarter of 2021, household debt as a percentage of disposable income remained stationary, at 65.2 per cent (Figure 29), and below the euro-area average (98.3 per cent). Debt servicing costs (interest plus repayment of principal) increased slightly compared with the previous quarter, to 10.3 per cent (Figure 29). As a share of GDP, household debt fell slightly, to 43.8 per cent (60.8 per cent in the euro area), owing to the positive performance of GDP.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

Italian exports continued to grow in the third quarter, benefiting from the recovery in international tourism. Foreign sales of goods recorded a slight contraction, smaller than that in world trade and in part connected with supply chain bottlenecks; they held stable in the two months October-November. In the first eleven months of the year overall, foreign investors made net purchases of Italian securities. The current account surplus remains large despite the worsening of the energy balance. The positive net international investment position widened.

Exports grow over the summer

Exports continued to increase in the third quarter compared with the previous period, driven by trade in services (Table 7), which benefited from the strong recovery in summer tourist flows, thanks to the improvement in the epidemiological situation.

Foreign sales of goods decreased slightly, though less than world trade, owing to a slowdown in euro-area markets and to a contraction in those outside the euro area. This was due above all to lower exports in the sectors hardest hit by supply-side constraints, namely basic metals, motor vehicles, mechanical machinery and electronics (see the box 'Supply chain bottlenecks: the impact on the global economy', Chapter 1). The main positive contributions came from the shipbuilding sector and, to a lesser degree, the pharmaceutical industry. Since the start of the year, Italian exports have grown more than those of the major European partners, in particular France and Germany.

Imports grew further, reflecting purchases of goods for investment and inventory purposes, in a context of recovering domestic demand (see Section 2.1). The growth in import prices remained strong (more than 3 per cent in the third quarter compared with the previous period), especially for energy prices.

Sales of goods are practically unchanged in the autumn months

In the two months October-November, exports of goods (deflated on the basis of the prices of the products sold abroad) remained stable overall compared with the third quarter. Manufacturing firms' assessments of foreign orders as recorded by Istat and the corresponding PMI indicator point to an expansion in foreign demand in the fourth quarter on average (Figure 30).

Table 7

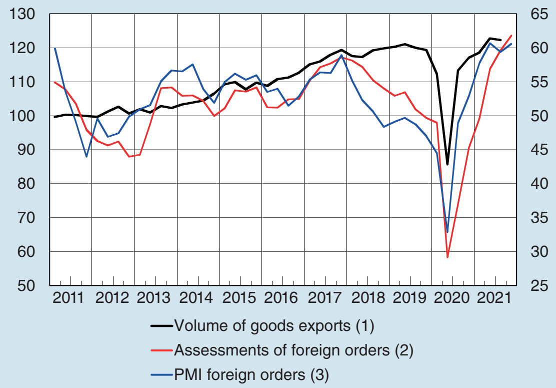
Italy's imports and exports (1)
(percentage change on previous quarter)

	2021 Q2	2021 Q3
Exports	**3.4**	**3.4**
Goods	3.5	-0.4
to euro-area markets	3.0	0.3
to non-euro area markets (2)	3.8	-0.9
Services	2.6	28.5
Imports	**2.5**	**2.1**
Goods	2.2	2.4
from euro-area markets	0.3	3.2
from non-euro area markets (2)	3.8	1.7
Services	4.1	0.7

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 30

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 were 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' to the percentage of replies of 'increasing'. Seasonally adjusted data. Right-hand scale.

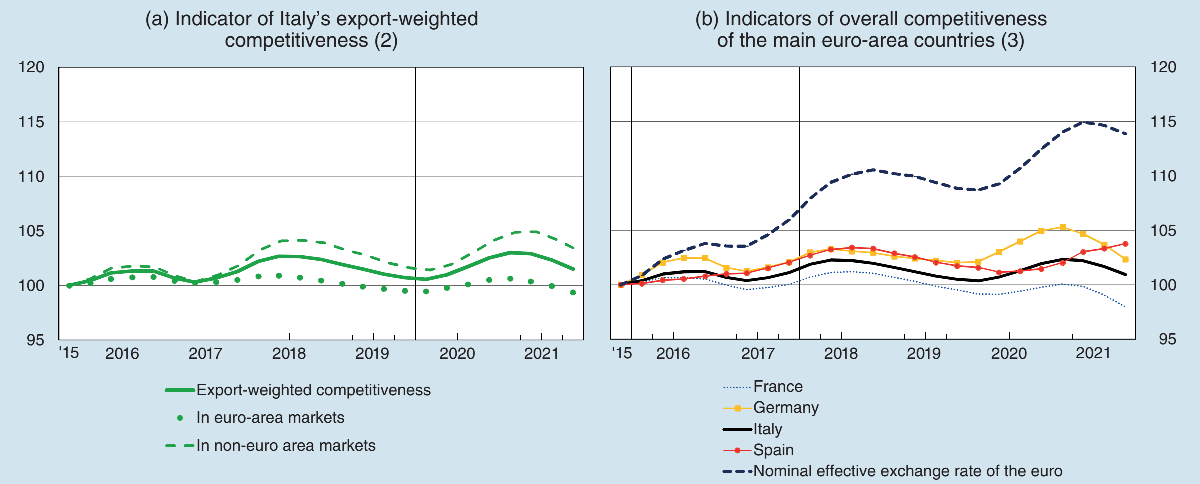
Last year on average, Italian firms' overall and export-weighted price competitiveness appears to have improved slightly compared with 2020, owing to favourable developments in relative prices (Figure 31).

The current account surplus remains large

In the first eleven months of 2021, the current account surplus of the balance of payments was practically unchanged compared with the same period a year earlier, standing at €53.9 billion (Table 8). The worsening in the energy deficit, due in part to the sharp rise in the prices of oil and natural gas, was offset by the increase in the non-energy surplus, which firmly regained 2019 levels. The services deficit widened, despite the recovery – concentrated in the months from August onwards – in tourism receipts, which are nevertheless half of what they were in the first eleven months of 2019.

Figure 31

Price competitiveness indicators of the main euro-area countries (1)
(quarterly data; index numbers: Q4 2015=100; 4-quarter moving average)



Sources: For the nominal effective exchange rate of the euro, ECB. For the other indicators, Bank of Italy (for the calculation method, see A. Felettigh and C. Giordano, 'A novel three-market view of price competitiveness', *Journal of Economic and Social Measurement*, 44, 2-3, 2019, pp. 89-116, also published in Banca d'Italia Questioni di Economia e Finanza (Occasional Papers), 447, 2018).
1) An increase signals a loss of competitiveness. Last quarter's data are partly estimates. – (2) The export-weighted price competitiveness indicator measures a country's capacity to compete with another 60 exporters and with domestic producers in the international outlet markets. All the indicators are calculated using producer prices of manufactures and weighted by trade flows of manufactures. – (3) Indicators of overall competitiveness: weighted average of import competitiveness, which measures the capacity to compete in the domestic market with imported goods, and of export competitiveness. The nominal effective exchange rate of the euro is calculated vis-à-vis 42 non-euro area countries and weighted by trade flows of manufactures and services.

The current account surplus stood at 3.8 per cent of GDP, calculated as the average of the four quarters ending in September (Figure 32).

Foreign investors purchase Italian private sector bonds

In the first eleven months of the year, non-residents made net purchases of Italian securities totalling €4.9 billion. Net foreign investment in public sector securities was negative by €16.6 billion: sizeable purchases up to July were followed by sales, against a backdrop of significant net redemptions of securities on the part of the Treasury. Over the same period, foreign investors made purchases of debt securities issued by the non-bank private sector amounting to €21.4 billion.

Net purchases of foreign assets by residents (€116.2 billion between January and November, of which almost two thirds in investment fund shares) continued at a fast pace, above all on the part of households, insurance companies and banks. In the first eleven months of the year, Italian banks' net funding on international markets via loans and deposits increased by €15.4

Table 8

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

	2019	2020	Jan.-Nov. 2020	Jan.-Nov. 2021
Current account	**57.9**	**62.1**	**54.6**	**53.9**
Memorandum item: % of GDP	3.2	3.8		
Goods	60.7	68.4	61.5	59.3
Non-energy products (2)	96.3	88.7	80.1	90.7
Energy products (2)	-35.6	-20.3	-18.5	-31.4
Services	-0.4	-7.3	-6.8	-8.3
Primary income	14.7	20.3	16.6	19.3
Secondary income	-17.1	-19.3	-16.7	-16.5
Capital account	**-1.8**	**-0.4**	**-0.5**	**-0.5**
Financial account	**54.3**	**62.7**	**58.7**	**38.9**
Direct investment	1.5	19.1	16.3	8.2
Portfolio investment	-51.8	108.5	94.6	111.2
Financial derivatives	2.6	-2.9	-3.5	-0.5
Other investment (3)	98.8	-65.9	-52.3	-100.5
Changes in official reserves (4)	3.2	4.0	3.6	20.4
Errors and omissions	**-1.9**	**1.0**	**4.6**	**-14.4**

(1) Based on the international standards set out in the IMF's *Balance of Payments and International Investment Position Manual*, Sixth Edition (BPM6), 2009. For October and November 2021, provisional data. – (2) Based on Istat's foreign trade data. – (3) Includes change in TARGET2 balance. – (4) Includes the allocation of new Special Drawing Rights (SDRs) approved by the IMF in August 2021; the increase in official reserves did not affect the financial account, as it was offset by an equal increase in liabilities due to 'other investment' by the Bank of Italy.

billion. Over the same period, the public sector received inflows from abroad totalling €34.5 billion, mostly in connection with the share of loans disbursed by the European Commission via its instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and with the first share of funding envisaged by the Recovery and Resilience Facility.

The Bank of Italy's negative balance on the TARGET2 European payment system reached €590 billion at the end of last year, reflecting investments in foreign securities by residents and sizeable net redemptions of Treasury bonds (Figure 33 and Table 9). In December, the fall in resident banks' net funding abroad, connected with end-of-year effects, also played its part.

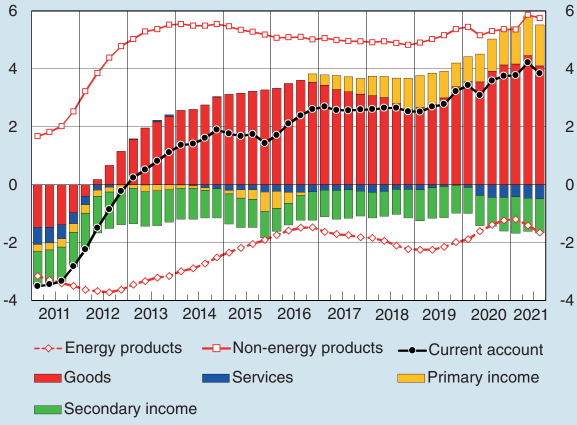
The positive net international investment position widens

At the end of last September, Italy's net international investment position was positive by €105.8 billion, equal to 6.1 per cent of GDP. The improvement compared with last June (€12.1 billion) was attributable to the current account and capital account surplus.

Figure 32

Current account balance and main components (1)

(quarterly data; per cent of GDP)

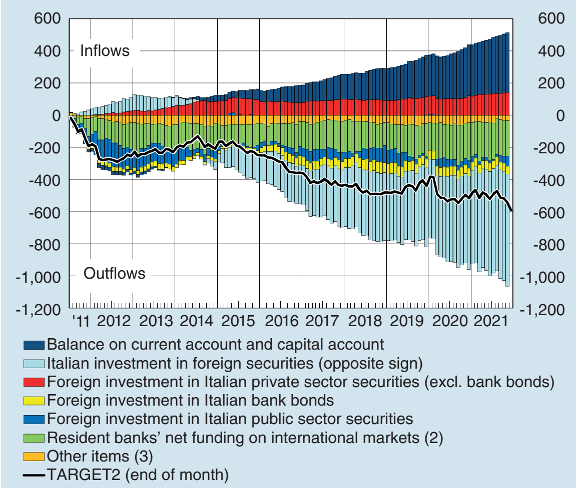


Sources: For GDP, Istat. For the breakdown between energy and non-energy products, based on Istat foreign trade data.
(1) 4-quarter moving average.

Figure 33

TARGET2 balance and cumulative balance of payments flows (1)

(monthly data; billions of euros)



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

2.5 THE LABOUR MARKET

The number of persons employed continued to increase over the summer. The recovery in labour demand translated into an even more pronounced rise in the number of hours worked and a reduction in the use of wage supplementation schemes. According to the latest data, the positive developments in the labour market continued into the fourth quarter. The stagnating unemployment rate stems from the gradual recovery in labour supply, which has neared pre-pandemic levels. Developments in contract renewals do not point to significant wage increases in 2022.

Employment rises further over the summer

The number of people employed continued to rise in the summer months, though at a slower pace compared with the previous period (0.4 per cent, against 1.5 per cent in the second quarter; Figure 34.a and Table 10). Employment in private services also continued to recover (1.0 per cent), driven by retail trade and tourism; the rise was more moderate for the industrial sector as a whole.

Table 9

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

(billions of euros)

	TARGET2 balance (end of period)	Change in TARGET2 balance (in relation to the end of the previous period) (A) + (B) + (C) + (D) + (E) + (F) – (G)	Foreign portfolio investment in Italian public sector securities (A)	Foreign portfolio investment in Italian private sector securities (excl. bank bonds) (B)	Foreign portfolio investment in Italian bank bonds (C)	Net foreign funding of resident banks (D)	*of which:* managed by resident central counterparties	Current account and capital account balance (E)	Other items (2) (F)	Italian portfolio investment in foreign securities (G)
2020	-516	-77	-25	4	4	-36	5	62	7	91
2021 – Q1	-516	..	24	8	-3	-9	6	7	7	34
Q2	-522	-6	6	3	-1	6	13	16	-3	33
Q3	-514	8	-23	4	4	14	6	20	16	27
2021 – Jan.	-482	34	13	..	-2	25	11	1	1	2
Feb.	-467	15	9	4	-3	8	7	3	7	15
Mar.	-516	-49	2	5	2	-42	-13	3	-1	17
Apr.	-481	35	6	1	-1	24	7	6	-4	-1
May	-493	-13	-8	2	-1	8	5	4	-3	16
June	-522	-28	8	-1	1	-27	..	5	4	18
July	-492	29	9	4	3	12	..	9	-5	2
Aug.	-472	20	-10	1	..	2	-1	5	29	8
Sept.	-514	-41	-22	..	..	..	7	6	-8	16
Oct.	-519	-6	-7	2	..	4	2	6	-4	6
Nov.	-545	-26	-17	4	..	1	-1	5	-2	16
Dec.	-590	-45	….	….	….	….	….	….	….	….

(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), specifically in Table TBP60200. For October and November 2021, provisional balance of payments data. – (2) Direct investment, financial derivatives, residual items in other investment, official reserves, errors and omissions.

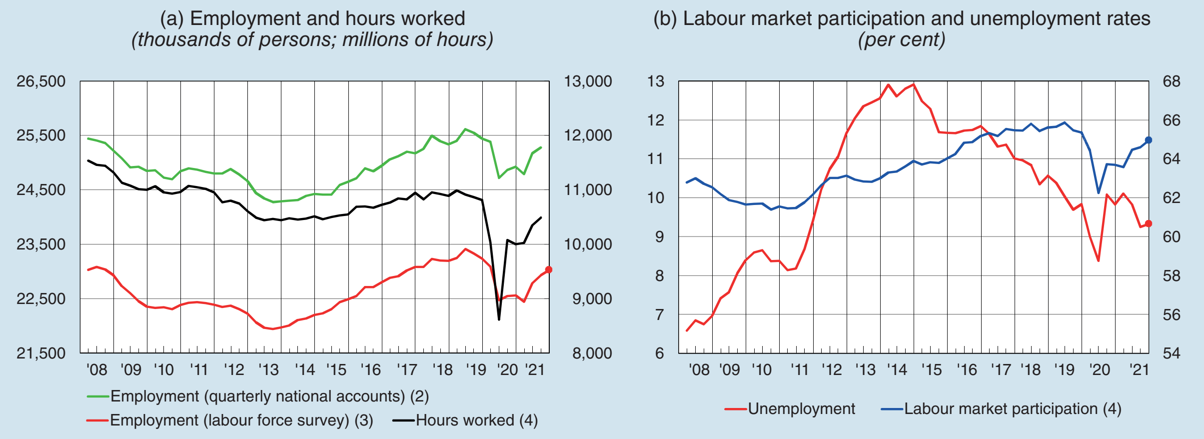
The use of wage supplementation schemes continues to decrease

The number of hours worked rose by 1.4 per cent in the third quarter (-3.0 per cent compared with the end of 2019), also owing to the progressive reduction in the use of wage supplementation schemes. On average, in each of the two months August and September, the number of workers that benefited from them decreased to about 525,000, the lowest number since the outbreak of the pandemic.[1] The number of hours of authorized wage supplementation (*cassa integrazione guadagni*, CIG) and solidarity funds continued to decrease in the fourth quarter, reaching levels similar to those recorded during the double-dip recession of 2009-2013 (Figure 35). In 2021 as a whole, the number of hours authorized fell by more than one third compared with 2020.

[1] Excluding extraordinary wage supplementation (*CIG straordinaria*) and measures taken under the special fund for the craft and trade sector (*fondo bilaterale artigianato*).

Figure 34

Employment, unemployment and labour market participation (1)
(quarterly data and quarterly averages of monthly data)



Sources: Istat's quarterly national accounts for employment and hours worked and Istat's labour force survey for employment, the labour market participation rate and the unemployment rate.
(1) Seasonally adjusted data. The dots corresponding to Q4 2021 indicate the average for the two-month period October-November, as the figure for December is not yet available. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale.

Table 10

Employment and hours worked (1)
(quarterly data; thousands of persons, millions of hours and percentage changes on the previous quarter)

	Stocks	Changes			
	Q3 2021	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Persons employed	**25,282**	**0.2**	**-0.5**	**1.5**	**0.4**
of whom: industry excluding construction	4,272	0.4	-0.3	0.0	0.3
private services (2)	11,061	1.1	-1.9	2.3	1.0
construction	1,655	0.2	4.7	1.6	-0.2
Employees	19,644	0.2	0.0	1.7	0.9
Self-employed	5,638	0.3	-2.2	1.0	-1.2
Total hours worked	**10,491**	**-0.8**	**0.2**	**3.3**	**1.4**
of which: industry excluding construction	1,845	-2.5	1.0	3.3	1.8
private services (2)	4,708	0.7	-1.4	4.4	2.5
construction	762	-2.8	7.7	2.7	0.3
Employees	7,477	-0.2	0.3	3.2	1.5
Self-employed	3,015	-2.2	0.0	3.3	1.0

Source: Istat's quarterly national accounts.
(1) Seasonally adjusted data. – (2) Does not include services to households and individuals (arts, entertainment and recreational activities; domestic work; other personal and household services).

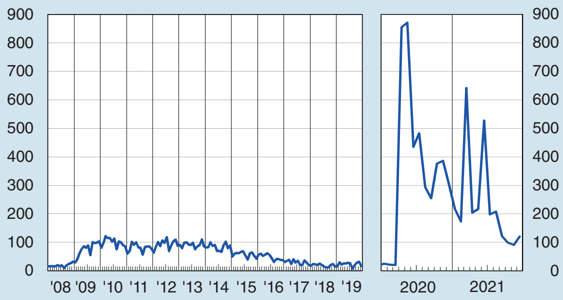
Permanent contracts are also picking up

Preliminary data from Istat's labour force survey suggest that, in the two-month period October-November, the number of people employed continued to rise (0.4 per cent compared with the previous quarter); it is still slightly below pre-pandemic levels (-0.8 per cent compared with the end of 2019), exclusively on account of the dynamics observed for self-employment (-4.7 per cent).

Figure 35

Hours of wage supplementation authorized

(monthly data; millions of hours)



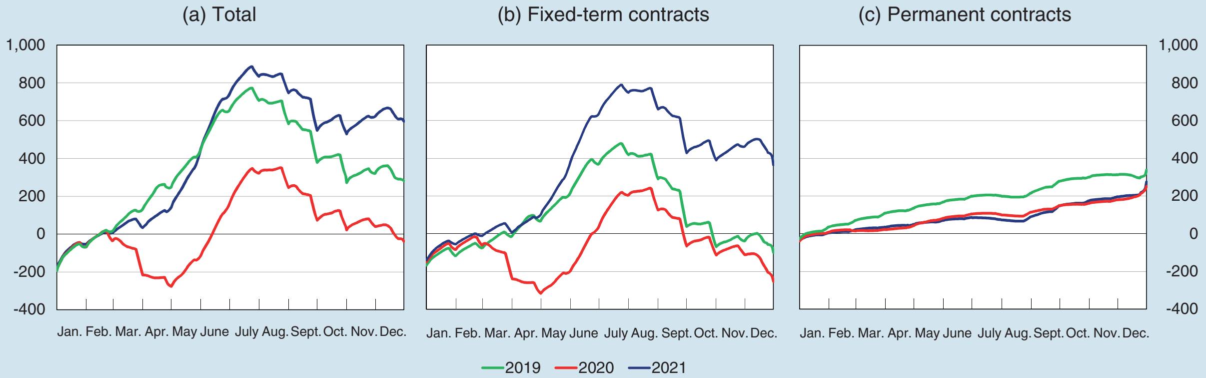
Source: Based on INPS data.

According to the data drawn from mandatory reporting, the number of payroll employment contracts nearly returned to the growth path of 2018-19 as at the end of last year.[2] The recovery in payroll employment was driven by the fixed-term component, which had been strongly affected by the health emergency in 2020 (Figure 36). New permanent contracts and conversions of fixed-term contracts into permanent ones started rising again in the second half of 2021, to the point that they surpassed 2019 levels. Resignations of permanent employees and mobility of workers across firms also rose.[3]

Figure 36

Cumulative net hires since the beginning of the year by type of contract (1)

(daily data; thousands of jobs)



Source: Based on data from the Ministry of Labour and Social Policies (mandatory reporting data).
(1) 7-day moving averages. Net hires on day *t* are calculated as the balance between the hires made on day *t* and the terminations recorded on day *t-1*. The following types of contract were analysed: permanent, fixed-term, and apprenticeships in the non-farm private sector.

Employment dynamics continue to benefit from the moderate number of layoff, which, despite the gradual lifting of the freeze on dismissals, remained below pre-pandemic levels, also thanks to the extension of the measures expanding access to wage supplementation schemes.[4]

[2] See Ministry of Labour and Social Policies, Banca d'Italia and ANPAL, 'Il mercato del lavoro: dati e analisi' ('Labour market data and analyses'), January 2022 (only in Italian).

[3] See Ministry of Labour and Social Policies and Banca d'Italia, 'Il mercato del lavoro: dati e analisi. Le Comunicazioni obbligatorie' ('Labour market data and analyses. Mandatory Reporting'), 6, November 2021 (only in Italian), and especially the box 'Perché stanno aumentando le dimissioni?' ('Why are resignations rising?').

[4] The freeze, introduced by Decree Law 18/2020 ('Cure Italy' decree), was lifted on 30 June 2021 in the industrial sector, with the exception of the textile, clothing and leather segments; for these and for the service sector, it was lifted on 31 October 2021.

The mandatory reporting data suggest that both male and female employment recovered. However, there is still room for improvement for the female component, which had been more greatly affected by the health crisis in 2020 and which benefited less from the increased demand for permanent labour in the second half of last year.

The labour market participation rate grows and the unemployment rate stagnates

In the two-month period October-November, the labour market participation rate rose to 64.9 per cent, narrowing the gap with end-2019 levels to 0.5 percentage points (Table 11); the recovery is still incomplete, especially for the 35-49 age group and for women. The expansion in labour supply led to a virtually stagnating unemployment rate which, despite the improvement in employment, remained at 9.3 per cent in the two-month period on average (see Figure 34.b).

Table 11

Labour market participation rate by gender and age group (1)
(quarterly averages of monthly data; per cent)

	Q4 2019	2020	Q1 2021	Q2 2021	Q3 2021	Oct.-Nov. 2021
Total	**65.4**	**63.5**	**63.6**	**64.5**	**64.6**	**64.9**
Women	56.1	54.2	54.4	55.3	55.4	55.6
Men	74.6	73.0	72.8	73.7	73.9	74.3
15-34 years	50.7	48.1	48.5	49.8	50.1	50.5
35-49 years	80.5	78.5	78.8	79.5	79.5	79.7
50-64 years	64.5	63.7	63.3	64.1	64.2	64.7

Source: Istat's labour force survey.
(1) Seasonally adjusted data.

The growth in contractual earnings will likely remain moderate in 2022

Growth in contractual earnings in the non-farm private sector remained modest (0.8 per cent year-on-year in both October and November; Figure 37). The share of employees with expired collective bargaining agreements decreased to below 40 per cent (from over 70 per cent in December 2020), owing to renewals in several manufacturing segments. In accordance with the rules on collective bargaining in force since 2009, these renewed agreements provided for wage increases based on expected inflation – net of imported energy products – which was still low when the renewals were signed.[5] Moreover, the risk of an immediate pass-through of price tensions to labour costs appears to be limited by the ongoing uncertainty that continues to slow down negotiations in the service sector.[6]

During the summer, hourly labour costs for the non-farm private sector increased by 0.9 per cent on the year-earlier period. The wide fluctuations over the last few quarters reflect in part the changing composition of labour demand during the various phases of the crisis. In the first nine months of the year as a whole, as actual hourly earnings[7] rose slightly (0.3 per cent), hourly labour costs fell by 0.5

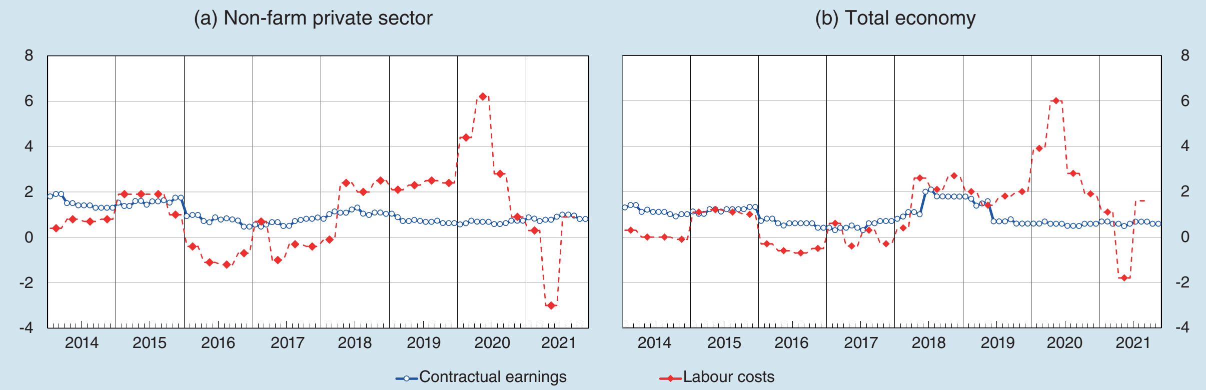
[5] The framework agreement of 22 January 2009 introduced, as a benchmark indicator for bargaining, the harmonized index of consumer prices (HICP) – net of the prices of imported energy products – which is updated yearly by Istat in June for the following three-year period.

[6] The collective bargaining agreement for retail trade, which covers around 2 million workers, expired in December 2019 and the negotiations for its renewal have resumed only recently at a difficult time for the segment. In December 2021, the relevant collective bargaining agreement expired for bars, restaurants and similar establishments, which are among the hardest hit by the economic repercussions of the health emergency.

[7] Actual earnings represent workers' gross earnings and include elements stemming from second-level bargaining or decided unilaterally by individual firms.

Figure 37

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



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

per cent, owing to the decrease in social security contributions to be paid by employers (-2.6 per cent), which was likely due above all to the introduction of social security contribution relief for some types of workers.

2.6 PRICE DEVELOPMENTS

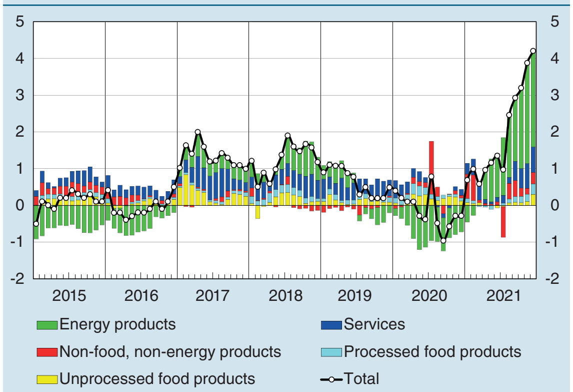
Inflation reached high levels in late 2021, propelled by the exceptionally strong growth in energy prices. Their impact will likely subside progressively over the course of 2022, leading to a gradual reduction in inflation. Net of the volatile components, the annual change in prices remains moderate. Firms expect further increases in their selling prices in connection with supply chain tensions and rising energy prices, though so far the increases in production costs have passed through to retail prices to an only modest degree.

Inflation increases further at end-2021, driven by rising energy prices

The twelve-month change in the harmonized index of consumer prices (HICP) was equal to 4.2 per cent in December, extending the phase of sharply rising prices that began in the summer (Figure 38 and Table 12). Growth in prices continued to reflect above all the further steep rises in the energy component, for which the change on the previous year was almost 30 per cent. This pressure, which in the current quarter is mostly being driven by rising gas and electricity prices, is expected to abate gradually over the course of 2022 (see Section 2.10). Core inflation rose to 1.5 per cent in December, owing both to the dynamics of service prices, especially those relating to accommodation, and the growth in non-energy industrial prices. In 2021 as a

Figure 38

Consumer price inflation in Italy and contributions of its components (1)
(monthly data; percentage changes and points)



Source: Based on Eurostat data.
1) Twelve-month percentage change in the HICP.

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		Excl. energy and food	Overall index	
					at 1 month (5)			
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	1.1
2019	0.6	0.5	0.6	0.6	–	0.5	0.0	0.9
2020	-0.1	0.5	-0.2	-0.2	–	0.5	-4.4	1.2
2021	1.9	0.8	2.1	1.9	–	0.8	....	....
2021 – Jan.	0.7	1.3	0.7	0.4	0.8	0.8	-0.4	–
Feb.	1.0	1.5	1.0	0.6	0.1	1.0	0.7	–
Mar.	0.6	0.7	0.7	0.8	0.2	0.9	3.0	–
Apr.	1.0	0.3	1.0	1.1	0.0	0.5	8.2	–
May	1.2	0.2	1.3	1.3	0.0	0.4	10.0	–
June	1.3	0.3	1.4	1.3	0.0	0.4	11.0	–
July	1.0	-0.9	1.1	1.9	0.6	0.6	13.5	–
Aug.	2.5	0.8	2.6	2.0	0.0	0.6	13.8	–
Sept.	2.9	1.4	3.0	2.5	0.4	1.1	15.6	–
Oct.	3.2	1.2	3.7	3.0	0.8	1.0	25.3	–
Nov.	3.9	1.3	4.4	3.7	0.8	1.3	27.1	–
Dec.	4.2	1.5	4.7	3.9	0.3	1.4	....	–

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) Producer price index for industrial products sold on the domestic market. – (4) Index calculated by Istat by subtracting from sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) One-month percentage change, seasonally adjusted.

whole, inflation rose to 1.9 per cent (from -0.1 per cent in 2020), while the core component reached 0.8 per cent (from 0.5 per cent).

Procurement difficulties push up production costs significantly ...

In November, the producer prices of industrial products sold on the domestic market rose further, to a twelve-month rate of 27.1 per cent (from 25.3 per cent in October), driven mainly by the especially strong rise in energy prices (to 74.8 per cent, from 70.8 per cent). Growth in the prices of intermediate goods also reached a historical high (17.1 per cent), while that for final consumption goods, though still rising, remained more moderate (3.5 per cent). In the final part of the year, the PMI referring to the cost of production inputs for manufacturing firms turned upwards again, reaching the maximum level recorded last June. Production costs are being affected by the ongoing supply difficulties recorded at global level for some commodities and intermediate inputs, high transport costs and the lengthening of delivery times.

... but have not passed through to selling prices so far

So far, there has been no indication of strong and widespread increases in the consumer prices of the components that are likely to be most affected by supply constraints (household appliances, IT goods and transport equipment). Labour market pressures are also low: wage growth in the non-farm private sector remained moderate in October and November (see Section 2.5). In the third quarter, unit labour costs rose in the economy as a whole by 1.8 per cent compared with the year-earlier period (from 0.5 per cent in the second quarter), reflecting both the positive developments in hourly wages and the slight decline in productivity.

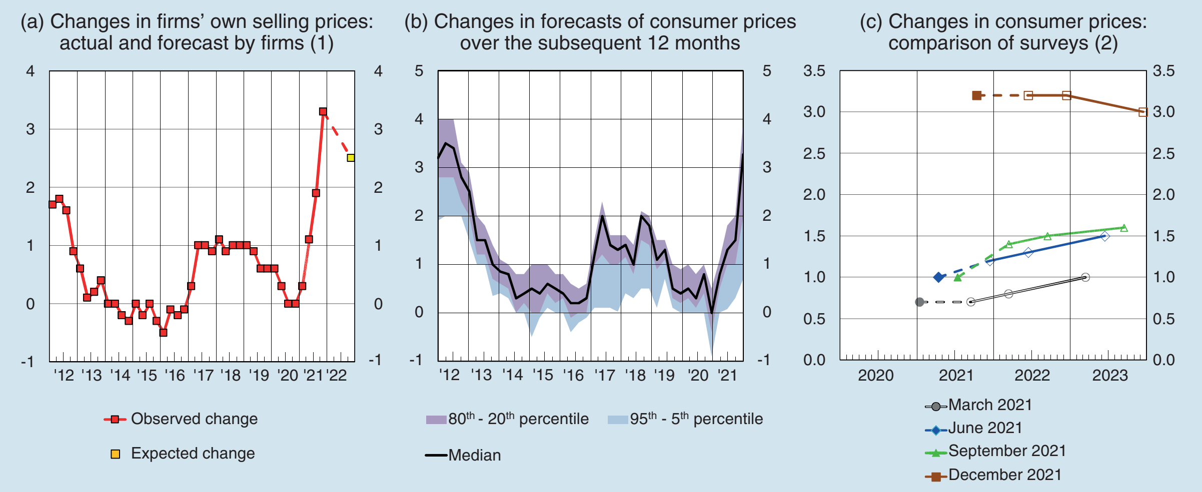
Firms and households raise their inflation expectations

In the Bank of Italy's quarterly Survey on Inflation and Growth Expectations conducted in November and December, firms reported a marked increase in their inflation expectations – to more than 3.0 per cent across all the forecasting horizons – and expect to raise their selling prices further (Figure 39). The expected increase is higher for firms facing rising energy prices and procurement difficulties. According to Istat's surveys of consumers, in the fourth quarter as a whole, the balance between the share of households expecting prices to increase over the next twelve months and the share expecting them to decrease rose to historically very high levels. It is plausible that households' inflation expectations have been affected above all by the sharp increase in gas and electricity prices. The professional forecasters surveyed in January by Consensus Economics expect inflation to average 2.7 per cent in 2022, 1.3 percentage points higher than they anticipated last September.

Figure 39

Inflation expectations of industrial (excluding construction) and service firms

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



Source: Based on the findings of the Bank of Italy's quarterly Survey on Inflation and Growth Expectations. Up to October 2018, the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Robust average of responses to questions on the observed percentage change in firms' own prices over the past 12 months and the change expected over the subsequent 12 months. – (2) The key below indicates the month in which the survey was carried out. The first point of each curve is the definitive figure for inflation available at the time of the survey, which is provided to respondents in the questionnaire to use as the basis for formulating their expectations; the second point is the average of the forecasts (for the 12-month change in prices) for the 6 months following the survey date; the third point is the average of the forecasts for the 12 months following; and the fourth point is the average of the forecasts for the 24 months following.

2.7 BANKS

In the autumn, growth in lending to non-financial corporations continued to be weak, reflecting the low demand for new loans, despite the favourable cyclical phase, owing in part to the ample liquidity accumulated over the last two years. The expansion in lending to households continued at a robust pace. Credit supply conditions remain relaxed. In the third quarter of 2021, the new non-performing loan rates on lending to firms, while up slightly, were still very low and there was a decrease in the share of performing loans for which banks recognized a significant increase in credit risk. In the first nine months of last year, profitability improved, especially following the reduction in loan loss provisions.

Weak growth in lending to firms reflects ample liquidity reserves

In November, growth in lending to the non-financial private sector rose to 1.8 per cent quarter-on-quarter, from 0.7 per cent in August (on a seasonally adjusted and annualized basis; Table 13 and Figure 40.a). The persistent and sustained increase in lending to households (4.1 per cent quarter-on-quarter, from 3.7 per cent) stands alongside more stagnant, albeit recovering, lending to non-financial corporations (0.2 per cent, from -1.8 per cent). Despite the recovery in economic activity, the dynamic of the latter component continues to be affected by the abundant liquidity overhang from the pandemic crisis (see Section 2.2).

The annual change in loans to households points to a robust expansion in lending for house purchase and other types of loans, compared with

Table 13

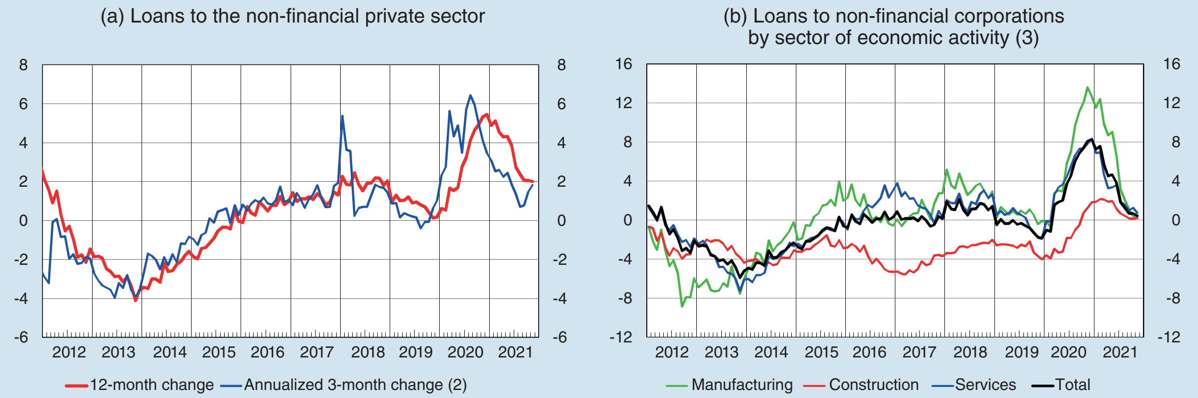
Bank lending as at November 2021 (1)
(percentage changes)

	12-month change	3-month change (2)
Non-financial private sector	**2.0**	**1.8**
Households	**3.8**	**4.1**
of which: loans for house purchase	4.8	....
consumer credit	1.5	....
other loans (3)	3.2	....
Non-financial corporations	**0.4**	**0.2**
of which: manufacturing	0.4	....
services	0.7	....
construction	0.2	....

Source: Supervisory reports.
(1) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Annualized and seasonally adjusted 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 40

Bank lending (1)
(monthly data; percentage changes)



Source: Supervisory reports.
(1) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage change is net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) The data are seasonally adjusted using a methodology that conforms with the guidelines of the European Statistical System. – (3) 12-month changes; until December 2013, the data for each sector are not corrected for value adjustments.

the ongoing sluggishness in consumer credit. As for loans to firms, lending to manufacturing and constructions firms was less intense (Figure 40.b).

The increase in banks' funding eases

Between August and November, the increase in banks' funding eased, reflecting the deceleration in deposits by residents to 5.3 per cent (compared with 8.4 per cent in August; Table 14): this was due to the slower growth in deposits both by households and by firms. The increase in liabilities towards the Eurosystem was also more subdued, following the settlement of the three pandemic emergency longer-term refinancing operations (PELTROs) on 30 September of last year.

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)	
	August 2021	November 2021	August 2021	November 2021
Assets				
Loans to Italian residents (3)	1,711	1,709	0.9	-0.3
of which: firms (4)	658	663	1.2	0.4
households (5)	655	661	3.7	3.8
Claims on central counterparties (6)	38	44	-54.3	-29.1
Debt securities excluding bonds of resident MFIs (7)	571	559	-5.2	-4.3
of which: securities of Italian general government entities	428	418	-6.2	-2.8
Claims on the Eurosystem (8)	418	428	129.2	42.3
External assets (9)	477	496	3.7	8.1
Other assets (10)	745	766	3.4	3.1
Total assets	**3,960**	**4,002**	**5.8**	**3.6**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,829	1,834	8.4	5.3
Deposits of non-residents (9)	298	304	-3.2	-5.0
Liabilities towards central counterparties (6)	85	98	-25.5	0.3
Bonds (12)	212	210	-6.1	-4.5
Liabilities towards the Eurosystem (8)	463	449	32.4	22.1
Liabilities connected with transfers of claims	120	118	-4.8	-13.4
Capital and reserves	350	348	-0.6	-2.2
Other liabilities (13)	602	640	4.1	3.0
Total liabilities	**3,960**	**4,002**	**5.8**	**3.6**

Source: Supervisory reports.
(1) The data for November 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 unit funds; derivatives; movable and immovable goods; other minor items. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs; deposits of resident MFIs; derivatives; other minor items.

Funding costs rose, but remained low: compared with the same period of October, at mid-January the yields on bank bonds in the secondary market had increased by one half of a percentage point, to 1.6 per cent, just above those reported prior to the public health emergency; during the same period, the yield spread with respect to the euro-area average widened slightly, to around 80 basis points (from 60 points).

The cost of loans to firms and households remains low

The average interest rate on new bank loans to firms was unchanged in November compared with August (1.1 per cent; Table 15 and Figure 41). The rate on new mortgage loans to households fell by 0.1 percentage points, to 1.4 per cent.

The results of the euro-area bank lending survey on the third quarter of 2021, which ended on 4 October, show that Italian banks' credit standards for loans to firms and households remain relaxed. For the last three months of 2021, expectations of a moderate tightening of credit standards for loans to firms were recorded (see the box 'Credit supply and demand').

Table 15

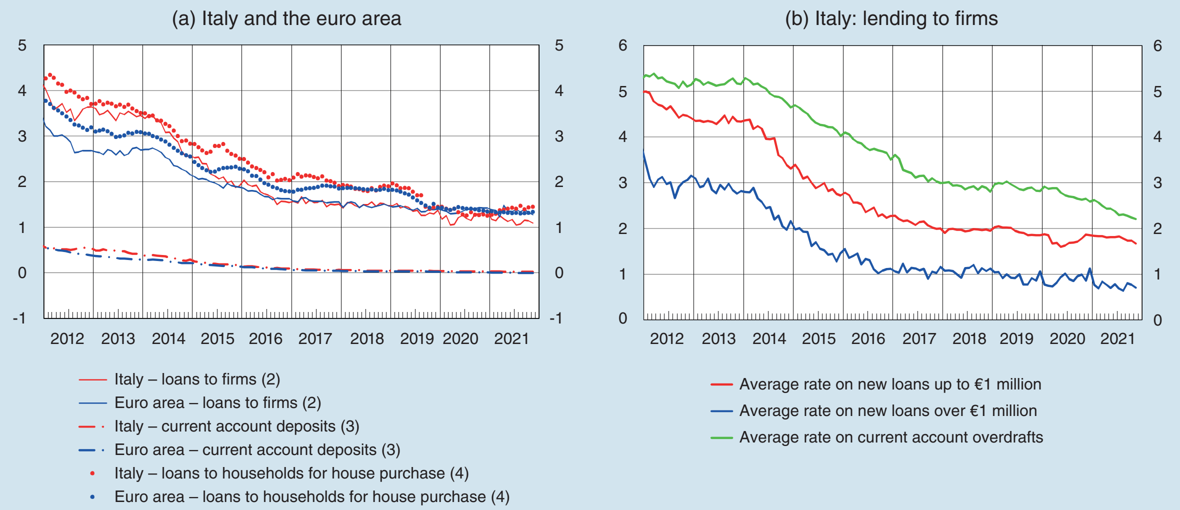
Bank interest rates (1)
(per cent)

	August 2021	November 2021
Loans to firms	**1.1**	**1.1**
of which: up to €1 million	1.8	1.7
over €1 million	0.6	0.7
Loans to households for house purchase	**1.5**	**1.4**
of which: fixed rate (2)	1.5	1.5
variable rate (3)	1.4	1.3

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

Figure 41

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



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

CREDIT SUPPLY AND DEMAND

The Italian banks that took part in the last euro area bank lending survey (BLS),[1] which was completed on 4 October 2021 and referred to the third quarter of that year, continued to report generally relaxed credit supply policies. Credit standards for loans to firms eased slightly, reflecting greater competition and lower perceived risk (Figure A). Those applied to household loans for house purchase remained

[1] Thirteen of the main Italian banking groups took part in the survey. The results for Italy are available on the Bank of Italy's website, 'Bank Lending Survey (BLS)' ; for those on the euro area, see the ECB's website, 'October 2021 euro area bank lending survey', press release, 26 October 2021.

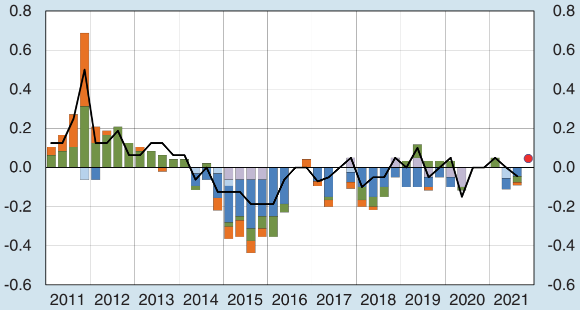
Figure A

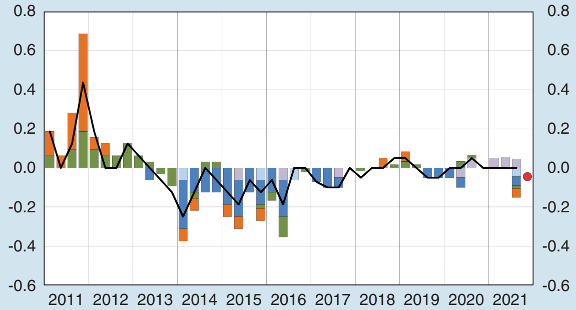
Credit standards and demand for loans in Italy (1)

(quarterly data; diffusion indices)

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

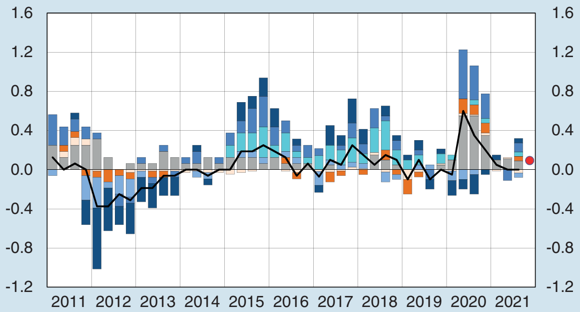
Credit standards: factors contributing to tightening (+) / easing (-)

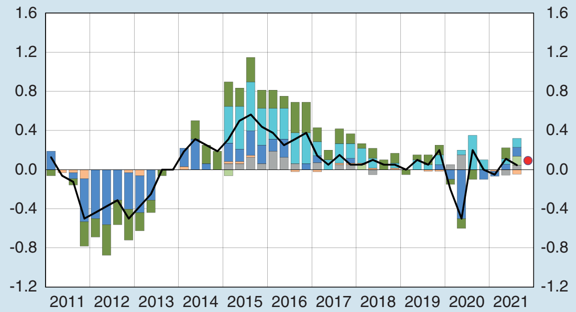




(c) Loans to firms | (d) Loans to households for house purchase

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 ability 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; 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; 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; other sources of external funding.

stable overall, while credit standards for consumer credit turned slightly more favourable, following lower perceptions of risk from customers. Banks expected a moderate net tightening of credit standards for loans to firms, a slight easing for housing loans and a broadly unchanged situation for consumer credit in the final quarter of the year.

Demand for bank loans by firms remained unchanged in the third quarter of 2021 compared with the previous quarter: the expansionary effect of fixed investment, inventories and working capital, and debt refinancing and restructuring was offset by the negative effect linked to greater recourse to non-bank loans and to stock and bond issues. There was a further increase in demand for bank loans to households, both for house purchase and for consumer credit, in line with improved consumer confidence and low interest rates. In the fourth quarter of 2021, banks expected an increase in demand for loans from firms and from households for house purchase, while demand for consumer credit was expected to hold stable.

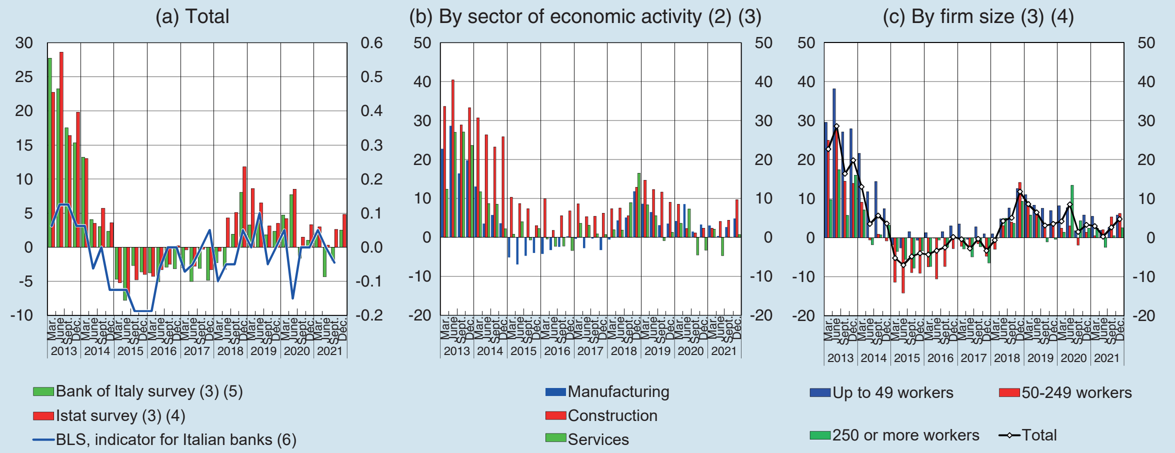
The survey also included an assessment of the impact of the ECB's monetary policy measures. The responses suggest that, in the six months ending last September, the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP), together with the third series of targeted longer-term refinancing operations (TLTRO III), continued to contribute to the improvement in banks' liquidity and profitability and to overall market financing conditions. According to the banks, the positive impact of these measures has translated into a slight easing of credit standards and an increase in lending volumes, especially to firms. For the six months ending in March of this year, banks expect an expansionary effect, albeit a more modest one.

According to the 'Survey on Inflation and Growth Expectations', conducted by the Bank of Italy in December of last year, credit access conditions deteriorated slightly in the fourth quarter of 2021 (Figure B). Istat's business confidence survey also points to a worsening, especially for firms operating in the construction sector and for smaller firms.

Figure B

Firms' access to credit (1)

(quarterly data)



(1) The Bank of Italy's Survey on Inflation and Growth Expectations (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; 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, 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 to firms continue to be low ...

In the third quarter, the flow of new non-performing loans in proportion to total loans grew to 1.1 per cent (from 1.0 per cent in the second), on a seasonally adjusted and annualized basis (Figure 42). The indicator rose for loans to non-financial corporations (from 1.3 to 1.8 per cent), reflecting the increase for companies operating in the service and manufacturing sectors, in contrast with the decline in the construction sector, although it remains at historically low levels. Further improvement in the credit quality of loans to consumer households was observed; however, the indicator fell by 0.1 percentage points, to 0.8 per cent. During the same period, the share of non-performing loans to total loans disbursed by the significant banking groups declined slightly, both gross and net of loan loss provisions (Table 16). The coverage ratio (the ratio of loan loss provisions to total non-performing loans) rose slightly compared with the previous quarter. There was also a decrease in the share of performing loans for which banks recognized a significant increase in credit risk (i.e. those classified as Stage 2 under IFRS 9).

On 31 December, the time period expired for small and medium-sized enterprises to apply for debt moratoriums backed by public guarantees: as of that date, there were still around €33 billion in moratoriums outstanding, less than one fourth of the total granted since March 2020.[8]

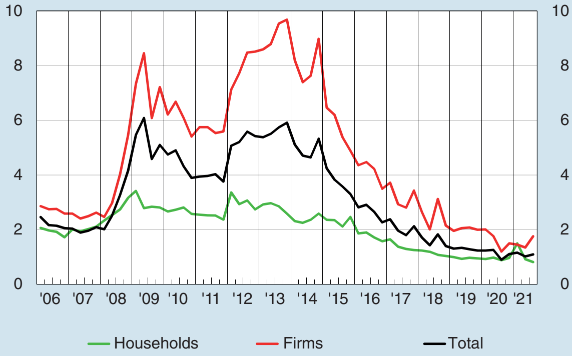
... and profitability improves again

In the first nine months of 2021, the profitability of the significant groups almost doubled with respect to the same period in the previous year. Net of extraordinary components, growth in the annualized return on equity (ROE) primarily reflected the decline in loan loss provisions.[9] Gross income rose, although the pace of growth of revenues slowed slightly in the third quarter. In the first nine months of the year, the increase in fees and revenues from

Figure 42

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 significant Italian banks (1)

(per cent and percentage changes)

	June 2021	September 2021
Non-performing loans (NPLs) (2)		
Gross NPL ratio	3.8	3.6
Net NPL ratio	1.8	1.7
Coverage ratio (3)	53.5	53.9
Regulatory capital		
Common equity tier 1 (CET1) ratio	15.4	15.3
	January-September 2020	January-September 2021
Profitability		
ROE (4)	3.9	7.6
Net interest income (5)	-4.8	-3.4
Gross income (5)	-4.7	5.0
Operating expenses (5)	-3.9	-2.8
Operating profit (5)	-6.2	23.3
Loan loss provisions (5)	36.4	-47.2

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) Net of extraordinary components. – (5) Percentage changes on previous year.

[8] The data are drawn from the joint task force coordinated by the Ministry of Economy and Finance (see the Bank of Italy's website: 'Task force to oversee the efficient and rapid implementation of the liquidity support measures', in Italian only).

[9] Last year, loan loss provisions were affected by the significant deterioration in the macroeconomic outlook.

trading activities more than offset the decrease in net interest income. Operating expenses declined and the operating profit rose by about one fourth.

In the third quarter of last year, the capitalization level of the significant banking groups declined slightly, mainly owing to the expiration of the ECB's recommendation to limit dividend distributions, which was followed by the Intesa Sanpaolo and UniCredit groups' resolutions to distribute extraordinary dividends and to launch share buy-back programmes, respectively, while nonetheless maintaining adequate capitalization.

2.8 THE FINANCIAL MARKETS

Financial market conditions in Italy in the last quarter reflected three factors: fears concerning the rise in COVID-19 cases around the world; uncertainty regarding the severity of the new Omicron variant and its potential impact on the economic recovery; and expectations concerning the monetary policy stance. Investors' risk aversion has increased, evidenced by a rise in the sovereign spread with respect to the German Bund and, over the medium term, a rise in the volatility of share prices.

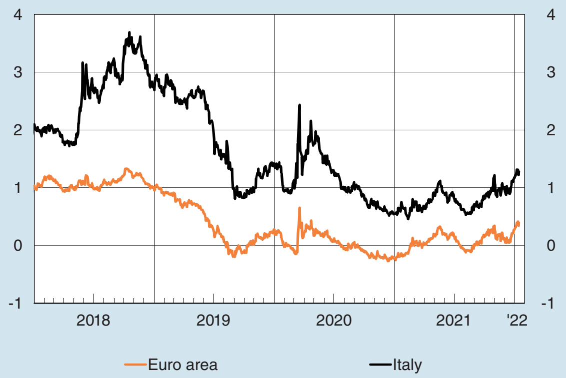
Government bond yields rise, although they remain low

Since mid-October, government bond yields have risen both in Italy and on average in the euro area (by 37 and 16 basis points respectively for ten-year bonds; Figure 43). The yield spread between Italian and German ten-year government bonds was affected by investors' greater risk aversion associated with the upswing in COVID-19 cases (see Section 1.3); it also reflected expectations, confirmed by the ECB Governing Council's decision last December, of a reduction in the pace of asset purchases by the Eurosystem, although the monetary policy environment remains accommodative (see Section 1.2). In mid-January the spread stood at 132 basis points (from 105 basis points in mid-October), just under the level observed at the end of 2019 (Figure 44). The volatility implied by derivatives on Italian ten-year bonds reached its highest levels in the last 18 months (Figure 45).

Figure 43

Yields on 10-year government bonds of Italy and 11 euro-area countries (1)

(daily data; per cent)

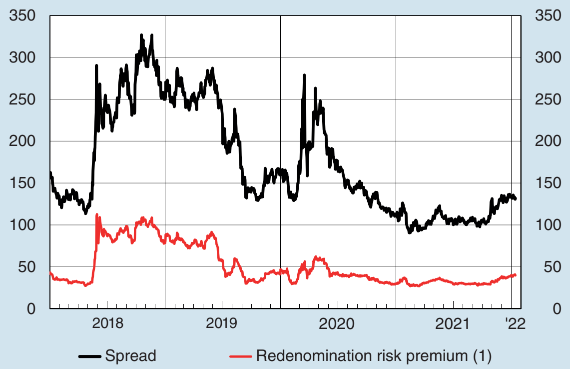


Sources: Based on Bloomberg and Refinitiv data.
(1) Average yields, weighted by 2020 GDP at constant prices, of the 10-year benchmark government bonds of 11 euro-area countries (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Spain) and yields on 10-year BTPs.

Figure 44

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

(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.

Share prices increase

Share prices have increased since mid-October, in both Italy (4.9 per cent) and the euro area (2.4 per cent; Figure 46.a). Despite the persistent downside risks tied to the course of the pandemic, the fact that the COVID-19 containment measures are not excessively restrictive has had a positive impact on the earnings growth outlook for the coming months.

Figure 45

Implied volatility of options on BTP futures (1)

(daily data: per cent)

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

The index for the banking sector registered an increase in both Italy and the euro area (by 5.1 and 5.8 per cent respectively), driven mainly by expectations of good short- and medium-term economic performance and news regarding the consolidation of the sector. Share price volatility soared between the end of November and the start of December, then gradually diminished. It remained substantially unchanged over the period as a whole (Figure 46.b).

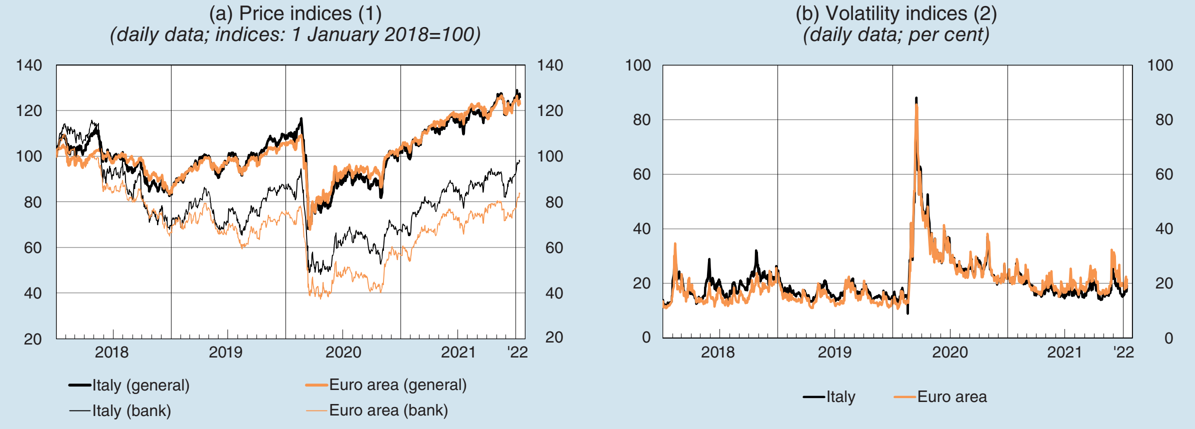
Yields on bonds issued by Italian banks and non-financial corporations have risen since mid-October, although they remain low (1.3 and 1.6 per cent respectively; Figure 47). The yields on bonds in both sectors recorded a smaller increase on average in the euro area, to just below Italy's levels.

Bond issuances by firms fall ...

In the third quarter of 2021, net bond placements by non-financial corporations amounted to €2.1 billion, considerably lower than in the three previous quarters (€6.6 billion in the second quarter) owing to a significant drop in issuances. Net issues by banks were once again positive for the first time in a year, amounting to €5.2 billion (compared with a negative €2.1 billion in the preceding quarter). According to preliminary data from Bloomberg, gross bond issues by banks fell slightly in the last quarter of 2021, while those by non-financial corporations returned to the levels recorded in the previous quarters.

Figure 46

Equity prices



Source: Based on data from Refinitiv.
(1) General and bank indices: FTSE MIB for Italy; Dow Jones Euro STOXX for the euro area. – (2) Indices: VSTOXX for the euro area, volatility implied by the prices of options on the FTSE MIB for Italy.

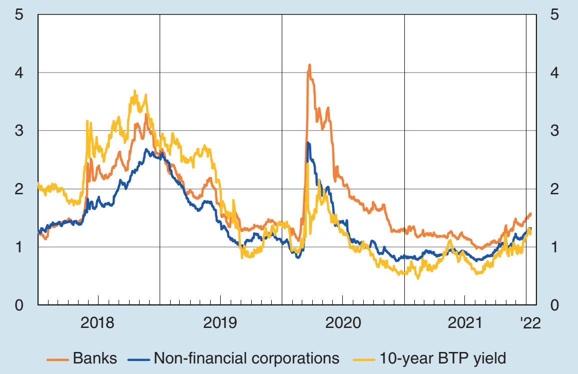
... while net subscriptions to investment funds remain positive

According to Assogestioni data, the net inflow of savings towards open-end investment funds remained high in the third quarter, though it was slightly lower than in the previous quarter (€16.9 billion versus €17.1 billion), supported mainly by the contribution of foreign investment funds. Investors purchased equity funds (with net subscriptions amounting to €3.9 billion), balanced funds (€6.4 billion) and bond funds (€3.3 billion). Money market funds and flexible funds recorded net positive subscriptions (€2.3 billion and €0.8 billion respectively), a reversal of the trend for the last two quarters. Net subscriptions to open-end investment funds contracted further in October and November, by €2.7 billion and €3.4 billion respectively, against around €5 billion on average in the previous quarter.

Figure 47

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

(daily data; per cent)



Sources: Based on Bloomberg and ICE BofAML 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.

2.9 THE PUBLIC FINANCES

The available preliminary data for 2021 point to a significant improvement in general government net borrowing compared with 2020. The debt-to-GDP ratio is also estimated to have fallen, by more than was expected in the latest government estimates, to around 150 per cent (compared with levels of around 155 and almost 135 per cent in 2020 and 2019 respectively). Official assessments indicate that, compared with the current legislation scenario, the budgetary package approved by Parliament in December for the three years 2022-24 raises the deficit by 1.3 per cent of GDP on average per year.

At the end of last year, following the achievement of the targets and milestones for 2021, the Government requested that the Commission release the first tranche of funds under the Recovery and Resilience Facility.

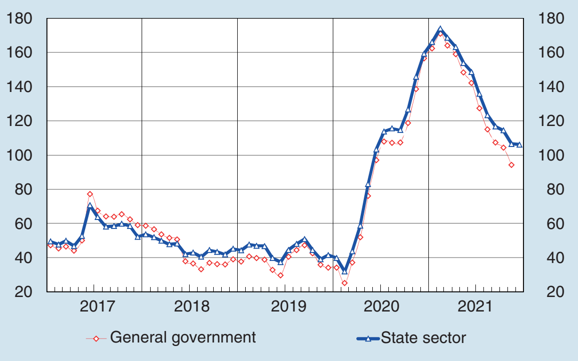
In 2021, net borrowing appears to have fallen markedly

In the first eleven months of 2021, the general government borrowing requirement amounted to €90.9 billion, €62.3 billion less than in the corresponding period of 2020 (Figure 48). Considering the preliminary data for December[10]

Figure 48

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.

[10] The state sector borrowing requirement came to around €3 billion in December, slightly below what it was in the same month of 2020; overall in 2021, it stood at around €106 billion, down by roughly €53 billion on the previous year.

and assessments of the main factors linking the borrowing requirement to net borrowing (financial transactions and cash/accruals differences), in 2021, net borrowing as a share of GDP is estimated to have settled at a significantly lower level compared with the previous year and with respect to the Government's estimates (Table 17). In the current context, the analyses of net borrowing based on cash flow data are nonetheless subject to a high degree of uncertainty, especially owing to potential deferrals of payments and receipts from one year to the next, which are difficult to monitor and which, in light of the measures taken to address the pandemic, could be more significant than in the past.

Table 17

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

	2020	2021	2022	2023	2024
Net borrowing	9.6	9.4	5.6	3.9	3.3
Primary surplus	-6.1	-6.0	-2.7	-1.2	-0.8
Interest payments	3.5	3.4	2.9	2.7	2.5
Structural net borrowing	4.7	7.6	5.4	4.4	3.8
Debt (2)	155.6	153.5	149.4	147.6	146.1

Source: Update to the 2021 Economic and Financial Document.
(1) Outturns for 2020 and official objectives for 2021-24. Rounding of decimal points may cause discrepancies in totals. – (2) Gross of financial support to EMU countries.

A considerable improvement in the public finance outlook compared with 2020 is also confirmed by the quarterly account estimates released by Istat in early January. In the first nine months of 2021, the ratio of net borrowing to GDP declined by 2.3 percentage points compared with the same period in 2020, to 8.8 per cent.

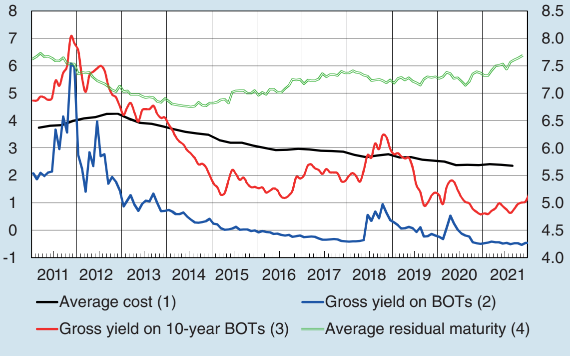
In 2021, the debt-to-GDP ratio can be estimated at around 150 per cent

At the end of November, general government debt came to €2,694.2 billion, almost €121 billion more than at the end of 2020. Based on the preliminary data for December, it is estimated that in 2021, the debt-to-GDP ratio decreased by more than was expected in the Update to the 2021 Economic and Financial Document, to around 150 per cent (compared with levels of around 155 and almost 135 per cent in 2020 and 2019 respectively).

The average residual maturity of the debt lengthened, from 7.4 years at the end of 2020 to 7.7 years last November; the average cost of the debt was equal to 2.3 per cent at the end of September, broadly in line with the figure recorded at end-2020 (Figure 49).

Figure 49

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



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

Parliament approves the budgetary provisions for 2022-24

In December, Parliament approved the budgetary package for 2022-24, which – as stated in the Update to the 2021 Economic and Financial Document – raises the deficit with respect to the current legislation scenario by 1.3 per cent of GDP on average per year for the three years (a little more than €26 billion; see *Economic Bulletin*, 4, 2021).

In the same month, the Government passed Decree Law 209/2021 ('Tax Decree-*bis*'), raising expenditure in 2021 for investments in the railway network and in the purchase of vaccines and pharmaceuticals for the prevention and treatment of COVID-19.

In accordance with the provisions of the same decree law, the budget primarily allocates resources to fund current expenditure measures (including for social safety net reforms and for healthcare), and some revenue cuts (in particular through the extension of several building bonuses and temporary relief on rising energy bills).[11] The budget has also restructured personal income tax (IRPEF), revising the rates, bands and deductions, and has changed the rules on wage supplementation for payroll employees.

The European Commission comments on the public finance plans

At the end of November, in its opinion on the 2022 Draft Budgetary Plan, the European Commission acknowledged the efforts made by Italy to increase investment to support the recovery and to strengthen the growth potential of the economy, including through the use of resources under the Recovery and Resilience Facility. The Commission nevertheless emphasized the need to limit the increase in current public expenditure in order to preserve the sustainability of the accounts in the medium term and invited the Government to monitor the support measures closely and to adapt them, if necessary, to changes in the economic context.

The Government requests the disbursement of the first tranche of funds under the Recovery and Resilience Facility

On 23 December 2021, the Government published its first *Report on the Implementation of the National Recovery and Resilience Plan,* highlighting the achievement of the 51 targets and milestones for 2021. A few days later, the Ministry of Economy and Finance submitted a request to the European Commission for payment of the first tranche of resources allocated under the Recovery and Resilience Facility (€21 billion in grants and loans, net of the reimbursement of a portion of prefinancing obtained in August 2021; see Section 1.2).

2.10 PROJECTIONS

The projections for the Italian economy presented here update those prepared as part of the Eurosystem staff macroeconomic projections published on 17 December.[12] GDP growth in Italy is estimated at 3.8 per cent on average in 2022, 2.5 per cent in 2023 and 1.7 per cent in 2024. Inflation is projected to reach 3.5 per cent this year, primarily owing to the impact of rising energy prices, and 1.6 per cent on average in the two years 2023-24.

The recovery continues, despite the rise in the number of cases ...

The scenario presented here is based on the assumption that new COVID-19 cases peak in the first quarter of the year, without translating into a severe tightening of restrictions but with negative effects on mobility and consumption patterns in the short term. The spread of the epidemic is expected to lose momentum from the spring onwards, thanks to further progress in the vaccination campaign.

... supported by favourable financial conditions ...

The scenario further assumes that monetary and financial conditions remain favourable, notwithstanding a slight increase in nominal interest rates over the forecasting horizon. Based on the expectations that can be inferred from market prices in the ten days ending on 17 January, it is estimated that the yields on ten-year Italian government bonds will rise from 1.4 per cent on average this year to 1.9 per cent in 2024. Credit supply conditions are expected to stay relaxed: the cost of borrowing for firms is estimated at 1.4

[11] The main areas of intervention have not changed significantly with respect to the provisions of Decree Law 146/2020 ('Tax Decree', converted by Law 215/2021) and the draft budget law presented by the Government in October and November respectively. For more information on these measures, see 'Preliminary hearing on the budgetary provisions for the three years 2022-24', testimony by the Head of the Structural Economic Analysis Directorate of the Bank of Italy, F. Balassone, before the Senate of the Italian Republic, Rome, 23 November 2021 (only in Italian).

[12] See the Bank of Italy's website, 'Macroeconomic projections for the Italian economy', 17 December 2021.

per cent in 2022 and is projected to rise in the subsequent two years, while remaining at low levels by historical standards.

... and by the expansion in world trade

Finally, the projections are based on the assumption that world trade will continue to recover, after a temporary slump owing to the frictions in global value chains, which are expected to dissipate in the course of this year (see Section 1.1 and the box 'Supply chain bottlenecks: the impact on the global economy', Chapter 1). After a marked rebound in 2021, foreign demand for Italian products weighted by outlet markets is projected to expand by an average of 4.5 per cent each year over the forecasting period (see the box 'The assumptions underlying the macroeconomic scenario').

THE ASSUMPTIONS UNDERLYING THE MACROECONOMIC SCENARIO

The forecasting scenario for the Italian economy prepared by the Bank of Italy experts as part of the Eurosystem staff macroeconomic projection exercise is published each June and December, following the release of the euro-area projections by the European Central Bank.[1] The macroeconomic projections for Italy presented here update those released on 17 December and are based on the information available at 17 January.

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

a) foreign demand, weighted by the outlet markets for Italian exports, slows to 4.5 per cent on average in the three years 2022-24;

b) the euro/dollar exchange rate, equal to 1.18 on average in 2021, falls to 1.14 in the three years 2022-24;[2]

c) the price of a barrel of Brent crude oil, based on the prices of futures contracts, rises to about $80 in 2022 (from $71 in 2021), and falls in the subsequent two years, reaching $70 in 2024; the projections take account of the administrative measures to limit increases in gas and electricity tariffs taken by the Italian Regulatory Authority for Energy, Networks and the Environment;

Table

Assumptions for the main exogenous variables

	2021	2022	2023	2024
Potential foreign demand (1)	8.6	4.8	5.4	3.5
Dollar/euro (2)	1.18	1.14	1.14	1.14
Nominal effective exchange rate (1) (3)	-0.8	1.2	0.0	0.0
Crude oil prices (2) (4)	70.8	80.2	74.0	70.2
3-month Euribor (2)	-0.5	-0.4	0.0	0.2
1-year BOTs (2)	-0.5	-0.3	0.1	0.3
10-year BTPs (2)	0.8	1.4	1.7	1.9

Sources: Based on Bank of Italy and Istat data.
(1) Percentage changes. – (2) Annual averages. – (3) Positive changes indicate a depreciation. – (4) Dollars per barrel of Brent crude oil.

d) the three-month interest rate on the interbank market (EURIBOR), is equal to -0.4 per cent this year and rises to 0.1 per cent on average in the next two years;

e) the yield on ten-year BTPs, equal to 1.4 per cent on average in 2022 (0.8 per cent in 2021), increases gradually to 1.9 per cent in 2024, in line with the values of forward rates implied by the term structure of interest rates on government bond yields;

1 For further information, see the Bank of Italy's website, 'Macroeconomic projections for Italy', containing the projections published to date as part of the Eurosystem coordinated exercise.

2 The technical assumptions for interest rates, the exchange rate and oil prices are calculated based on the spot and forward prices observed in the markets in the ten working days ending on 17 January.

f) the scenario incorporates the measures in the budget law for the three years 2022-24 and the information available on the implementation of the National Recovery and Resilience Plan (NRRP).

These assumptions are similar to those underpinning the projections released on 17 December. The most significant difference is linked to the gas and electricity tariffs in force since the first quarter of 2022, which have risen by 41.8 and 55 per cent, respectively. Small revisions have also been made to the interest rate projections, which are slightly higher for the next two years.

GDP is projected to rise sharply from the spring onwards

After weaker growth in the final part of 2021 (see the box 'Economic activity in the fourth quarter of 2021'), which is expected to continue in the early months of this year, it is estimated that GDP will return to steady growth from the spring, in concomitance with the anticipated improvement in the outlook for public health, regaining pre-pandemic levels sometime in mid-2022. The expansion in activity should then continue at a robust pace, though less markedly compared with the strong recovery that followed the reopenings in mid-2021. GDP is expected to increase by an annual average of 3.8 per cent in 2022, 2.5 per cent in 2023 and 1.7 per cent in 2024 (Table 18; Figure 50).

Fiscal policy support for growth in the three years will be substantial

In the scenario outlined here, considerable support for growth should come from the stimulus measures financed by the national budget and by European funds, especially those envisaged in the National Recovery and Resilience Plan (NRRP). In the projections, the measures introduced in 2021 and planned for the coming years, including those in the budget law for the three-years 2022-24, are expected to contribute about 5 percentage points in total to GDP over the four years 2021-24. A little less than half of this contribution is attributable to interventions under the NRRP, on the assumption that they are carried out effectively and without significant delays.

Table 18

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

	2021	2022	2023	2024
GDP (1)	6.3	3.8	2.5	1.7
Household consumption	5.1	4.4	2.2	1.5
Government consumption	1.2	1.2	0.2	-0.5
Gross fixed investment	15.7	5.3	5.9	3.5
of which: in capital goods	11.4	7.2	6.9	5.3
Total exports	12.4	4.8	6.0	3.5
Total imports	12.7	5.1	6.3	3.4
Change in stocks (2)	0.0	-0.1	0.0	0.0
Memorandum item: GDP, raw data (3)	6.3	3.7	2.4	1.8
Prices (HICP)	1.9	3.5	1.6	1.7
HICP net of food and energy	0.8	1.0	1.4	1.6
GDP deflator	1.1	2.5	1.5	1.8
Employment (hours worked)	7.0	3.4	1.9	1.4
Employment (persons employed)	0.5	1.7	0.9	1.0
Unemployment rate (4)	9.4	9.0	8.9	8.7
Export competitiveness (5)	0.8	2.5	0.0	-0.2
Current account balance of the balance of payments (6)	3.8	3.1	2.9	2.9

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

The number of persons employed will regain pre-pandemic levels by the end of this year

In the three years 2022-24, employment is expected to continue to expand, returning to pre-pandemic levels at the end of this year, both in terms of the number of persons employed and that of hours worked. The unemployment rate is projected to fall from 9.4 per cent on average in 2021 to 8.7 per cent in 2024.

Consumption expenditure will continue to expand, despite the rise in the number of infections

While consumption is expected to continue to recover at a fast pace, its return to pre-pandemic levels is expected with a lag of around one year compared with that of GDP. In the early part of 2022, it is likely to be slowed by the ongoing caution in spending patterns, due to the course of the pandemic, and the impact of higher energy prices, which compresses the purchasing power of households. It is projected to return to rapid growth from the spring onwards, thanks to the improvement in the public health outlook, the gradual normalization of energy prices and the continued recovery in employment. Household expenditure is projected to grow by 4.4 per cent on average in 2022 before slowing to around 2 per cent in the following two years. The household saving rate, which rose to 15.6 per cent in 2020 (from 8.0 per cent in 2019), should fall gradually, returning to pre-crisis levels in 2024 (Figure 51).

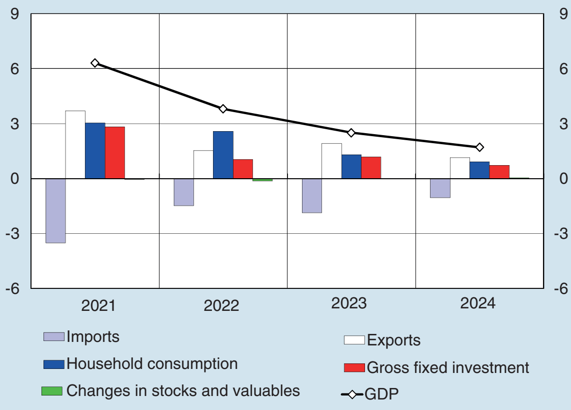
Investment will continue to record vigorous growth ...

Capital formation, which already in the first quarter of 2021 had surpassed the average levels recorded in 2019, thanks above all to the marked expansion in the construction component, will continue to expand at a fast pace over the forecasting horizon. It is expected to benefit from the improvement in the growth outlook, favourable financing conditions and the funds to support public and private investments envisaged in the NRRP and the budget law. In the three years 2022-24, investment is projected to expand by almost 5 per cent on average each year, driven primarily by the machinery, equipment, and transport equipment component. The ratio of total investment to GDP should record a significant increase, reaching around 21 per cent in 2024 (just below the peak of 2007). For the construction sector, in 2024, the ratio is expected to remain a little over 9 per cent, still 2.5 percentage points below the highest levels recorded in 2007 (Figure 52).

Figure 50

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

(annual data; percentage changes and percentage points)

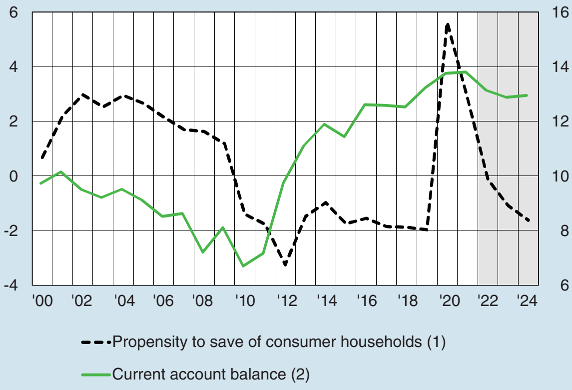


Sources: Based on Bank of Italy and Istat data.
(1) Data seasonally and calendar adjusted.

Figure 51

Propensity to save of consumer households and current account balance

(annual data; percentage points)



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

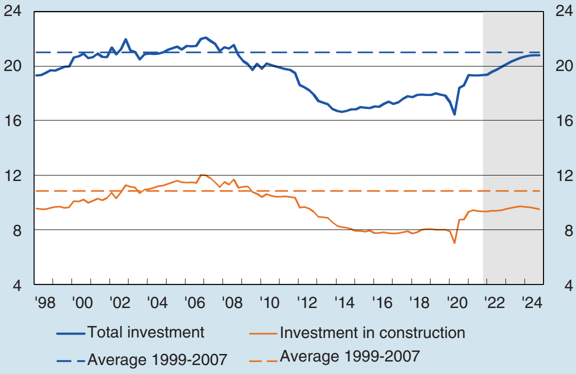
... as will exports, in part thanks to the recovery of tourism

Foreign sales will continue to expand, thanks to the improvement in world trade and to competitiveness gains; services also look set to benefit from the recovery in international tourism flows. Exports are projected to grow by a little under 5 per cent on average in each of the three years 2022-24, a little more than foreign demand. Imports will expand at a slightly faster pace, driven by the performance of demand components with a high import content (exports and investment in capital goods). The current account surplus of the balance of payments, equal to 3.8 per cent in 2021, is projected to fall to 3.0 per cent on average in the three years 2022-24 (Figure 51).

Figure 52

Investment as a percentage of GDP (1)

(quarterly data)



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

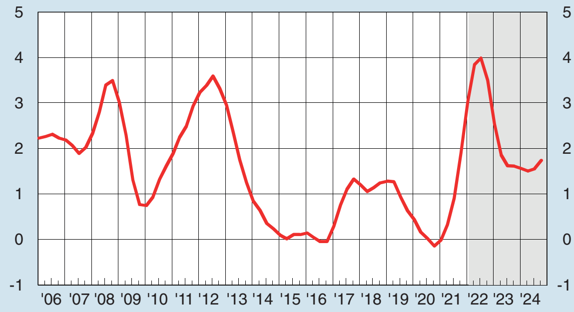
Inflation will moderate in the next two years

Consumer price inflation is expected to reach 3.5 per cent this year, mostly owing to the impact of higher energy prices and in particular of the unprecedented hikes in gas and electricity tariffs; however, these effects should moderate gradually over the course of 2022 and disappear entirely towards the end of the year. Inflation is projected to fall to 1.6 per cent on average in 2023, and to rise to 1.7 per cent in 2024 (Figure 53). The core component, equal to 1.0 per cent this year, is set to rise gradually, reaching 1.6 per cent at the end of the forecasting horizon, driven by the reduction in spare capacity margins and wage developments. Private sector wages, which rose by 0.8 per cent in 2021, are projected to accelerate gradually, to 1.3 per cent this year and to 1.8 per cent in both 2023 and 2024: this reflects the assumption that the current upward trend in price dynamics will have a limited bearing on the measures of inflation considered as the benchmark for future contractual renewals. Domestic inflation, measured by the change in the GDP deflator, equal to 1.1 per cent in 2021, is expected to rise to 2.5 per cent this year and to then come down to around 1.6 per cent in the two years 2023-24.

Figure 53

Consumer price inflation (1)

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



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

Compared with the July estimates, inflation has been revised upwards

Compared with the projections published in last July's *Economic Bulletin*, GDP growth is 1.2 percentage points higher in 2021, 0.6 points lower in 2022 and 0.2 points higher in 2023. The marked revision for 2021 is due to the higher than expected growth in GDP in the central part of the year.[13] The downward revision for 2022 mostly reflects the weaker performance of GDP in the winter months, due to the deterioration in the public health situation. The inflation profile has been revised upwards by

[13] This revision had already been anticipated in last October's *Economic Bulletin*, which had projected growth of around 6 per cent.

0.4 percentage points in 2021 and by 2.2 points in 2022, owing to the updating of data on energy commodity prices and assumptions regarding their future course, and by 0.3 points in 2023, mostly reflecting trends in core inflation.[14]

The growth projections for 2022 are below those released recently by the other main forecasters, made before the pandemic took another turn for the worse; for 2023, they are higher than those released in October by the International Monetary Fund and basically aligned with those of the other private and institutional forecasters (Table 19). Our inflation estimates are higher for 2022, insofar as they incorporate the higher prices of energy goods recorded in recent weeks and are aligned with those of the other forecasters for 2023.

Table 19

Comparison with other organizations' forecasts for Italy
(percentage changes on previous year)

	GDP (1)		Inflation (2)	
	2022	2023	2022	2023
IMF (October)	4.2	1.6	1.8	1.2
OECD (December)	4.6	2.6	2.2	1.6
European Commission (November)	4.3	2.3	2.1	1.4
Consensus Economics (January)	4.2	2.2	2.7	1.3
Memorandum item: Bank of Italy (January)	3.8	2.5	3.5	1.6

Sources: IMF, *World Economic Outlook*, October 2021; OECD, *OECD Economic Outlook*, December 2021; European Commission, *European Economic Forecast. Autumn 2021*, November 2021; Consensus Economics, *Consensus Forecasts*, January 2022. Bank of Italy, *Economic Bulletin,* 1, 2022.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and IMF are not. – (2) HICP.

Considerable uncertainty remains, with downside risks to growth …

The growth projections are subject to multiple risks, mostly on the downside. In the short term, uncertainty is linked to the public health situation, any deterioration in which could lead to restrictions on mobility and impact consumer and business confidence to a greater extent than is currently incorporated in the estimates, further hindering the economic recovery. Risk factors are also linked to the possibility that tensions on the supply side become more persistent and are transmitted to the real economy to a greater extent, as well as to the eventuality of a more prolonged weakening of world trade. In the medium term, the projections are still conditioned by the full implementation of the spending programmes in the budget and the complete and timely realization of the interventions envisaged in the NRRP.

… and more balanced risks to inflation

In the short term, growth in prices could be higher than projected if energy prices remain at high levels for longer than assumed here and if tensions around supply were to lead to more persistent increases in the prices of intermediate goods. Over the longer term, another upside risk factor is the possibility of recent inflationary pressures being transmitted to a greater extent to medium term inflation expectations and wage growth. In the opposite direction, the materialization of the downside risk factors to the outlook for economic growth could lead to lower inflation.

[14] Compared with the projections published on 17 December 2021, as part of the Eurosystem staff macroeconomic projections, the growth estimate is slightly lower in 2022 (by 0.2 percentage points); the revision mostly reflects the effect of the recent sharp rise in cases of COVID-19 that are estimated to have impacted mobility and consumption patterns in the early months of the year. The inflation estimates for 2022 are 0.7 points higher and basically unchanged for the subsequent two years; the revision is almost wholly attributable to the increase in gas and electricity tariffs announced by the Italian Regulatory Authority for Energy, Networks and the Environment for the first quarter of the year.

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	106.0	105.1	132.4	93.6	90.9	87.4
2016	105.7	103.8	126.2	90.3	91.4	89.6
2017	111.9	105.3	126.6	93.4	91.0	89.2
2018	117.2	104.6	128.5	93.6	91.9	90.0
2019	116.1	103.1	125.2	89.8	90.5	89.2
2020	115.5	103.6	125.5	87.7	90.7	91.7
2020 – Q1	115.0	102.7	124.4	87.9	89.5	89.7
Q2	112.4	101.2	125.4	86.5	90.4	92.2
Q3	117.2	104.5	124.3	86.5	91.6	92.7
Q4	117.4	105.9	128.0	90.0	91.5	92.3
2021 – Q1	119.5	110.6	128.5	90.3	90.6	90.9
Q2	121.8	116.1	129.3	91.1	89.6	90.0
Q3	123.0	112.1	129.7	89.6	88.7	89.3
2020 – Jan.	115.9	104.4	123.8	89.4	89.4	88.8
Feb.	114.9	103.9	123.9	88.0	89.1	88.8
Mar.	114.2	99.8	125.4	86.3	89.8	91.5
Apr.	112.2	100.2	127.1	86.7	89.8	92.4
May	109.9	100.8	125.7	86.1	90.5	92.2
June	115.0	102.6	123.5	86.5	91.0	92.1
July	116.4	102.9	123.4	86.5	91.3	92.2
Aug.	117.8	105.1	123.4	86.4	91.8	93.0
Sept.	117.3	105.6	126.0	86.6	91.6	92.9
Oct.	116.9	105.3	127.9	88.7	91.5	92.7
Nov.	116.8	105.1	128.4	90.1	91.2	92.2
Dec.	118.4	107.3	127.7	91.2	91.8	92.2
2021 – Jan.	118.4	108.7	128.6	90.7	91.0	91.8
Feb.	119.5	110.7	128.3	89.9	90.6	90.8
Mar.	120.5	112.2	128.5	90.1	90.1	90.2
Apr.	121.2	113.9	128.3	91.7	89.9	90.3
May	121.5	118.1	130.0	90.5	89.6	90.1
June	122.6	116.3	129.6	90.9	89.3	89.7
July	122.8	112.9	128.9	90.7	88.9	89.4
Aug.	122.6	111.8	129.6	89.6	88.7	89.4
Sept.	123.6	111.5	130.7	88.6	88.6	89.1
Oct.	126.3	113.8	133.5	88.2	87.9	88.0

(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, pp. 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	96.2	107.7	91.6	105.9	102.6
2016	67.9	97.3	109.5	83.3	106.7	104.7
2017	64.0	97.2	111.3	78.5	108.1	103.5
2018	63.2	98.1	112.8	79.5	109.4	103.4
2019	66.1	96.6	113.7	79.9	107.7	105.9
2020	68.3	98.0	115.2	80.2	107.4	105.8
2020 – Q1	67.9	96.4	114.8	81.2	107.1	106.6
Q2	69.6	97.8	114.1	80.4	106.2	108.2
Q3	68.4	99.0	115.9	79.7	108.1	105.5
Q4	67.5	98.9	116.0	79.6	108.2	103.0
2021 – Q1	64.9	97.9	118.6	81.1	109.5	102.8
Q2	62.0	97.4	120.1	80.8	110.5	104.2
Q3	62.0	96.9	119.6	80.5	109.4	106.2
2020 – Jan.	66.7	96.2	114.8	81.7	107.4	105.2
Feb.	67.1	95.7	114.3	82.4	106.9	105.9
Mar.	69.9	97.4	115.2	79.4	107.1	108.5
Apr.	70.1	97.6	113.8	81.3	106.2	108.1
May	70.0	97.6	113.8	80.3	105.8	109.3
June	68.7	98.2	114.7	79.6	106.7	107.1
July	68.7	98.4	115.5	79.4	107.7	106.8
Aug.	68.4	99.4	116.1	80.3	108.4	105.2
Sept.	68.2	99.2	116.0	79.3	108.1	104.5
Oct.	68.0	99.1	115.8	79.3	108.1	104.2
Nov.	67.6	98.6	115.6	80.2	107.8	103.1
Dec.	66.8	99.1	116.4	79.3	108.8	101.7
2021 – Jan.	66.3	98.5	118.0	80.3	109.1	101.4
Feb.	65.0	97.8	118.5	81.3	109.4	102.3
Mar.	63.3	97.4	119.2	81.7	110.0	104.7
Apr.	62.8	97.4	120.6	80.8	110.2	104.0
May	61.7	97.4	120.3	80.8	110.8	103.8
June	61.3	97.3	119.2	80.8	110.3	104.8
July	62.1	97.0	119.7	80.6	109.9	106.1
Aug.	62.3	96.8	119.5	80.8	109.0	106.2
Sept.	61.7	97.1	119.6	80.2	109.3	106.3
Oct.	60.2	96.3	120.5	80.7	109.5	106.9

(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, pp. 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.

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	0.5
2019	2.2	0.0	-0.3	-0.3	2.3
2020	2.7	0.1	-10.9	-11.0	2.6
2019 – Q1	2.6	-1.7	0.0	1.8	4.4
Q2	1.8	-0.2	-0.1	0.2	2.0
Q3	1.4	1.1	0.1	-1.0	0.3
Q4	2.8	0.4	-1.4	-1.9	2.4
2020 – Q1	5.9	2.6	-9.5	-11.8	3.2
Q2	3.7	-4.4	-26.3	-22.9	8.5
Q3	-0.3	-1.2	-5.4	-4.2	1.0
Q4	1.4	2.5	-3.3	-5.7	-1.1
2021 – Q1	-0.9	1.8	6.9	5.1	-2.6
Q2	-1.2	5.7	32.6	25.5	-6.5
Q3	3.4	0.5	4.1	3.6	2.9
			Services		
2018	1.9	-0.2	0.6	0.8	2.1
2019	1.6	0.4	0.5	0.1	1.2
2020	4.1	3.9	-8.3	-11.8	0.2
2019 – Q1	1.8	-1.1	0.3	1.4	2.9
Q2	0.9	0.7	0.7	0.1	0.3
Q3	1.8	0.9	0.7	-0.2	0.9
Q4	1.8	0.9	0.2	-0.7	0.8
2020 – Q1	4.0	4.2	-4.6	-8.4	-0.1
Q2	7.6	7.0	-15.7	-21.2	0.5
Q3	4.1	4.2	-5.5	-9.3	-0.1
Q4	2.0	1.4	-7.5	-8.8	0.6
2021 – Q1	2.1	0.0	-3.1	-3.1	2.1
Q2	-1.5	-3.7	12.5	16.8	2.3
Q3	1.4	-0.5	3.7	4.3	2.0
			Total economy		
2018	4,0	-1,2	0.0	1,2	5,2
2019	6,1	-1,0	-0,3	0.7	7,2
2020	2,5	-0,8	0,3	1,1	3,3
2019 – Q1	2.0	-1.1	0.5	1.5	3.1
Q2	1.4	1.1	0.7	-0.4	0.3
Q3	1.8	1.1	0.6	-0.5	0.7
Q4	2.0	0.6	-0.1	-0.7	1.4
2020 – Q1	3.9	3.3	-5.7	-8.7	0.6
Q2	6.0	3.7	-18.1	-21.1	2.1
Q3	2.8	2.4	-5.0	-7.3	0.3
Q4	1.9	1.4	-6.2	-7.5	0.5
2021 – Q1	1.1	-0.2	-0.3	-0.1	1.3
Q2	-1.8	-2.3	17.4	20.1	0.5
Q3	1.6	-0.2	3.9	4.1	1.8

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

Table A3

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

(year-on-year percentage changes)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
Total industry excluding construction					
2018	1.8	0.4	1.9	1.5	1.4
2019	1.9	-0.3	0.2	0.5	2.2
2020	3.2	0.8	-6.8	-7.5	2.4
2019 – Q1	1.6	-1.0	0.8	1.8	2.6
Q2	1.9	-0.5	0.0	0.5	2.4
Q3	2.3	-0.1	0.3	0.4	2.4
Q4	1.7	0.3	-0.2	-0.5	1.3
2020 – Q1	3.7	0.5	-4.1	-4.5	3.2
Q2	7.1	-2.1	-18.1	-16.4	9.4
Q3	1.5	0.6	-5.0	-5.6	0.9
Q4	3.0	4.5	-1.2	-5.5	-1.4
2021 – Q1	1.1	4.6	3.1	-1.4	-3.4
Q2	-4.2	6.2	21.7	14.6	-9.7
Q3	1,6	2,9	5,2	2,2	-1.3
Services					
2018	1.9	0.1	1.9	1.8	1.8
2019	2.5	0.7	1.9	1.2	1.8
2020	5.9	2.0	-6.4	-8.3	3.9
2019 – Q1	1.8	-0,1	2.1	2.2	1.8
Q2	2.9	0.9	2.0	1.1	1.9
Q3	2.6	1.2	2.1	0.9	1.4
Q4	2.5	0.6	1.5	0.9	1.9
2020 – Q1	4.7	1.4	-2.5	-3.8	3.3
Q2	11.1	5.1	-13.9	-18.1	5.7
Q3	4.0	1.2	-4.0	-5.1	2.8
Q4	5.9	1.5	-5.7	-7.1	4.3
2021 – Q1	4.3	1.5	-2.6	-4.1	2.8
Q2	-4.4	-3.4	12.5	16.4	-1.0
Q3	2.1	0.5	3.9	3.4	1.6
Total economy					
2018	1.9	0.1	1.8	1.8	1.8
2019	2.3	0.6	1.6	1.0	1.8
2020	5.2	1.6	-6.3	-7.8	3.6
2019 – Q1	1.7	-0.1	1.9	2.1	1.9
Q2	2.7	0.8	1.6	0.8	1.9
Q3	2.6	1.1	1.7	0.6	1.5
Q4	2.3	0.5	1.1	0.6	1.7
2020 – Q1	4.4	1.2	-2.8	-4.0	3.2
Q2	10.1	3.4	-14.6	-17.4	6.5
Q3	3.3	0.6	-4.1	-4.7	2.7
Q4	5.2	2.0	-4.5	-6.3	3.1
2021 – Q1	3.4	1.5	-1.3	-2.8	1.9
Q2	-4.5	-1.8	14.3	16.4	-2.8
Q3	2.0	0.9	4,0	3.0	1.1

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

Table A4

Consumer prices: Italy, euro area and main economies

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

	Italy		France		Germany		Euro area (1)	
	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy	Total	Total excl. food and energy
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
2021	1.9	0.8	2.1	1.3	3,2	2,2	2,6	1,5
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	1.0	2.0	1.6	1.3	0.9
Apr.	1.0	0.3	1.6	1.1	2.1	1.1	1.6	0.7
May	1.2	0.2	1.8	1.1	2.4	1.6	2.0	1.0
June	1.3	0.3	1.9	1.3	2.1	1.2	1.9	0.9
July	1.0	-0.9	1.5	0.3	3.1	1.8	2.2	0.7
Aug.	2.5	0.8	2.4	1.3	3.4	2.1	3.0	1.6
Sept.	2.9	1.4	2.7	1.7	4.1	2.5	3.4	1.9
Oct.	3.2	1.2	3.2	1.8	4.6	2.8	4.1	2.0
Nov.	3.9	1.3	3.4	2.1	6.0	4.1	4.9	2.6
Dec.	4.2	1.5	3.4	2.1	5.7	3.9	5.0	2.6

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	1,404	867	537	75	517	126	2,681	154.4	148	-6	155
2018	594	1,368	825	543	76	539	133	2,710	153.0	30	-81	111
2019	622	1,548	942	606	75	556	156	2,957	164.7	247	120	127
2020	605	1,659	1,016	643	82	562	172	3,080	186.3	123	8	115
2020 – Q1	615	1,412	828	584	85	590	167	2,868	162.1	-89	-127	39
Q2	611	1,531	910	622	84	569	175	2,970	175.0	102	84	18
Q3	612	1,579	946	633	86	561	178	3,017	179.9	47	12	35
Q4	605	1,659	1,016	643	82	562	172	3,080	186.3	63	39	24
2021 – Q1	614	1,713	1,068	646	77	560	164	3,128	188.3	48	15	33
Q2	616	1,769	1,119	651	73	572	170	3,200	185.6	72	21	52
Q3	621	1,799	1,142	657	74	578	190	3,262	187.2	62	..	62
							Liabilities					
2017	456	1,308	263	1,045	107	938	–	2,808	161.7	72	-28	101
2018	489	1,148	216	931	107	1,055	–	2,798	158.0	-10	-88	78
2019	519	1,364	282	1,082	116	977	–	2,977	165.9	179	106	72
2020	510	1,342	252	1,090	131	1,060	–	3,042	184.0	65	13	52
2020 – Q1	517	1,228	206	1,022	133	1,047	–	2,925	165.3	-52	-86	34
Q2	517	1,263	231	1,032	133	1,074	–	2,986	176.0	61	47	14
Q3	514	1,293	222	1,071	136	1,051	–	2,994	178.6	8	8	-1
Q4	510	1,342	252	1,090	131	1,060	–	3,042	184.0	48	43	5
2021 – Q1	513	1,388	275	1,113	113	1,058	–	3,073	185.0	31	3	27
Q2	521	1,396	280	1,116	107	1,082	–	3,106	180.2	33	-4	37
Q3	528	1,382	282	1,100	108	1,139	–	3,156	181.1	50	4	46
							Net position					
2017	102	96	604	-508	-31	-421	126	-128	-7.4	76	22	54
2018	105	220	609	-388	-31	-515	133	-88	-5.0	40	7	33
2019	102	184	660	-476	-41	-421	156	-20	-1.1	68	14	54
2020	96	318	765	-447	-49	-498	172	38	2.3	58	-5	63
2020 – Q1	98	184	622	-438	-48	-457	167	-57	-3.2	-37	-41	5
Q2	95	269	679	-410	-49	-505	175	-16	-1.0	41	37	3
Q3	98	287	724	-438	-51	-490	178	23	1.4	39	3	36
Q4	96	318	765	-447	-49	-498	172	38	2.3	15	-4	19
2021 – Q1	100	325	792	-468	-37	-498	164	55	3.3	17	11	6
Q2	95	374	839	-465	-35	-510	170	94	5.4	39	24	15
Q3	93	417	860	-443	-33	-561	190	106	6.1	12	-3	15

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

Table A6

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

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary income	Secondary income	Total	Intangible assets	Capital transfers
2015	23,761	54,144	-4,245	-11,181	-14,956	6,110	-1,183	7,294
2016	44,175	59,963	-4,082	4,973	-16,678	-2,645	-1,973	-673
2017	44,923	54,372	-3,787	9,436	-15,098	1,243	-1,188	2,431
2018	44,760	45,926	-2,920	19,153	-17,399	-322	-1,482	1,160
2019	57,913	60,743	-429	14,730	-17,130	-1,769	-2,603	834
2020	62,084	68,351	-7,287	20,274	-19,253	-417	-1,106	689
2020 – Q1	7,394	12,980	-4,731	4,738	-5,594	-946	-713	-233
Q2	5,951	12,489	-3,063	819	-4,294	141	48	93
Q3	25,655	21,097	2,826	5,588	-3,855	-254	-384	130
Q4	23,084	21,785	-2,320	9,129	-5,511	641	-58	699
2021 – Q1	7,926	13,764	-4,419	5,759	-7,179	-1,183	-515	-668
Q2	15,955	20,164	-4,005	3,198	-3,401	-43	-540	497
Q3	20,044	15,749	2,236	6,546	-4,487	30	-579	609
2020 – Jan.	-955	897	-1,287	744	-1,309	-280	-271	-9
Feb.	4,885	6,313	-1,522	1,945	-1,851	-285	-235	-50
Mar.	3,463	5,770	-1,922	2,049	-2,433	-381	-207	-174
Apr.	-1,621	-22	-1,008	728	-1,319	-32	-9	-23
May	3,350	5,924	-1,207	-187	-1,180	-1	28	-29
June	4,222	6,586	-848	277	-1,794	174	29	145
July	10,475	9,924	624	1,133	-1,206	-64	-128	63
Aug.	7,044	4,730	1,387	2,234	-1,307	-48	-104	57
Sept.	8,136	6,443	815	2,221	-1,343	-142	-152	10
Oct.	8,419	7,954	-850	2,734	-1,419	317	-19	336
Nov.	7,165	7,027	-1,011	2,680	-1,532	256	-18	274
Dec.	7,500	6,804	-459	3,714	-2,560	68	-20	89
2021 – Jan.	936	2,198	-966	1,462	-1,759	-250	-160	-90
Feb.	3,835	5,530	-1,469	2,122	-2,348	-335	-159	-176
Mar.	3,155	6,036	-1,984	2,174	-3,072	-598	-196	-402
Apr.	6,431	6,974	-1,455	2,063	-1,151	-115	-177	62
May	4,392	6,479	-1,642	578	-1,023	-116	-178	62
June	5,132	6,710	-908	557	-1,227	188	-185	373
July	9,236	9,194	43	1,544	-1,545	-185	-185	..
Aug.	5,211	2,901	1,344	2,643	-1,677	-184	-177	-7
Sept.	5,597	3,653	849	2,360	-1,264	399	-218	616
Oct.	(5,263)	(4,830)	(-696)	(1,764)	(-635)	(355)	(-21)	(377)
Nov.	(4,682)	(4,830)	(-1,409)	(2,071)	(-810)	(313)	(-4)	(317)

(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	1.4
2016	1.1	1.0	0.3	1.9	2.4	2.2	2.4	2.0
2017	1.8	1.3	0.1	2.8	2.9	3.0	3.2	2.9
2018	2.1	2.0	1.4	2.8	3.4	3.6	4.1	3.2
2019	0.2	0.2	-1.9	2.6	3.7	3.4	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	3.4	3.6	3.9	3.3
Mar.	1.0	1.0	-0.4	2.7	3.3	3.5	3.8	3.3
Apr.	1.0	1.0	-0.4	2.7	3.5	3.6	4.0	3.3
May	1.1	1.2	0.0	2.7	3.4	3.6	3.9	3.4
June	0.6	0.9	-0.5	2.5	3.5	3.6	3.9	3.3
July	0.8	1.0	-0.3	2.5	3.6	3.6	4.0	3.4
Aug.	0.6	0.8	-0.6	2.4	3.8	3.7	4.2	3.4
Sept.	0.6	0.7	-0.8	2.5	3.6	3.5	3.6	3.4
Oct.	0.4	0.4	-1.3	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	3.4	3.2	3.6
2020 – Jan.	0.6	0.6	-1.0	2.6	3.7	3.5	3.2	3.7
Feb.	0.4	0.5	-1.2	2.5	3.7	3.4	3.0	3.8
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	6.6	3.0
May	1.6	1.7	2.0	1.3	5.4	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	4.7	4.7	6.9	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	7.0	3.0
Mar.	3.9	4.5	5.7	3.2	3.5	4.2	5.3	3.3
Apr.	3.7	4.3	4.5	4.0	3.2	3.5	3.2	3.8
May	3.8	4.3	4.6	3.9	2.7	3.0	1.9	3.9
June	3.4	3.8	3.8	3.8	3.0	3.1	1.9	4.0
July	2.1	2.7	1.8	3.8	3.0	3.1	1.7	4.1
Aug.	1.8	2.4	1.2	3.7	3,0	3.0	1.5	4.2
Sept.	1.7	2.0	0.7	3.6	3.2	3.3	2.1	4.1
Oct.	1.6	2.1	0.6	3.7	3.4	3.4	2.5	4.1
Nov.	1.5	2.0	0.4	3.8	3.7	3.6	2.9	4.2

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

Table A8

Net bond issues: Italy and euro area (1)

(billions of euros)

	Banks	Other financial corporations (2)	Non-financial corporations	Total
		Italy		
2019	-2	24.9	-3.5	19.4
2020	-19.4	5.8	7.8	-5.8
2020 – Q1	-14.5	-7.6	-3.6	-25.7
Q2	7.6	4.2	1.6	13.4
Q3	..	-4.1	2.7	-1.4
Q4	-12.4	13.4	7	7.9
2021 – Q1	-5.2	-4.4	6.3	-3.2
Q2	-2.1	-0.4	6.6	4.1
Q3	5.2	-3.9	2.1	3.4
		Euro area		
2019	119.7	164.5	62.3	346.5
2020	134.8	110.1	166.1	411
2020 – Q1	32.9	4.4	10.6	47.9
Q2	136.5	45.4	105.7	287.6
Q3	0.7	39.3	37	77.1
Q4	-35.4	21	12.8	-1.6
2021 – Q1	51.6	31.9	23.3	106.8
Q2	17	49.5	19.4	86
Q3	28	43.2	18.1	89.3

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

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

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	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)
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	–	1.0	44.8	-5.8	19.5	39.0	0.0
2019	-10.3	-4.7	6.4	43.0	-7.4	–	0.2	32.0	2.2	-18.0	34.1	-0.4
2020	1.6	-2.5	11.5	134.8	0.6	16.6	0.9	166.1	-9.6	13.0	156.6	-0.1
2019 – Jan.	4.0	-1.0	8.0	29.4	-0.6	–	-0.9	39.9	-44.0	-14.0	-4.1	0.0
Feb.	-3.9	-0.4	-0.1	4.2	-0.3	–	0.1	0.0	9.8	-2.0	9.8	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	-10.2	1.0	–	-0.2	-10.1	11.3	3.0	1.2	0.0
June	-1.8	-1.1	-0.4	23.0	-0.5	–	0.7	20.9	-20.5	-3.0	0.4	0.0
July	5.8	1.6	-0.1	19.0	-2.3	–	1.2	23.7	-27.1	3.0	-3.4	0.0
Aug.	-0.1	-1.3	1.8	-4.4	0.1	–	-0.3	-2.9	5.3	-3.0	2.4	0.0
Sept.	1.8	-0.3	1.0	-23.0	0.0	–	-0.5	-20.7	43.7	-10.0	23.0	0.0
Oct.	-0.2	1.2	1.2	7.1	-0.1	–	0.2	8.2	-9.8	-3.4	-1.5	-0.2
Nov.	-5.2	-1.8	..	3.6	0.4	–	-0.2	-1.5	0.1	2.0	-1.4	-0.2
Dec.	-10.8	-0.2	-6.6	-15.1	-4.7	–	0.0	-37.1	22.5	9.4	-14.6	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	..
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	-1.3	0.0	1.1	-15.7	19.1	1.0	3.4	..
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	37.2	0.6	4.6	-0.3	37.2	-27.8	0.0	9.3	0.0
Mar.	0.2	-0.7	-2.9	5.0	-1.4	5.7	0.3	6.9	18.3	1.0	25.2	-0.1
Apr.	-0.2	-0.6	-1.5	28.1	3.4	0.0	-0.6	29.3	-17.1	-5.0	12.1	0.0
May	-1.2	-0.4	-0.2	3.4	1.6	0.7	-0.1	4.2	10.5	0.0	14.7	0.0
June	2.9	-0.3	0.1	3.3	0.6	0.0	1.3	8.1	6.8	0.0	15.0	-0.1
July	-1.1	-0.3	0.5	28.4	1.3	0.0	0.0	29.2	-36.3	0.0	-7.2	0.0
Aug.	-0.8	-0.2	0.7	-8.6	1.1	15.9	-0.2	8.1	-18.9	0.0	-10.8	0.0
Sept.	-5.0	-0.2	-0.2	-23.6	0.4	0.0	0.6	-27.8	43.3	3.0	15.6	-0.1
Oct.	-10.3	-0.2	-2.3	8.1	7.7	0.0	-0.4	2.8	4.0	3.0	6.9	0.0
Nov.	1.5	-0.4	-1.4	-14.1	-2.4	0.0	-0.5	-16.8	25.2	0.0	8.3	0.0

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

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium- and long-term securities	MFI loans	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)
2016	232.9	76.8	107.0	1,767.3	133.1	-	45.3	33.9	2,285.6	43.1	33.0	29.9	58.2
2017	232.4	74.4	106.6	1,806.8	136.7	-	47.3	33.9	2,329.8	29.3	22.5	32.2	58.2
2018	237.6	72.3	107.4	1,856.0	132.3	-	48.3	33.9	2,381.5	35.1	3.0	31.5	58.2
2019	227.3	67.6	113.8	1,895.6	124.9	-	48.5	33.5	2,410.0	32.9	21.0	35.1	57.8
2020	228.9	65.1	125.3	2,027.9	125.5	16.5	49.4	33.5	2,573.5	42.5	8.0	38.9	57.7
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	1,889.3	131.4	-	47.4	33.9	2,421.1	69.3	19.0	33.6	58.2
Mar.	237.8	68.8	115.9	1,883.7	131.3	-	47.7	33.9	2,416.4	46.9	17.6	32.2	58.2
Apr.	238.7	70.1	116.6	1,896.8	131.1	-	47.6	33.9	2,430.7	58.5	19.0	32.3	58.2
May	237.7	69.4	116.9	1,888.2	132.0	-	47.3	33.9	2,422.2	47.2	16.0	34.3	58.2
June	235.9	68.3	116.5	1,912.2	131.5	-	48.0	33.9	2,444.1	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	2,464.3	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	1,907.4	129.2	-	48.6	33.7	2,449.0	55.5	32.4	37.4	58.0
Nov.	238.1	67.7	120.4	1,910.5	129.6	-	48.4	33.5	2,447.0	55.4	30.4	38.7	57.8
Dec.	227.3	67.6	113.8	1,895.6	124.9	-	48.5	33.5	2,410.0	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	2,573.5	42.5	8.0	38.9	57.7
2021 – Jan.	232.6	63.4	130.9	2,052.5	125.5	16.5	49.1	33.5	2,607.0	75.1	8.0	39.7	57.7
Feb.	231.1	62.3	127.4	2,089.7	126.1	21.0	48.8	33.5	2,644.1	102.9	8.0	39.7	57.7
Mar.	231.3	61.6	124.5	2,095.0	124.7	26.7	49.1	33.5	2,651.3	84.6	7.0	38.2	57.7
Apr.	231.1	61.0	123.0	2,123.5	128.1	26.7	48.6	33.5	2,680.9	101.8	12.0	39.2	57.7
May	229.9	60.6	122.8	2,128.9	129.6	27.4	48.4	33.5	2,687.1	91.3	12.0	40.3	57.7
June	232.9	60.3	122.8	2,133.2	130.2	27.4	49.7	33.5	2,696.2	84.4	12.0	39.6	57.6
July	231.7	60.0	123.4	2,162.0	131.5	27.4	49.8	33.5	2,725.8	120.8	12.0	38.4	57.6
Aug.	230.9	59.8	124.0	2,153.9	132.5	43.4	49.6	33.5	2,734.3	139.7	12.0	37.9	57.6
Sept.	225.9	59.5	123.9	2,130.2	132.9	43.4	50.2	33.5	2,706.4	96.3	9.0	36.1	57.5
Oct.	215.6	59.3	121.6	2,139.3	140.6	43.4	49.8	33.5	2,710.3	92.3	6.0	36.6	57.5
Nov.	217.2	58.9	120.2	2,126.0	138.2	43.4	49.2	33.5	2,694.2	67.1	6.0	35.4	57.5

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