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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 global economic cycle weakens; inflation rises further

Global economic activity has shown signs of slowing down since the beginning of the year, owing to the spread of the Omicron variant of the coronavirus and subsequently to Russia's invasion of Ukraine. Inflation has risen almost everywhere, continuing to reflect the increases in energy prices, supply bottlenecks and, above all in the United States, the recovery in demand. The Federal Reserve and the Bank of England are continuing with the normalization of their monetary policies that began at the end of 2021.

The war in Ukraine is exacerbating downside risks to economic activity and upside risks to inflation

Following the invasion, much of the international community responded quickly with sanctions on Russia that are unprecedented in terms of severity and scope. The immediate effects of the conflict on global financial market listings have been significant, although they have eased since mid-March; volatility remains high in many market segments. The prices of commodities, especially of energy products, for which Russia holds a considerable share of the global market, have risen further. Overall, the war in Ukraine is exacerbating downside risks to the global economic cycle and upside risks to inflation.

GDP stagnates in early 2022 in the euro area, while inflation continues to grow

Following the slowdown at the end of 2021, euro-area GDP stagnated in the early months of 2022. The tensions linked to the war in Ukraine are causing bigger rises in energy prices than in the rest of the world, and new procurement difficulties for firms, adding to the pre-existing ones. Based on preliminary data, consumer price inflation reached 7.5 per cent in March.

The ECB reviews its net asset purchases

Last March, the ECB's Governing Council judged that the conflict would have considerable repercussions for economic activity and inflation in the euro area and announced that it would adopt all the measures necessary to guarantee price stability and financial stability. It also revised the purchase schedule of its asset purchase programme (APP) for the next few months and announced that any changes in the key ECB interest rates would take place some time after the end of its net asset purchases and would be gradual.

Italy's GDP falls in the first quarter

Growth in the Italian economy lost momentum at the end of 2021, held back by sluggish household consumption and the negative contribution of net foreign demand. GDP fell in the first quarter of 2022, owing to the resurgence in new COVID cases at the turn of the year and to the dynamics of energy prices, against a cyclical backdrop of heightened uncertainty stemming from the invasion of Ukraine.

Industrial production declines at the start of the year …

According to high-frequency indicators, industrial production fell in the first quarter as a whole, returning to slightly lower levels than those recorded before the pandemic began. Contributory factors to this fall are the cost of inputs and the difficulties in procuring commodities and intermediate products.

… as does consumption, and investment expenditure weakens

Household spending is also likely to have decreased, penalized by the rise in new COVID cases, especially at the beginning of the year, and by the loss in purchasing power due to the overall rise in prices. Based on the opinions expressed by firms between February and March, investment conditions have worsened, but the impact on the growth in investment planned for 2022 should be limited.

The current account surplus remains large, despite being affected by the worsening energy balance

In the fourth quarter of 2021, growth in exports came to a halt, while that in imports continued apace. The current account surplus remained large in 2021 as a whole, but it is being affected by the worsening energy balance.

Around two fifths of Russian gas imports could be replaced by other sources by end-2022

More than one fifth of Italian imports of energy inputs come from Russia; the share for natural gas alone exceeds 45 per cent. According to preliminary estimates, any interruption in the natural gas flows from Russia could be replaced by about two fifths by end-2022 – without drawing on Italy's methane reserves – by increasing imports of liquefied natural gas, greater recourse to other suppliers, and stepping up extraction from Italian gas fields. In the medium term, it would be possible to fully replace imports of Russian gas by investing more in renewable sources, as well as by increasing imports from other countries.

The Bulletin sets out three illustrative scenarios on the effects of the war on GDP and inflation in Italy

This Bulletin examines the possible macroeconomic consequences of the war in Ukraine on the basis of three illustrative scenarios drawn up based on alternative hypotheses for commodity price developments, international trade, consumer and business confidence, and natural gas supplies. These scenarios do not indicate the most likely macroeconomic outcome in the years to come and they are not therefore an update of the projections for Italy. In the most favourable scenario, the one that assumes the conflict will be resolved rapidly, and that the associated tensions will be significantly reduced, GDP growth would be around 3 per cent in 2022 and in 2023; inflation would rise, respectively, to 4.0 and to 1.8 per cent. In the intermediate scenario, formulated on the assumption that hostilities will continue, GDP would rise by around 2 per cent in both years; inflation would be equal to 5.6 and 2.2 per cent. In the most adverse scenario, which also hypothesizes an interruption in the supply of gas from Russia that could only partly be compensated from other sources, GDP would fall by almost 0.5 percentage points in 2022 and in 2023; inflation would rise to close to 8 per cent in 2022 and fall to 2.3 per cent in the following year. This wide range of estimates does not take account of any possible new economic policy responses, which will be essential to counter both any recessionary tendencies and any pressures on prices stemming from the conflict.

Employment growth weakens, rises in contractual wages remain limited

In the last quarter of 2021, the number of persons employed and that of hours worked continued to rise, though at a slower pace than in the two previous quarters. The growth in the creation of new jobs weakened in the first two months of 2022; the unemployment rate fell slightly. The recent price increases have not passed through to contractual wages, for which growth remains moderate.

Inflation rises to its highest level since the early 1990s, driven by energy and food prices

Inflation in Italy rose to 7.0 per cent in March, reaching its highest level since the start of the 1990s, mainly driven by the exceptional growth in energy prices and, to a lesser extent, food prices. The core component rose slightly, but is still below 2 per cent. The pressures on gas and oil prices suggest high inflation during the year. Firms also estimate marked upward revisions of their list prices compared with their assessments last December.

Heightened uncertainty leads to a fall in equity prices, then a partial recovery

In the first part of 2022, Italy's financial markets were affected by heightened uncertainty and risk aversion. Equity prices, especially those in the banking sector, fell in connection with the start of the war; they later recovered slightly. The sovereign spread and the funding costs of firms and banks rose.

Firms' demand for credit remains moderate

Lending to non-financial corporations is still contained. The demand for new loans continued to be modest, thanks to the abundant liquidity accumulated over the last two years and in a context characterized by multiple factors of uncertainty. The non-performing loan rates on lending to firms remained at very low levels by historical standards. In 2021, the return on *capital of the significant banking groups more than doubled compared with the previous year. Italian banks' exposure to Russia is limited overall.*

In 2021, government deficit and debt as a percentage of GDP fall significantly

Last year, general government net borrowing as a percentage of GDP fell considerably compared with the extraordinarily high levels recorded in 2020. The debt-to-GDP ratio decreased, mainly thanks to the very favourable change in the denominator. At the end of February, the European Commission issued a positive assessment of Italy's fulfilment of the milestones and targets for the first disbursement of funds under the Recovery and Resilience Facility. In the first few months of this year, the Government enacted further measures to soften the impact of higher energy costs. According to the official assessments, the cost of the provisions that introduce these measures should be covered by reductions in other expenditure and by increased revenues, including those related to an extraordinary tax on energy companies.

The Government approves the 2022 Economic and Financial Document

On 6 April the Government approved the 2022 Economic and Financial Document. Given the improvement in the current legislation scenario for the public accounts, the net borrowing targets set last September have been confirmed. In 2022, the deficit and the debt will stand at 5.6 and 147.0 per cent of GDP respectively and will then decrease to 2.8 and 141.4 per cent in 2025.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Global economic activity has shown signs of slowing down since the beginning of the year, owing to the spread of the Omicron variant of the coronavirus and subsequently to the growing geopolitical tensions, culminating in Russia invading Ukraine. Inflation has continued to grow almost everywhere, reflecting the rises in energy prices, supply-side bottlenecks and, above all in the United States, the recovery in demand. The Federal Reserve and the Bank of England are continuing with the normalization of their monetary policies that began at the end of 2021. The war in Ukraine is exacerbating downside risks for the economic cycle and upside risks for inflation; it is estimated that in 2022, growth in global trade will be lower by over 1 percentage point than in the assessments made prior to the conflict.

At the end of 2021, GDP grows markedly in many advanced economies

In the fourth quarter of last year, growth was strong in the main advanced economies (Table 1), with the exception of the euro area (see Section 1.2). In the United States, it was influenced by the increase in consumption, above all of durable goods and of services, which are recovering after the slowdown resulting from the pandemic situation worsening in the summer months, and the more intense accumulation of inventories; in Japan too, the removal in October of the restrictions on mobility in many parts of the country boosted household spending. The economic situation remained weak in the emerging countries, especially in China, where the debt crisis of some important real estate groups continues, which has affected consumer confidence and contributed to the contraction in sales and in house prices.

Table 1

GDP growth and inflation
(percentage changes)

	GDP growth 2021	GDP growth 2021 Q3 (2)	GDP growth 2021 Q4 (2)	Inflation (1) 2022 February
Advanced countries				
Japan	1.6	-2.8	4.6	0.9
United Kingdom	7.5	3.8	5.2	6.2
United States	5.7	2.3	6.9	7.9
Emerging countries				
Brazil	4.6	4.0	1.7	10.5
China	8.1	4.9	4.0	0.9
India	8.1	8.5	5.4	6.1
Russia	….	4.3	….	9.2

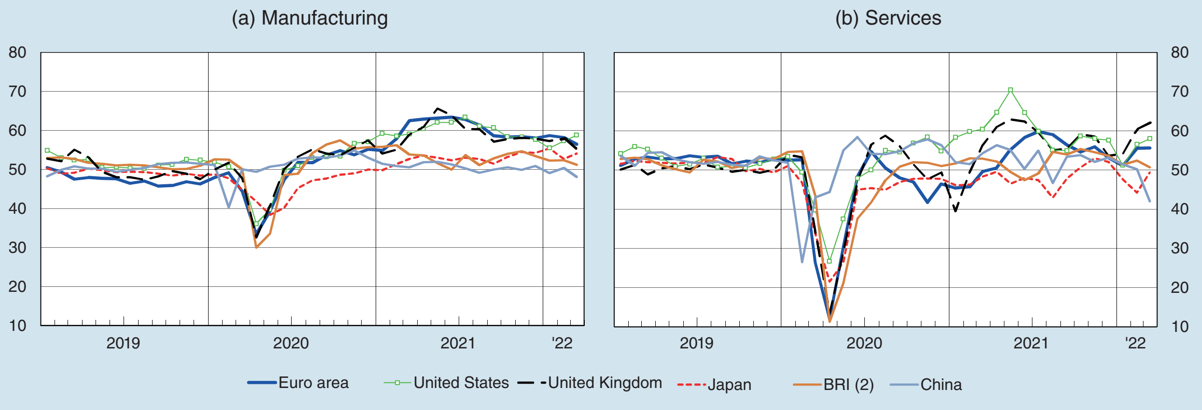
Source: National statistics.
(1) Consumer price index, year-on-year change. – (2) For the advanced countries, quarterly percentage changes, annualized and seasonally adjusted; for the emerging countries, year-on-year percentage changes.

In the first quarter, GDP is affected by the Omicron variant and the conflict in Ukraine

According to analysts' estimates, global economic activity slowed in the first quarter of 2022, reflecting the resurgence of the pandemic caused by the spread of the Omicron variant – particularly swift at the beginning of the year in almost all the advanced economies – and then by the growing geopolitical tensions, resulting in the invasion of Ukraine. After a general decrease in January, the purchasing managers' indices for the service sector rose in the following two months for the advanced countries, though unevenly across economies, in part due to the first effects of the conflict becoming apparent (Figure 1). The improvement in the COVID situation and the simultaneous easing of restrictions generally boosted mobility (Figure 2). In Japan, where the spread of the Omicron variant lagged by a few weeks, the imposition of new restrictions since mid-January has weighed on the PMI for services, which remains below the expansion

Figure 1

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



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

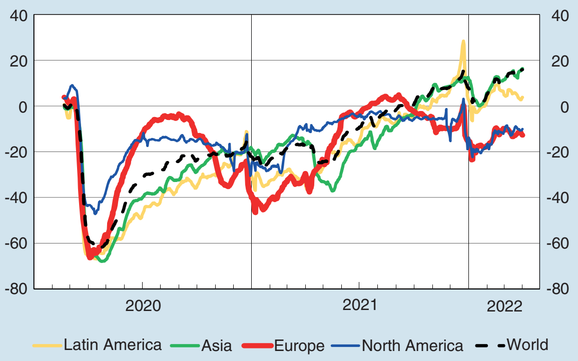
threshold. In China, the re-emergence of the pandemic in mid-March led to the imposition of lockdown measures in some of the main production centres, which may have held back growth in the first quarter.

World trade is likely to slow more than expected this year

In the fourth quarter of last year, trade in goods and services benefited from a strong recovery in demand and from the partial easing of the difficulties in procuring certain production inputs and in international transport (Figure 3). In contrast, according to our estimates, growth in trade will fall to 3.4 per cent in 2022 from 10.7 per cent last year (Table 2), more than 1 percentage point lower than was forecast in January's *Economic Bulletin*. This change stems from the consequences of the conflict in Ukraine, which directly

Figure 2

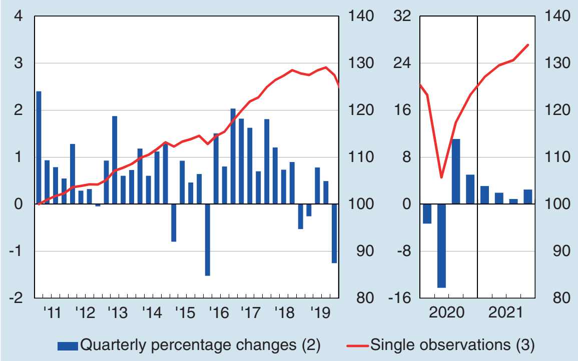
Mobility during the COVID-19 pandemic (1)
(daily data; index numbers)



Source: Based on data from Google Covid-19 Community Mobility Reports.
(1) Percentage change in the number of visits to retail shops and travel for 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 1 April 2022. Seven-day moving average. The Asia and World aggregates do not include China, for which data are not available.

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

involves two of the leading world exporters of energy, fertilizers, cereals, industrial metals and other commodities. The lack of these inputs is likely to fuel the rise in commodity prices and curb the volumes of downstream production, especially in Europe; the negative repercussions on trade caused by the sanctions imposed on Russia by western countries are also playing a role (see the box 'The invasion of Ukraine: sanctions on Russia and the impact on the financial markets and international trade'). The lockdowns imposed in China are also expected to weigh on the growth of global trade.

THE INVASION OF UKRAINE: SANCTIONS ON RUSSIA AND THE IMPACT ON GLOBAL FINANCIAL MARKETS AND INTERNATIONAL TRADE

After months of growing tensions on the eastern border of the country, the invasion of Ukraine has led to a rapid tightening of sanctions on Russia. Of unprecedented severity and scale, the measures have been adopted by many countries, albeit to differing degrees. The list includes the United States, the European Union, Japan, the United Kingdom and Canada. The sanctions are additional to those introduced after Russia's annexation of Crimea in 2014. Many of the measures have also been extended to Belarus because it supported the invasion.

The countries adhering to the sanctions have banned exports to Russia of a wide range of high-tech goods; they have also suspended its 'most-favoured-nation' status given to members of the World Trade Organization, enabling tariffs to be increased or restrictions to be imposed on imports from Russia.

In the energy sector, exports of technologies used in mining and quarrying and in refinement processes have been banned. Germany has suspended the approval process for the Nord Stream 2 gas pipeline that runs under the Baltic Sea directly from Russia. The United States has banned imports of oil, liquefied natural gas and coal and the United Kingdom has announced that it intends to phase out imports of Russian oil and coal by the end of the year. Many individuals linked to President Putin or who supported the invasion have had their foreign assets frozen and visas withdrawn.

Russia's largest banks have lost practically all access to international markets. Seven of them have also been removed from the global financial messaging services provider, SWIFT. Lastly, in an especially incisive measure, Russia's considerable foreign exchange reserves were frozen and banks in the countries adopting sanctions were banned from carrying out transactions with the Central Bank of the Russian Federation or with entities acting on its behalf. According to the Russian central bank's data, on 25 March these reserves amounted to $604 billion, of which it is estimated that about half is denominated in the currencies of the countries that have adopted the sanctions (predominantly the euro, US dollars and sterling).

Initially, Russia's central bank had taken steps to safeguard the country's financial stability by providing liquidity to the banking system and buying roubles to support the currency in the face of strong downward pressures. Once the reserves were frozen and it was forced to discontinue the purchases, it raised its key interest rate from 9.5 to 20 per cent. The Government also ordered exporting firms to sell 80 per cent of their forex revenues and introduced strict capital controls on transfers by foreigners and residents alike. These measures helped to support the value of the rouble, which experienced exceptional volatility and a marked reduction in the volume of trade; after depreciating by around 50 per cent against the euro since the outbreak of hostilities, it recouped this loss at the end of March (Figure A). The Russian government also imposed conditions on payments for gas supplies on the countries that had imposed sanctions.

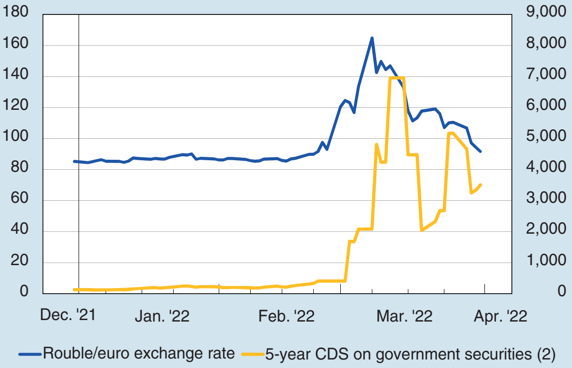
The main rating agencies have repeatedly downgraded Russian sovereign debt, signalling a strong risk of default. The leading compilers of international equity and bond indices have removed Russian securities from their baskets. After losing more than one third of its value since the start of 2022, Moscow's stock market remained closed from 25 February for one month and gradually reopened from 24 March onwards; currency and sovereign bond markets also recorded strong tensions. Based on the downward revisions of GDP growth in 2022 by the forecasters surveyed by Consensus Forecasts (see Section 1.1), the sanctions could have a significant impact on economic activity in the country.

Russia is a net creditor on international financial markets and its exposure to the rest of the world, with the exception of its considerable foreign reserves, appears limited, with modest capital inflows after the annexation of Crimea in 2014.

Figure A

Performance of Russia's financial markets (1)

(daily data; roubles per euro and basis points)



Source: Refinitiv.
(1) An increase in the rouble/euro exchange rate indicates a depreciation of the former. – (2) Default risk premium on Russian sovereign bonds in the credit default swap (CDS) market. Right-hand scale.

The repercussions of the war are also apparent in the rest of the world, though to different extents across countries and areas. Uncertainty in global financial markets has increased; emerging economies, in particular, have witnessed a deterioration of financial conditions (see Section 1.3). The transmission of the shock through hikes in energy and other commodity prices, along with supply shortages, has been especially marked. Russia accounts for just 2 per cent or so of world trade, but its exports are highly concentrated in commodities and in energy products in particular: gas and oil make up almost half of exports and account for 25 and 12 per cent of total exports worldwide (41 and 27 per cent of total exports to the EU). Moreover, Russia is among the main global exporters of nickel and fertilizers (with market shares of 15 and 14 per cent, respectively) and, along with Ukraine, of cereals (shares of 7 and 6 per cent for the two countries). The reduction in trade flows of products such as fertilizers and cereals could pose a food security risk to low-income importing countries.

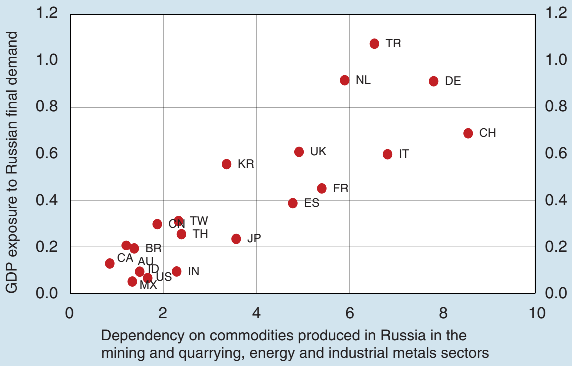
Taken together, EU Member States absorb almost 40 per cent of Russian exports, but the share rises to more than 50 per cent for oil and to over 60 per cent for gas (mostly through pipelines); China follows, purchasing just over 30 per cent of the oil sold abroad by Russia, but less than 5 per cent of its gas.

Of the main world economies, Germany and Italy are the most reliant on Russian commodities (energy and metal inputs from this country account for 7 per cent of Italy's

Figure B

Exposure of the world's largest economies to demand and inputs originating in Russia (1)

(per cent)



Source: Estimates based on data from the Asian Development Bank (ADB).
(1) The estimates were made using the new Stata module, icio (see F. Belotti, A. Borin and M. Mancini, 2021, op. cit.). The vertical axis shows the share of GDP that is directly or indirectly absorbed by Russian final demand; the horizontal axis shows the share generated in Russia of the total imported value added in the mining and quarrying, energy and industrial metals sectors. For country abbreviations, see the European Union's *Interinstitutional Style Guide*.

total requirements and 8 per cent of Germany's). These countries could also be among those hardest hit by a block on exports to Russia, both directly and indirectly through the global value chains. Final demand in Russia absorbs 0.6 per cent of total value added produced in Italy and 0.9 per cent of that produced in Germany; on average, the share is equal to 0.3 per cent for the advanced countries and to 0.4 per cent for emerging economies (Figure B).[1]

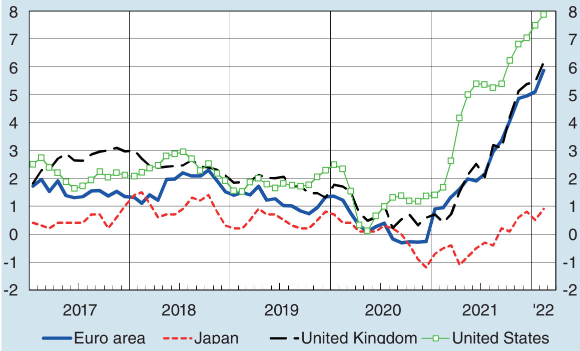
[1] To analyse the world's overall dependence on trade ties with Russia, the methodology based on international input-output tables is used to measure not only direct exposure but also indirect exposure through global value chains; see F. Belotti, A. Borin and M. Mancini, 'icio: Economic analysis with intercountry input-output tables', *The Stata Journal*, 21, 3, 2021, pp. 708-755.

Inflationary pressures increase further

Inflation continued to grow in the United States, reaching 7.9 per cent in February (Figure 4), the highest level in the last forty years. At a time of strong recovery in domestic demand, the rises in the prices of new and second-hand motor vehicles continue to have an impact – in part pushed up by the ongoing shortage of microprocessors –, and the increases in house rentals and energy prices. Inflation has risen in the United Kingdom as well, to 6.2 per cent; it remains very moderate in Japan, at 0.9 per cent. According to recent estimates by the OECD, global inflation excluding Russia will increase further, by around 2 percentage points over the 12 months following the invasion of Ukraine, almost entirely attributable to the increase in commodity prices.[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.

Growth prospects for 2022 worsen above all because of the conflict

In the forecasts issued by the International Monetary Fund in January, prior to the onset of the war, global GDP growth had been revised to 4.4 per cent (from 4.9 per cent in October) owing to the rise in new COVID cases, higher energy prices and procurement difficulties for firms. Compared with their January estimates, the forecasters polled in March by Consensus Forecasts have adjusted GDP growth in 2022 downwards, especially for the main advanced economies, thereby factoring in the effects of the conflict under way (Table 2); the revision for the euro area was particularly marked. Among the emerging countries, Russia is likely to experience an exceptional fall in GDP this year. According to the assessments released by the OECD in March, world GDP growth (excluding Russia) is expected to weaken by almost 1 percentage point in the 12 months following the invasion. Some two thirds of this difference compared with a no-war scenario is explained by the increase in commodity prices and by the deterioration in the financial markets, and the remaining part by the contraction in demand in the countries directly involved. The euro area is likely to

[1] OECD, *OECD Interim Economic Outlook*, March 2022. The main assumption underlying the estimates is that the variation in the average for commodity prices, calculated in the first two weeks after the conflict began and compared with the average in January, will last for at least one year; the other assumptions concern the continuation of tense conditions on the financial markets and the contraction of domestic demand in Russia and Ukraine.

experience a more pronounced negative impact than the United States (-1.4 percentage points against around -0.9 points).

Table 2

Macroeconomic projections
(percentage changes and points)

	2021 (1)	Forecasts (2)		Revisions (3)	
		2022	2023	2022	2023
GDP					
Advanced countries					
Euro area	5.3	3.2	2.3	-0.8	-0.2
Japan	1.6	2.3	1.8	-0.8	0.3
United Kingdom	7.5	3.9	1.6	-0.4	-0.6
United States	5.7	3.3	2.4	-0.6	-0.2
Emerging countries					
Brazil	4.6	0.5	1.6	-0.1	-0.4
China	8.1	5.0	5.2	0.0	-0.1
India (4)	8.1	7.6	6.2	-0.3	-0.1
Russia	…	-9.9	-0.2	-12.5	-2.4
World trade	**10.7**	**3.4**	**–**	**-1.4**	**–**

Sources: Consensus Economics, *Consensus Forecasts*, March 2022 for GDP; Bank of Italy calculations based on national accounts and customs data for world trade.
(1) National accounts data. – (2) Percentage changes. – (3) Percentage points. Revisions compared with Consensus Economics, *Consensus Forecasts*, January 2022 and, for world trade, compared with the Bank of Italy's *Economic Bulletin*, 1, 2022. – (4) Data refer to the fiscal year starting in April.

The invasion of Ukraine leads to a rise in the price of oil ...

The conflict pushed oil prices up to $133 dollars a barrel in the first ten days of March, the highest price since 2008 (Brent crude oil, Figure 5.a); in the early days of April, it stood at $107 on average. The rise was due to both the risk of a reduction in Russian oil exports because of possible sanctions on the energy sector and by the voluntary decision taken by some public and private operators not to purchase from Russian counterparties. The coordinated release of strategic stocks by some member countries of the International Energy Agency, especially the unprecedented amount decided by the United States, the increase in production on the part of other OPEC+ countries, the possibility of a positive resolution to the negotiations between the United States and Iran on the nuclear issue and the reduction in China's demand for oil because of its lockdowns have exerted downward pressures on oil prices. Futures contracts signal that oil prices will decline steadily this year, though remaining at higher levels than those indicated by the same contracts before the invasion. The marked volatility of these prices reflects the high uncertainty linked to the course of the conflict.

... and an unprecedented peak in that of gas

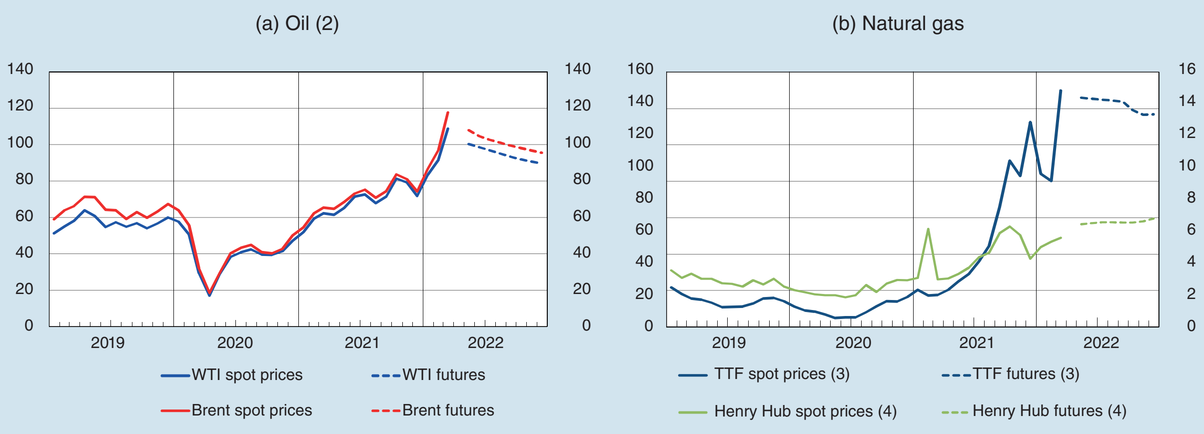
The price of natural gas reached a historic high in Europe (Figure 5.b), rising to levels almost twenty times higher in March than those in early 2020 and more than ten times those in the early days of April; these price increases, in addition to those observed as early as the second half of 2021, mainly reflect the effects of possible sanctions on the energy sector. The increase in imports of liquefied natural gas (LNG), especially from the United States, has only partially mitigated the prices. In fact, there are physical constraints in the short term on the production, regasification and transport of LNG. In part thanks to the milder than average seasonal temperatures recorded in northern Europe, gas storage has now returned to levels close to those of previous years, having dwindled considerably at end-2021. Futures contracts, which are also highly volatile, indicate that prices will remain at high levels.

Monetary policy normalization continues in the United States and the United Kingdom

In its meeting held on 15 and 16 March, the Federal Reserve raised the federal funds rate target to between 0.25 and 0.50 per cent; it justified its decision by citing the historically high inflation levels and the sharp drop in the unemployment rate. The new projections of the members of the Federal Open Market Committee (FOMC) envisage six further increases in the target range in 2022 and three more in 2023. Having made all its net asset purchases in March, the Federal Reserve said that there will be announcements as to how its balance sheet will be reduced. At both of its last two meetings, the Bank of England raised the interest rate by 25

Figure 5

Commodity prices (1)
(monthly data)

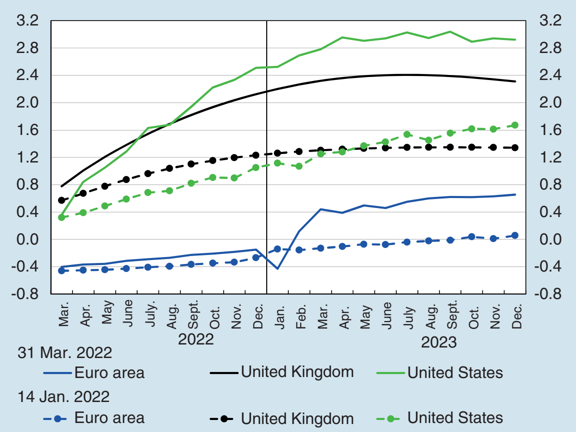


Source: Refinitiv.
(1) For the spot prices, average monthly data up to March 2022. For futures, the data refer to the prices on 31 March 2022. – (2) Dollars per barrel. – (3) Euros per megawatt hour. Price of European natural gas traded on the Title Transfer Facility (TTF) Dutch market. – (4) Dollars per millions of British thermal units (BTUs). Price of gas distributed via the Henry Hub in Louisiana (USA). Right-hand scale.

basis points, bringing it to 0.75 per cent in March, and indicated possible further increases over the next few months (Figure 6); at the same time, it stopped reinvesting maturing securities in its balance sheet. In contrast, Japan's monetary policy stance remains strongly expansionary. Among the emerging countries, Brazil continues to pursue a restrictive policy in order to mitigate its high inflation, while China, where price growth remains low, is maintaining a moderately accommodative monetary policy stance.

Figure 6

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



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

1.2 THE EURO AREA

Following the slowdown in the fourth quarter of 2021, economic activity in the euro area weakened further in the early months of this year. The cyclical outlook is feeling the effects of the tensions linked to the invasion of Ukraine, which are causing further rises in energy commodity prices and new procurement difficulties for firms, in addition to the pre-existing supply bottlenecks. Based on preliminary data, consumer price inflation stood at 7.5 per cent in March. The ECB's Governing Council believes that the conflict will have considerable repercussions for economic activity and inflation in the euro area and has announced that it will take whatever action is needed to guarantee price stability and financial stability. At the same time, it has revised the schedule for its asset purchase programme (APP) for the next few months and announced that any changes in the key ECB interest rates will take place some time after the end of its net asset purchases and will be gradual.

GDP slows abruptly at end-2021 ...

In the fourth quarter of 2021, euro-area GDP grew very modestly (0.3 per cent, from 2.3 per cent in the third quarter; Table 3), held back by the negative contribution of foreign demand and by the reduction in household consumption; investment and the change in stocks instead made a positive contribution. Value added stagnated in services and in industry excluding construction and only expanded in construction. Among the leading economies, GDP declined slightly in Germany, owing to the contraction in household spending of almost 2 percentage points associated with the particularly intense spread of the Omicron variant.

... and stagnates in the first quarter

According to the available indicators, GDP growth weakened in the first quarter of 2022. In January, industrial output held stable, continuing a phase of weakness underway since the second quarter of 2021. Industry continues to suffer from the increase in commodity prices and, albeit less so than in the most serious phases of the pandemic, from the difficulties in procuring intermediate goods, as indicated by the PMI for delivery times (Figure 7). In the March survey, the PMIs as a whole indicated a decline, though they remained compatible with an expansion in activity. In the same month, the €-coin indicator, which measures GDP growth net of the most erratic components, rose, benefiting from the confidence of firms holding steady and from the recovery in share prices since the second half of March (Figure 8).

Table 3

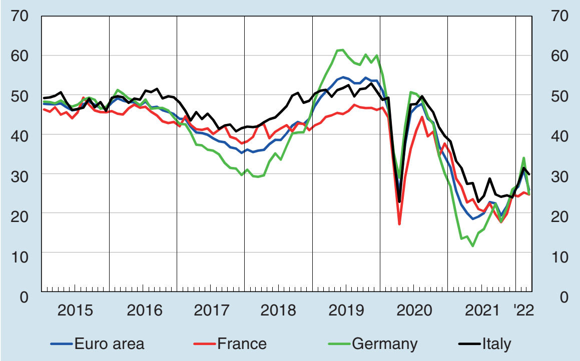
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2021	2021 Q3 (1)	2021 Q4 (1)	2022 March (2)
France	7.0	3.1	0.7	(5.1)
Germany	2.9	1.7	-0.3	(7.6)
Italy	6.6	2.5	0.6	(7.0)
Spain	5.0	2.6	2.2	(9.8)
Euro area	5.3	2.3	0.3	(7.5)

Sources: Based on national statistics and Eurostat data. The figures in brackets indicate preliminary estimates.
(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); preliminary estimates.

Figure 7

PMIs for delivery times (1)
(monthly data; diffusion indices)



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

GDP estimates for 2022 and 2023 have been revised downwards

The Eurosystem staff projections released in March indicate that GDP will grow by 3.7 per cent in 2022, and by 2.8 and 1.6 per cent respectively in the following two years. Compared with the forecasting scenario published last December, the estimates for 2022 and 2023 have been revised downwards by 0.5 and 0.1 percentage points respectively. The heightened uncertainty connected with the war in Ukraine has led the ECB to publish, as well as the central projections, two scenarios characterized by more severe international sanctions on Russia, which would cause a reduction in gas flows towards the euro area and other interruptions in global value chains. In the most adverse scenario, which in any case includes the possibility for euro-area countries to replace gas imports from Russia at least partially with other sources, GDP growth in the current year would be lower than the central estimate by 1.4 percentage points.

Commodities continue to drive up inflation

Consumer price inflation, on the increase since early 2021, reached 7.5 per cent on a 12-month basis in March, the highest value recorded by far since the Economic and Monetary Union was launched (Figure 9). More than half of this change is due to the energy component. In the early months of 2022, food product prices also accelerated (5.0 per cent in March). Core inflation increased to a lesser degree, to 3.0 per cent, influenced by the indirect effects of higher energy prices and by supply-side bottlenecks.

Wage growth, moderate in 2021, shows no signs of acceleration as yet

In the fourth quarter, contractual wages rose by 1.6 per cent on an annual basis, slightly more than in the summer months (1.4 per cent); unit labour costs also remained moderate, at 1.3 per cent. Growth in wages could intensify in 2022 because of the increase in the minimum wage and the renewal of contracts in some sectors and countries, which could take account of the increases in inflation. The information available so far shows no signs of contractual wages accelerating in the area.

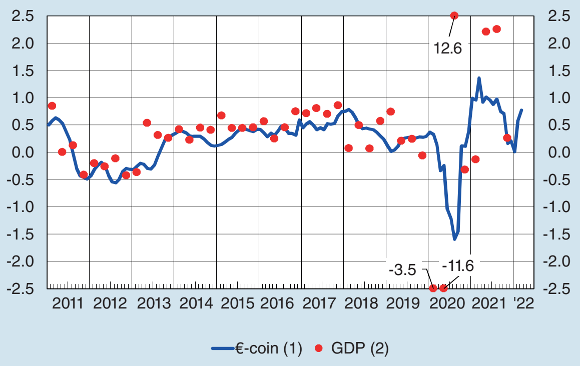
Inflation remains high in 2022 and falls starting next year

The Eurosystem staff projections, based on the inflation data available up to 2 March, indicate that inflation will reach 5.1 per cent in 2022, and then go down to levels not far from the nominal stability objective in the following two years (2.1 per cent in 2023 and 1.9 per cent in 2024). Compared with what was forecast in December, these estimates show an upward revision of 1.9 percentage points for 2022 and much smaller increases for 2023 and 2024 (0.3 and 0.1 percentage points respectively). In the most adverse scenario considered by ECB experts, inflation will exceed 7 per cent this year and then return to below 3 per cent in 2023 and below 2 per cent in 2024.

Figure 8

€-coin coincident cyclical indicator and euro-area GDP

(monthly and quarterly data; percentage changes)

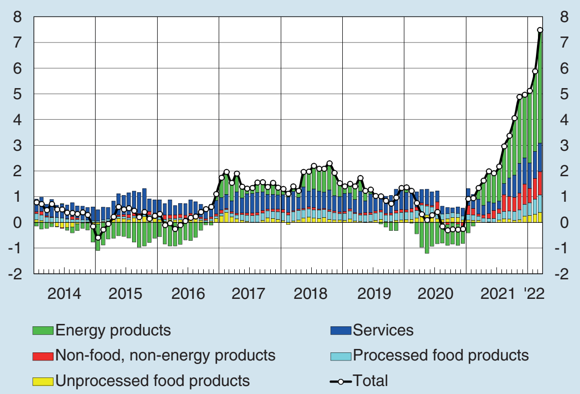


Sources: Bank of Italy and Eurostat.
(1) For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components. For the methodology used to construct the indicator and subsequent modifications, see the box 'The €-coin indicator and the economic situation in the euro area', *Economic Bulletin*, July, 2009. The latest data on the indicator are available on the Bank of Italy's website: '€-coin: March 2022'. – (2) For GDP, quarterly data; percentage changes on previous quarter.

Figure 9

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

(monthly data; percentage changes and points)



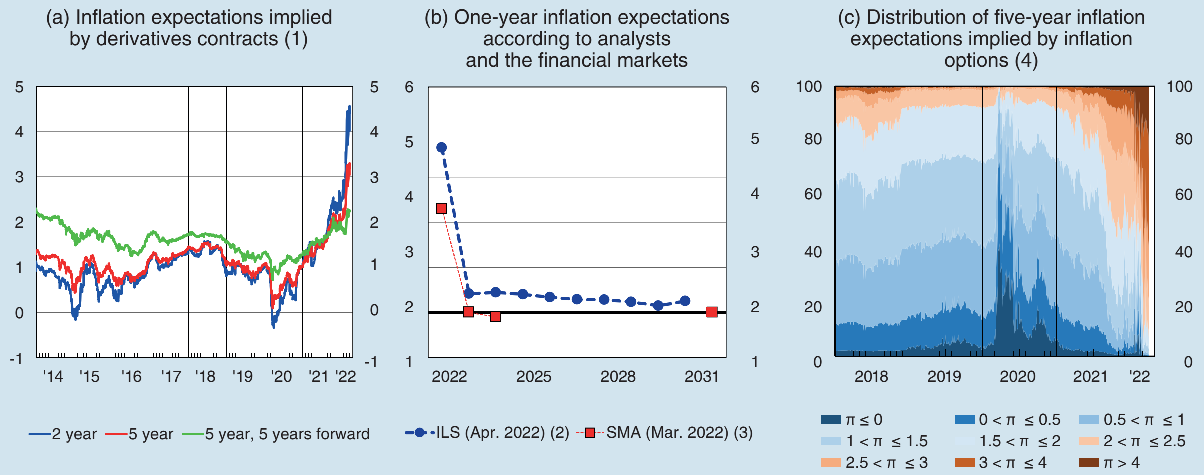
Sources: Based on Eurostat and ECB data.
(1) Twelve-month percentage change in the HICP. For March, preliminary estimates.

Short-term inflation expectations rise sharply ...

Inflation expectations have risen markedly over short-term horizons following the further rise in commodity prices. On 1 April, the expectations implied by inflation-linked swaps (ILS) equalled 4.0 per cent over the two-year horizon (Figure 10.a) and 3.0 per cent over the five-year horizon (from 2.5 and 2.0 per cent respectively in mid-January). The five-year, five years forward expectations stood at just above 2 per cent. Based on the one-year inflation expectations implied by inflation swaps, price growth is likely to reach 5.7 per cent in 2022 and then fall sharply in 2023; this decline will continue in the following

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 swaps. – (2) One-year expected inflation rates implied by inflation-linked swaps (ILS) at various maturities. – (3) Median of the expectations of the respondents polled as part of the Survey of Monetary Analysts (SMA) conducted by the ECB from 21 to 24 February 2022. – (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.

years, gradually bringing inflation to around 2 per cent in the medium term (Figure 10.b). There are similar indications in the surveys: according to the experts interviewed in the Survey of Monetary Analysts (SMA), conducted by the ECB before the war began, inflation is likely to reach 4.3 per cent in 2022 and return to its target in 2023. The marked increase in short-term inflation expectations significantly raised, to about 80 per cent in early April, the probability based on option prices that inflation will be between 2.0 and 4.0 per cent on average in the years 2022-26; the probability of inflation being even higher has remained essentially stable (around 15 per cent; Figure 10.c).

The ECB Governing Council revises the purchase schedule for its asset purchase programme ...

The ECB's Governing Council believes that the invasion of Ukraine will have significant repercussions for economic activity and inflation in the euro area; on 10 March, it announced that it will take whatever action is needed to guarantee price stability and preserve financial stability. The Council has revised the purchase schedule for the APP for the next few months: net monthly purchases will total €40 billion in April, €30 billion in May and €20 billion in June. In addition, their calibration for the third quarter will be guided by how the macroeconomic situation unfolds: if new data confirm the consolidation of the medium-term inflation outlook even without these purchases, the Council will end them in that quarter. If the outlook changes, however, or if financial conditions become inconsistent with further progress towards the 2 per cent target, the Council stands ready to revise its schedule for net asset purchases in terms of size and/or duration.

... and announces that any adjustments to the key interest rates will be gradual

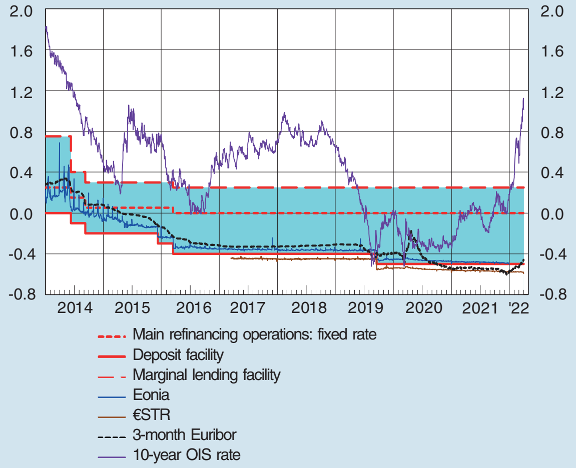
The Governing Council has also announced that any changes to the key ECB interest rates will take place some time after the end of its net purchases under the APP and will be gradual. The condition expected by the Council is that the progress made in underlying inflation is consistent with inflation stabilizing at 2 per cent over the medium term (Figure 11).

Lastly, the Council confirmed the decisions announced previously regarding the other monetary policy measures and has reiterated that, within its mandate, flexibility will remain an integral part of monetary policy if threats to its transmission jeopardize the attainment of the price stability objective. Specifically, it reiterated that in the event of further fragmentation of financial markets linked to the pandemic, it will be possible to adjust reinvestments at any time under the pandemic emergency purchase programme (PEPP) and flexibly across time, asset classes and jurisdictions. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks linked to the pandemic.

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 and until its discontinuation at the end of 2021, the Eonia was calculated as the €STR plus a fixed spread of 8.5 basis points.

Net asset purchases of public and private sector securities under the APP continued regularly, and at the end of March, their book value stood at €3,179 billion (Table 4). Those purchased under the PEPP brought the total book value of the portfolio of securities purchased under this programme to €1,696 billion.

The tenth and last auction in the third series of targeted longer-term refinancing operations (TLTRO III) was settled last December. On that date, the total value of the funds disbursed under TLTRO III was €2,198 billion for the euro area and €452 billion for Italy. Following the voluntary repayments made on 30 March, this figure fell to €2,196 billion for the euro area and remained essentially unchanged for Italy. The first TLTRO III operation will mature 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.

Growth in lending remains strong

After the marked strengthening observed last December, the increase in lending to euro-area non-financial corporations reached an annualized quarterly rate of 7.8 per cent in February, from 5.7 per cent in November (data adjusted for

Table 4

Securities held in the Eurosystem under the APP and the PEPP

(billions of euros)

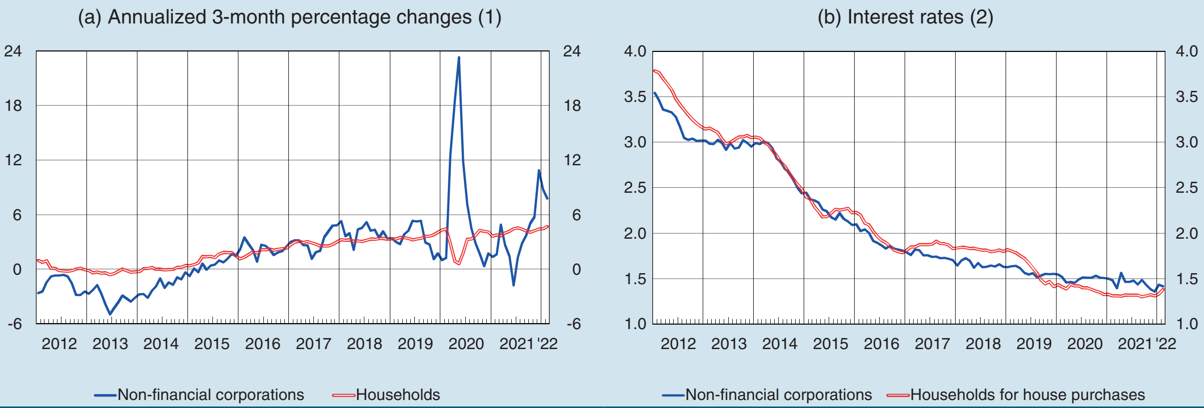
	Total securities (1)	Private sector securities (1)	Public sector securities (1)	of which: Italian public sector securities (2)	of which: Italian public sector securities purchased by the Bank of Italy (2)
APP					
December 2021	3,123	636	2,487	429	386
March 2022	3,179	653	2,526	441	397
PEPP (3)					
November 2021	1,536	50	1,486	251	225
March 2022	1,696	52	1,644	281	251

Sources: ECB and Bank of Italy

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

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.

seasonal factors and the accounting effect of securitizations; Figure 12.a). Growth in lending increased in all the main countries, standing at 10.4 per cent in Germany, 8.6 per cent in France, 5.6 per cent in Spain and 2.4 per cent in Italy (see Section 2.7). Growth in lending to households for house purchase rose to 4.7 per cent on average in the euro area, from 4.2 per cent in November.

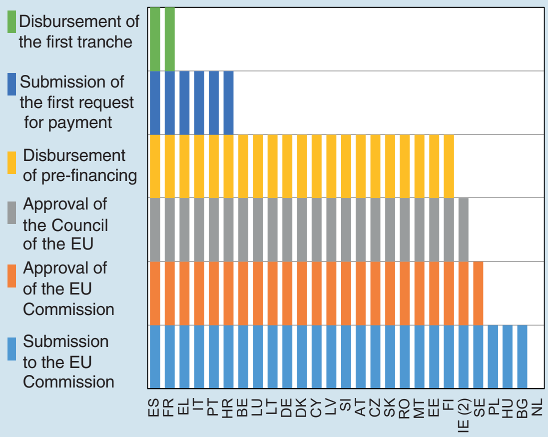
Between November and February, the interest rates on new loans to non-financial corporations remained unchanged, at 1.4 per cent (Figure 12.b), while the cost of loans to households for house purchase rose by around 0.1 per cent, to 1.4 per cent.

The Next Generation EU programme makes further progress

Under the Recovery and Resilience Facility (the main instrument of the Next Generation EU programme), the assessments of the achievement of the targets and objectives set by the national plans for the disbursement of the first tranche of funding are continuing. In the early months of this year, the European Commission approved the requests for payment submitted by France, Greece, Italy (see *Economic Bulletin*, 1, 2022) and Portugal[2]

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 the European Commission.
(1) Updated to 4 April 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. For the country codes, see the European Union's *Interinstitutional style guide*. – (2) Ireland did not request pre-financing of the funds allocated.

2 In January, Portugal sent the European Commission its request for payment of the first tranche (around €1.2 billion) of the funds envisaged in its plan.

(Figure 13). Having obtained the favourable opinion of the Economic and Financial Committee, France received the allocated funds (€7.4 billion). Italy's funds are expected to be disbursed this month (see Section 2.9).

The funds allocated by the Commission under the Recovery and Resilience Facility amount to €74 billion so far, of which more than €56 billion disbursed in the form of pre-financing. To this end, securities worth almost €50 billion have been issued since the start of the year, €28.5 billion of which are long-term bonds (in 2021, gross issues amounted to just under €96 billion, of which €71 billion were long-term securities).

1.3 GLOBAL FINANCIAL MARKETS

The invasion of Ukraine and the ensuing increase in investors' risk aversion led to significant falls in share prices, though to varying degrees across countries, which had been reabsorbed almost everywhere by the end of March. The conflict has only temporarily interrupted the rise in yields on long-term public sector bonds observed since the beginning of the year; this increase continues to broadly reflect the monetary policy decisions of the leading central banks and the expectations regarding such choices. The euro has further depreciated against the dollar, mirroring both the expectations of a more restrictive monetary policy in the United States and the euro area's greater vulnerability to the possible consequences of the war.

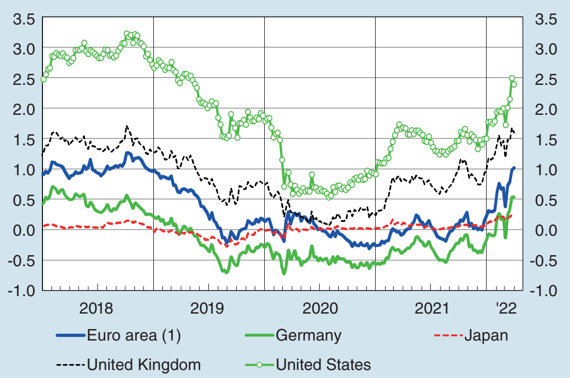
Yields on long-term securities increase

Despite the temporary reduction linked to the start of the conflict, the yields on ten-year public sector securities rose overall for the main advanced economies compared with mid-January (Figure 14). The yield spreads between euro-area countries and Germany have also widened, standing at much higher levels at the end of March than those observed on average in 2021, especially for Greece and Italy (Figure 15).

Figure 14

Yields on 10-year government bonds

(end-of-week data; per cent)

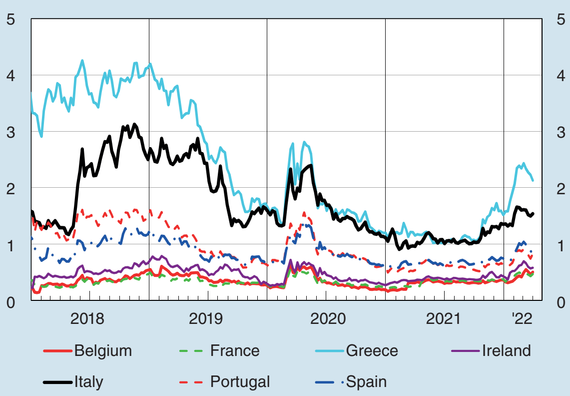


Source: Based on Refinitiv data.
(1) Average yields, weighted by 2019 GDP at chain-linked prices, of the 10-year benchmark government securities of the euro-area countries, excluding Cyprus, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia.

Figure 15

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

(end-of-week data; percentage points)

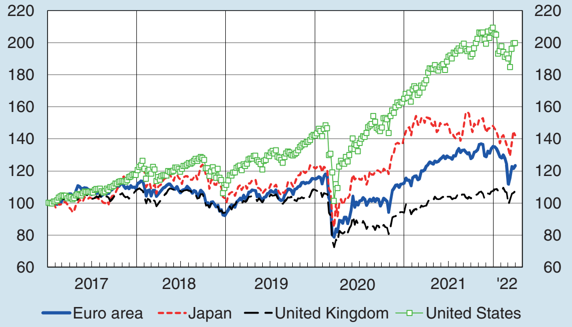


Source: Based on Bloomberg data.

Figure 16

Equity prices (1)

(end-of-week data)

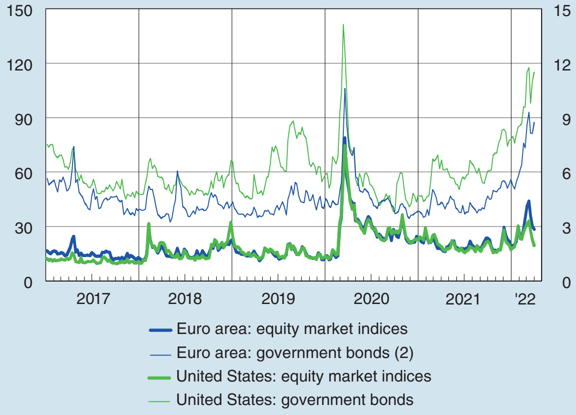


Source: Refinitiv.
(1) Indices: Dow Jones Euro STOXX for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States. Index: 1st week of January 2017=100.

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. – (2) Right-hand scale.

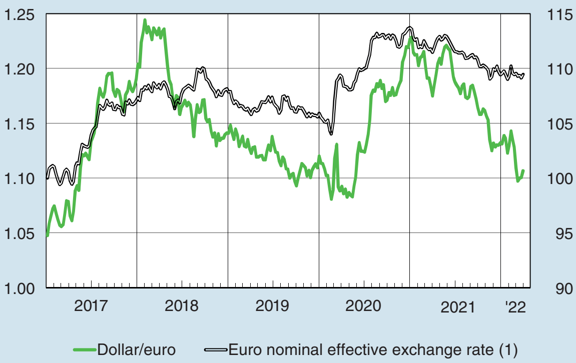
The invasion of Ukraine increases volatility in financial markets

The invasion of Ukraine initially led to a widespread fall in share prices in the main advanced countries (Figure 16), particularly in the euro area, which is more integrated with the Russian economy (see the box 'The invasion of Ukraine: sanctions on Russia and effects on the financial markets and international trade'). More recently, share prices have made a recovery overall. In the United States and the euro area, the implied volatility of futures linked to government securities recorded higher rises than the volatility of share prices (Figure 17). The prices of commodities and of financial assets linked to them have recorded considerable and widespread increases since the conflict broke out, only partly reabsorbed in the second half of March. As well as natural gas and oil (see Section 1.1), the increase affected some agricultural and metal products. As regards the nickel market, trade on London's main market was temporarily suspended in March, following the extraordinary increase in prices because of the sudden closure of some significant short positions held by a single operator. The marked volatility in commodity prices made it more difficult for some firms to raise the liquidity necessary to continue operating, thereby exacerbating trading tensions.

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.

The euro exchange rate depreciates

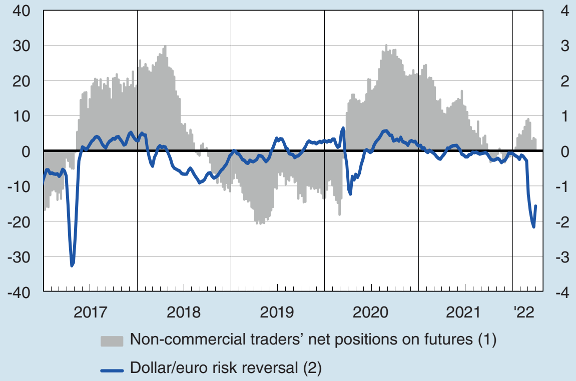
Since mid-January and despite a volatile performance, the euro has depreciated by over 3 per cent against the dollar, largely reflecting the expectations of a relatively more restrictive monetary policy in the United

States, as well as a greater vulnerability of the euro area to the possible consequences of the war (Figure 18). The indicators derived from the financial markets indicate that the cost of hedging against a significant depreciation of the euro has become higher than that of hedging against an appreciation (Figure 19).

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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

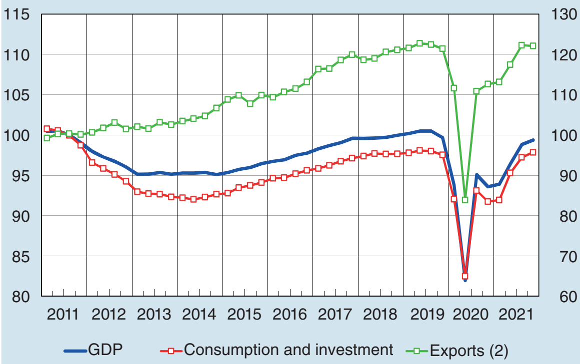
Growth in the Italian economy lost momentum in late 2021, held back by sluggish household consumption and the negative contribution of net foreign demand. According to the available indicators, GDP fell in the first quarter of this year, owing to the resurgence in the number of COVID cases and the further, sharp rises in the prices of energy products, against a cyclical backdrop of heightened uncertainty stemming from the developments of the invasion of Ukraine.

GDP slows sharply in the fourth quarter of 2021 ...

In the fourth quarter of 2021, GDP expanded by 0.6 per cent, compared with 2.5 per cent in the third quarter (Figure 20 and Table 5). The slowdown reflected the halt in the rise in consumption and the strong increase in imports, while exports were stable. Fixed investment and the change in stocks instead made a positive contribution. Value added grew moderately in services and in industry excluding construction while it continued to rise sharply in construction.

Figure 20

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



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

Table 5

GDP and its main components (1)
(percentage changes on previous period and percentage points)

	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021
GDP	0.3	2.7	2.5	0.6	6.6
Total imports	3.8	2.8	2.1	3.6	14.2
National demand (2)	1.2	2.4	1.9	1.7	6.6
National consumption	-0.8	3.8	2.1	0.1	4.0
Household spending (3)	-1.1	5.3	2.8	-0.1	5.2
General government spending	0.0	-0.4	-0.1	0.5	0.6
Gross fixed investment	4.4	3.1	1.8	2.8	17.0
Construction	5.5	4.0	2.4	3.8	22.3
Capital goods (4)	3.5	2.4	1.2	1.9	12.6
Change in stocks (5)	0.9	-1.2	-0.2	1.0	0.2
Exports of goods and services	0.5	3.8	4.1	-0.2	13.3
Net exports (6)	-0.9	0.4	0.7	-1.0	0.2

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

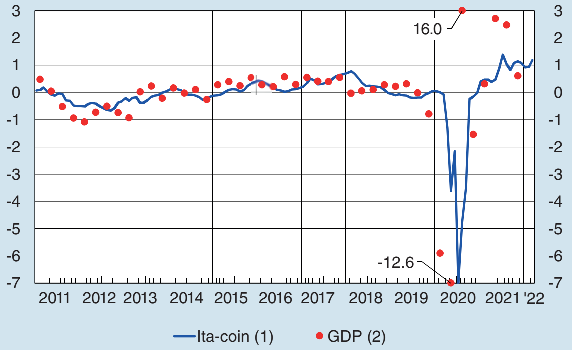
... and falls in the first quarter of this year

Based on the latest indicators, we estimate that GDP fell by just over 0.5 percentage points in the first quarter of 2022 compared with the previous period (see the box 'Economic activity in the first quarter of 2022'). The cyclical indicators available so far indicate a decline in activity in both manufacturing and services. In the latter, the reduction appears linked above all to the weakening in household spending. The purchasing managers' indices (PMIs) for manufacturing and services decreased compared with the end of 2021, though they remained high in March. The confidence surveys conducted in March, the first carried out since the invasion of Ukraine, point to a sharp worsening for consumers, especially going forward, but to overall stability for businesses. The Ita-coin indicator also improved slightly in the same month and was virtually unchanged in the first quarter on average compared with the fourth quarter of 2021 (Figure 21). Looking ahead, the conflict in Ukraine could impact Italy's GDP through different channels (see the box 'The impact of the war in Ukraine on the Italian economy: illustrative scenarios').

Figure 21

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

(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 data sample 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 FIRST QUARTER OF 2022

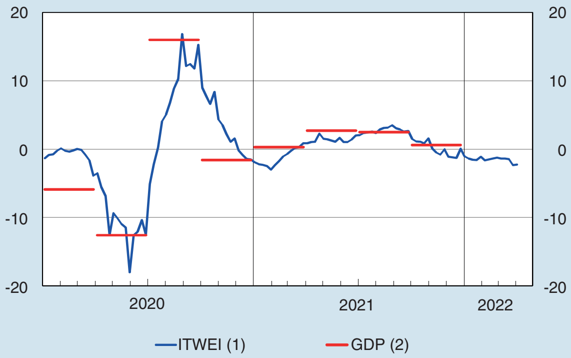
At the start of the year, economic activity was affected by the rise in new cases of the Omicron variant, the spike in energy costs and, from the end of February onwards, the repercussions of Russia's invasion of Ukraine. Based on the set of models used by the Bank of Italy, it is estimated that GDP declined by 0.7 per cent on the previous quarter, with a degree of uncertainty quantifiable in half a percentage point above and below the central projection. Value added is estimated to be declining in industry excluding construction, and in services, but increasing in construction.

In the first quarter overall, the Italian weekly economic index (ITWEI; Figure A)[1] recorded a drop in GDP in the order of 2 percentage points on the previous quarter, primarily reflecting the sharp decline in gas consumption for industrial use. In the current phase, however, this data should be interpreted with particular caution (Figure B). More generally, in the present context of deep uncertainty over short-term developments, the confidence bands around the central value of the indicator are especially broad, also owing to the high volatility of the weekly data.

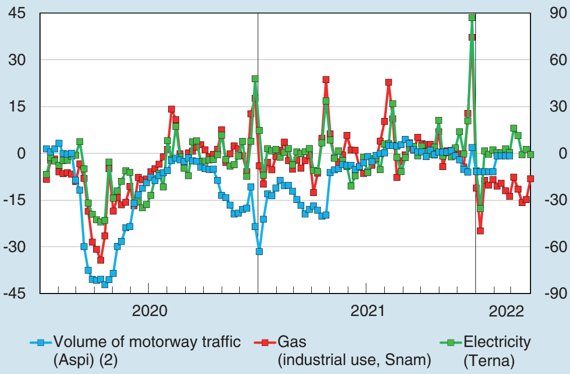
Taking into account the figures available up to January and our estimates for February and March, in the first quarter, industrial production fell by around 2 per cent on the previous period, recording its first substantial decline since the spring of 2020. According to firms, the falloff in activity reflects heightened uncertainty, international trade tensions, and the increase in energy

[1] The indicator monitors GDP growth by including a broad dataset, comprising high-frequency data on payment flows and motorway haulage, as well as on the consumption of electricity and 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.

Figure A	Figure B
Italian weekly economic index (ITWEI) *(weekly and quarterly data; percentage changes)*	**High frequency cyclical indicators** (1) *(weekly data; percentage changes)*



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



Sources: Based on data from Autostrade per l'Italia (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 week of 20 April 2020 and that of 4 April 2021 reflect the Easter break; those for the last week of 2021 reflect a greater number of working days in 2021 compared with the reference year (2019) due to the Christmas vacations. – (2) Right-hand scale.

prices (see the box 'Italian firms' assessments according to the quarterly Survey on Inflation and Growth Expectations').

Since last December, the services sector was impacted by the rise in new cases of COVID-19, which weakened confidence, especially in the tourism and transport sectors, and led to a fall in the PMI index. Although the indicator rose to higher levels than in January in the two months February-March, on average over the first quarter, activity in services is estimated to have declined compared with the fourth quarter of 2021.

In the same period, the indications relative to the construction sector appear, by contrast, to be very positive, as it continues to benefit from government incentives: production, valued in terms of moving averages, rose by 4.0 per cent in January. The confidence of firms operating in the sector hit its highest level in March since the series began in 2000.

THE IMPACT OF THE WAR IN UKRAINE ON THE ITALIAN ECONOMY: ILLUSTRATIVE SCENARIOS

Assessing the economic consequences of the war in Ukraine is subject to a high degree of uncertainty. Using the Bank of Italy's econometric model[1] we can assess macroeconomic scenarios illustrating how the conflict might unfold and the related impact on commodity prices, foreign trade, uncertainty and confidence among households and firms, and the availability of energy inputs for production.[2] These scenarios illustrate the potential repercussions of the current crisis,

1 G. Bulligan, F. Busetti, M. Caivano, P. Cova, D. Fantino, A. Locarno and L. Rodano, 'The Bank of Italy econometric model: an update of the main equations and model elasticities', Banca d'Italia, Temi di Discussione (Working Papers), 1130, 2017.
2 These scenarios do not consider possible tensions on financial markets, which are difficult to quantify based on the available information, also owing to the marked volatility of the main indicators in recent weeks (see Sections 1.3 and 2.8).

but do not estimate the most likely course of the Italian economy in the years to come; the scenarios outlined here cannot therefore be interpreted as an update of the projections for Italy.

All the scenarios take account of the latest information on consumer price developments, economic activity and, in particular, GDP estimates for the first quarter of the year (see the box 'Economic activity in the first quarter of 2022'). They also incorporate the effects of budgetary policy measures already adopted to counter higher commodity prices and those of future interest rate developments that can be inferred from the recent performance of the financial markets. They do not take account of possible future economic policy responses.

In a first, more favourable, scenario (A), it is hypothesized that a rapid resolution of the conflict would significantly ease the tensions that are currently keeping commodity prices high, helping to reduce uncertainty and bolster confidence. From mid-2022, gas and oil prices are expected to return to the levels anticipated at the start of January, cancelling the increases implicit in current futures prices and equal to around 40 percentage points in 2022 and 50 percentage points in 2023 for gas and to around 30 and 20 per cent respectively for oil. The performance of international trade is assumed to be in line with the baseline trend of the euro-area macroeconomic projections formulated by ECB staff in March.[3] In this scenario, GDP would increase by 3.0 per cent this year and by 3.1 per cent in 2023 (see the figure). Inflation would reach 4.0 per cent in 2022 and would fall to 1.8 per cent in 2023. Compared with the projections formulated in last January's *Economic Bulletin*, GDP growth would be almost 1 percentage point lower this year, owing above all to the worse than expected performance in the first quarter, reflecting only in part the developments following the outbreak of war; growth would instead be more than half a percentage point higher in 2023. Inflation would be 0.5 points higher in 2022 and 0.2 points higher in 2023.

A second, intermediate, scenario (B) is formulated by assuming a protraction of the war. The technical hypotheses related to the prices of commodities are inferred from futures contracts in the ten working days prior to 1 April.[4] It is further assumed that the repercussions of the protraction of the war on trade with Russia and Ukraine compress foreign demand for Italian goods and services in the next two years by around 1 per cent. They also incorporate a deterioration in confidence and an increase in uncertainty, which are nonetheless assumed to be of relatively short duration, ending by the beginning of next year. In this scenario, GDP growth in Italy would equal 2.2 per cent in 2022 and 1.8 per cent in 2023. Inflation would rise to 5.6 per cent this year and to 2.2 per cent in the following year. Compared with last January's projections, GDP growth would therefore be 1.6 percentage points lower in 2022 and 0.7 points lower in 2023. Apart from the worse than expected performance in the first quarter of this year, the reduction in growth is mostly ascribable to the effects of increases in commodity prices; higher inflation would reflect these prices almost entirely.

A third, more severe, scenario (C) hypothesizes that the hostilities not only become protracted – as in Scenario B – but also get worse, resulting in gas shortages for Italy after Russia cuts off supplies for one year starting in May. For example, it is posited that the suspension, offset in part by recourse to other suppliers, translates into a reduction of around 10 per cent of production in the electricity, gas, steam and air conditioning sectors;[5] it is further hypothesized that this generates

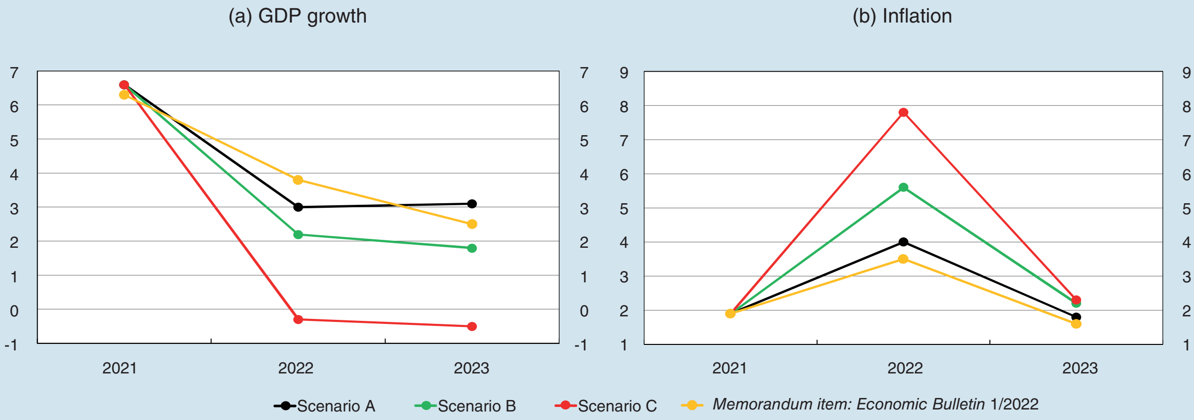
[3] For more information, see the ECB's website 'ECB staff macroeconomic projections for the euro area', March 2022.

[4] These posit a return of prices to levels close to the averages at the start of January no sooner than the second half of 2023. Compared with what can be inferred from the trends at the start of this year, the natural gas prices incorporated in this scenario are around 40 and 50 per cent higher in 2022 and 2023 respectively, around 30 and 20 per cent higher for oil.

[5] This hypothesis is comparable with a total interruption of gas imports from Russia, which is addressed in the near term by recourse to other suppliers and national extraction to offset, on average over the year considered, around two fifths of the shortfalls in gas from Russia (see the box 'Commercial and financial relations between Italy and Russia').

Figure

GDP growth and inflation: illustrative scenarios
(percentage points)



bottlenecks for energy-intensive manufacturing.[6] The resulting constraints on production would reduce the total value added of the economy by around 1.5 percentage points. Aside from this direct hit on production, there would be indirect effects linked to lower demand by downstream sectors and a fall in employment, income and aggregate demand. The lower availability of gas would likely also lead to a marked worsening of the impact attributable to the other channels of transmission. It is assumed, in particular, that natural gas prices reach higher levels than those recorded at the start of January: 130 percentage points higher in 2022 and around 90 points higher in 2023; the rise in oil prices would amount to around 40 and 30 points, respectively.[7] It is further assumed that the continuation of the war is associated with a sharp increase in uncertainty and drops in confidence among consumers and firms similar to the levels recorded in the gravest recessionary periods of late. Further negative effects would stem from the fallout of the conflict on international trade (see the box 'The invasion of Ukraine: sanctions on Russia and effects on the financial markets and international trade', Chapter 1). The scenario incorporates, in particular, a drop in foreign demand for Italian goods of around 2.5 percentage points in the two years 2022-23.[8] In this scenario, GDP would decline by almost half of a percentage point both this year and the next. Compared with the projections published in January's *Economic Bulletin*, GDP growth would therefore be 7 percentage points lower overall in the two years 2022-23. Inflation would rise to close to 8.0 per cent in 2022 and fall to 2.3 per cent in 2023.

6 Energy intensity is calculated, for each sector – in accordance with Istat's environmental accounts – as the ratio of total consumption of energy to value added. In 2019, manufacturing activity with greater energy intensity than the sector average accounted for a share of total national value added equal to around 2.5 per cent (4.5 per cent, including the energy, mining and quarrying sectors). Energy-intensive manufacturing includes metal working, chemicals and the processing of non-metal ores.

7 These trends are consistent with the prices of futures contracts recorded during the days in which prices peaked since the outbreak of the conflict (7 March 2022 for gas and 8 March for oil).

8 The reduction reflects both the direct impact of a contraction in demand from Russia and Ukraine, estimated in the order of 50 per cent, and a more general slowdown in global output and world trade, following the exceptional increases in commodity prices and the effects that the conflict could have on economic activity and on demand for Italian goods and services in the other euro-area countries; these effects are commensurate with the impact of the war on GDP in the euro area that can be inferred from the alternative scenarios prepared by the ECB experts, assuming an elasticity of imports in the euro area to GDP equal to 2.

In the current, highly uncertain, context, it is not possible to rule out even more unfavourable scenarios. Moreover, the repercussions of the conflict on the Italian economy will depend to a great extent on the economic policies that can be adopted to counter recessionary triggers and halt the pressures on prices highlighted in the scenarios outlined here.

2.2 FIRMS

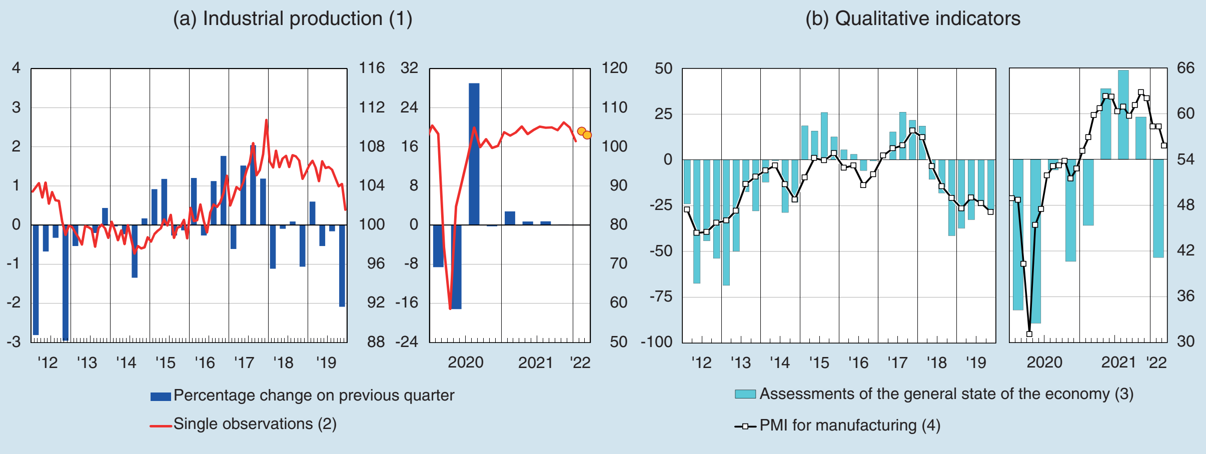
Industrial activity decreased in the first quarter as a whole, to levels that are slightly lower than those recorded before the pandemic. Following the upswing at the end of last year, firms believe that investment will likely continue to grow over the course of 2022, though at a slower pace. Conditions on the real estate market remain favourable.

Industrial production declines in the first quarter ...

In January, industrial production fell sharply (-3.4 per cent on the previous month, from -1.1 per cent in December), far more than the leading forecasters had expected; this was due to stronger than anticipated calendar effects linked to the early January holidays, as considerable rises in input prices led some firms to prolong more than usual the temporary closure of their business. The fall in production was widespread across all the main sectors; it was associated with a sizeable deterioration in the outlook for the sectors most exposed to the rises in energy prices, which include metal working, chemicals and the processing of non-metal ores. Difficulties in the procurement of other commodities and intermediate goods also play a role. Based on our estimates (see the box ‘Economic activity in the first quarter of 2022’), industrial production declined by about 2 percentage points in the first quarter as a whole (it had grown by 0.2 percentage points in the final quarter of last year; Figure 22).

Figure 22

Industrial production and qualitative indicators
(monthly and quarterly data)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data seasonally and calendar adjusted. For graphic design reasons, the scale used for plotting the data referring to 2020 and subsequent years is different from that used for the previous years. – (2) Monthly data. Index: 2015=100. The yellow dots are the forecast figures for February and March 2022. 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, 7 April 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’ foreign orders to the percentage of replies of ‘increasing’. Right-hand scale.

... and investment growth weakens

Investment expenditure accelerated in the fourth quarter of 2021 (to 2.8 per cent compared with the previous period, from 1.8 per cent), driven by both construction and spending on plant and machinery. Nevertheless, the latest indicators suggest a weakening in capital accumulation in the early months of the year. According to calculations based on data from Assilea, the Italian leasing association, the value of lease financing contracts for industrial vehicles fell in January and February, while a slight increase was recorded for capital goods. Firms' assessments point to a sharp deterioration in investment conditions across all sectors, though their plans continue to suggest an expansion in fixed investment expenditure for this year, albeit at a slower pace than that indicated in the previous survey (see the box 'Italian firms' assessments according to the quarterly Survey on Inflation and Growth Expectations').

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

Between 23 February and 16 March, 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, 7 April 2022).

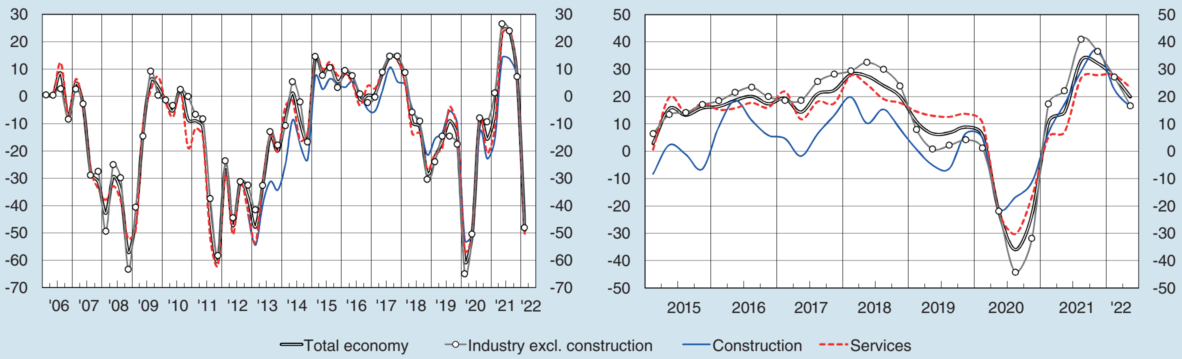
Firms' assessments of the general state of the economy have worsened considerably compared with the previous quarter, above all as a result of the conflict in Ukraine. The balance of expectations of an improvement and those of a deterioration in operating conditions in the quarter following the survey turned negative (-33 percentage points compared with +10 points in the previous quarter). Firms reported that, compared with last December's survey, political and economic uncertainty, the rise in oil prices, international trade tensions, and a weakening in demand for their own goods or services weighed far more heavily on their businesses. In line with the previous survey, around two thirds of manufacturing firms and one third of service firms reported difficulties in procuring commodities and intermediate inputs and, for more than half of them (compared with 14 per cent in the previous survey), these restrictions will continue beyond 2022. Almost all firms have also been hit by the rise in energy prices (86 per cent, compared with 70 per cent in the previous quarter) and just under three quarters of the firms affected considered that the increase in these costs will be reflected, at least in part, in their selling prices.

Assessments of demand also deteriorated noticeably in the first quarter. The balance between those of an improvement and those of a deterioration remained positive but narrowed by 26 points (to 9 points). This narrowing occurred in similar measure all across the main sectors of economic activity. The balance remains, however, different for each of them: it is still very favourable in construction and in industry excluding construction (31 and 19 points), while it has been all but wiped out in services, plausibly because of the sharp rise in new cases of COVID-19 since the end of last year. Expectations for the current quarter indicate a further slowing of demand, for both the domestic and foreign components. Demand in the construction sector has weakened less, especially in those companies that work mainly in the residential segment.

Assessments of investment conditions have worsened compared with last quarter: the balance between opinions indicating an improvement or a deterioration fell from +7 to -49 points, in similar measure for the manufacturing and service sectors, and for large companies and small to medium-sized enterprises. Additional data collected by the Bank of Italy's branches through informal contacts with firms indicate that investment conditions may have worsened in the northern regions of Italy in particular. Nevertheless, the quarterly survey indicates that, for now, firms have not significantly revised their investment plans for this year. Compared with plans made in December, there has only been a modest

Figure

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



Source: Survey on Inflation and Growth Expectations, Banca d'Italia, Statistics Series, 7 April 2022.
(1) Balance between positive and negative assessments compared with the previous quarter. Construction firms have been included in 'Total economy' starting since 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 fourth quarter of the preceding year.

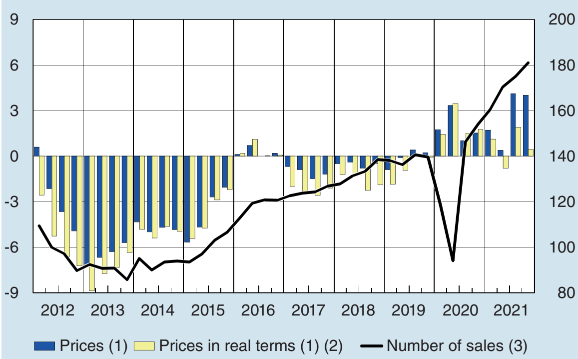
downward revision of expenditure. Overall, the share of firms that intend to increase investment in 2022 compared with 2021 fell from 42 per cent to 38 per cent, while the share of those who plan a reduction rose from 15 per cent to 18 per cent. Between the second half of 2021 and the current half-year, there has also been a slight weakening of expectations regarding spending on capital goods.

The outlook for the real estate market remains favourable

Growth in residential property sales continued in the fourth quarter of 2021 (3.4 per cent on the previous period; Figure 23), a trend under way since the third quarter of 2020. In 2021 as a whole, house sales grew by 34 and 24 per cent compared with 2020 and 2019, respectively. In the early months of 2022, based on the listings posted on the Immobiliare.it online platform, demand for residential properties remained strong. House prices, for both new and existing housing, rose by 4 per cent in the fourth quarter of 2021 and by 2.5 per cent in the year as a whole, recording their highest growth since 2010 (the first year for which the relevant Istat data are available). According to the Italian Housing Market Survey conducted in January and February on a sample of real estate agents, the outlook for the domestic market remains favourable, though it has worsened slightly compared with the previous quarter; indications of a rise in house prices have gathered further momentum.

Figure 23

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



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

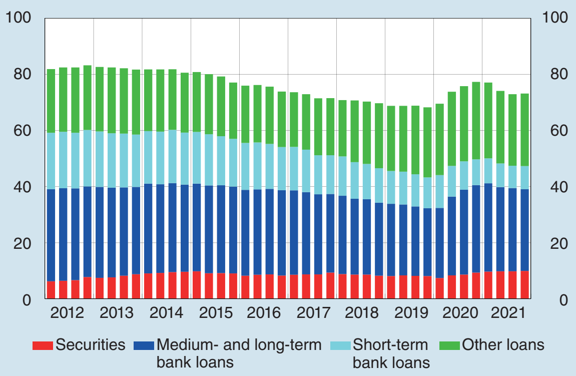
Firms' debt holds stable

Based on provisional data, after falling in the two previous quarters, the debt of Italian non-financial corporations held largely stable in the fourth quarter of 2021, at 73.1 per cent of GDP (compared with 110.5 per cent in the euro area; Figure 24). The liquidity held by firms on deposit and current accounts remains high, though below the peaks recorded during 2020 (see Section 2.7).

Figure 24

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 income. The data for the last quarter are provisional.

2.3 HOUSEHOLDS

After stagnating in late 2021, consumption appears to have declined in early 2022. Likely contributory factors were the cautious spending behaviour of consumers in connection with the deterioration in the public health situation, the loss of purchasing power ascribable to the further rises in prices, as well as the worsening in the expectations relating to the general state of the economy and to personal finances. The fall in the propensity to save came to an end.

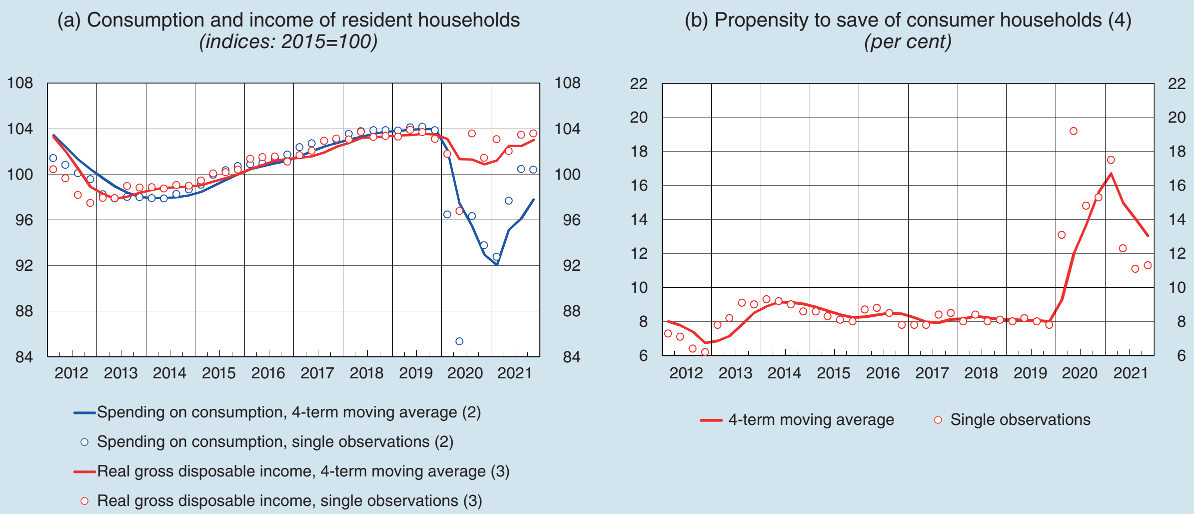
Stable consumption in the last quarter of 2021 ...

In the fourth quarter of 2021, the growth in household spending came to a halt (Figure 25.a), owing to the decline in the purchases of durable goods and services. Total consumption remained just above pre-pandemic levels for goods (0.7 per cent), while the negative gap widened for services (-7.4 per cent). Over the same period, the real disposable income of households rose slightly on the previous quarter, leading to a marginal increase in propensity to save, to 11.3 per cent, still above pre-pandemic levels (Figure 25.b).

Figure 25

Consumption, income and propensity to save (1)

(quarterly data)



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

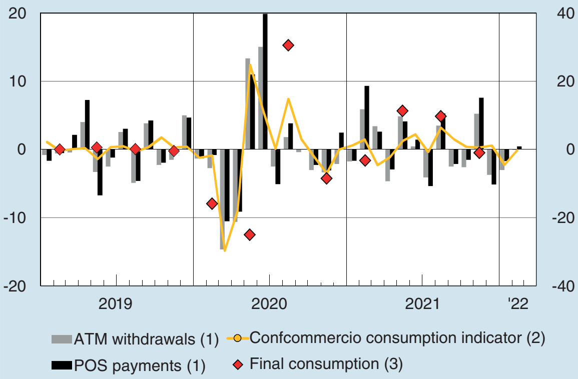
... is followed by a reduction in the early months of this year

Expenditure appears to have continued to weaken in early 2022. Confcommercio's consumption indicator and the high-frequency data on withdrawals and electronic payments recorded negative cyclical variations in the two-month period January-February on average (Figure 26), owing to the sharp contraction in spending on services, likely linked to the resurgence of the pandemic. New vehicle registrations declined further in the first quarter, continuing a trend underway since the autumn of 2020. Consumer confidence worsened sharply in March (Figure 27), reflecting the significant deterioration in the expectations relating to the general state of the economy as well as to personal finances. Owing to the different composition of the basket, rising energy prices are impacting households unevenly, hitting harder those with lower overall consumption levels; among the measures enacted by the Government on the energy front (see Section 2.9), the 'social bonus' for electricity and gas was expanded to support the purchasing power of the most vulnerable households, mitigating the overall impact of the price increase.

Figure 26

Consumption expenditure, ATM withdrawals and POS payment amounts

(monthly and quarterly data; percentage changes on previous period)

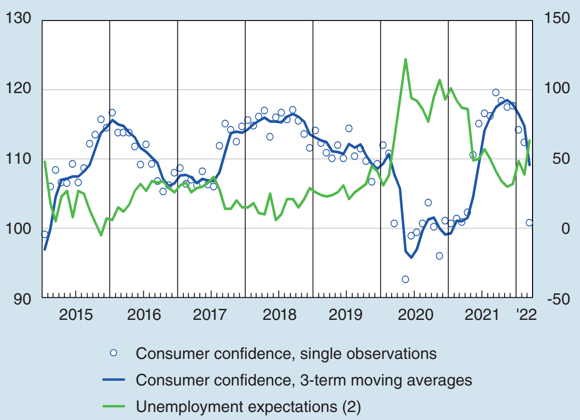


Sources: Based on data from the Bank of Italy, Confcommercio and Istat.
(1) Data obtained from the BI-COMP multilateral clearing system and deflated based on the harmonized index of consumer prices (HICP), net of energy products and seasonally adjusted; right-hand scale (for more details, see the Bank of Italy's website, 'BI-COMP and CABI: retail payments systems'). – (2) Data seasonally adjusted; right-hand scale. – (3) Final consumption expenditure of resident and non-resident households throughout the economic territory; chain-linked volumes; data adjusted for seasonal and calendar effects.

Figure 27

Consumer confidence (1)

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

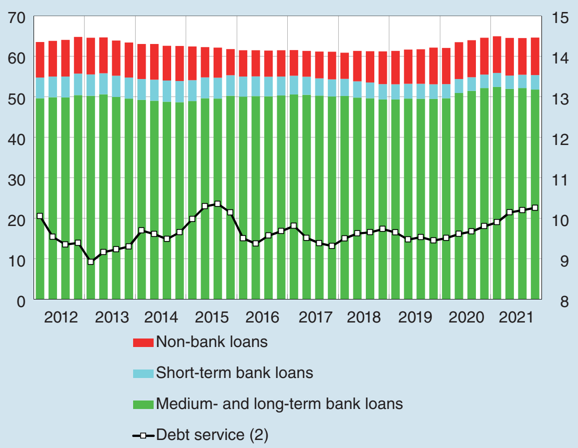


Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of data for April, the moving average for April, May and June 2020 is constructed on the basis of the only two observations available. – (2) Balance between the percentages of replies indicating 'an increase' and those indicating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

Figure 28

Household debt (1)

(quarterly data; per cent of gross disposable income)



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

Household debt remains stable

Based on provisional data, in the fourth quarter of 2021, household debt as a percentage of disposable income remained stable, at 64.6 per cent (Figure 28), still far below the euro-area average (98.1 per cent). Debt servicing costs (interest plus repayment of principal) increased slightly compared with the previous quarter, to 10.3 per cent. As a share of GDP, household debt was practically unchanged, at 43.6 per cent (60.1 per cent in the euro area).

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In the fourth quarter of 2021, the growth in Italian exports came to halt, while that in imports continued at a strong pace. Foreign sales started rising again in early 2022. In 2021 as a whole, the current account surplus was affected by the gradual worsening in the energy balance but it remained large. Last year, foreign investors made net purchases of private sector debt securities and reduced their exposure in terms of public sector securities. The positive net international investment position widened further.

Exports remain largely stable in the fourth quarter

The growth in the volume of exports of goods and services came to a standstill in the fourth quarter of 2021 (Table 6), interrupting the upward trend underway since mid-2020. Sales of goods decreased slightly, notwithstanding the recovery in world trade in late 2021: the increase in exports to euro-area markets did not fully offset the decrease in those to the rest of the world. At sectoral level, foreign sales grew above all for pharmaceuticals and to a lesser extent, the fashion industry. Conversely, exports decreased further in some sectors still exposed to supply-side bottlenecks (basic metals, mechanical machinery and electronics). In 2021 as a whole, Italy's foreign sales of goods increased more than those of its major European partners.

Following the exceptional growth during the summer linked to the recovery in international tourist flows, exports of services rose further in the fourth quarter – though less than in the previous quarter – despite the worsening in the COVID situation.

Table 6

Italy's imports and exports (1)
(year-on-year and quarterly percentage changes)

	2021	Q1	Q2	Q3	Q4
Exports	**13.3**	**0.5**	**3.8**	**4.1**	**-0.2**
Goods	13.1	0.9	3.5	..	-0.5
to euro-area markets	14.1	2.0	2.9	0.6	1.5
to non-euro area markets (2)	12.4	0.1	3.9	-0.5	-1.9
Services	14.3	-2.3	6.1	30.0	1.3
Imports	**14.2**	**3.8**	**2.8**	**2.1**	**3.6**
Goods	14.1	2.4	2.3	2.1	2.9
to euro-area markets	15.2	2.9	0.5	1.5	2.4
to non-euro area markets (2)	13.1	1.9	4.0	2.6	3.3
Services	14.8	10.6	4.6	2.2	6.7

Source: Based on Istat's national accounts and foreign trade data.
(1) Chain-linked volumes; raw annual data; 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.

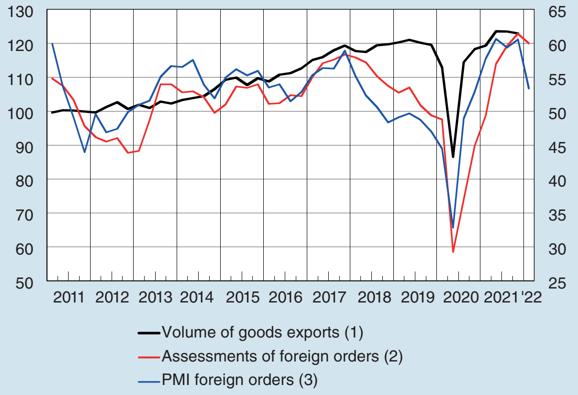
In line with developments in gross fixed investment and in stocks (see Section 2.1), imports of goods, especially from non-euro-area countries, continued to expand at a fast and pace; they grew above all for imports of energy commodities and of maritime navigation goods.

Exports of goods grow in early 2022

In January and February on average, the growth in the volume of exports of goods to non-EU countries rose compared with the previous quarter. In January, sales on EU markets had increased as well. In the first quarter of the year, manufacturing firms' assessments of foreign orders, as recorded by Istat, and the corresponding PMI worsened compared with the previous quarter, though they remain compatible with an expansion in sales (Figure 29). The outlook for trade, however, is affected by the heightened uncertainty linked to the possible repercussions of the conflict in Ukraine. Italy's exposure to Russia is limited on the export side, while its purchases of energy inputs and a number of commodities are significant (see the box 'Commercial and financial relations between Italy and Russia').

Figure 29

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

The current account surplus remains large in 2021, though the energy balance worsens

According to preliminary estimates, in 2021 the current account surplus was equal to €44.6 billion, amounting to 2.5 per cent of GDP (Table 7), marking a decrease compared with 2020. The considerable widening in the energy balance (which practically doubled owing to the price increases registered in the second half of the year; Figure 30) more than offset the increase in the surplus for the other goods.

COMMERCIAL AND FINANCIAL RELATIONS BETWEEN ITALY AND RUSSIA

Sales in Russia accounted for 1.5 per cent of Italy's total goods exports in 2021, valued at current prices and exchange rates (€7.7 billion; see the table). After machinery, which accounts for one quarter of sales, the most important products are in the fashion, chemical and food sectors; exports to Russia in these sectors are in any case below 2 per cent of turnover. Overall, almost 1,200 firms, mainly small and medium-sized, sell more than 10 per cent of their production on the Russian market.[1] Final demand in Russia absorbs a slightly higher share of value added produced in Italy than the average for the advanced economies, though in any case it remains limited (just over half a percentage point; see the box 'The invasion of Ukraine: sanctions on Russia and impact on the financial markets and international trade' in Section 1).

Exposure to Russia is instead greater as regards imports of goods (€17.6 billion in 2021, equal to 3.7 per cent of the total goods purchased by Italy), with a high concentration in energy products.

1 The number rises to 1,550 if Ukraine and Belarus are also included.

More than one fifth of Italian imports of energy commodities come from Russia; the share for natural gas alone exceeds 45 per cent.

According to Istat data for 2019, some 43 per cent of the natural gas imported by Italy's procurement markets overall is used directly for production purposes, 31 per cent for generating electricity and 24 per cent for domestic uses.[2] According to our preliminary estimates, any interruption in the natural gas flows from Russia could be offset by about two fifths by end-2022, without drawing on Italy's methane reserves and using solutions such as: (a) increasing imports of liquefied natural gas, especially from the United States and Qatar; (b) greater recourse to other suppliers, such as Algeria; and (c) increasing the extraction of natural gas from national gas fields. Just for the gas used for producing electricity,[3] the strategies that could be deployed include the reopening of coal-fired power stations, although this would mean a significant worsening in pollutant emissions. In the medium term, it would be possible to fully offset imports of Russian gas by investing more in renewable sources and stepping up imports from countries other than Russia (by means of gas pipelines and above all regasification plants).

Table

Commercial and financial links between Italy and Russia

(billions of euros; latest period available) (1)

Flows	Exports	Imports
Goods	7.7	17.6
of which: energy products	..	13.4
Services	0.8	0.5
Stocks	**Assets**	**Liabilities**
Direct investment	11.4	0.9
Portfolio investment	1.0	0.1
Other investment	7.0	3.7

Sources: Istat, foreign trade data; Eurostat, balance of payments data based on the international standards set out in the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6), 2009; IMF, *Coordinated Portfolio Investment Survey*, June 2021.
(1) Latest period available: 2021 for trade in goods and services; December 2021 for direct investments, portfolio investments (assets) and other investments; December 2020 for portfolio investments (liabilities).

As well as energy products, a significant share (above 10 per cent) of Italian imports of fertilizers, nickel and cereals also comes from Russia, Ukraine and Belarus, taken as an aggregate.

Trade in services with Russia is modest. In 2021, around one quarter of exports (equal to €0.8 billion) involved travel, and fees for the use of intellectual property accounted for over 10 per cent, while imports (€0.5 billion) were mainly attributable to transport and travel.

As regards financial links, Italy's exposure remains limited and reflects above all the presence of Italian firms' production activities in Russia. At the end of the fourth quarter of 2021, direct Italian investments in Russia equalled €11.3 billion, mainly in mechanical machinery, construction and the banking sector. Portfolio investment in securities from public or private Russian issuers amounted to just €1.0 billion. Other investments stood at €7.0 billion. On the liabilities side, Russian investments in Italy are very limited.

[2] The remaining 2 per cent is earmarked for stockpiling or export.
[3] Some 48 per cent of the electricity produced in Italy comes from natural gas, against an average of 20 per cent for EU countries.

The deficit in services also grew, particularly for transport services, which were affected by the rise in freight rates. In January, the further worsening in the energy balance compared with the same period one year earlier was a major contributing factor to the negative current account balance.

Foreign investors purchase Italian private sector debt securities

In 2021 as a whole, non-resident investors made net purchases of private sector debt securities amounting to €24.3 billion. Conversely, their exposure in Italian public sector securities decreased, following disposals equal to €27.5 billion, against net issues totalling €83.0 billion. Net sales of Italian public and private

Table 7

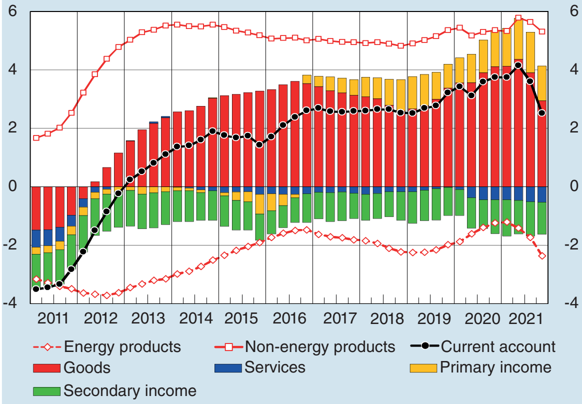
Balance of payments (1)
(balances; billions of euros)

	2020	2021	Jan. 2021	Jan. 2022
Current account	**62.1**	**44.6**	**0.9**	**-5.9**
Memorandum item: % of GDP	3.7	2.5		
Goods	68.2	52.2	2.1	-4.4
Non-energy products (2)	88.8	94.2	4.2	1.6
Energy products (2)	-20.5	-42.0	-2.2	-6.1
Services	-7.4	-9.4	-1.0	-1.2
Primary income	20.4	21.3	1.6	1.4
Secondary income	-19.1	-19.5	-1.8	-1.7
Capital account	**-0.7**	**-2.3**	**-0.4**	**-0.1**
Financial account	**62.7**	**26.3**	**2.9**	**-7.4**
Direct investment	19.1	2.8	1.6	-10.9
Portfolio investment	108.5	123.9	-8.6	28.7
Financial derivatives	-2.9	..	-0.4	-7.5
Other investment (3)	-65.9	-121.1	11.1	-17.7
Changes in official reserves (4)	4.0	20.7	-0.7	..
Errors and omissions	**1.3**	**-16.1**	**2.4**	**-1.4**

(1) Based on the international standards set out in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual*, Sixth Edition (BPM6), 2009. For January 2022, provisional data. – (2) Based on Istat 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.

Figure 30

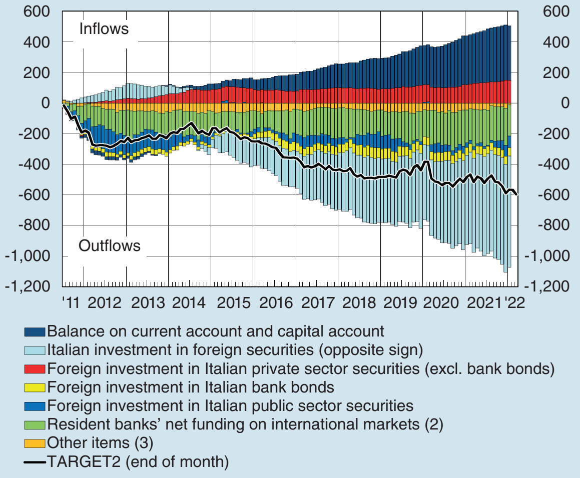
Current account balance and main components (1)
(quarterly data; per cent of GDP)



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

Figure 31

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



(1) Using the balance of payments accounting identity, an increase in the Bank of Italy's negative balance vis-à-vis the ECB in the TARGET2 payment system may reflect investment in Italy by non-residents (greater liabilities), residents' disposals of foreign assets (fewer assets) or a current account and capital account surplus. Cumulative 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.

sector securities were recorded in January. According to data from Emerging Portfolio Fund Research (EPFR) for a sample of international investment funds, between February and March, the net inflow of foreign savings towards Italian financial assets slowed for both the equity and the bond segments, against a backdrop of turbulence in the international financial markets (see Section 1.3).

On the asset side, residents continued to make net purchases of foreign portfolio securities, amounting to €123.9 billion in 2021 and €21.3 billion in January 2022 alone, mainly in foreign investment funds and above all by households and insurance companies. Last year, the public sector received inflows from abroad totalling €34 billion, due to the loans connected with the European Commission's instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and with the first tranche of funding envisaged by the Recovery and Resilience Facility.

The Bank of Italy's negative balance on the TARGET2 European payment system widened slightly in the first three months of 2022 as a whole, reaching €597 billion (from €590 billion at the end of last year; Figure 31).

At the end of 2021, Italy's net international investment position was positive by €132.0 billion (equal to 7.4 per cent of GDP), €22.8 billion higher than at the end of September. The increase was mainly ascribable to positive valuation adjustments on portfolio assets, especially equity and investment funds, and to a lesser degree to the current account surplus.

2.5 THE LABOUR MARKET

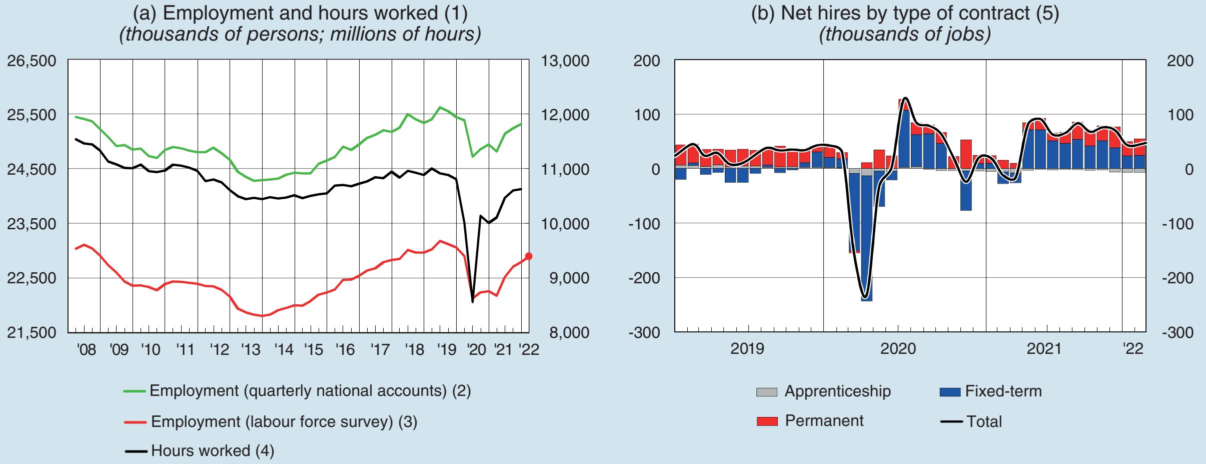
In the last quarter of 2021, the number of persons employed and that of hours worked continued to rise in cyclical terms, though at a slower pace than in the two previous quarters; the unemployment rate decreased slightly. While still positive, job growth likely slowed in the first two months of 2022. The recent rises in prices have not passed through to contractual wages, for which growth remains subdued.

The number of persons employed and of hours worked increase slightly in the fourth quarter

Last autumn, the growth in the number of persons employed continued at a pace similar to that of the third quarter (0.3 per cent, from 0.4 per cent), but lower than that of the second quarter (1.3 per cent; Figure 32.a). Growth was recorded in all the main sectors and was more pronounced in private services and in construction; it concerned both self-employed workers and payroll employees. The number of hours worked rose in line with the number of persons employed (0.2 per cent, from 1.3 and 3.5 per cent in the two previous quarters), but it is still 1.7 per cent lower than in the same period of 2019, prior to the outbreak of the pandemic (the number of persons employed is 0.5 per cent lower). Preliminary data from Istat's labour force survey suggest that in January and February the number of persons employed grew, though less so than in the previous two-month period.

Figure 32

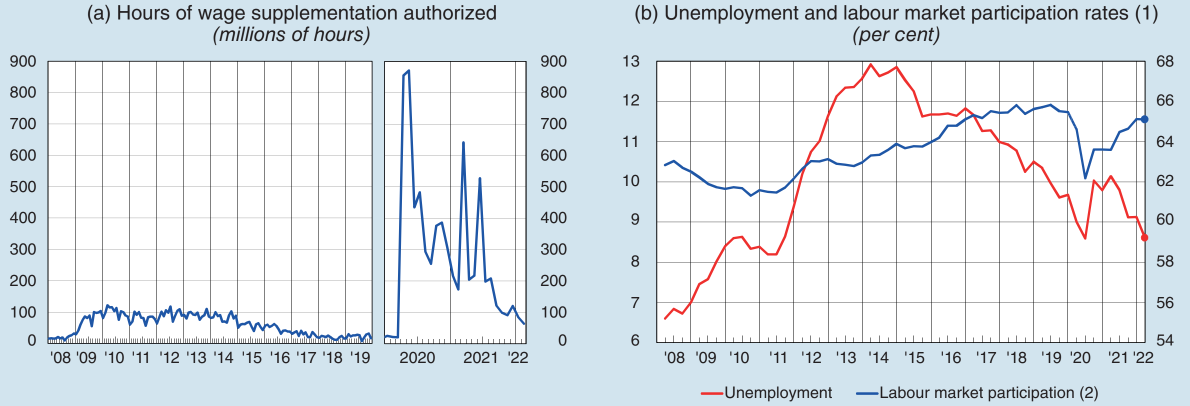
Total and payroll employment
(quarterly and monthly data)



Sources: Istat's quarterly national accounts for employment and hours worked; Istat's labour force survey for employment; based on data from the Ministry of Labour and Social Policies (mandatory reporting) for net hires.
(1) Seasonally adjusted data. – (2) Includes all persons engaged in production activity in the economic territory of the country. – (3) Includes all resident employed persons, excluding workers living permanently in an institution and military personnel. The point corresponding to Q1 2022 indicates the average value for the two-month period January-February, as the figure for March is not yet available. – (4) Right-hand scale. – (5) Monthly data, seasonally adjusted using TRAMO-SEATS. Net hires are calculated as the balance between total hires and total terminations in a given month. The following types of contract were analysed: permanent, fixed-term, and apprenticeships in the non-farm private sector.

Figure 33

Hours of wage supplementation authorized, unemployment and labour market participation
(monthly data and quarterly averages of monthly data)



Sources: Based on INPS data for wage supplementation schemes; Istat's labour force survey for the labour market participation and unemployment rates.
(1) Seasonally adjusted data. The dots corresponding to Q1 2022 indicate the average for the two-month period January-February, as the figure for March is not yet available. – (2) Right-hand scale.

The number of new permanent contracts continues to grow

About half of the new jobs created in the last quarter of 2021 and the first two months of 2022, net of terminations, were on permanent contracts (a monthly average of 30,000; Figure 32.b). As labour demand picked up again, stronger growth was recorded for both hires and terminations, the latter driven by resignations. The number of dismissals is gradually returning to pre-pandemic levels (see Ministry of Labour and Social Policies, Banca d'Italia and ANPAL, 'The labour market: data and analysis', March 2022.

Part of the recovery in hours worked is due to the decrease in the use of wage supplementation schemes, a trend that continued in the first two months of 2022 (Figure 33.a); however, the number of hours authorized appears to have increased in the most energy-intensive sectors. The unemployment rate, which had been decreasing in the last three quarters, fell by a further 0.4 percentage points in the first two months of the year (to 8.6 per cent) compared with the previous two months (Figure 33.b). According to preliminary data from Istat's labour force survey, labour supply continues to be negatively affected by population ageing (about 320,000 fewer people in the 15-64 age group between the fourth quarter of 2021 and the corresponding period of 2020).

Growth in contractual wages remains moderate

Growth in contractual wages in the non-farm private sector remained moderate in January and February (0.8 per cent compared with the same period of 2021; Figure 34). The share of private sector employees working in a sector for which the collective bargaining agreement has expired rose to 48 per cent in February, from 38 per cent at the end of 2021.[1]

In March, the collective bargaining agreement for the construction sector was renewed, providing for wage increases over the three years 2022-24 estimated in the order of 6 per cent, about 3 percentage points more than the latest forecasts published by Istat in June for the harmonized

[1] The main agreements currently being negotiated are those for retail trade (which expired in December 2019 and covers about 2 million employees) and for the electricity, gas and insurance sectors.

Figure 34

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

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

index of consumer prices (HICP), net of imported energy products.[2] The rise in contractual wages likely reflects the very positive performance of the sector in the last two years, as well as the will to partially compensate for the increases missed during the period during which no agreement was in force (the previous one had expired in September 2020). For the private sector as a whole, the pass-through of price tensions to labour costs appears limited, owing to both the long duration of the collective bargaining agreements and the fact that these agreements do not customarily provide for automatic mechanisms for making up any differences between the inflation rate expected at the date on which they are signed and that actually realized. Actual earnings have continued to rise in recent months at a moderate pace (1.3 per cent).[3]

2.6 PRICE DEVELOPMENTS

In the first quarter of 2022, inflation in Italy reached its highest level since the early 1990s, driven mainly by the exceptional increase in energy prices. The core component rose slightly, but is still below 2 per cent. Strong upward pressures on natural gas and oil prices connected with the invasion of Ukraine are expected to keep inflation high during the year. Households' and firms' expectations concerning price developments have reached historically high levels over all time horizons.

Inflation is once again driven by higher energy prices

In March, the twelve-month change in the harmonized index of consumer prices rose to 7.0 per cent, continuing the upward trend under way since the second half of 2021 (Figure 35 and Table 8). Inflation was driven mainly by the exceptional increase in the energy component (53.5 per cent), which reflects the sharp rise in fuel prices and high natural gas and electricity prices. Food prices also climbed rapidly, rising by over 5 per cent in February (and by almost 9 per cent for unprocessed food products alone), due to increased costs along the entire supply chain. Core inflation rose, although it remained

[2] 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.

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

below 2 per cent (1.8 per cent in March). Looking ahead, the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) announced that gas and electricity tariffs for the regulated market would be cut by about 10 per cent for the second quarter of 2022, after almost a year and a half of increases. The Government also took action on 23 March to control fuel prices by reducing excise duties for one month (see Section 2.9).

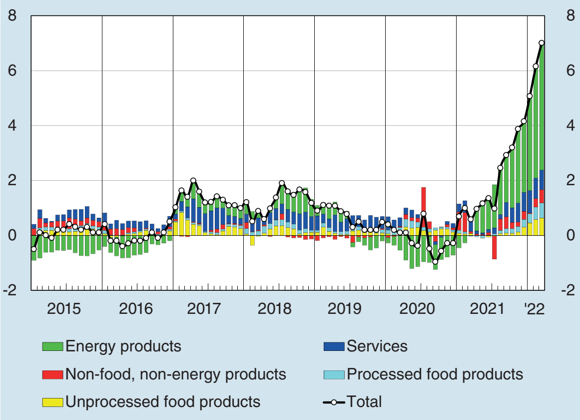
Supply problems and rising energy costs also drive up producer prices ...

In February, producer price inflation for industrial products sold on the domestic market remained high but stable (at 40 per cent on a twelve-month basis), driven primarily by energy prices, which more than doubled compared with the year before. The prices of intermediate goods also rose at an

Figure 35

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

(monthly data; per cent and percentage points)



Source: Based on Eurostat data. For March, preliminary estimates.
(1) 12-month percentage change in the harmonized index of consumer prices (HICP).

Table 8

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		Excl. energy and food	Overall index	
				at 1 month (4)			
2017	1.3	0.8	1.3	–	0.7	3.0	0.7
2018	1.2	0.6	1.1	–	0.5	3.2	1.1
2019	0.6	0.5	0.6	–	0.5	0.3	0.9
2020	-0.1	0.5	-0.2	–	0.4	-4.4	1.4
2021	1.9	0.8	1.9	–	0.8	13.0	0.5
2021 – Apr.	1.0	0.3	1.1	0.2	0.5	8.2	–
May	1.2	0.2	1.3	0.0	0.4	10.0	–
June	1.3	0.3	1.3	0.1	0.4	11.0	–
July	1.0	-0.9	1.9	0.5	0.6	13.5	–
Aug.	2.5	0.8	2.0	0.2	0.6	13.8	–
Sept.	2.9	1.4	2.5	0.2	1.1	15.6	–
Oct.	3.2	1.2	3.0	0.8	1.0	25.3	–
Nov.	3.9	1.3	3.7	0.7	1.3	27.3	–
Dec.	4.2	1.5	3.9	0.2	1.4	28.3	–
2021 – Jan.	5.1	1.3	4.8	1.5	1.5	41.8	–
Feb.	6.2	1.7	5.7	0.9	1.5	41.4	–
Mar.	(7.0)	(1.8)	(6.7)	….	(1.7)	….	–

Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the HICP principally because of the different method for recording the prices of pharmaceutical products and promotional sales. – (3) Producer price index for industrial products sold on the domestic market. – (4) One-month percentage change, seasonally adjusted.

historically high rate (20 per cent). In March, the PMI referring to the cost of production inputs for manufacturing firms remained historically high. Production costs continue to be affected by the ongoing global supply problems for some commodities and certain intermediate inputs, connected in part with the tensions sparked by the invasion of Ukraine, as well as high transport costs and longer delivery times.

... but wage pressures remain moderate

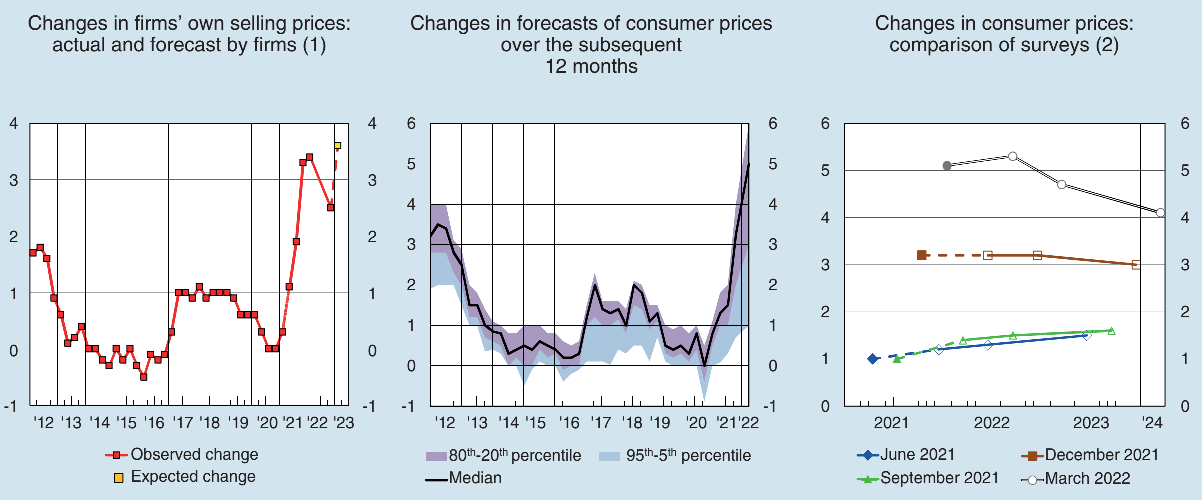
Wage pressures on prices remain modest. Wage growth in the non-farm private sector was low in January and February (see Section 2.5). The growth in unit labour costs eased in the economy as a whole to 1.3 per cent in the fourth quarter compared with a year earlier (2.3 per cent in the third quarter), reflecting the slowdown in hourly wages.

Firms and households raise their inflation expectations further

In the Bank of Italy's quarterly Survey on Inflation and Growth Expectations conducted between February and March, firms reported another increase in their inflation expectations across all the forecasting horizons, more markedly so for the shorter horizons (over 5 per cent; Figure 36). The firms expect their selling prices to increase by an average of 3.6 per cent over the next twelve months; it is expected to be worse for industrial firms since they are more exposed than service firms to higher costs for energy and inputs and to procurement problems. The balance between the share of households expecting prices to increase over the next twelve months and that expecting them to decrease rose again at the start of the year, reaching historic highs. The professional forecasters surveyed in March by Consensus Economics expect inflation to average 5.8 per cent in 2022, almost 4 percentage points more than they anticipated last December. However, they predict that it will fall back to just under 2 per cent in 2023.

Figure 36

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



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

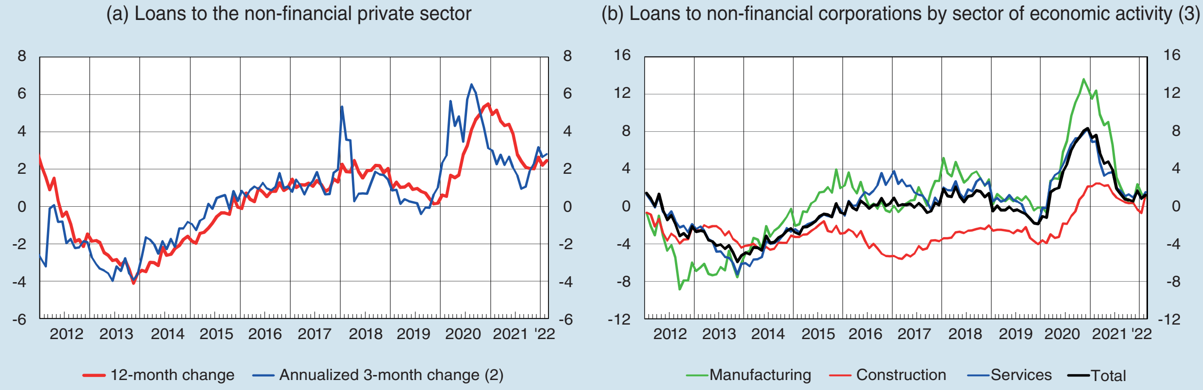
In the early months of 2022, the growth in lending to non-financial corporations was contained. Given the abundant liquidity accumulated over the last two years and the multiple factors giving rise to uncertainty, demand for new loans continued to be modest. The most recent surveys of firms indicate that credit access conditions have worsened. The new non-performing loan rates on lending to firms remained at historically low levels. In 2021, the return on equity of the significant banking groups rose.

Growth in lending to firms is still modest

The increase in lending to the non-financial private sector rose to 2.8 per cent quarter-on-quarter in February (from 2.3 per cent in November, on a seasonally adjusted and annualized basis; Figure 37.a). Lending to households remains strong (up 4.1 per cent quarter-on-quarter, from 3.8 per cent), while that to non-financial corporations, albeit recovering, is still contained (2.4 per cent, from 1.4 per cent; Figure 37.b). Demand from firms was curbed by the abundant liquidity accumulated during the pandemic (see Section 2.2) and was affected by the atmosphere of uncertainty.

Figure 37

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



Source: Supervisory reports.
(1) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. 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 annual change in loans to households points to a robust increase in lending for house purchase (5.1 per cent), compared with the ongoing sluggishness in consumer credit (1.5 per cent). The growth in lending to firms gained strength across all sectors of the economy.

Funding remains robust

Between November and February, banks' funding remained stable. Deposits of non-residents improved (4.6 per cent, from -5.0 per cent in November; Table 9) and banks' liabilities with central counterparties (6.2 per cent, from 0.3 per cent), while bank bond issues continued to decline and the growth in liabilities towards the Eurosystem eased. Funding costs rose slightly, although they remain low.

The cost of loans to firms and households remains low

Between November and February, the average interest rate on new bank loans remained stable (1.1 per cent; Figure 38). The interest rate on new loans to households for house purchase rose by about 0.1 percentage points (1.5 per cent).

Table 9

Main assets and liabilities of Italian banks (1)

(billions of euros and percentage changes)

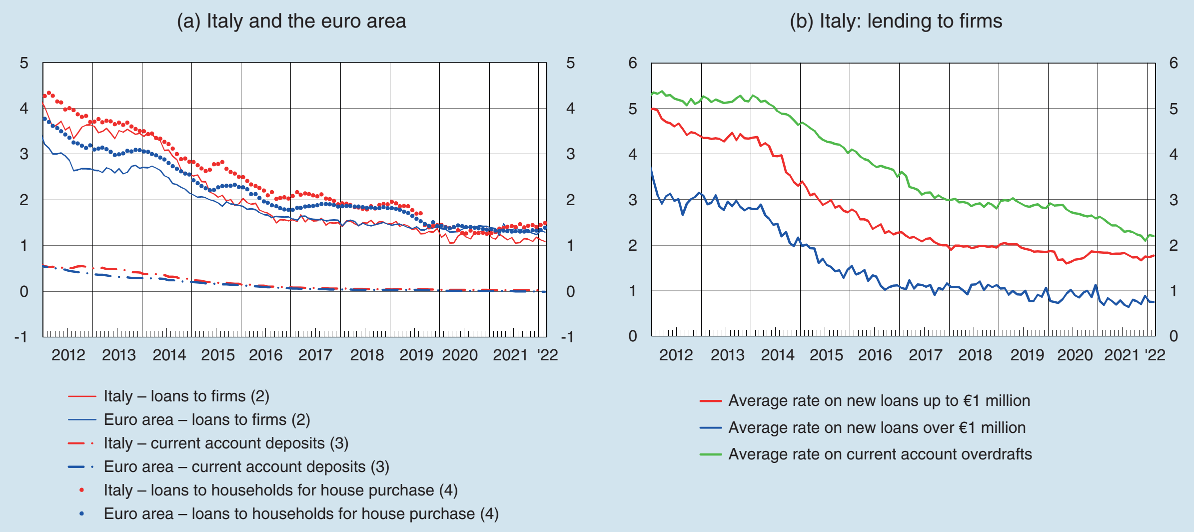
	End-of-month stocks		12-month percentage changes (2)	
	November 2021	February 2022	November 2021	February 2022
Assets				
Loans to Italian residents (3)	1,711	1,734	-0.3	1.0
of which: firms (4)	663	663	0.6	1.2
households (5)	663	665	3.7	3.8
Claims on central counterparties (6)	44	36	-29.1	-18.8
Debt securities excluding bonds of resident MFIs (7)	559	573	-4.5	0.0
of which: securities of Italian general government entities	418	428	-3.1	-0.1
Claims on the Eurosystem (8)	428	405	42.3	28.9
External assets (9)	496	501	8.4	14.1
Other assets (10)	765	764	2.9	4.8
Total assets	**4,003**	**4,013**	**3.5**	**5.1**
Liabilities				
Deposits of Italian residents (3) (11) (12)	1,834	1,857	5.3	4.1
Deposits of non-residents (9)	304	312	-5.0	4.6
Liabilities towards central counterparties (6)	98	114	0.3	6.2
Bonds (12)	210	203	-4.5	-6.9
Liabilities towards the Eurosystem (8)	449	453	22.1	21.3
Liabilities connected with transfers of claims	118	121	-13.4	-2.4
Capital and reserves	348	341	-2.3	-1.4
Other liabilities (13)	641	611	2.6	7.6
Total Liabilities	**4,003**	**4,013**	**3.5**	**5.1**

Source: Supervisory reports.
(1) Data updated in February. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. Changes in loans to firms and households are adjusted for securitizations. – (3) Excludes transactions with central counterparties. – (4) Harmonized definition, excludes producer households. – (5) Harmonized definition, includes producer households, non-profit institutions serving households and households not classified elsewhere. – (6) Only repos. – (7) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (8) Includes the accounts with the Eurosystem for monetary policy operations; see Tables 3.3a and 3.3b in 'Banks and Money: National Data', Banca d'Italia, Statistics Series. – (9) In the period considered, these refer mainly to interbank transactions. – (10) Includes bonds issued by resident MFIs; loans to resident MFIs; shares and other equity of resident companies; cash; money market fund units; derivatives; movable and immovable goods; other minor items. – (11) Excludes liabilities connected with transfers of claims. – (12) Excludes liabilities towards resident MFIs. – (13) Includes bonds held by resident MFIs; deposits of resident MFIs; derivatives; other minor items.

Figure 38

Bank interest rates (1)

(monthly data; per cent)



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

The results of the euro-area bank lending survey on the fourth quarter of last year, conducted prior to Russia's invasion of Ukraine and referring to the fourth quarter of last year, show that Italian banks' credit standards for loans to firms and households remained relaxed. The terms and conditions for approved loans were, however, slightly stricter across all segments, in particular due to an increase in margins for the riskiest ones (see the box 'Credit supply and demand'). The most recent surveys of firms conducted by the Bank of Italy (Survey on Inflation and Growth Expectations) and by Istat point to a deterioration in credit access conditions in the first quarter of the year.

CREDIT SUPPLY AND DEMAND

The Italian banks that took part in the last euro area bank lending survey (BLS),[1] (which was conducted before Russia's invasion of Ukraine) in reference to the fourth quarter of last year, continued to report generally relaxed credit supply policies. Credit standards for loans to firms and households eased slightly (Figure A), while the terms and conditions for approved loans were slightly stricter across all segments, in particular because of an increase in the margins applied to the riskiest borrowers. Banks' expectations for the first quarter of this year indicated basically stable supply conditions.

Firms' demand for credit increased moderately in the fourth quarter as a result of the greater need for inventories and working capital and, to a lesser extent, of the increase in gross fixed investment. Households' demand for loans also remained strong, benefiting from the improvement in consumer confidence, the more favourable tax regime in the property market,[2] and the further recovery in spending on durable consumer goods. Banks expected that the expansion in firms' demand for loans would come to a halt in the first quarter of this year, while the growth in that of households would continue.

As part of the survey, banks were asked to assess, for the second half of 2021, the impact of the public guarantee schemes connected with the pandemic emergency. The responses point to a new easing of credit standards and the related terms and conditions applied to the guaranteed loans granted to firms. Demand for these loans has nevertheless started to decline, reflecting a reduction in liquidity needs. The supply policies on non-guaranteed loans have tightened slightly.

For the same period, respondents were also asked to evaluate the effect on their credit supply conditions of the proportion of non-performing loans (NPLs) on their balance sheets: this does not seem to have had any impact either on credit standards or on the terms and conditions applied to business loans, mainly because greater attention began to be paid by banks to the management of their NPLs.

The most recent surveys of firms conducted by the Bank of Italy (Survey on Inflation and Growth Expectations) and Istat point to a deterioration in the terms of access to credit in the first quarter of the year (Figure B). This deterioration, which was more marked according to the firms participating in the Istat survey, which also includes those with up to 49 employees, nevertheless affected all firm size classes and all sectors of economic activity.

1 Thirteen of the main Italian banking groups took part in the survey, which was completed on 11 January 2022. The results for Italy are available on the Bank of Italy's website: for those on the euro area, see the ECB's website, 'January 2021 euro area bank lending survey', press release, 1 February 2021.

2 The demand for mortgage loans presumably expanded thanks to indirect tax relief on the purchase of a primary residence by those who satisfy certain age and financial situation (ISEE) requirements under the 'Support-*bis*' decree (Decree Law 73/2021).

Figure A

Credit standards and demand for loans in Italy (1)

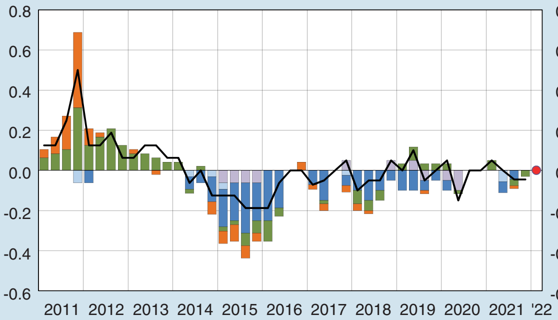
(quarterly data; diffusion indices)

Credit standards

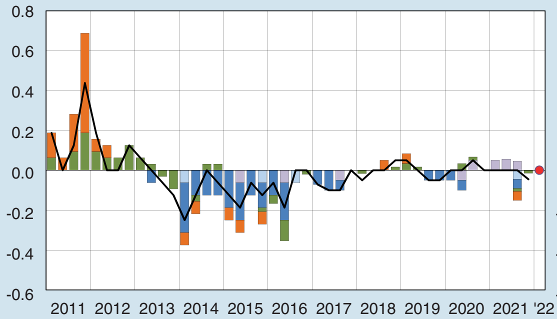
(a) Loans to firms

(b) Loans to households for house purchase

Factors contributing to tightening (+) / easing (-)



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



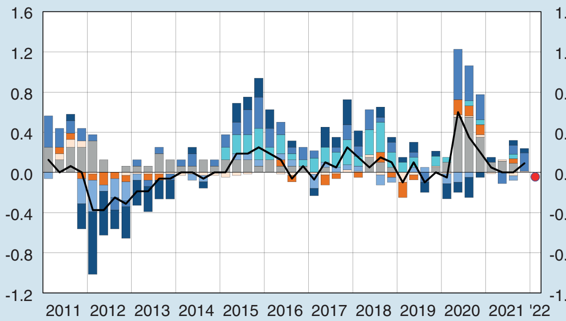
Cost of funds and balance sheet constraints
Risk perception (7)
Competition from other banks
Competition from non-bank institutions
Risk tolerance
Index of supply tightening (realized) (5)
Index of supply tightening (expected) (6)

Demand for loans

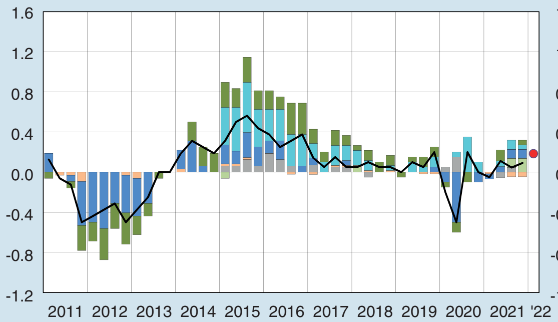
(c) Loans to firms

(d) Loans to households for house purchase

Factors contributing to an expansion (+) / contraction (-)



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



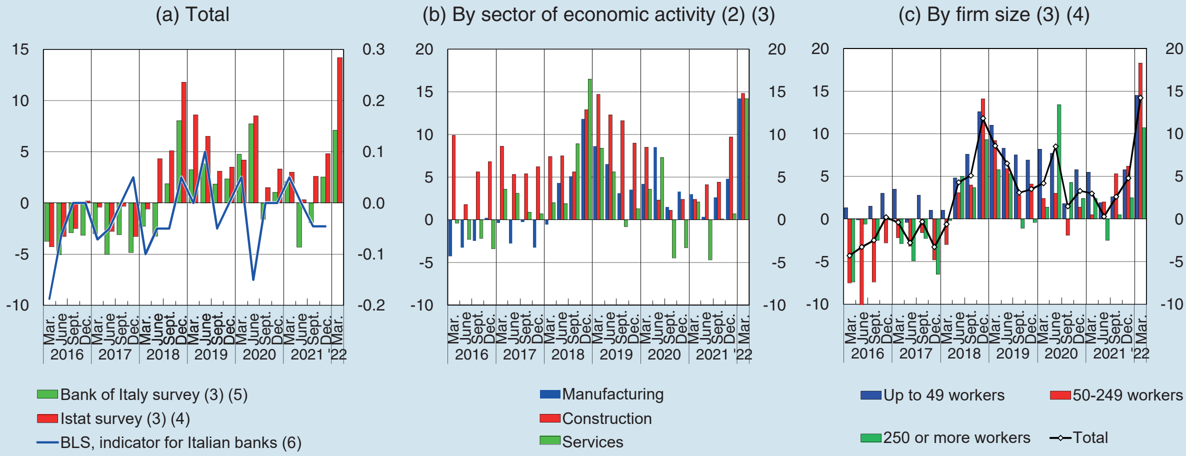
Housing market prospects
General interest rate level
Consumer confidence
Other sources of finance (9)
Housing regulations or taxation
Debt consolidation/restructuring or renegotiation
Index of demand (realized) (5)
Index of demand (expected) (6)

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

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's business confidence surveys. – (3) Net percentage of firms reporting difficulty in obtaining credit, calculated as the difference between the percentage of replies indicating a worsening of credit access conditions and the percentage of those indicating an improvement. – (4) Istat's business confidence survey on the manufacturing sector. – (5) 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series. – (6) Right-hand scale.

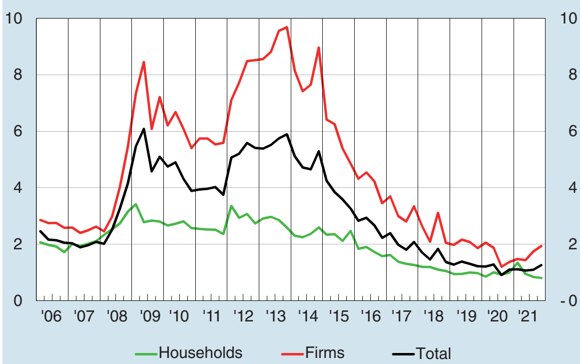
New non-performing loans to firms continue to be low

In the fourth quarter, the flow of new non-performing loans in proportion to total loans grew to 1.3 per cent (from 1.1 per cent in the third), on a seasonally adjusted and annualized basis (Figure 39). The indicator for loans to non-financial corporations rose to 1.9 per cent (from 1.8 per cent), reflecting the increase for companies operating in the service and construction sectors. However, the ratio is still historically low. The non-performing loan rate for loans to consumer households held stable at 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 10). The coverage ratio (the ratio of loan loss provisions to total non-performing loans) rose by more than 1 percentage point.

Figure 39

New non-performing loan rates (1)

(quarterly data; per cent)



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

Banks' profitability improves

In 2021, the profitability of Italian banking groups classified as significant more than doubled. Net of extraordinary components, the growth in the annualized return on equity (ROE) primarily reflected the decline in loan loss provisions.[4]

[4] In 2020, loan loss provisions were affected by the significant deterioration in the macroeconomic outlook associated with the start of the pandemic.

Table 10

Main indicators for the significant Italian banks (1)
(per cent)

	September 2021	December 2021
Non-performing loans (NPLs) (2)		
Gross NPL ratio	3.6	3.1
Net NPL ratio	1.7	1.4
Coverage ratio (3)	53.9	55.0
Regulatory capital		
Common equity tier 1 (CET1) ratio	15.3	15.3
	2020	2021
Profitability		
ROE (4)	1.4	5.3
Net interest income (5)	-4.7	-2.0
Gross income (5)	-6.2	4.9
Operating expenses (5)	4.5	-2.4
Operating profit (5)	-26.6	24.9
Loan loss provisions (5)	31.5	-36.9

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.

Gross income rose, although revenues slowed during the year. The increase in fees and, to a lesser extent, revenues from trading activities more than offset the decrease in net interest income. Operating expenses declined and the operating profit rose by about one quarter. The capitalization level of the significant banking groups remained stable in the fourth quarter of 2021. The slight increase in capital was offset by the decline in risk-weighted assets.

The banking sector's exposure to Russia is limited

At the end of last year, lending by Italian banks to residents in Russia, Belarus and Ukraine amounted to €19.3 billion (of which €19.0 billion to Russian residents), equal to around 0.5 per cent of assets (see *Financial Stability Report*, 1, 2022, forthcoming). The main beneficiaries in Russia were firms, which received loans amounting to €14.5 billion; excluding foreign branches and subsidiaries, loans totalled around €8 billion.

2.8 THE FINANCIAL MARKETS

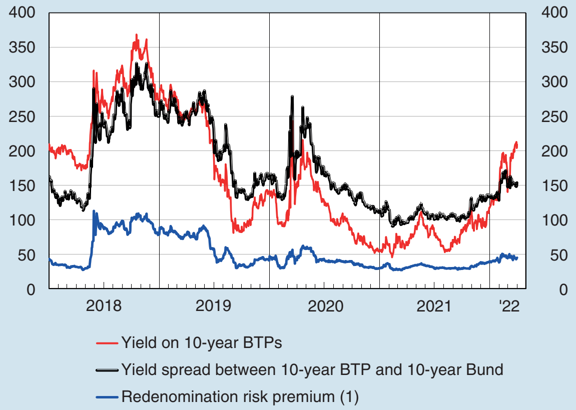
Financial market conditions in Italy were affected by growing uncertainty and rising risk aversion on the part of investors, especially after the Russian invasion of Ukraine. Share prices initially fell substantially, mainly in the banking sector, and then partially recovered starting from mid-March. The sovereign spread and the funding costs of firms and banks rose.

Government bond yields increase

During the first quarter of the year, the yields on Italian government bonds were driven by expectations that monetary accommodation in the euro area would be pared back more quickly than previously anticipated, in an environment of strong inflationary pressures. The yields on Italian ten-year government bonds rose by 80 basis points and the spread with the corresponding German Bund widened to 154 basis points at the beginning of April, from 132 basis points in mid-January. The premium for public debt redenomination risk rose marginally, although it has remained low (Figure 40). The implied volatility in derivatives on Italian ten-year bonds increased, especially after the invasion of Ukraine, reaching levels that were about double last year's average, but largely lower than those observed in March 2020, at the outset of the pandemic (Figure 41).

Figure 40

Spread between Italian and German 10-year government bond yields 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 fall sharply ...

After an essentially positive start of the year for the financial markets, supported by the improvement in corporate earnings and the easing of restrictions tied to the pandemic, share prices began to fall as the initial tensions sparked by the war increased (Figure 42); volatility also rose considerably. The indices have partially recovered since mid-March.

Overall since the second half of January the general index of the Italian stock market has fallen by 9 per cent, in line with the performance of the main euro-area companies. The conflict and the consequent sanctions imposed on Russia had a larger impact on the index for the banking sector (down 19 per cent in Italy and 16 per cent in the euro area), owing to fears, which then partially abated, that the sector would have been more greatly exposed to developments in the Russian economy.

Figure 41

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

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

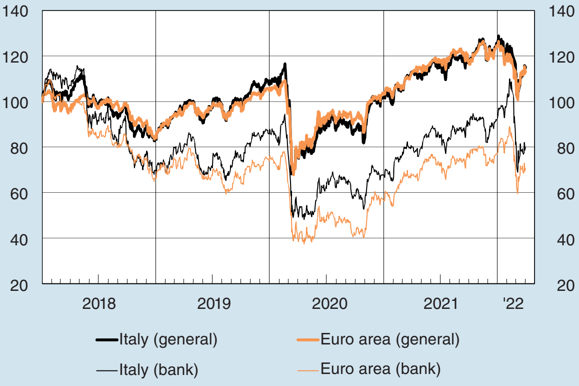
... and funding costs for companies rise

The deterioration in financial market conditions also affected the funding costs of Italian non-financial corporations and banks. Since mid-January, secondary market yields have risen by about 100 basis points on bonds issued by non-financial corporations and by credit institutions (Figure 43), in line with the euro-area average for both sectors.

In the final quarter of last year, net placements of bonds issued by Italian non-financial corporations were equal to about €4 billion (from €2.4 billion in the previous period), while banks made net redemptions of €4.0 billion (previously net placements of €5.2 billion). In the first quarter of 2022, higher funding costs slowed recourse to the bond market. According to preliminary data from Bloomberg, net bond issues by non-financial corporations dropped significantly due to lower gross placements and higher redemptions. Net placements by banks remained negative owing to the robust increase in redemptions.

Figure 42

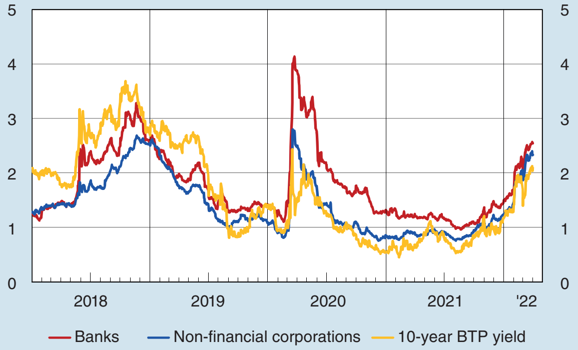
Equity prices (1)
(daily data; indices: 1 January 2018=100)



Source: Based on Refinitiv data.
(1) General and bank indices: FTSE MIB for Italy; Dow Jones Euro STOXX for the euro area.

Figure 43

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



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

Net fund subscriptions continue to increase

The net inflow of savings to Italian investment funds continued in the fourth quarter of 2021, though at a slower pace (€12.8 billion, against €16.9 billion in the previous period, based on Assogestioni data). Net purchases of fund units were concentrated largely in the equity funds sector, while there were considerable net outflows from money market funds. Net subscriptions to open-end investment funds remained essentially unchanged in January and February, with net monthly investment inflows of €4.6 billion, against around €4.3 billion on average in the previous quarter.

2.9 THE PUBLIC FINANCES

In 2021, general government net borrowing fell considerably as a percentage of GDP. The debt-to-GDP ratio also decreased significantly, particularly thanks to the very favourable change in the denominator. In the first few months of this year, the Government enacted further measures to soften the impact of higher energy costs on firms and households' budgets. The decrees calling for these measures also contain provisions for spending cuts and revenue increases, including an extraordinary tax on energy companies; so that according to the official assessments, they should have virtually no impact on the public accounts. On 6 April 2022, the Government approved the 2022 Economic and Financial Document (DEF). Given the improvement in the current legislation scenario for the public accounts, the net borrowing

Table 11

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

	2018	2019	2020	2021
Net borrowing	2.2	1.5	9.6	7.2
Primary surplus	1.5	1.8	-6.1	-3.7
Interest payments	3.6	3.4	3.5	3.5
Tax burden	41.7	42.3	42.8	43.5
Borrowing requirement	2.2	1.9	9.4	5.2
Debt	134.4	134.1	155.3	150.8

Source: for the general government national accounts, based on Istat data (see Istat, 'General government quarterly accounts, household income and savings and corporate profits', Flash Statistics, 5 April 2022).
(1) Rounding of decimal points may cause discrepancies in totals.

targets set last September have been confirmed. In 2022, the deficit and the debt are expected to be, respectively, 5.6 and 147.0 per cent of GDP, and then fall to 2.8 and 141.4 per cent in 2025.

In 2021, net borrowing appears to have fallen markedly ...

According to the outturns released by Istat, in 2021 general government net borrowing declined to 7.2 per cent of GDP (against 9.6 per cent in 2020; Table 11). This was more than 2 percentage points lower than the official estimate in the Update to the 2021 Economic and Financial Document (NADEF) published at the end of September. The decline compared with 2020 reflects the decrease in the primary deficit (from 6.1 to 3.7 per cent of GDP), while interest payments remained broadly stable as a percentage of GDP.

... because the increase in revenue outpaced that of spending

In 2021, general government expenditure net of interest payments increased by 4.1 per cent (€36 billion; Table 12), following the rise in primary current expenditure (especially because of expenditure on intermediate consumption and other minor expenditure) and in capital expenditure. For the latter, the particularly large increase is connected with public investment and with grants for private investment, as well as with support measures for firms linked to the pandemic (including allocations made to cover public guarantees of loans).

Total revenue increased by 9.2 per cent (€72.2 billion). Current revenue items that increased most significantly included indirect taxes, driven mainly by revenue from value-added taxes (VAT), the regional tax on production (IRAP) and excise duties on mineral oils. The capital revenue increase is associated in particular with the recognition of investment grants from the European Union in connection with the National Recovery and Resilience Plan (NRRP). The tax burden rose by more than half a percentage point, to 43.5 per cent.

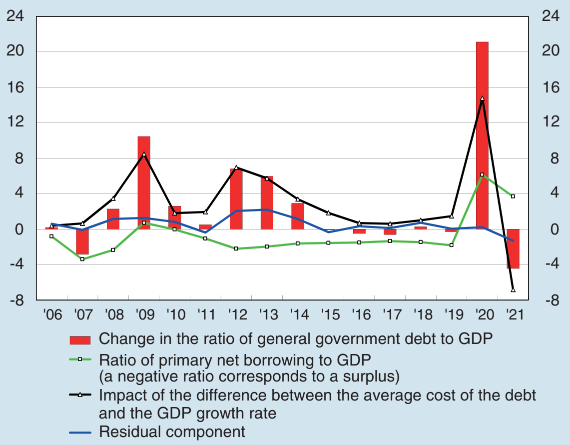
The debt-to-GDP ratio falls by over 4 percentage points

The debt-to-GDP ratio fell to 150.8 per cent[5] from 155.3 per cent in 2020; the particularly wide spread between nominal GDP growth and the average cost of the debt more than offset the primary deficit (Figure 44). The decrease in the debt-to-GDP ratio was more pronounced than indicated in last September's official forecasts (which had instead projected a decrease of around 2 percentage points), mainly due to lower final figures for the deficit.

In 2021, the debt in nominal terms rose by €105.2 billion. This increase was higher than the general government borrowing requirement (€92.4 billion), owing to the expansion in the Treasury's

Figure 44

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



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

[5] This Economic Bulletin reports the debt and the general government borrowing requirement data that was revised in relation to the notification transmitted last 31 March to the European Commission as part of the excessive deficit procedure. There were very few revisions to the data published on 15 March. For more information, see 'The Public Finances: Borrowing Requirement and Debt,' Banca d'Italia, Statistics Series, forthcoming. To calculate the public debt and borrowing requirement as a percentage of GDP, the estimated nominal GDP published by Istat on 4 April 2022 is used.

Table 12

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

	2020	2021	% change on previous year 2020	% change on previous year 2021
EXPENDITURE				
Compensation of employees	173.5	176.3	0.3	1.6
Intermediate consumption	103.6	110.4	2.4	6.6
Social benefits in kind	46.1	47.1	0.9	2.0
Social benefits in cash	399.2	399.2	10.5	0.0
Interest expense	57.3	62.9	-5.0	9.7
Other current expenditure	76.1	83.3	12.8	9.4
Current expenditure	**855.8**	**879.1**	**5.8**	**2.7**
% of GDP	51.7	49.5		
Current expenditure net of interest expense	**798.5**	**816.3**	**6.7**	**2.2**
% of GDP	48.2	46.0		
Investment (1)	42.4	50.7	2.4	19.5
Other capital expenditure	46.1	56.1	124.3	21.7
Capital expenditure	**88.6**	**106.8**	**42.8**	**20.6**
Total expenditure net of interest expense	**887.1**	**923.1**	**9.4**	**4.1**
% of GDP	53.5	52.0		
TOTAL EXPENDITURE	**944.4**	**986.0**	**8.4**	**4.4**
% of GDP	57.0	55.5		
REVENUE				
Direct taxes	250.7	267.1	-2.9	6.5
Indirect taxes	227.1	258.3	-11.8	13.8
Social security contributions	229.7	245.0	-5.2	6.7
Production for market and for own use	39.1	44.0	-12.4	12.6
Other current revenue	34.6	35.9	-5.0	3.9
Current revenue	**781.2**	**850.4**	**-6.9**	**8.9**
% of GDP	47.1	47.9		
Capital revenue	**4.2**	**7.2**	**-2.2**	**71.3**
of which: capital taxes	0.9	1.6	-24.6	69.7
TOTAL REVENUE	**785.4**	**857.6**	**-6.9**	**9.2**
% of GDP	47.4	48.3		
of which: tax burden	42.8	43.5		
NET BORROWING	**-159.0**	**-128.3**		
% of GDP	-9.6	-7.2		
Primary balance	**-101.7**	**-65.5**		
% of GDP	-6.1	-3.7		
Memorandum item: GDP	1,657.0	1,775.4	-7.8	7.2

Source: Based on Istat data (see Istat, 'General government quarterly accounts, household income and savings and corporate profits', Flash Statistics, 5 April 2022).
(1) Includes proceeds of property sales which are entered with a negative sign.

liquid balances (€5 billion) and the effect of the discounts and premiums at issue and at redemption, the revaluation of inflation-indexed securities and variations in the exchange rate (€7.8 billion; Table 13).

At the end of the year, the share of the public debt held by the Bank of Italy amounted to 25.3 per cent (from 21.6 per cent). The average cost of the debt remained broadly in line with that at the end of 2020, equal to 2.4 per cent. The average residual maturity lengthened to 7.6 years, from 7.4 years.

In the first quarter of this year the cash flow data continued to be positive (Figure 45): the state sector borrowing requirement amounted to €30 billion, down by around €11 billion compared with the corresponding period of 2021.

Table 13

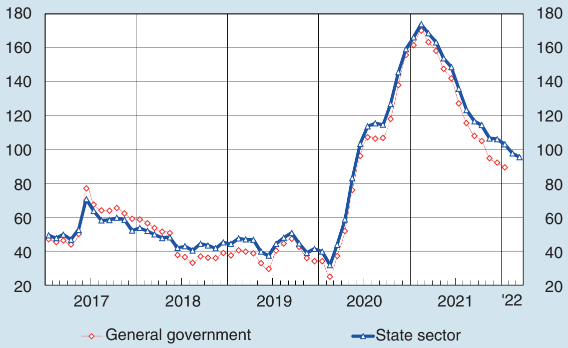
Changes in general government debt and its components
(billions of euros)

	2018	2019	2020	2021
Change in the debt = (a)+(b)+(c)+(d)	**51.7**	**28.5**	**162.7**	**105.2**
(a) Total borrowing requirement	39.0	34.1	155.8	92.4
of which: support to EMU countries	0.0	-0.4	-0.1	-0.4
(b) Change in Treasury's liquid balances	5.8	-2.2	9.6	5.0
(c) Issue discounts and premiums (1)	6.8	-3.5	-2.4	7.6
(d) Euro equivalent of foreign currency liabilities	0.1	0.1	-0.3	0.2

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

Figure 45

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



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

The Government enacts additional measures to soften the impact of higher energy prices

Between January and March, the Government enacted additional temporary measures to counter the effects of higher energy costs on firms and households' budgets,[6] allocating more than €11 billion for this purpose (Table 14). They include: (a) cancellation, for the second quarter of the year, of the general system charges for all electricity customers; (b) special grants to firms, mainly in the form of tax credits; (c) reduction in excise duties on fuel for a period of 30 days; d) reduction in VAT and in rates for the general system charges for natural gas in the second quarter; (e) expansion in the social bonus for electricity and gas bills for low-income households.[7] According to the official assessments, the

[6] These are the interventions included in Decree Law 4/2022 ('Support-*ter* Decree', converted into law by Law 25/2022), in Decree Laws 17/2022 and 21/2022 (both in the process of being converted into law), and the 18 March MEF decree. These measures are in addition to the decree laws issued in 2021 (Decree Laws 41/2021, 73/2021 and 130/2021, converted into law by Laws 69/2021, 106/2021 and 171/2021, respectively) and the measures adopted with the 2022 Budget Law (see *Economic Bulletin*, 1, 2022), which had earmarked €5.5 billion for 2021 and €3.8 billion for the first quarter of this year. For Decree Law 17/2022, see 'Draft law (C. 3496) for the conversion into law of Decree Law 17/2022 containing urgent measures to contain electricity and natural gas costs, to develop renewable energies and to relaunch industrial policies', hearing of the Head of the Structural Economic Analysis Directorate, F. Balassone, Chamber of Deputies, Rome, 15 March 2022.

[7] The measures also provide for the granting of public guarantees to support firms' liquidity. Since they will only use resources already allocated, they will not have an impact on the public accounts.

Table 14

Overall impact on the general government profit and loss account of the measures contained in Law 25/2022, Decree Laws 17/2022 and 21/2022 and MEF decree of 18 March 2022

(millions of euros)

	2022	2023	2024
USE OF FUNDS (D=A+B+C)	**16,427**	**2,141**	**1,877**
Measures regarding energy and price controls on fuel and energy products (A)	**11,256**	**194**	**13**
Measures to limit the costs of consumers' utility bills	5,545	0	0
Elimination of general system charges in the electricity sector	4,200	0	0
Reduction in VAT rate and in general system charges in the natural gas sector	842	0	0
Revision of the subsidies for the 'social bonus' for electricity and gas bills	503	0	0
Tax credits for energy costs and fuel purchases	3,518	0	0
for companies to purchase electricity and natural gas	1,101	0	0
for energy-intensive companies to partially offset extra costs	1,465	0	0
for companies with high natural gas consumption to partially offset extra costs	757	0	0
for companies in the road haulage sector (to purchase AdBlue and methane)	55	0	0
for companies engaged in agricultural and fishing activities to purchase fuel	140	0	0
Reduction in excise duties on fuels (including the effect on VAT)	961	0	0
Support fund for the road haulage sector to help it cope with higher fuel prices	581	0	0
Fund to help local governments ensure continuity of services	250	0	0
Fund for decarbonization and green conversion of refineries	205	45	10
Tax credit for energy efficiency improvements in Southern Italy	145	145	0
Other	51	4	3
Measures to address the COVID-19 emergency (B)	**2,837**	**127**	**127**
Healthcare spending	1,058	100	100
Support to the sectors hardest hit by the epidemiological emergency	965	15	15
Measures in support of schools	264	0	0
Social security contribution subsidies	224	6	6
Support for municipalities with reduced tax revenue	150	0	0
Wage support measures	147	0	0
Other	29	6	6
Other measures (C)	**2,334**	**1,819**	**1,737**
Funds for research, transformation and development of the automotive and microprocessors sectors	850	1,500	1,500
Funds for public works (repricing of materials and continuation of works)	510	20	20
Funds to assist, support and shelter Ukrainian refugees	356	0	0
Refunding of Central Guarantee Fund for SMEs	300	0	0
Other	319	299	217
SOURCE OF FUNDS (G=E-F)	**16,523**	**2,182**	**1,898**
Higher revenue (E)	**7,428**	**-16**	**-50**
Extraordinary tax on the excess profits of energy companies	3,980	0	0
Reopening of time period for revaluation of land and equity investments (net effect)	1,723	237	237
Deferral of deductibility of loan losses and write-downs	1,040	-459	-260
Higher VAT revenue on fuel (1 October - 31 December 2021) (1)	308	0	0
Higher VAT revenue on fuel (1 January - 28 February 2022) (1)	255	0	0
Direct effects of the measures	97	189	-47
Other	24	17	20
Lower expenditure (F)	**-9,095**	**-2,198**	**-1,948**
Reduction in appropriations in MEF budget estimates	-4,516	-1,730	-1,530
Savings on expenditures on non-repayable grants allocated under previous emergency decrees	-1,906	0	0
Change in allocation - Proceeds of CO_2 auctions	-1,605	0	0
Reduction in budgetary provisions/appropriations	-814	-468	-418
Other	-254	0	0
Change in net borrowing (H=D-G)	**-95.9**	**-41.2**	**-20.7**

Source: Based on the official assessments contained in Annex 3, respectively, to Law 25/2022 and to Decree Laws 17/2022 and 21/2022 and in the MEF decree of 18 March 2022.
(1) The higher tax revenue has been verified in accordance with Article 1 (291) of Law 244/2007.

laws containing these measures should have virtually no impact on the public accounts. The expenditure should be covered primarily by cost-cutting measures[8] and by an extraordinary tax on energy companies.

The EU Commission recognizes fulfilment of the NRRP milestones and targets for 2021

Following the Government's request for payment at the end of last year (see *Economic Bulletin*, 1, 2022), at the end of February the European Commission gave a positive assessment of Italy's fulfilment of the 51 milestones and targets for the first disbursement of funds under the Recovery and Resilience Facility (€24.1 billion between grants and loans; €21 billion net of repayment of a portion of the pre-financing received in August 2021). The Government expects the funds to be disbursed this month (see Section 1.2).

The Government approves the 2022 Economic and Financial Document

On 6 April, the Government approved the 2022 DEF.[9] Under the current legislation scenario, net borrowing is lower than forecast in the 2021 NADEF by around 0.5 per cent of GDP in 2022 and by around 0.1 per cent on average in the two years thereafter. Given this improvement in the accounts, the Government confirmed the targets it set last September. It plans to use this room within the budget to take additional expansionary measures, including those to limit the effects of rising energy prices. The deficit is therefore expected to fall from 5.6 per cent of GDP this year to 2.8 per cent in 2025. The debt-to-GDP ratio should decrease by almost 4 percentage points in 2022 and just under 2 percentage points on average in the following three years to 141.4 per cent in 2025.

[8] The lower expenditure is mainly connected with the reduction in allocations for Ministry of Economy and Finance (MEF) programmes and with savings on the non-repayable grants provided for under previous emergency decrees.

[9] The information currently available is taken from the Council of Ministers, press release, 6 April 2022 (only in Italian).

SELECTED STATISTICS

Additional tables are contained in the Statistical Appendix of the *Economic Bulletin* available on the Internet at www.bancaditalia.it/pubblicazioni

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Table A1

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		
2019	2.2	0.2	-0.1	-0.3	2.1
2020	3.7	0.2	-11.2	-11.3	3.5
2021	-1.6	0.9	11.9	10.9	-2.4
2019 – Q1	2.5	-1.4	0.4	1.8	3.9
Q2	1.7	0.2	0.3	0.1	1.5
Q3	1.4	1.4	0.4	-1.0	0.1
Q4	3.1	0.3	-1.6	-1.9	2.8
2020 – Q1	6.7	2.1	-10.1	-12.0	4.4
Q2	5.7	-3.6	-26.8	-24.1	9.7
Q3	0.8	-0.9	-5.6	-4.7	1.7
Q4	1.7	2.4	-2.9	-5.2	-0.7
2021 – Q1	-2.3	2.3	8.1	5.7	-4.6
Q2	-4.1	4.6	34.4	28.5	-8.3
Q3	1.8	0.0	5.0	5.0	1.8
Q4	-0.4	-1.9	4.7	6.7	1.5
			Services		
2019	1.5	0.5	0.6	0.2	1.1
2020	4.0	3.8	-8.5	-11.8	0.2
2021	0.4	-2.1	4.5	6.7	2.5
2019 – Q1	1.8	-1.0	0.4	1.4	2.9
Q2	1.0	0.9	0.9	0.0	0.1
Q3	1.6	0.9	0.9	0.0	0.7
Q4	1.7	1.0	0.2	-0.8	0.7
2020 – Q1	4.1	4.1	-5.1	-8.8	0.0
Q2	7.0	7.0	-16.0	-21.5	0.0
Q3	3.7	3.6	-5.5	-8.7	0.1
Q4	2.2	1.6	-7.4	-8.9	0.6
2021 – Q1	1.3	-1.0	-2.8	-1.8	2.3
Q2	-2.7	-5.4	12.5	18.9	2.9
Q3	1.2	-1.5	3.1	4.7	2.8
Q4	1.7	-0.3	6.1	6.4	2.1
			Total economy		
2019	1.8	0.5	0.5	0.0	1.3
2020	3.5	2.5	-8.8	-11.0	1.0
2021	-0.1	-1.4	6.6	8.0	1.3
2019 – Q1	2.0	-0.9	0.6	1.5	3.0
Q2	1.5	1.3	0.9	-0.4	0.1
Q3	1.7	1.1	0.7	-0.4	0.6
Q4	2.0	0.6	-0.2	-0.7	1.5
2020 – Q1	4.1	3.1	-6.2	-9.0	0.9
Q2	6.0	4.0	-18.4	-21.6	1.9
Q3	2.7	2.0	-5.0	-6.9	0.6
Q4	2.1	1.5	-6.0	-7.4	0.6
2021 – Q1	0.2	-0.9	0.1	1.0	1.1
Q2	-3.1	-3.7	17.7	22.2	0.7
Q3	1.4	-0.8	3.7	4.6	2.3
Q4	1.2	-0.1	6.1	6.2	1.3

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

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
2022 – Jan.	5.1	1.3	3.3	1.7	5.1	2.8	5.1	2.3
Feb.	6.2	1.7	4.2	2.6	5.5	3.0	5.9	2.7
Mar.	(7.0)	(1.8)	(5.1)	….	(7.6)	….	(7.5)	(3.0)

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

Table A3

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													
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	164.6		247	120	127
2020	604	1,659	1,016	643	82	562	172	3,078	185.8		122	7	115
2021	622	1,857	1,186	671	76	583	201	3,339	188.0		260	81	179
2020 – Q1	615	1,412	828	584	85	590	167	2,868	161.7		-89	-127	39
Q2	611	1,531	910	622	84	569	175	2,970	174.9		102	84	18
Q3	612	1,579	946	633	86	561	178	3,017	179.7		47	12	35
Q4	604	1,659	1,016	643	82	562	172	3,078	185.8		62	38	24
2021 – Q1	613	1,714	1,068	645	77	559	164	3,127	187.9		48	16	32
Q2	616	1,770	1,120	651	73	571	170	3,199	184.7		72	22	51
Q3	628	1,800	1,143	657	74	577	190	3,269	186.7		70	6	64
Q4	622	1,857	1,186	671	76	583	201	3,339	188.0		70	37	32
Liabilities													
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	165.7		179	106	72
2020	512	1,342	252	1,090	131	1,060	–	3,045	183.8		68	15	52
2021	536	1,361	296	1,065	106	1,204	–	3,207	180.6		162	9	153
2020 – Q1	517	1,228	206	1,022	133	1,047	–	2,925	164.9		-52	-86	34
Q2	517	1,263	231	1,032	133	1,074	–	2,986	175.9		61	47	14
Q3	514	1,293	222	1,071	136	1,051	–	2,994	178.3		8	8	-1
Q4	512	1,342	252	1,090	131	1,060	–	3,045	183.8		51	46	5
2021 – Q1	517	1,389	275	1,113	113	1,056	–	3,075	184.8		30	4	26
Q2	527	1,397	281	1,116	107	1,080	–	3,112	179.7		37	-3	40
Q3	532	1,384	283	1,101	108	1,136	–	3,160	180.4		48	3	46
Q4	536	1,361	296	1,065	106	1,204	–	3,207	180.6		47	6	41
Net position													
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	92	318	765	-447	-49	-498	172	34	2.0		54	-9	63
2021	87	496	890	-394	-30	-621	201	132	7.4		98	72	26
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	92	318	765	-447	-49	-498	172	34	2.0		11	-8	19
2021 – Q1	96	325	793	-468	-37	-497	164	52	3.1		18	12	6
Q2	89	374	839	-466	-35	-510	170	88	5.1		36	25	11
Q3	96	416	860	-444	-33	-559	190	109	6.2		22	4	18
Q4	87	496	890	-394	-30	-621	201	132	7.4		23	32	-9

(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 A4

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
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	57,867	60,743	-429	14,730	-17,176	-1,769	-2,603	834
2020	62,107	68,213	-7,426	20,424	-19,104	-697	-1,378	681
2021	44,642	52,203	-9,365	21,258	-19,454	-2,287	-3,798	1,511
2021 – Q1	7,785	13,400	-4,615	6,188	-7,188	-1,749	-1,153	-596
Q2	15,865	19,802	-3,871	3,295	-3,362	-87	-749	663
Q3	16,447	13,599	2,004	5,552	-4,708	247	-575	821
Q4	4,545	5,402	-2,883	6,222	-4,196	-698	-1,320	622
2021 – Jan.	932	2,085	-1,022	1,631	-1,762	-430	-360	-70
Feb.	3,787	5,419	-1,531	2,252	-2,353	-510	-358	-152
Mar.	3,066	5,896	-2,062	2,305	-3,072	-809	-435	-374
Apr.	6,391	6,858	-1,404	2,081	-1,144	-142	-242	100
May	4,283	6,357	-1,606	550	-1,019	-146	-249	102
June	5,191	6,587	-861	664	-1,199	202	-258	460
July	8,431	8,453	-44	1,545	-1,523	-210	-183	-27
Aug.	4,540	2,278	1,277	2,641	-1,657	-198	-163	-34
Sept.	3,477	2,868	771	1,366	-1,529	654	-229	883
Oct.	2,027	2,796	-592	1,410	-1,587	-265	-415	150
Nov.	1,504	2,925	-1,393	1,711	-1,738	-327	-437	110
Dec.	1,014	-318	-898	3,101	-871	-106	-468	362
2022 – Jan.	(-5,907)	(-4,422)	(-1,250)	(1,447)	(-1,681)	(-62)	(-296)	(234)

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

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

(12-month percentage changes)

	Italy (2)				Euro area (3)			
	Private sector (4)	Non-financial private sector	Non-financial corporations	Households	Private sector (4)	Non-financial private sector	Non-financial corporations	Households
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	5.5	8.3	2.3	4.7	4.8	7.1	3.1
2019 – Jan.	1.1	1.0	-0.5	2.7	3.1	3.4	3.5	3.2
Feb.	1.4	1.3	0.1	2.8	3.3	3.6	3.9	3.3
Mar.	1.0	1.0	-0.4	2.7	3.3	3.5	3.7	3.3
Apr.	1.0	1.0	-0.4	2.7	3.5	3.6	4.0	3.3
May	1.1	1.2	0.0	2.7	3.3	3.6	3.9	3.4
June	0.6	0.9	-0.5	2.5	3.5	3.6	3.9	3.3
July	0.8	1.0	-0.3	2.5	3.6	3.6	4.0	3.4
Aug.	0.6	0.8	-0.6	2.4	3.8	3.7	4.2	3.4
Sept.	0.6	0.7	-0.8	2.5	3.6	3.5	3.6	3.4
Oct.	0.4	0.4	-1.3	2.4	3.7	3.6	3.8	3.4
Nov.	0.2	0.1	-1.8	2.4	3.6	3.5	3.4	3.5
Dec.	0.2	0.2	-1.9	2.6	3.7	3.4	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	6.7	3.0
May	1.6	1.7	2.0	1.3	5.3	4.9	7.4	3.0
June	2.3	2.8	3.7	1.7	4.9	4.8	7.1	3.1
July	2.9	3.2	4.5	1.8	4.8	4.8	7.1	3.0
Aug.	3.7	4.1	6.0	2.0	4.7	4.8	7.2	3.0
Sept.	3.9	4.6	6.8	2.2	4.7	4.8	7.1	3.1
Oct.	4.3	4.9	7.4	2.2	4.6	4.7	6.8	3.2
Nov.	4.6	5.3	8.1	2.3	4.8	4.8	7.0	3.1
Dec.	4.7	5.5	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.	4.6	5.2	7.6	2.4	4.5	4.7	7.1	3.0
Mar.	3.9	4.6	5.8	3.2	3.5	4.1	5.3	3.3
Apr.	3.7	4.3	4.6	4.0	3.1	3.5	3.2	3.8
May	3.8	4.4	4.8	3.9	2.7	3.0	2.0	3.8
June	3.5	3.9	3.9	3.8	2,9	3.1	1.9	4.0
July	2.2	2.8	1.9	3.8	3.1	3.1	1.7	4.1
Aug.	1.8	2.4	1.3	3.7	3.0	3.0	1.6	4.1
Sept.	1.7	2.1	0.8	3.6	3.3	3.2	2.1	4.1
Oct.	1.6	2.0	0.7	3.6	3.5	3.4	2.6	4.1
Nov.	1.5	2.0	0.6	3.7	3.7	3.6	2.9	4.1
Dec.	2.1	2.6	1.7	3.7	4.2	4.3	4.3	4.2
2022 – Jan.	1.8	2.2	0.9	3.7	4.6	4.3	4.4	4.3
Feb.	2.1	2.4	1.2	3.8	4.8	4.4	4.4	4.4

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

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

	Banks	Other financial corporations (2)	Non-financial corporations	Total
		Italy		
2020	-19.4	5.8	7.8	-5.8
2021	-6	8.7	19.5	22.2
2020 – Q1	-14.5	-7.6	-3.6	-25.6
Q2	7.6	4.1	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	1.6	6.8	6.3
Q3	5.2	-4.3	2.4	3.3
Q4	-4	15.8	4	15.9
		Euro area		
2020	134.2	111.2	164.8	410.2
2021	111.3	235.9	83.1	430.4
2020 – Q1	32.8	4.5	10.6	48
Q2	136.5	45.4	105.2	287.1
Q3	0.6	40.3	36	77
Q4	-35.8	21	12.9	-1.9
2021 – Q1	51.6	34.1	23.4	109.2
Q2	17	52.7	19.6	89.2
Q3	27.9	56.6	18.4	102.9
Q4	14.9	92.5	21.7	129.1

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

Table A7

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)
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	134.1	0.6	16.6	0.9	165.4	-9.6	13.0	155.8	-0.1
2021	-4.8	-7.6	-11.9	87.2	0.2	27.0	-0.4	97.4	-5.0	-1.0	92.4	-0.4
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	..	–	-0.5	-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	19.8	-1.5	–	0.7	19.8	0.8	0.0	20.5	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	-3.6	-1.3	0.0	1.1	-15.8	19.1	1.0	3.3	..
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	3.2	0.6	0.0	1.3	8.1	6.8	0.0	14.9	-0.1
July	-1.1	-0.3	0.5	28.5	1.3	0.0	..	29.3	-36.3	0.0	-7.1	0.0
Aug.	-0.8	-0.2	0.7	-7.8	1.1	15.9	-0.2	8.8	-18.9	0.0	-10.1	0.0
Sept.	-5.0	-0.2	-0.2	-23.5	0.4	0.0	0.6	-27.7	43.3	3.0	15.6	-0.1
Oct.	-10.3	-0.2	-2.3	8.1	7.7	0.0	-0.4	2.9	4.0	3.0	6.9	0.0
Nov.	1.5	-0.4	-1.4	-14.2	-2.4	0.0	-0.5	-16.9	25.2	0.0	8.2	0.0
Dec.	7.0	-1.4	-6.8	-6.3	-12.6	0.0	-0.2	-18.9	19.7	-3.0	0.7	-0.1
2022 – Jan.	2.6	-1.2	-0.5	21.4	12.0	0.0	-0.3	35.3	-36.3	-5.4	-1.0	0.0

(1) For more information, see the Methodological Appendix in 'The Public Finances: Borrowing Requirement and Debt' in the Statistics Series. – (2) Treasury deposits held at the Bank of Italy and liquidity operations with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility (EFSF), and the contribution to the capital of the European Stability Mechanism (ESM).

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)
2017	232.4	74.4	106.6	1,806.8	136.7	–	47.3	33.9	2,329.9	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	2,027.1	125.5	16.5	49.4	33.5	2,572.7	42.5	8.0	39.3	57.7
2021	224.1	57.5	113.4	2,122.3	125.7	43.4	49.1	33.5	2,677.9	47.5	9.0	36.6	57.3
2019 – Jan.	241.6	71.3	115.4	1,885.2	131.7	–	47.4	33.9	2,421.2	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	–	47.4	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	–	49.3	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	–	48.5	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	–	48.5	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	1,982.6	127.0	–	48.4	33.5	2,530.5	60.7	3.0	36.9	57.8
July	230.9	66.4	137.7	2,016.0	127.3	–	48.1	33.5	2,560.0	83.9	4.0	37.3	57.8
Aug.	231.3	66.2	139.0	2,034.2	125.8	–	47.9	33.5	2,578.2	100.7	2.5	37.0	57.8
Sept.	229.7	66.0	138.7	2,040.8	126.7	–	48.5	33.5	2,584.5	84.5	8.5	36.8	57.8
Oct.	228.7	65.7	134.6	2,038.5	127.2	10.0	48.5	33.5	2,587.5	78.4	9.5	37.3	57.8
Nov.	232.2	65.1	134.0	2,030.8	126.8	16.5	48.3	33.5	2,588.6	61.5	9.0	40.1	57.8
Dec.	228.9	65.1	125.3	2,027.1	125.5	16.5	49.4	33.5	2,572.7	42.5	8.0	39.3	57.7
2021 – Jan.	232.6	63.4	130.9	2,051.7	125.5	16.5	49.2	33.5	2,606.3	75.1	8.0	40.0	57.7
Feb.	231.1	62.3	127.4	2,088.9	126.1	21.0	48.8	33.5	2,643.3	102.9	8.0	40.1	57.7
Mar.	231.3	61.6	124.5	2,094.2	124.7	26.7	49.2	33.5	2,650.5	84.6	7.0	38.5	57.7
Apr.	231.1	61.0	123.0	2,122.7	128.1	26.7	48.6	33.5	2,680.2	101.8	12.0	39.5	57.7
May	229.9	60.6	122.8	2,128.1	129.6	27.4	48.5	33.5	2,686.4	91.3	12.0	40.6	57.7
June	232.9	60.3	122.8	2,132.3	130.2	27.4	49.8	33.5	2,695.5	84.4	12.0	39.9	57.6
July	231.7	60.0	123.4	2,161.9	131.5	27.4	49.8	33.5	2,725.8	120.8	12.0	38.7	57.6
Aug.	230.9	59.8	124.0	2,154.5	132.5	43.4	49.6	33.5	2,735.0	139.7	12.0	38.1	57.6
Sept.	225.9	59.5	123.9	2,130.9	132.9	43.4	50.2	33.5	2,707.2	96.3	9.0	36.3	57.5
Oct.	215.6	59.3	121.6	2,140.0	140.6	43.4	49.8	33.5	2,711.1	92.3	6.0	36.6	57.5
Nov.	217.2	58.9	120.2	2,126.7	138.2	43.4	49.3	33.5	2,694.9	67.1	6.0	35.4	57.5
Dec.	224.1	57.5	113.4	2,122.3	125.7	43.4	49.1	33.5	2,677.9	47.5	9.0	36.6	57.3
2022 – Jan.	226.7	56.3	112.9	2,144.8	137.6	43.4	48.8	33.5	2,714.2	83.8	14.4	37.6	57.3

(1) For more information, see the Methodological Appendix in 'The Public Finances: Borrowing Requirement and Debt' in the Statistics Series. – (2) Treasury deposits held at the Bank of Italy and liquidity operations with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility (EFSF), and the contribution to the capital of the European Stability Mechanism (ESM).

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