BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

July 2024

3 | 2024

Economic Bulletin

Number 3 / 2024
July

Other economic publications of the Bank of Italy:

Annual Report
Account of the main developments in the Italian and world economy during the year

Financial Stability Report
Six-monthly analysis of the state of the Italian financial system

Economie Regionali
A series of reports on the regional economies

Temi di Discussione (Working Papers)
A series of empirical and theoretical papers

Questioni di Economia e Finanza (Occasional Papers)
Miscellaneous studies on issues of special relevance to the Bank of Italy

Newsletter
News on recent research work and conferences

Quaderni di Storia Economica (Economic History Working Papers)
A series of papers on Italian economic history

These publications are available online at www.bancaditalia.it
Printed copies can be requested from the Paolo Baffi Library: richieste.pubblicazioni@bancaditalia.it

© **Banca d'Italia, 2024**

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

Director
Sergio Nicoletti Altimari

Editorial committee

Marianna Riggi and Fabrizio Colonna (coordinators), Valerio Della Corte, Valerio Ercolani, Salvatore Lo Bello, Daniele Pianeselli, Matteo Santi, Michele Savini Zangrandi and Jacopo Tozzo

Fabrizio Martello, Silvia Mussolin, Marco Paciucci (editorial assistants for the Italian version), Giuseppe Casubolo and Roberto Marano (charts and figures), Roberta Persia (IT support)

Boxes: Lorenzo Bencivelli, Valerio Della Corte, Marco Fruzzetti, Enza Maltese, Lilia Patrignani, Maria Lisa Rodano and Gabriele Rovigatti

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

Address
Via Nazionale 91 – 00184 Roma – Italia

Telephone
+39 06 47921

Website
http://www.bancaditalia.it

All rights reserved. Reproduction for scholarly and non-commercial use permitted on condition that the source is cited

ISSN 0393-7704 (print)
ISSN 2280-7640 (online)
DOI https://doi.org/10.32057/0.eb.2024.3

Based on data available on 8 July 2024, unless otherwise indicated

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

CONTENTS

Overview 5

1 THE WORLD ECONOMY

1.1 The global cycle 7

1.2 The euro area 12

1.3 International financial markets 16

2 THE ITALIAN ECONOMY

2.1 Cyclical developments 18

2.2 Firms 21

2.3 Households 25

2.4 Foreign trade and the balance of payments 26

2.5 The labour market 28

2.6 Price developments 30

2.7 Credit and financing conditions 33

2.8 The financial market 34

2.9 The public finances 36

LIST OF BOXES

China's excess production capacity 8

The macroeconomic scenario published in June 19

Recent developments in Italy's tourism sector 23

The state of progress of public works financed by the NRRP 38

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.

For the abbreviations of the names of countries used in this publication please refer to the EU's Interinstitutional Style Guide (https://publications.europa.eu/code/en/en-5000600.htm).

With reference to the data provided by ICE Data Derivatives UK Limited, the supplier has requested publication of the following disclaimer: "The data referenced herein is the property of ICE Data Derivatives UK Limited, its affiliates and/or their respective third party suppliers ("ICE and its Third Party Suppliers") and is used with permission. This material contains information that is confidential and proprietary property and/or trade secrets of ICE and its Third Party Suppliers and is not to be published, reproduced, copied, disclosed, or used without the express written consent of ICE and its Third Party Suppliers. ICE and its Third Party Suppliers does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions, regardless of the cause or for the results obtained from the use of such information. ICE and its Third Party Suppliers accepts no liability in connection with the use of this data or marks. ICE and its Third Party Suppliers disclaim any and all express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. In no event shall ICE and its Third Party Suppliers be liable for any direct, indirect, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with the Bank of Italy's or others' use of ICE and its Third Party Suppliers' data or services. ICE and its Third Party Suppliers do not sponsor, endorse, or recommend any part of this research and/or presentation".

OVERVIEW

The outlook for the world economy improves, but risks remain

The global economy continued to improve in the spring, still driven by services, but with manufacturing also showing signs of strengthening. Consumption keeps growing in the United States; industrial activity is expanding in China, while domestic demand remains weak, causing wider trade imbalances with advanced countries. According to the latest OECD estimates, global GDP will increase by 3.1 per cent in 2024; based on our assessments, world trade will grow by 2.2 per cent. A potential escalation of the ongoing conflicts still poses the main downside risk to global growth.

Monetary policies remain tight

In the spring, inflation resumed its decline in the US, after picking up in the first quarter, and continued to fall in the UK. In June, the Federal Reserve left its policy rates unchanged for the seventh consecutive meeting, and reiterated the need for the disinflation process to take hold before starting to ease monetary conditions. The Bank of England and the Bank of Japan kept their policy rates unchanged as well. Financial market conditions remained broadly stable, though in the euro area they were affected by the political uncertainty in France. After the European elections, the yield spreads of ten-year government bonds vis-à-vis German Bunds widened in France, while they returned below April levels in Italy, after rising temporarily.

In the euro area, economic activity grows moderately, while disinflation eases

According to our estimates, euro-area GDP posted modest growth in the spring, driven by the service sector. Disinflation eased, mainly due to still strong price increases in services. However, the underlying inflation indicators, which exclude more erratic fluctuations, continued to fall. According to the Eurosystem staff projections released in June, inflation will decline to 2.5 per cent this year, to 2.2 per cent in 2025 and to 1.9 per cent in 2026.

The ECB cuts its key interest rates

In June, the Governing Council of the European Central Bank lowered its key interest rates by 25 basis points. It also confirmed its determination to ensure a timely return of inflation to its medium-term target by keeping interest rates at a sufficiently tight level for as long as necessary. The Governing Council will continue to follow a data-dependent approach when setting the level and duration of restriction, without pre-committing to a particular rate path.

Growth remains moderate in Italy

Following moderate growth in the first quarter of 2024, Italian GDP continued to expand somewhat in the spring, according to our estimates. It was still buoyed by services, particularly tourism-related services, which are benefiting from the strong performance of foreign travellers' spending. By contrast, activity declined in construction and in manufacturing. On the demand side, further growth in exports and positive signs in consumption were associated with a less favourable picture for investment. Our most recent macroeconomic projections, prepared as part of the Eurosystem staff projections, show GDP increasing by 0.6 per cent in 2024 (by 0.8 per cent without calendar adjustments), by 0.9 per cent in 2025 and by 1.1 per cent in 2026.

The current account surplus firms up

The current account surplus widened in the first quarter of 2024, a positive reflection of the improvement in the goods balance. Non-resident investors made sizeable net purchases of Italian securities, especially those issued by the public sector; the negative TARGET balance declined in the first six months of the year. The positive net international investment position strengthened.

Employment continues to rise and wage growth remains robust

Employment continued to rise in the spring months: with labour market participation stable above pre-pandemic levels, the unemployment rate fell

further, approaching the euro-area average. Growth in labour costs in the non-farm private sector has strengthened over the last few months, buoyed by the renewals of the collective bargaining agreements in the service sector and by the payments due under the current agreements.

Inflation remains low

Headline inflation has remained low and core inflation has edged down over the last few months. Disinflation has continued to be slower in services, owing both to the components whose prices tend to lag behind the general index and to tourism-related items, for which demand remains high. According to firms, consumer price inflation is likely to stay below 2 per cent in the short and medium term. Based on our projections, it will remain low, at 1.1 per cent this year and at just over 1.5 per cent on average over the two years 2025-26.

The cost of lending curbs the demand for loans

Monetary restriction is still affecting the cost of credit. Lending to firms continues to fall, albeit less so; this is due not only to modest demand for financing, owing to high interest rates and weak investment, but also to tight credit supply standards because of a widespread perception of risk.

The European Commission to recommend opening an excessive deficit procedure for Italy

The European Commission has announced that it will recommend opening excessive deficit procedures for five euro-area countries, including Italy. The Commission forecasts that Italy's deficit-to-GDP ratio, despite falling sharply compared with last year's figure of 7.4 per cent, will remain above the 3 per cent threshold both this year and the next.

With regard to the National Recovery and Resilience Plan, at the end of June, the Italian Government requested payment of the sixth instalment, following the achievement of the 37 targets and milestones it had to meet. In early July, the Commission also gave its preliminary approval to the request for payment of the fifth instalment.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

There have been signs of improvement in the global economy since April. Economy activity continues to be driven mainly by services, but it is also picking up in manufacturing. In the United States, consumption continues to rise while the labour market seems to be cooling; in China, industrial activity is expanding, but domestic demand is still weak. World trade has accelerated slightly after a first quarter of subdued growth. Crude oil prices have fluctuated considerably since April, while those of natural gas have returned to growth. The central banks in the main advanced countries outside the euro area have kept their policy rates unchanged.

GDP continues to grow in the United States and consumption remains weak in China

GDP in the United States rose by 1.4 per cent in the first quarter, slowing down from 3.4 per cent in the previous quarter (Table 1). It was curbed by the growth in imports but driven by investment and consumption; the latter continued to expand in May. Job creation slowed between April and June and the unemployment rate rose further. GDP growth continued in China in the first quarter, driven by manufacturing investment and exports, while consumption continued to be weak, affected by the negative effects of the housing crisis on consumer confidence and household wealth (see the box 'The crisis in China's real estate sector and the potential spillovers on the global economy', *Economic Bulletin*, 4, 2023). The strong industrial production, boosted by government

Table 1

GDP growth and macroeconomic projections
(percentage changes, unless otherwise specified)

	Growth			Forecasts		Revisions (2)	
	2023	2023 Q4 (1)	2024 Q1 (1)	2024	2025	2024	2025
World	**3.1**	**–**	**–**	**3.1**	**3.2**	**0.2**	**0.2**
Japan	1.9	0.0	-1.8	0.5	1.1	-0.5	0.1
United Kingdom	0.1	-1.2	2.9	0.4	1.0	-0.3	-0.2
United States	2.5	3.4	1.4	2.6	1.8	0.5	0.1
Brazil	2.9	2.1	2.5	1.9	2.1	0.1	0.1
China	5.2	5.2	5.3	4.9	4.5	0.2	0.3
India (3)	7.7	8.6	7.8	6.6	6.6	0.4	0.1
Russia	3.6	4.9	5.4	2.6	1.0	0.8	0.0

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook*, May 2024 for world GDP and for the forecasts.
(1) Quarterly data. For Japan, the United Kingdom and the United States, annualized and seasonally adjusted percentage changes on the previous quarter; for the other countries, year-on-year percentage changes. – (2) Percentage points; revisions compared with OECD, *OECD Economic Outlook, Interim Report,* February 2024. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

support in certain strategic sectors, exceeds domestic absorption capacity and is contributing to current account imbalances, exacerbating trade tensions with the United States and with other advanced countries (see the box 'China's excess production capacity'). In Japan, GDP contracted by 1.8 per cent in the first quarter, owing to weak consumption and exports. In the United Kingdom, GDP returned to growth after two quarters of decline, mainly driven by an acceleration in consumption and a positive contribution from foreign trade.

CHINA'S EXCESS PRODUCTION CAPACITY

The United States and the European Union recently announced increases in tariffs on imports of energy transition-related products from China.[1] These measures were taken in response to the substantial Chinese government subsidies introduced to support various manufacturing production segments.[2] Subsidies such as these amplify China's overcapacity, which spills over into foreign markets, where their products are offered at lower prices than those of competing firms.

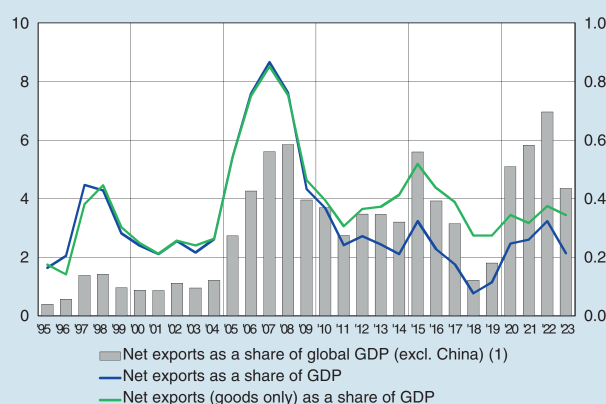
Overcapacity touches on a number of interrelated topics: (a) structural imbalances in planned economies, such as China; (b) the strengthening of the stimulus policies for the manufacturing sector adopted in China in the wake of the real estate crisis; and (c) China's dominant position in the production of green technologies and the underlying contribution of government subsidies.

China's growth model continues to exhibit clear structural imbalances. The ratio of fixed investment to GDP is considerably higher than that observed not only in the major advanced economies, but also in other fast-growing emerging economies, such as Brazil or India. By contrast, consumption as a share of GDP ranks among the lowest by international standards. The combination of strong aggregate investment and weak consumption is reflected in a large trade surplus, which has reached high levels relative to global GDP (see the figure).

The surplus increased further with the crisis in China's real estate sector and its impact on domestic demand. To offset the weakness of the latter, the Chinese government has focused on expanding exports by reinforcing financial support to firms, especially in the high-tech manufacturing sector, thus intensifying the competition with some of the main importing countries.

Figure

Indicators of China's trade imbalances with the rest of the world
(annual data; per cent)



Source: International Monetary Fund (IMF).
(1) Right-hand scale.

[1] The United States announced tariff increases from 25 to 100 per cent on electric vehicles, from 25 to 50 per cent on solar panels, and from 7.5 to 25 per cent on electric batteries. The EU announced a temporary increase in tariffs on imports of Chinese electric vehicles, ranging between 27 and 48 per cent, compared with the current 10 per cent.

[2] According to some estimates, industrial subsidies in China were equal to 1.73 per cent of domestic GDP in 2019, three times higher than in France and four times higher than in Germany and the United States (see G. DiPippo, I. Mazzocco and S. Kennedy, *Red ink. Estimating Chinese industrial policy spending in comparative perspective,* Center for Strategic & International Studies, May 2022).

Although the most obvious signs of excess capacity (e.g. rising inventories and falling profit margins and producer prices) are in those sectors usually activated by the real estate sector, the international debate has recently focused on Chinese green-technology production and on the extent to which government subsidies have led to unfair competition, penalizing the development of competitor firms outside China.

Chinese solar panel exports more than doubled between 2019 and 2023 and now have the EU as their main destination market, where more than 40 per cent of their sales are made. The China Photovoltaic Industry Association (CPIA) estimates that production will far exceed domestic demand this year;[3] for the period 2024-27, the production capacity announced by Chinese producers, as reported by Bloomberg, will be more than twice as high as the global demand estimated for the same period.[4]

China is also the main producer of lithium-ion batteries, mostly for the European and US markets, which account for 35 and 20 per cent of the total value of exports, respectively. BloombergNEF estimates indicate that China's production capacity of lithium-ion batteries will reach almost 6 terawatt-hours in 2025, about four times the global demand forecast for that year.[5]

The production of Chinese electric vehicles has more than doubled over the past three years, with around 40 per cent going to foreign markets, particularly the EU. According to the International Energy Agency (IEA), Chinese production has increased in step with global demand.

Overall, the large government subsidies to Chinese industry risk exacerbating the EU's dependence on foreign supplies, and on those from China in particular, in strategic sectors such as mobility and energy. A European Commission investigation found that – along the entire value chain, from raw material extraction to battery production, up to and including freight forwarding services to European ports – the main producers of Chinese electric vehicles benefit from subsidies that put European producers at a disadvantage. The recent increase in tariffs is aimed at countering the possible distortionary effects of subsidies, and also contributes to the reduction of Europe's foreign dependence in strategic sectors. However, there is a risk that a measure of this kind will not only increase the fragmentation of world trade, but will also push up the costs of the energy transition.

[3] According to the CPIA, China will produce a total of 750 gigawatts of solar panels this year, 500 of which in excess of new installations on Chinese territory. For the CPIA estimates, see the article by D. Oxley on the Capital Economics website, 'Green tech to stay central to China overcapacity fears', 23 April 2024.

[4] For more information, see the article by T. Hancock on the Bloomberg Government website, 'US-Europe gripes on China overcapacity aren't all backed by data', 3 April 2024.

[5] For more information, see the article by C. McKerracher on the Bloomberg website, 'China already makes as many batteries as the entire world wants', 12 April 2024.

Global activity is recovering and remains stronger in services

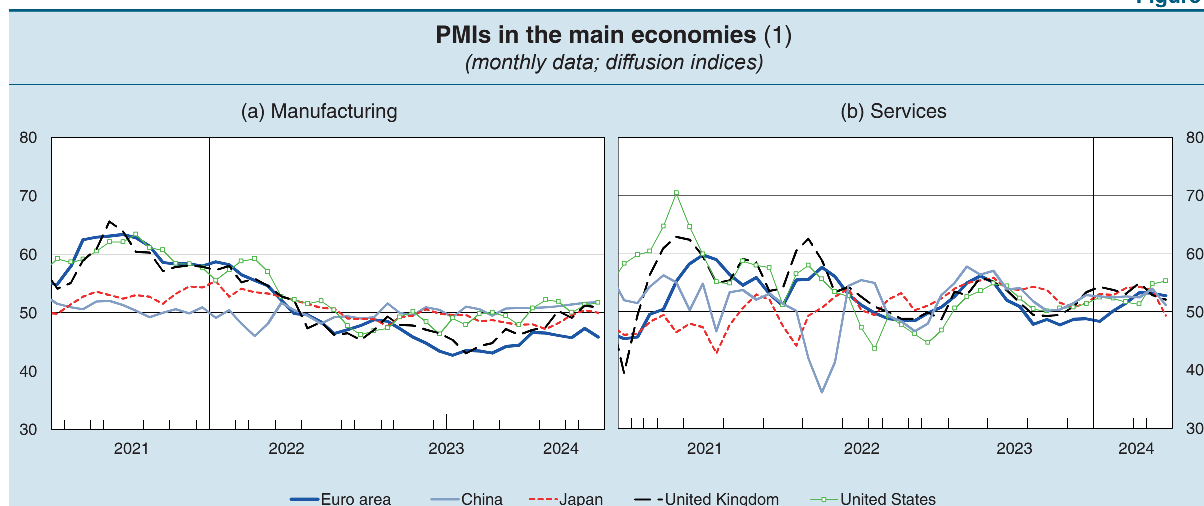
In the main economies except for the euro area (Figure 1.a), the purchasing managers' indices (PMIs) for firms have recorded an improvement in manufacturing since April and have moved above the expansion threshold. They are still above this threshold in services (Figure 1.b).

Global trade shows small signs of recovery in the second quarter

The volume of trade grew at a modest rate in the first quarter. However, signs of strengthening are emerging: the global PMIs for new export orders have increased since April, going above the threshold for expansion on average in the second quarter for the first time in over two years. Maritime transport costs have risen since May, exceeding the levels reached at the beginning of the year, following the attacks by the Houthi militias

Figure 1

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



Sources: Markit and Standard & Poor's.
(1) Diffusion indices for economic activity in the manufacturing and service sectors. Each index is obtained by adding half of the percentages of responses of 'stable' to the percentage of responses of 'increasing'. Values greater than 50 are compatible with expansion in the sector.

in the Red Sea; this rise was influenced by a growth in precautionary orders motivated by fears that the persistence of the conflict in the Red Sea and rising geopolitical tensions could lead to service disruptions in the summer, which is the peak transport season (see the box 'Tensions in the Red Sea and their macroeconomic impact', *Economic Bulletin*, 2, 2024). According to our estimates, world trade in goods and services will increase by 2.2 per cent this year (from 0.6 per cent in 2023), a lower pace than in the five years prior to the pandemic (3.2 per cent) and than the growth estimates for global GDP for this year.

World growth is expected to continue unchanged in 2024

According to the projections released by the OECD in May, the increase in world GDP is expected to be 3.1 per cent in 2024, as in 2023; the estimate has been revised upwards slightly compared with the February projections. The possibility of international tensions worsening, especially in the Middle East, continues to be a downside risk to economic activity and trade, and an upside risk to inflation.

Oil prices remain volatile ...

Brent crude oil prices recorded large fluctuations (Figure 2.a). Prices had fallen in April and May due to the diminishing risks of an escalation in tensions between Iran and Israel; they then rose again (to around $85 per barrel), mainly as a result of the OPEC+ cartel countries' decision to extend the voluntary production cuts agreed for 2023 and 2024 until 2025. The latest IEA and private forecasters' projections expect the oil market to record a small supply deficit in the second half of 2024.

... while natural gas prices rise

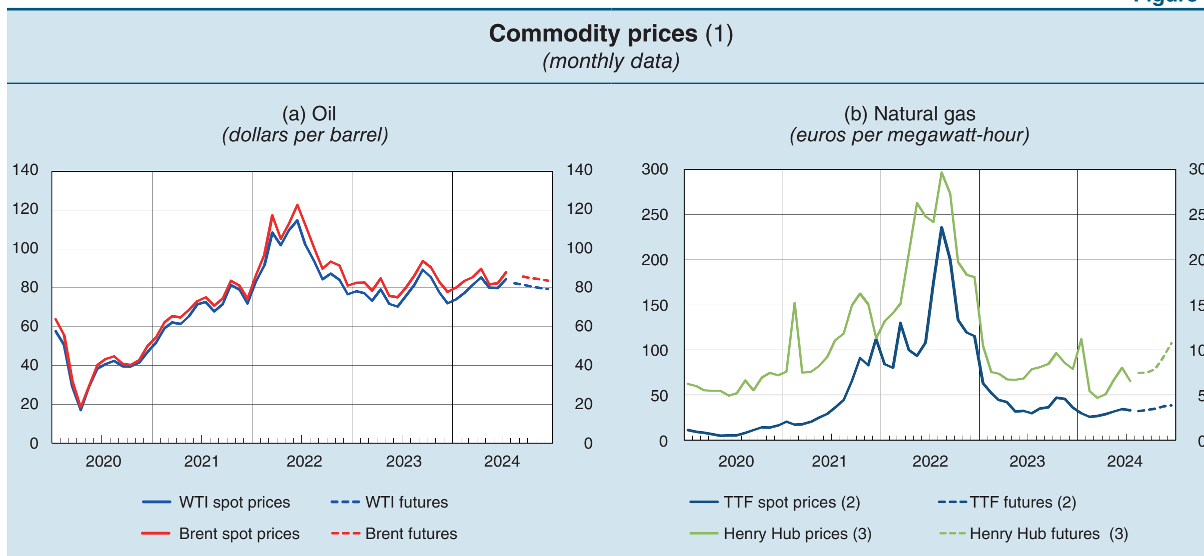
The Title Transfer Facility (TTF) price of natural gas returned to growth, to over €30 per megawatt-hour (Figure 2.b). Despite high stock levels, prices were boosted by lively global activity, particularly in Asia, as well as by several technical factors, including extended maintenance work on Norwegian pipelines and the closure of some liquefied natural gas facilities in Asia. Greater energy demand for air conditioning in buildings, linked to the forecasts of heat waves in Europe and Asia, also contributed.

Inflation goes down in the main advanced economies

Inflation has declined again since April in the United States, after increasing in the first quarter, and has continued to fall in the United Kingdom. It increased in May in Japan on account of temporary factors relating to energy price subsidies (Figure 3). Core inflation continues to decline in these three countries;

Figure 2

Commodity prices (1)
(monthly data)

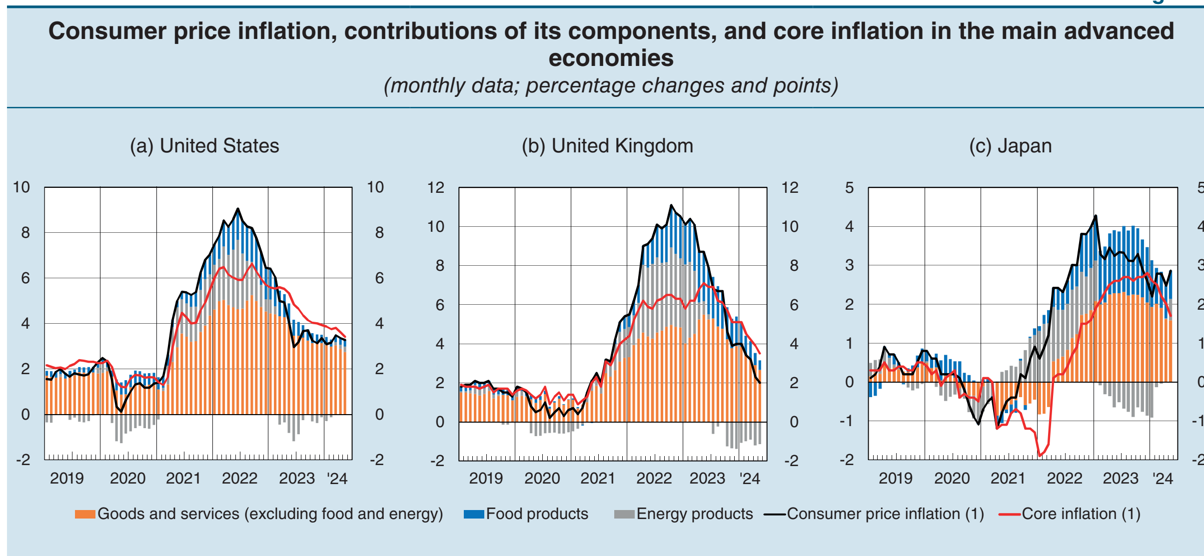


Source: LSEG.
(1) For spot prices, monthly averages up to June 2024. The data for July 2024 refer to the average of the daily data from 1 to 8 July 2024. For futures, the data refer to the prices on 8 July 2024. – (2) Price of natural gas traded on the Dutch TTF market. – (3) Price of natural gas distributed via the Henry Hub in Louisiana (USA). Right-hand scale.

in May, it went down to 3.4 per cent in the US, to 3.5 per cent in the UK and to 1.7 per cent in Japan. In June, the Federal Reserve left its key policy rates unchanged for the seventh consecutive meeting, at 5.25-5.50 per cent, and reiterated the need to consolidate the disinflation process before any easing begins. As announced in May, it has slowed the pace of quantitative tightening since June. Against a background of slower than expected disinflation in the first part of the year, the projections of the members of the Federal Open Market Committee of policy rates, published in June, point to a single rate cut in the course of 2024, followed by greater easing in 2025. The Bank of England left policy rates unchanged in June, but indicated that it might lower them in the next few months. The Bank of Japan

Figure 3

Consumer price inflation, contributions of its components, and core inflation in the main advanced economies
(monthly data; percentage changes and points)



Source: Based on national statistics.
(1) 12-month percentage changes; core inflation excludes food and energy products.

has also kept policy rates stable and announced that government bond purchases will start to be gradually reduced in the coming months. The People's Bank of China has kept its rates unchanged, although it confirmed its intention to guarantee the liquidity needed to consolidate economic recovery.

1.2 THE EURO AREA

In the first quarter of this year, GDP returned to growth in the euro area, with services and construction rising and manufacturing declining. According to our estimates, economic activity continued to expand in the spring, still driven by services. The disinflation process eased in the second quarter of 2024, but the core component fell further. At its June meeting, the Governing Council of the European Central Bank lowered its key interest rates by 25 basis points, after keeping them unchanged at high levels since last September.

Euro-area GDP rises in the first quarter of 2024

In the first three months of 2024, euro-area GDP returned to growth (+0.3 per cent on the previous period) after five quarters of stagnation (Table 2), mainly driven by net foreign demand, with a small contribution from household consumption. Investment declined, except in construction, which benefited from favourable weather conditions in Germany and from the ongoing effects of tax incentives in Italy (see Section 2.2). Value added fell in industry excluding construction, while it rose in construction. It expanded in services after a setback at the end of last year. Growth was particularly strong in Spain.[1]

Table 2

Euro-area GDP growth and inflation
(percentage changes)

	GDP growth			Inflation
	2023	2023 Q4 (1)	2024 Q1 (1)	2024 June (2)
France	0.9	0.3	0.2	(2.5)
Germany	-0.2	-0.5	0.2	2.5
Italy	0.9	0.1	0.3	(0.9)
Spain	2.5	0.7	0.8	(3.5)
Euro area	0.5	-0.1	0.3	(2.5)

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

Growth appears to continue in the spring too, driven by services

The latest cyclical data suggest that euro-area GDP continued to edge up in the second quarter as well. Industrial activity appears to have remained weak, as signalled by a number of indicators, including industrial confidence and the manufacturing PMI, which remains well below the expansionary threshold and started to fall again in June. The production data available up to April and the qualitative evidence for the following months also point to a decline in value added in construction. Growth seems to have continued in services, as indicated by the PMIs, which are well above the expansionary threshold; European Commission surveys continue to report positive developments in tourism-related sectors.

On the demand side, the timeliest indicators record a marginal increase in consumption in the second quarter, after a very weak start to the year. The slight recovery in household confidence and, above all, the persistent strength of the labour market appear to have played a role, with employment rising further in the first months of the year and the jobless rate still at its lowest levels since the start of the Economic and Monetary Union (6.4 per cent in May). Investment was still dampened by financing conditions. Net foreign demand is estimated to have made another positive contribution to growth (see Section 1.1).

In June, the Bank of Italy's €-coin indicator, which gives an estimate of the underlying GDP trend in the euro area net of the most erratic components, remained virtually unchanged and continued to anticipate a moderate expansion in economic activity (0.2 per cent for the quarterly average; Figure 4).

[1] Growth was 0.8 per cent in Spain, compared with 0.2 per cent in Germany and France and 0.3 per cent in Italy.

Eurosystem growth forecasts are revised upwards

According to the Eurosystem staff projections released in June, euro-area GDP will grow by 0.9 per cent in 2024, by 1.4 per cent in 2025, and by 1.6 per cent in 2026. Compared with last March, forecasts were revised upwards by 0.3 percentage points for 2024, as economic activity turned out to be stronger than expected in the first quarter and the outlook has improved too.[2]

Disinflation eases

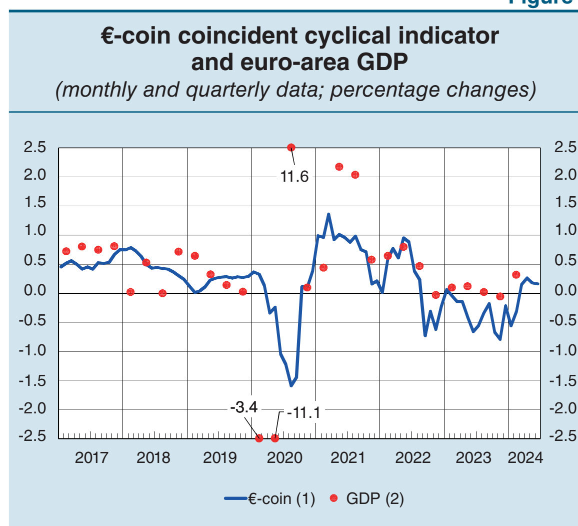
Since the beginning of the year, the decline in annual consumer price inflation has slowed (to 2.5 per cent in June according to preliminary estimates, from 2.6 per cent in the first quarter; Figure 5). Energy prices have picked up again, albeit marginally, while services prices have continued to show large increases (4.1 per cent). Inflation excluding food and energy stood at 2.9 per cent in June, below the first-quarter average, as non-energy industrial goods prices decelerated. Underlying inflation indicators (i.e. excluding more erratic fluctuations, which have mostly been travel-related over the past few months) have continued to fall since early 2023 (see the box 'Underlying inflation pressures: a new indicator', *Economic Bulletin*, 2, 2024).

Wage growth remains strong

In the first quarter of 2024, real wage growth in the euro area for the total economy sped up to 5.6 per cent (from 4.9 per cent in the fourth quarter of 2023). The latest data show that negotiated wages slowed in the second quarter in the Netherlands, whereas they grew at an essentially steady pace in Spain, and accelerated in Italy (see Section 2.5) and in Germany. In the latter country, wage growth is expected to strengthen further over the next few months, driven by renewals of bargaining agreements in the trade, chemical and construction sectors, where profit margins have risen sharply relative to pre-pandemic levels.

Figure 4

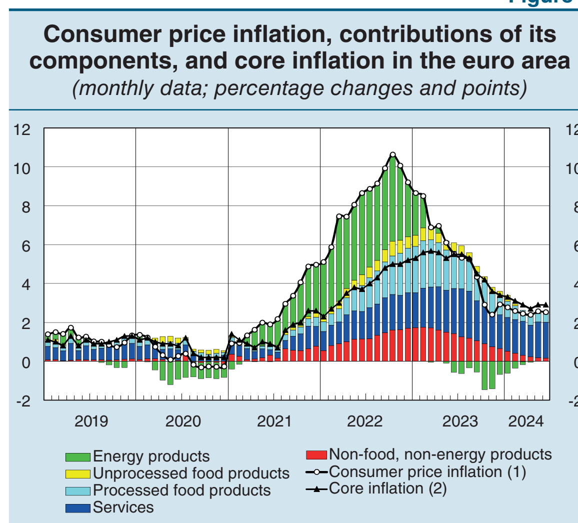
€-coin coincident cyclical indicator and euro-area GDP
(monthly and quarterly data; percentage changes)



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. Latest update: June 2024. The methodology used to construct the indicator and the updated data for the indicator are available on the Bank of Italy's website: 'Cyclical coincident indicator of the euro area economy (€-coin)'. – (2) For GDP, quarterly data; percentage changes on previous quarter.

Figure 5

Consumer price inflation, contributions of its components, and core inflation in the euro area
(monthly data; percentage changes and points)



Sources: Based on ECB and Eurostat data; preliminary estimates for June 2024.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP excluding energy and food.

Eurosystem staff projections point to inflation returning to target by end-2025

According to the Eurosystem staff projections, inflation will go down to 2.5 per cent in 2024, 2.2 per cent in 2025 (falling back in line with the 2 per cent target in the fourth quarter), and 1.9 per cent in 2026. The projection for 2024 has been revised upwards by 0.2 percentage points compared with last March, mainly

[2] For more information, see the ECB's website: 'Eurosystem staff macroeconomic projections for the euro area', June 2024.

reflecting stronger than expected energy price trends. Core inflation is projected to drop to 2.8 per cent this year (more than 2 percentage points lower than in 2023) and to 2.0 per cent in 2026. Growth in unit labour costs is expected to decline over the next two years on the back of slowing wage growth and improved productivity.

Services firms are planning more moderate price increases compared with the first quarter

Based on European Commission surveys, the average price increases planned by firms for the next three months rose marginally in the spring in industry excluding construction, though remaining below their long-term average, while they continued to moderate in services. In May, households' expectations for consumer price trends declined both on the twelve-month horizon (to a median value of 2.8 per cent) and on the three-year horizon (to 2.3 per cent), according to the ECB Consumer Expectations Survey.

Long-term inflation expectations remain in line with the target

Between mid-April and early July, inflation expectations as implied by the yields on inflation-linked swap (ILS) contracts remained essentially stable over the two- and five-year horizons (at 2.1 per cent for both, Figure 6.a), as well as over the five-year, five years forward horizon (at 2.3 per cent). Net of the estimated inflation risk premium, ILS yields remain at just under 2 per cent, signalling that inflation expectations are well anchored to the price stability target. The ECB's latest Survey of Monetary Analysts (SMA) has similar findings, with respondents expecting inflation to return to close to 2 per cent early next year (Figure 6.b). Based on options prices, the probability of inflation exceeding 2.5 per cent on average over the next five years is slightly higher than that of it being below 1.5 per cent (30 and 27 per cent respectively; Figure 6.c).

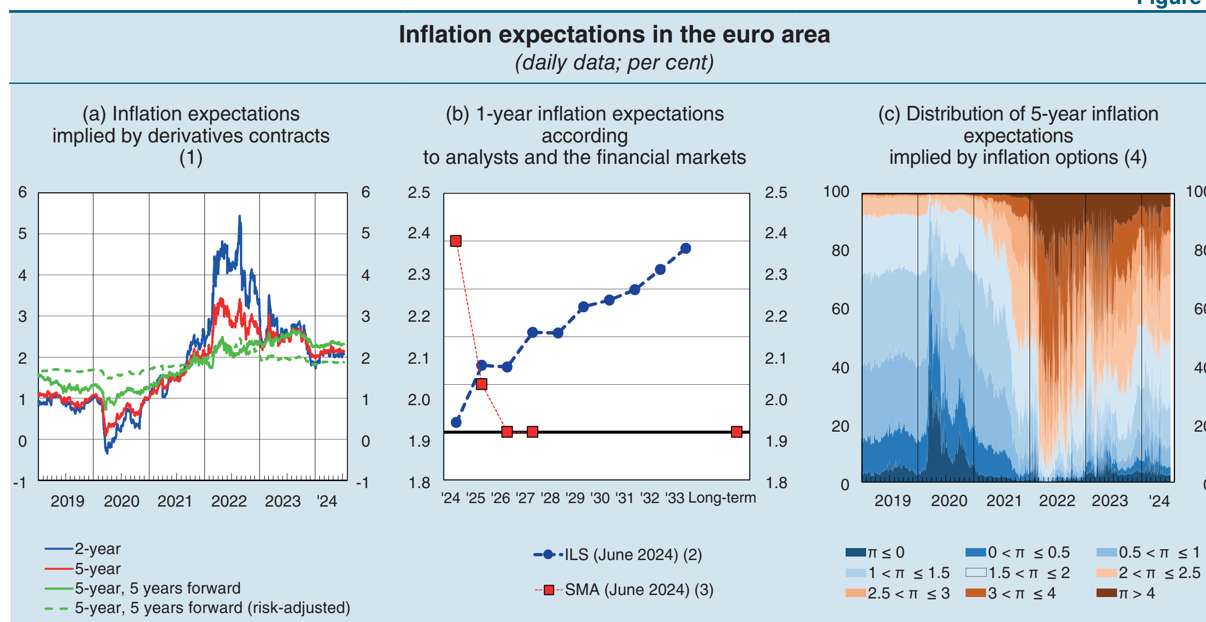
The ECB cuts its key interest rates

At its June meeting, the ECB Governing Council lowered its key interest rates by 25 basis points (Figure 7), after keeping them unchanged at high levels for the

Figure 6

Inflation expectations in the euro area

(daily data; per cent)

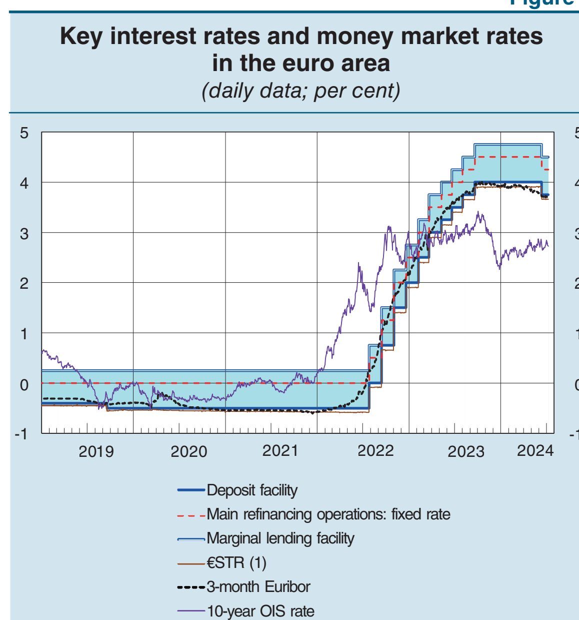


Sources: ECB and based on Bloomberg data.
(1) Expected inflation rates implied by 2-year, 5-year, and 5-year, 5 years forward ILS contracts. For details on the model used to calculate the series over the 5-year, 5 years forward horizon, net of the inflation risk premium, see S. Cecchetti, A. Grasso and M. Pericoli, 'An analysis of objective inflation expectations and inflation risk premia', Banca d'Italia, Temi di Discussione (Working Papers), 1380, 2022. – (2) 1-year expected inflation rates implied by ILSs 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 23 May 2024. – (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 HICP excluding tobacco.

previous nine months. This decision was based on a reassessment of the current inflation outlook, the trends in core inflation and the strength of monetary policy transmission. The Governing Council confirmed its determination to ensure a timely return of inflation to its medium-term target by keeping interest rates at a sufficiently tight level for as long as necessary. The Governing Council will continue to follow a data-dependent approach when setting the level and duration of restriction, without pre-committing to a particular rate path.

Figure 7

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



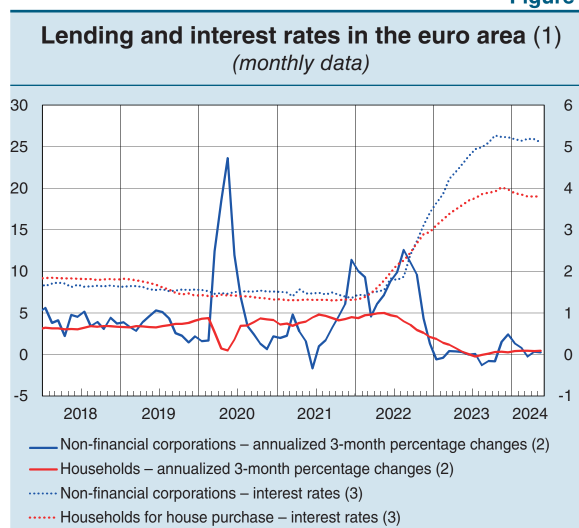
Sources: ECB and LSEG.
(1) As of 1 October 2019, the Euro short-term rate (€STR) is the overnight benchmark rate for the euro-area money market. For the period prior to 1 October, the figure shows the pre-€STR rate.

The Governing Council also confirmed that, in the second half of the year, it would reduce the portfolio of public and private sector securities bought under the pandemic emergency purchase programme (PEPP) by €7.5 billion per month on average, with a view to discontinuing reinvestments at the end of 2024. The value of the portfolio held by the Eurosystem under the asset purchase programme (APP) has continued to decline at a steady and predictable pace (it was €2,835 billion at the end of June).

The total funds disbursed with the third series of targeted longer-term refinancing operations (TLTRO III) and still held by the banking system currently amount to €76 billion for the euro area and €35 billion for Italy.

Figure 8

Lending and interest rates in the euro area (1)
(monthly data)



Source: ECB.
(1) The vertical line corresponding to December 2021 indicates the start of the ECB's monetary policy normalization process. – (2) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. Seasonally adjusted data. – (3) Average of interest rates on new short-, medium-, and long-term loans weighted using the 24-month moving average of new loan disbursements; for non-financial corporations, includes overdrafts. Right-hand scale.

Markets and analysts expect key interest rates to fall gradually

Early in July, the yield profile in €STR swap contracts incorporated market expectations of a 25 basis point cut in September and a further cut of the same size by the end of the year. The SMA shows similar expectations.

Loans to households and firms stagnate

Between February and May, the interest rates on new loans to euro-area non-financial corporations and on new mortgage loans to households remained broadly unchanged at high levels (5.1 and 3.8 per cent respectively; Figure 8).

Growth in lending to non-financial corporations, calculated on a three-month and annualized basis, weakened further in May (to 0.3 per cent, from 0.8 per cent in February; Figure 8). Loans to firms contracted in Italy, albeit less strongly than in February (see Section 2.7); they also fell in Germany

and Spain, while accelerating in France. Growth in lending to households in the euro area remained sluggish, at essentially unchanged levels (0.4 per cent, from 0.5 per cent).

These developments reflect the persistent weakness in credit demand, which is hampered by high interest rates and by slow economic activity, as well as by still tight credit standards.

The new European governance framework enters into force

The reform of EU fiscal rules, as previously approved by the European Parliament and the EU Council, entered into force on 30 April 2024 (see the box 'The new European fiscal governance framework', Chapter 2, *Annual Report for 2023*, 2024, only in Italian).

Under the Recovery and Resilience Facility, around €15 billion worth of new funds have been paid to EU Member States since mid-April, bringing the total disbursement since the launch of the plan to over €240 billion (of which around €156 billion in grants).

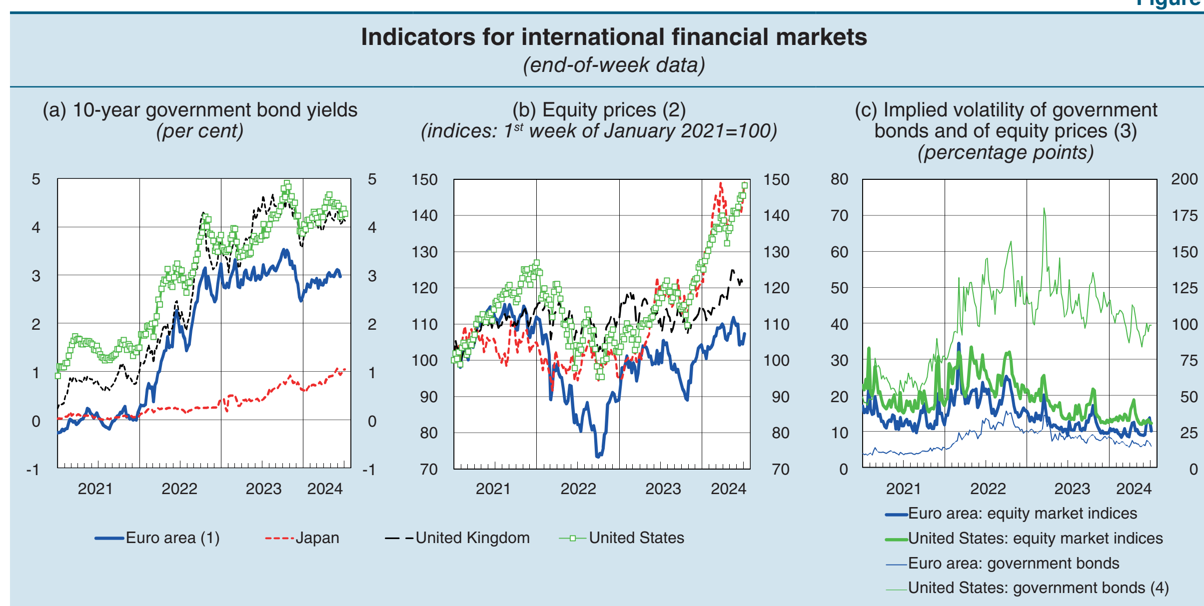
1.3 INTERNATIONAL FINANCIAL MARKETS

Financial market conditions remained broadly unchanged in the US, while they were affected by political uncertainty in the euro area. US stock prices made further gains, driven by corporate profitability, particularly in the technology sector.

US equity returns continue to rise

Between early April and early July, long-term government bond yields remained basically unchanged in the US, while they rose in the UK and Japan (Figure 9.a). The expectations of further policy rate hikes and of a reduction in the Bank of Japan's government bond purchases brought yields there to around 1 per cent, the highest level in over a decade.

Figure 9



Source: LSEG.
(1) For the yields on 10-year government bonds: average yields, weighted by 2022 GDP at chain-linked prices, on the 10-year benchmark government securities of the euro-area countries (excluding Cyprus, Croatia, Estonia, Greece, Latvia, Lithuania, Luxembourg, Malta, Slovakia and Slovenia). – (2) Equity indices: Datastream for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States. – (3) Government bonds: volatility implied by the prices of options on futures on the German Bund for the euro area and on the Treasury Note for the United States (MOVE index). Equity indices: volatility implied by the prices of options on STOXX Europe 600 for the euro area and Standard & Poor's 500 for the United States. – (4) Right-hand scale.

US stock prices climbed higher (Figure 9.b), buoyed by earnings data, especially for companies in the technology sector following new developments in artificial intelligence. The implied volatility of US Treasuries rose slightly, while that of US equity prices declined, despite high uncertainty over macroeconomic policies and international tensions (Figure 9.c).

Euro-area ten-year bond yields edge up

In the euro area, government bond yields rose, owing to uncertainty over the future path of policy rates in the major advanced economies, compounded by political uncertainty in France following the unexpected call for snap elections. Moreover, the yield spreads on French and peripheral ten-year government bonds widened vis-à-vis German Bunds. The spread widening has been reversed fully in the euro-area peripheral countries and only partially in France following the outcome of the elections. Equity prices fluctuated and the implied volatility of indices increased temporarily in June only to return to early-April levels (see Section 2.8).

The euro is slightly up against the dollar

The nominal effective exchange rate of the euro against the currencies of the euro area's major trading partners remained essentially unchanged (Figure 10). The single currency, while affected by the uncertainty stemming from political developments in France, has slightly strengthened overall vis-à-vis the US dollar since April. Financial market indicators do not point to expectations of significant fluctuations in the euro/dollar exchange rate. The US dollar has also weakened against the British pound. The yen has continued to depreciate against the US dollar – the interest rate differential vis-à-vis the United States actually remains high, though the Bank of Japan ended its negative interest rate policy in March. Since April, the BoJ has repeatedly intervened to counter excessive exchange rate volatility.

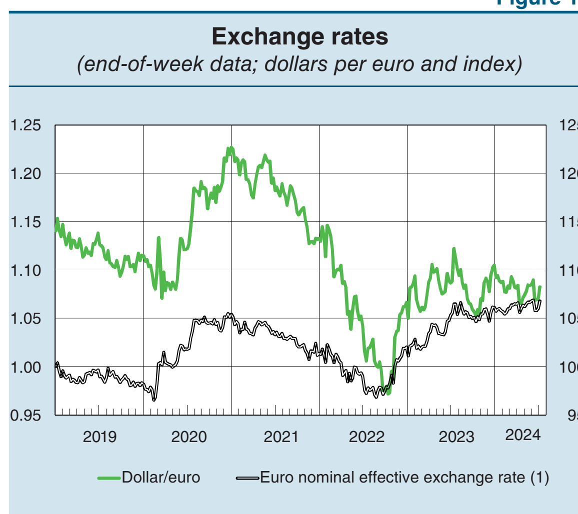


Figure 10

Exchange rates
(end-of-week data; dollars per euro and index)

Sources: ECB and LSEG.
(1) Index: 1st week of January 2019=100. An increase in the index corresponds to an appreciation of the euro. Right-hand scale.

2 THE ITALIAN ECONOMY

2.1 CYCLICAL DEVELOPMENTS

GDP in Italy grew moderately in the first quarter of 2024, driven by further expansion in construction and by the recovery in services, and against a decline in industry excluding construction. The recovery in consumption and the dynamism of foreign demand were accompanied by a slowdown in investment. Based on our assessments, GDP growth continued at a modest pace in the second quarter, still buoyed by services but held back by the decline in manufacturing and construction.

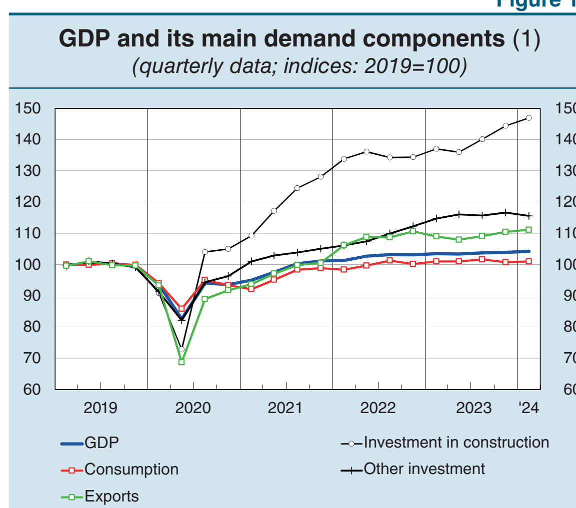
GDP grows in early 2024 ...

In the first quarter of the year, GDP grew by 0.3 per cent on the previous quarter (Figure 11 and Table 3). Growth was mainly driven by net foreign demand, with exports increasing (0.6 per cent, particularly those of business services) and imports falling (-1.7 per cent; see Section 2.4). Household consumption picked up again, only partly recouping the previous quarter's sharp decline. Gross fixed investment slowed: the increase in expenditure on construction, which is still appreciable but less pronounced than in the last months of 2023, went alongside a marked decrease in expenditure on plant, machinery and intangible assets. Finally, having cut into GDP by about 1.5 percentage points on average in 2023, the contribution to GDP growth made by changes in inventories was again negative (-0.7 percentage points).

Value added turned downwards again in industry excluding construction, while it rose sharply in agriculture and in construction, which at the start of the year was still benefiting from work commissioned before the revision of the 'Superbonus' building renovation incentive. In the service sector, activity more than recovered its slight decline at end-2023,

Figure 11

GDP and its main demand components (1)
(quarterly data; indices: 2019=100)



Source: Based on Istat data.
(1) Chain-linked volumes; data seasonally and calendar adjusted.

Table 3

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

	2023	2023			2024
		Q2	Q3	Q4	Q1
GDP	0.9	-0.1	0.4	0.1	0.3
Imports	-0.5	0.1	-2.0	0.1	-1.7
National demand (2)	0.6	0.3	-0.7	-0.3	-0.4
National consumption	1.2	0.0	0.6	-0.9	0.2
Household spending (3)	1.2	0.4	0.8	-1.4	0.3
Gen. Gov. spending (4)	1.2	-1.2	0.1	0.6	0.1
Gross fixed investment	4.7	0.2	1.4	2.0	0.5
Construction	3.1	-0.8	3.0	3.1	1.7
Capital goods (5)	6.3	1.1	-0.3	0.8	-0.9
Change in inventories (6)	-1.3	0.2	-1.6	0.0	-0.7
Exports	0.2	-1.0	1.1	1.2	0.6
Net exports (7)	0.3	-0.4	1.1	0.4	0.8

Source: Istat.
(1) Chain-linked volumes; the quarterly data are seasonally and calendar adjusted. – (2) Includes the change in stocks and valuables. – (3) Includes non-profit institutions serving households. – (4) General government spending. – (5) Include investment in plants, machinery and arms (which also comprise transport equipment), cultivated biological resources and intellectual property. – (6) Includes valuables; contributions to GDP growth on previous period; percentage points. – (7) Difference between exports and imports; contributions to GDP growth on previous period; percentage points.

thanks to the expansion in the financial and insurance sectors, in professional activities and in leisure services.

... and is expected to continue to grow moderately in the second quarter

Based on our estimates, economic activity continued to expand moderately in the second quarter, supported by ongoing growth in services, especially in tourism-related components (see the box 'Recent developments in Italy's tourism sector'), while manufacturing continued to decline. Value added in construction appears to have fallen, in connection with the reduction of the 'Superbonus' tax incentives. On the demand side, the continuing growth in exports and the recovery in consumption were accompanied by less favourable investment trends (see Section 2.2). The Ita-coin indicator, which measures GDP growth net of cyclical volatility, remained close to zero on average in the second quarter. Our most recent macroeconomic projections show GDP increasing by 0.6 per cent in 2024 (by 0.8 per cent without calendar adjustments), by 0.9 per cent in 2025 and by 1.1 per cent in 2026 (see the box 'The macroeconomic scenario published in June').

THE MACROECONOMIC SCENARIO PUBLISHED IN JUNE

On 13 June 2024, the Bank of Italy published the projections for the Italian economy for 2024-26, prepared as part of the Eurosystem coordinated exercise. The forecasting scenario assumes, as the main forecasters also do, that international trade will accelerate gradually over the three years; it also assumes that, notwithstanding the global instability, no particular tensions will arise in the financial and commodity markets. In line with the expectations embedded in futures contracts, energy commodity prices are projected to decline gradually, reaching at the end of 2026 a slightly lower level than at present. The cost of financing for firms and households is expected to remain high in 2024 and to decrease progressively over the next two years.[1]

GDP is set to grow moderately this year, by 0.6 per cent, to then accelerate slightly, to 0.9 per cent in 2025 and 1.1 per cent in 2026 (see the table). Without adjusting for calendar effects, GDP growth would be 0.8 per cent this year and the next and 1.2 per cent in 2026. Economic activity is projected to be supported by consumption and exports, which should benefit from the recovery in disposable income and foreign demand. Investment is expected to decelerate markedly, dampened by overall tight – albeit gradually improving – financing conditions and by the sharp reduction in residential incentives. These factors will likely be mitigated by the increase in infrastructure spending and the measures to stimulate private investment laid out in the NRRP.[2]

Employment is expected to continue to expand over the three-year period, though at a slower pace than GDP. Labour supply looks set to slow down, reflecting the structural decline in the working age population, the effects of which will only partially be offset by those of higher labour market participation. The unemployment rate is expected to remain stable over the three-year period.

[1] The projections are based on information available at 15 May (for the technical and international assumptions) and at 22 May (for other data). The scenario takes into account the budgetary provisions for 2024-26 and the use of EU funds under the NextGenerationEU programme, based on the information currently available on the National Recovery and Resilience Plan (NRRP).

[2] The scenario does not include the quarterly economic accounts data published by Istat on 31 May, in which the GDP growth carried over from last year was revised slightly upwards. All other things being equal, incorporating these data into the projection scenario would increase the estimated average annual GDP growth for 2024 by 0.1 percentage points.

Table

GDP growth and inflation: forecasts of the Bank of Italy and other organizations
(percentage change on previous period)

	GDP (1)			Inflation (2)		
	2024	2025	2026	2024	2025	2026
Bank of Italy (June)	0.6	0.9	1.1	1.1	1.5	1.6
European Commission (May)	0.9	1.1	–	1.6	1.9	–
OECD (May)	0.7	1.2	–	1.1	2.0	–
IMF (April)	0.7	0.7	–	1.7	2.0	–
Consensus Economics (July)	0.9	1.0	–	1.2	1.7	–
Memorandum item: Bank of Italy (April)	0.6	1.0	1.2	1.3	1.7	1.7

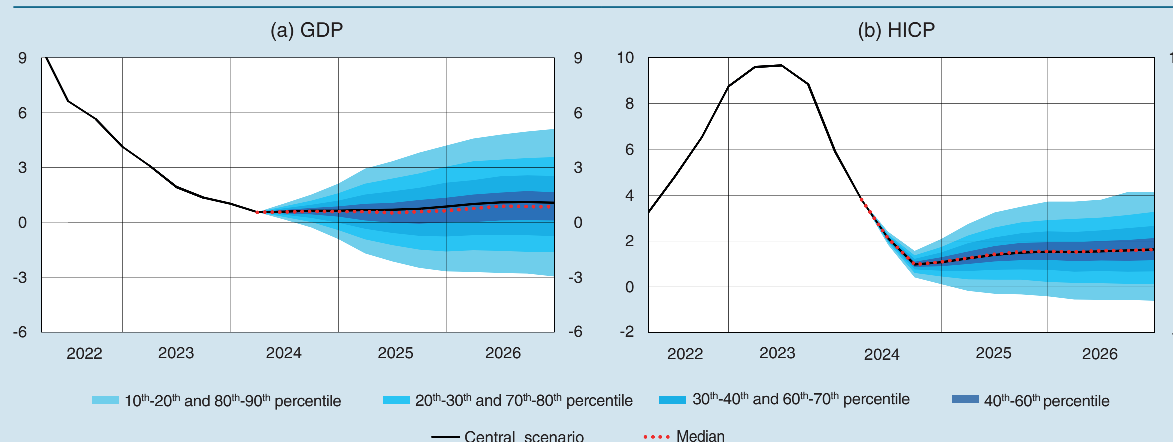
Sources: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 13 June 2024; European Commission, *European Economic Forecast. Spring 2024*, May 2024; OECD, *OECD Economic Outlook*, May 2024; IMF, *World Economic Outlook*, April 2024; Consensus Economics, *Consensus Forecasts*, July 2024.
(1) The growth rates indicated in the Bank of Italy's projections are adjusted for calendar effects. Without this adjustment, GDP is projected to grow by 0.8 per cent in 2024 and 2025 and by 1.2 per cent in 2026. – (2) HICP. The Consensus Economics forecasts refer to the consumer price index for the entire resident population (NIC).

Consumer price inflation is projected to remain low, at 1.1 per cent this year and at just over 1.5 per cent on average over the two years 2025-26. The drop compared with the high levels recorded in 2023 appears due above all to the reduction in the prices of energy and intermediate goods. Core inflation is projected to decline over the entire forecasting horizon: the pressures stemming from higher wage growth are expected to be offset, especially this year, by a reduction in profit margins and moderate developments in the prices of imported goods.

Compared with last April, the GDP growth projections are marginally lower for both 2025 and 2026, mainly owing to the assumption, implied by market prices, of slightly higher interest rates. Consumer price inflation has been revised downwards for the entire three-year horizon, reflecting a swifter-than-expected decline in energy prices and slightly weaker demand than forecast in April.

Figure

Probability distribution of the GDP growth and HICP forecasts (1)



(1) Calendar-adjusted quarterly data. The probability distribution is graphed by percentile groups using fan charts, based on stochastic simulations made via random extractions from the shock distribution of the Bank of Italy's quarterly econometric model. The distribution takes account of asymmetric shocks to the equations that reflect the main risk factors according to the procedure described in C. Miani and S. Siviero, 'A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts', Banca d'Italia, Temi di Discussione (Working Papers), 758, 2010. The value corresponding to the fourth quarter of each year coincides with the average annual percentage change. Median values below (above) the central scenario indicate risks to the downside (upside).

The risks to growth are tilted to the downside (see panel (a) of the figure). The recovery in world trade could be weaker and more gradual than assumed, partly owing to a possible worsening of global tensions in connection with the ongoing conflicts. A further risk is that the effects of past monetary tightening may affect domestic demand more strongly. Lastly, the reduction in incentives for residential building renovation could lead to a sharper-than-expected decline in construction activity.

The risks to inflation are balanced (see panel (b) of the figure). On the one hand, the possible heightening of international tensions could translate into unexpected further increases in commodity and intermediate goods prices. On the other hand, weaker demand would also translate into lower pressures on wages and profit margins.

2.2 FIRMS

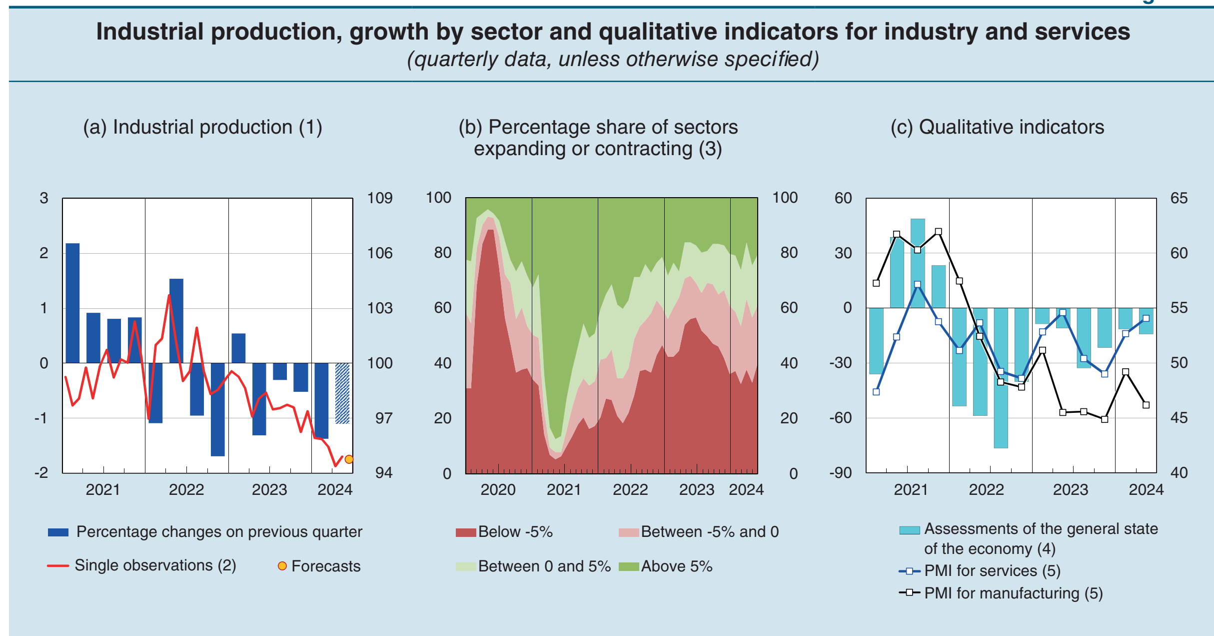
Industrial production continued to decline in the second quarter. Services went on expanding, particularly in tourism-related sectors, while the fall in activity in the residential sector as a result of the reduction in tax incentives led to a drop in value added in construction.

Industrial activity still appears to be declining in the second quarter ...

Industrial production increased in May, only partly recouping its April decline (Figure 12.a). Over half of the manufacturing sectors are contracting, year-on-year, to a greater extent in textile industries, in the manufacture of transport equipment and in metal working. Conversely, the food sector is growing (Figure 12.b).

Figure 12

Industrial production, growth by sector and qualitative indicators for industry and services
(quarterly data, unless otherwise specified)



Sources: Based on data from the Bank of Italy, Istat, Markit and Terna.
(1) Data adjusted for seasonal and calendar effects. The yellow dot represents the forecast for June 2024, and the last bar represents the forecast for the second quarter. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data. The share of sectors expanding or contracting (as per Ateco classification) is calculated based on the 3-month moving averages of the year-on-year growth rates of the sectoral indices for industrial production, adjusted for calendar effects. – (4) Balance, in percentage points, of the responses 'better' and 'worse' to the question on the general state of the economy (see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 July 2024). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

The PMI for manufacturing remained below the expansion threshold in the second quarter, owing especially to the decline in new orders (Figure 12.c). In qualitative surveys, firms reported weak demand as the main obstacle to their activity, though uncertainty around the implementation of the incentives envisaged in the Transition 5.0 scheme is also weighing on the production of capital goods.

Based on electricity and gas consumption, motorway and rail traffic, and qualitative indicators of business confidence and expectations, our estimates for June suggest a new drop in industrial activity on average in the second quarter, though less pronounced than in the first. The decline in activity has been ongoing since mid-2022.

… whereas expansion in services appears to be continuing

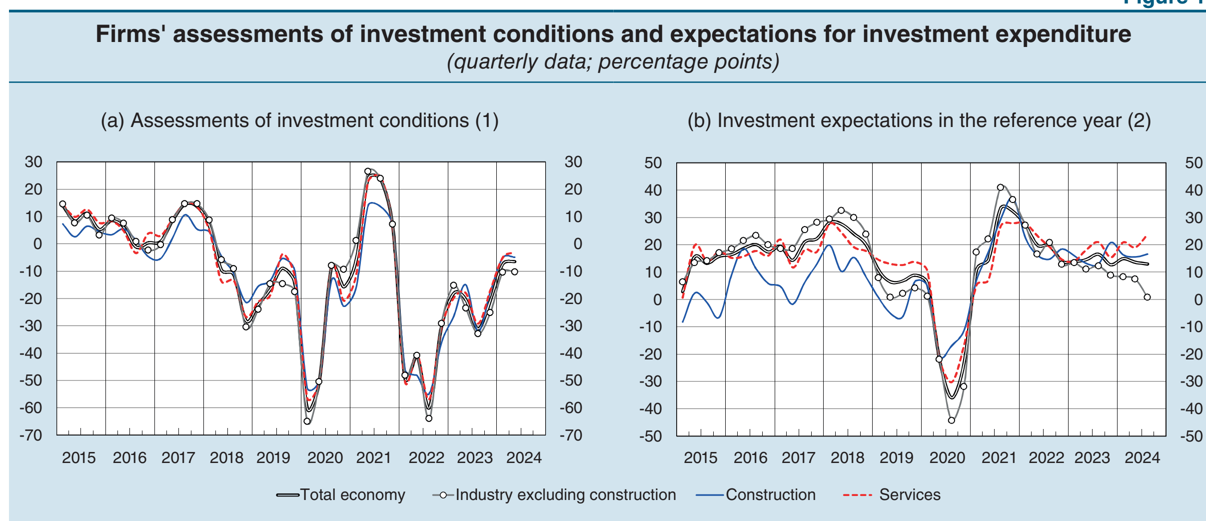
The PMIs for services, benefiting from greater demand, remained at levels consistent with expansion in June. In spring, tourism and leisure services confidence indicators signalled a particularly favourable trend (see the box 'Recent developments in Italy's tourism sector'). The composite business confidence climate index (Istat Economic Sentiment Indicator, IESI) fell slightly in all sectors in the second quarter, remaining at lower levels in manufacturing. Surveys conducted by the Bank of Italy between May and June also suggest a slight worsening of conditions for the current quarter, particularly among construction firms and, to a lesser extent, in industry.[1]

Investment slows in the first quarter and appears to decline in the second

Investment decelerated in the first quarter of 2024 (0.5 per cent, from 2.0 per cent in the autumn). Construction spending, especially in the housing sector, slowed after increasing strongly over the two previous quarters. Spending on plants, machinery and arms declined, except for transport equipment and intellectual property. Data provided by Assilea, the Italian leasing association, indicate that the effects of the uncertainty around the implementation of the Transition 5.0 scheme also extended to the purchase of capital goods. When responding to Bank of Italy surveys, firms confirm their negative assessment of investment conditions in the second quarter, essentially in line with their assessments at the start of the year (Figure 13.a; see Section 2.7). The balance between the percentage

Figure 13

Firms' assessments of investment conditions and expectations for investment expenditure
(quarterly data; percentage points)



Source: 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 July 2024.
(1) Balance of opinion between positive and negative assessments compared with the previous quarter. – (2) Balance between expectations of an increase and of a decrease compared with the previous year. The first expectations for the reference year are surveyed in the fourth quarter of the preceding year.

[1] For further details, see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 July 2024.

of firms planning to expand nominal investment in 2024 (against the previous year) and those expecting to reduce it has improved in services and remained stable in construction, and is positive in both sectors. It has, however, fallen sharply among industrial firms, reaching levels close to zero and the lowest since early 2021 (Figure 13.b).

RECENT DEVELOPMENTS IN ITALY'S TOURISM SECTOR

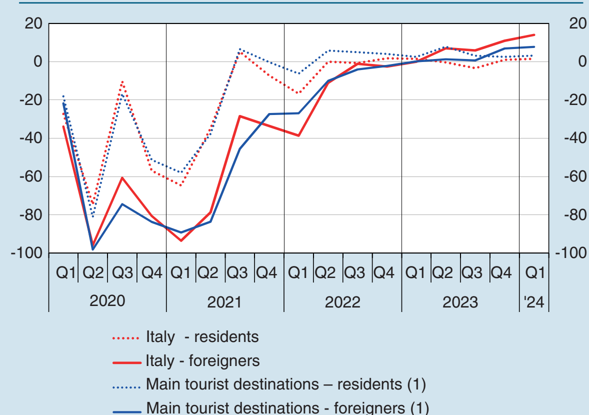
In 2019, the year before the pandemic and the latest for which Eurostat data on the Tourism Satellite Account for European countries are available,[1] the value added generated by tourism – i.e. all activities and services relating to persons travelling and staying in places other than their usual environment for holidays or for business – amounted to around 6.2 per cent of total value added in Italy, more than the average of the EU-27 countries (4.5 per cent).[2]

After the collapse of the sector during the pandemic, spending on tourism-related services has made a positive contribution to Italy's GDP growth since 2022. In more detail, in 2023, the consumption of restaurants and accommodation services – the main expenditure items relating to tourism – by resident and non-resident households rose by 5.4 per cent in real terms compared with 2022. The balance between spending in real terms in Italy by foreign tourists and spending abroad by resident households increased by €1.1 billion in 2023 compared with the previous year, exceeding pre-pandemic levels.

According to Istat's survey on the occupancy of tourist accommodation in Italy,[3] the foreign customer component outweighed the domestic component again, reaching 52.4 per cent of total overnight stays in 2023. Since the end of last year, overnight stays by foreigners have surpassed 2019 levels, not only in Italy, but also in other popular euro-area destinations (France, Greece, Portugal and Spain), while the overnight stays of resident tourists, which had already moved in line with pre-pandemic levels since the end of 2021, have largely stagnated (Figure A). This trend was accompanied by a shift in overnight stays towards non-hotel options, which probably contributed to limiting tourist spending on restaurants and accommodation.

Figure A

Overnight stays at accommodation in Italy and in the main euro-area tourist destinations (1)
(quarterly data; percentage changes compared with the same quarter in 2019)



Sources: Based on Istat and Eurostat data.
(1) These countries are France, Greece, Portugal and Spain. The sum of overnight stays by residents (dotted line) and those of foreigners (solid line) is used.

Based on data from the Survey on International Tourism, carried out by the Bank of Italy[4] for

[1] Eurostat, *Tourism Satellite Account in Europe*, 2023. The Tourism Satellite Account, which has provided a joint representation of the tourism sector in European countries for both the demand (expenditure) and the supply side (added value) since 2010, is prepared every three years. For Italy, the latest update is from 2022 with data for 2019 (see Istat, *The Tourism Satellite Account in Italy. 2019*, 14 January 2022).

[2] Among the most visited euro-area countries for which this information is available, the value added generated by tourism accounts for 8.1 per cent of total value added in Portugal, 6.9 per cent in Spain and 4.0 per cent in France. There is no figure available for Greece.

[3] Istat, 'Occupancy of tourist accommodation' (only in Italian), 7 February 2024.

[4] 'Survey on International Tourism' (only in Italian), Banca d'Italia, Statistics Series, 18 June 2024.

balance of payments purposes, the real spending of foreign tourists in Italy in 2023 rose by 10.5 per cent compared with 2022, recouping 2019 levels (see panel (a) of Figure B; red bars). While spending by tourists from the EU held stable (see panel (a) of Figure B; blue bars), growth in spending over the past year has been driven exclusively by travellers from outside the EU (see panel (a) of Figure B; green bars) – especially from the United States, the United Kingdom and Japan – which had been more affected by restrictions during the pandemic and which have higher average per capita spending for overnight stays. The biggest share of spending by foreign tourists was on accommodation (44.3 per cent), followed by restaurants (21.7 per cent) and shopping (16.3 per cent).

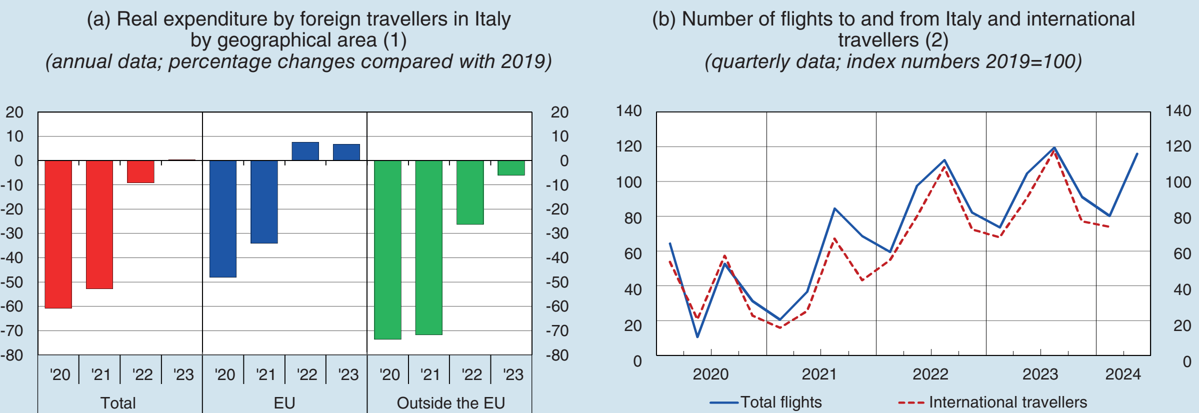
In the first quarter of this year, the real expenditure of foreign travellers in Italy, net of seasonal factors, recorded another slight increase; the share of the foreign customer component in total overnight stays has increased compared with the same quarter of 2023.

Based on our estimates,[5] expenditure on restaurants and accommodation increased slightly in spring, helping to boost GDP further in the second quarter; the number of flights points to a year-on-year increase (see panel (b) of Figure B).

Partly as a result of the recovery in demand, inflation in Italy in relation to tourism activities (accommodation, restaurants, package holidays and transport) has been well above the average for services since the summer of 2022. Although this gap gradually narrowed in the first six months of 2024, it still remains positive, thereby contributing to the slow disinflation in services.

Figure B

Real expenditure of foreign travellers in Italy and number of flights



Sources: Based on Bank of Italy and Istat data; Eurocontrol data for flights relating to destinations in or departures from Italy.
(1) Expenditure in real terms is obtained by deflating foreign travellers' expenditure in Italy drawn from the balance of payments with the deflator of the final consumption expenditure of non-resident households in the economic territory included in the national accounts. – (2) International travellers include both foreign travellers entering Italy and Italian travellers travelling abroad.

[5] The estimates take into account indicators on revenues from international tourist flows, overnight stays, air and motorway traffic, Confcommercio's indications on consumption, and qualitative indicators on the confidence of tourism companies.

2.3 HOUSEHOLDS

After the sharp contraction in late 2023, household consumption returned to moderate growth in the first few months of this year, thanks to a marked increase in purchasing power and despite the higher propensity to save. The cyclical indicators point to a further modest expansion for the second quarter, driven in particular by tourism-related items. The real estate market remains weak, although it shows signs of improvement.

Household consumption recovers partially in the first quarter ...

Household spending rose by 0.3 per cent in real terms in the first quarter of 2024, after declining by 1.4 per cent in the previous quarter. This moderate rebound reflected higher purchases of durable and non-durable goods, while spending on services and semi-durable goods decreased. Consumption benefited from the good performance of employment and the strong pick-up in purchasing power, but was held back by the recovery in the propensity to save, which exceeded pre-pandemic levels after the lows reached between 2022 and 2023 (Figure 14).

... and edges up in the second quarter as well

According to our estimates, consumption grew again in the second quarter, albeit still slowly. Confcommercio's consumption indicator points to broadly stable purchases of services and weak spending on goods in April and May on average. Our analyses, however, suggest that tourism flows boosted consumption significantly in the spring months (see the box 'Recent developments in Italy's tourism sector').

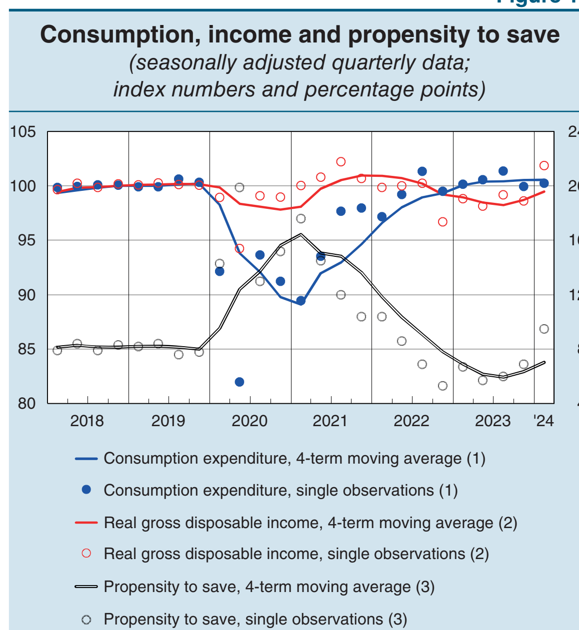
Consumer confidence rose in June for the second consecutive month, thanks to the improvement in all its components, excluding the assessments of household budgets and current savings opportunities (Figure 15). The consumer confidence index stands at its highest level since the beginning of 2022.

The real estate market shows tentative signs of improvement

In the first three months of 2024, house prices remained broadly unchanged quarter on quarter and increased moderately year on year (by

Figure 14

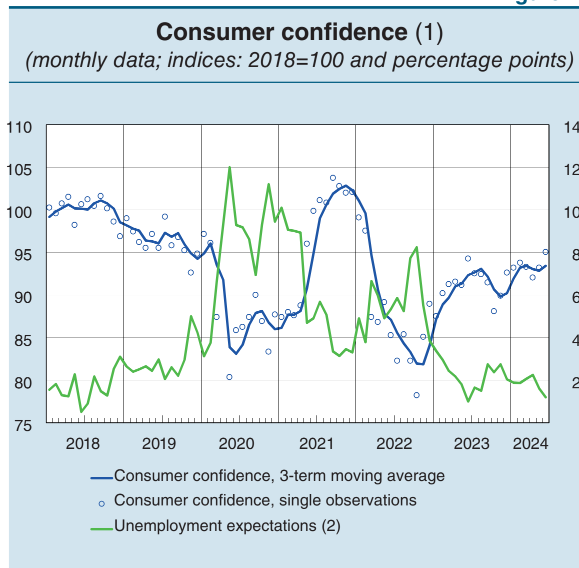
Consumption, income and propensity to save
(seasonally adjusted quarterly data; index numbers and percentage points)



Source: Based on Istat data.
(1) Chain-linked volumes; index: 2018=100. – (2) Net of the variation in the final consumption expenditure deflator for resident households; index: 2018=100. – (3) Consumer households' savings as a percentage of gross disposable income; right-hand scale.

Figure 15

Consumer confidence (1)
(monthly data; indices: 2018=100 and percentage points)



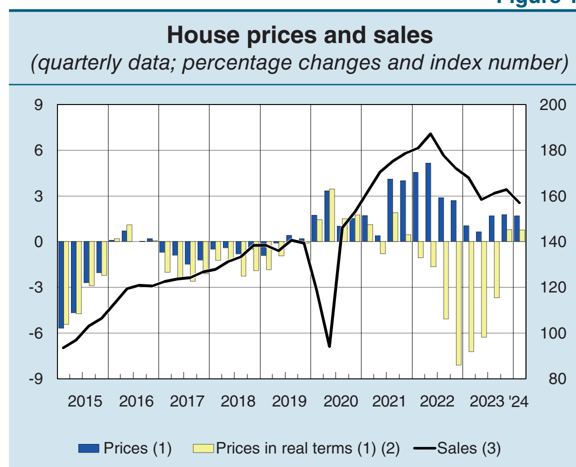
Source: Based on Istat data.
(1) Seasonally adjusted data. In the absence of the figure for April 2020, which was not recorded owing to the pandemic, the moving average for the quarters ending respectively in April, May and June 2020 is constructed on the basis of the two observations available. – (2) Balance between the 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.

1.7 per cent; by 0.8 per cent net of consumer price inflation), especially owing to the rise in the prices of new constructions (5.4 per cent). Sales fell again in the first quarter of 2024 compared with the previous one (Figure 16). According to the Italian Housing Market Survey (Short-term Outlook) conducted by the Bank of Italy last spring, real estate agents' pessimism about the short- and long-term development of market conditions eased further. Furthermore, the share of market participants expecting a fall in prices in the second quarter decreased but remained higher than the share expecting a rise. The ability to access the market – as measured by the ratio of the cost of purchase by mortgage to households' disposable income – improved but remained lower than the average for the last decade on account of interest rates still being high. As for the rental market, survey respondents confirmed the upward pressure on rents: the share of real estate agents reporting price increases has risen to the highest level since the survey was launched in 2013. This trend reflects supply shortages – partly caused by homeowners' preference for short-term rents, especially in urban areas – and rising demand associated with still tight mortgage access conditions.

Figure 16

House prices and sales

(quarterly data; percentage changes and index number)



Sources: Based on data from the Bank of Italy, Istat and the Italian Revenue Agency's Osservatorio del mercato immobiliare (OMI).
(1) Year-on-year percentage changes. – (2) House prices deflated by the consumer price index. – (3) Adjusted for seasonal and calendar effects. Index: 2015=100. Right-hand scale.

2.4 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

The contribution of net foreign demand to real GDP growth was positive in the first quarter of 2024, owing to a slight increase in exports and a sharp decline in imports. The current account surplus widened. Non-resident investors made large net purchases of Italian securities, especially those issued by the public sector. The negative TARGET balance shrank during the first six months of the year. Italy's positive net international investment position improved further.

Exports grow again in the first quarter ...

Export volumes continued to rise in the first quarter, albeit at a slower pace than in the previous quarter (Table 4). While exports of services (especially business services) grew strongly again, exports of goods declined modestly amidst weak world trade growth. This decline was due to lower sales to the euro area, above all to Germany, while those to other markets remained stable. Exports of pharmaceuticals and capital goods (especially transport equipment and machinery) made a particularly negative contribution, while those of food and beverage and of electronics increased.

After stagnating at the end of 2023, imports fell significantly for both goods and services. The increase in the purchases of goods from other

Table 4

Italy's imports and exports (1)

(percentage changes on previous period)

	2023	2023			2024
		Q2	Q3	Q4	Q1
Exports	**0.2**	**-1.0**	**1.1**	**1.2**	**0.6**
Goods	**-1.5**	**-1.9**	**0.9**	**0.8**	**-0.5**
To euro-area countries	-1.7	-2.0	-0.2	-0.3	-1.2
To non-euro area countries (2)	-1.3	-1.7	1.7	1.7	..
Services	**8.2**	**3.2**	**1.8**	**3.1**	**5.4**
Imports	**-0.5**	**0.1**	**-2.0**	**0.1**	**-1.7**
Goods	**-1.6**	**-0.8**	**-2.0**	**-0.7**	**-1.7**
From euro-area countries	4.4	-4.3	0.5	1.0	3.1
From non-euro area countries (2)	-6.9	2.8	-4.4	-2.4	-6.7
Services	**4.3**	**4.0**	**-1.8**	**3.7**	**-2.0**

Sources: 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 unspecified countries and, for exports, goods procured in Italian ports by foreign carriers.

euro-area countries was more than offset by the contraction in purchases from the rest of the world, particularly from China and the other East Asian and Middle Eastern economies and mainly in the machinery and energy commodity sectors; this was mostly the result of transportation disruptions caused by the Houthi militia attacks on ships in the Red Sea.

The contribution of net foreign demand to real GDP growth was positive.

… and those of goods appear to increase in the second quarter

According to our assessments, based on partial foreign trade data for April and May, seasonally adjusted exports of goods increased in volume in the second quarter, including net of one-off sales in the shipbuilding sector. However, manufacturing firms' assessments of foreign orders as recorded by Istat and the corresponding PMI continued to signal weak foreign demand in the second quarter on average, while delivery times improved (Figure 17). Imports of goods appear to have picked up, supported by extra-EU purchases, partly due to the increase in shipping around the African continent.

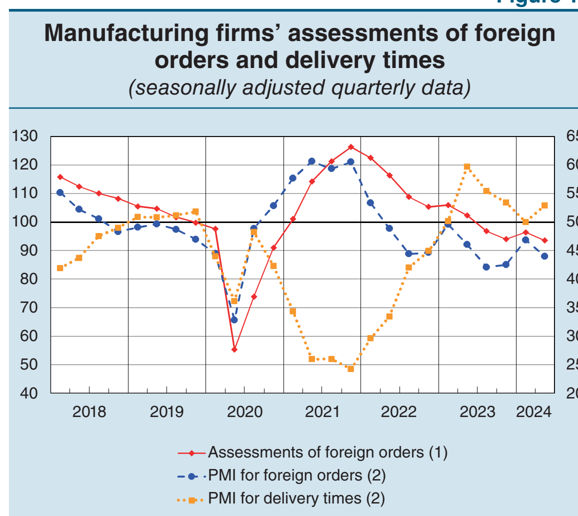
The current account surplus widens

On a seasonally adjusted basis, the current account surplus widened in the first quarter of 2024 compared with the previous one (to 2.0 per cent of GDP; Figure 18 and Table 5). The improvement was driven by an increase in the goods

Figure 17

Manufacturing firms' assessments of foreign orders and delivery times

(seasonally adjusted quarterly data)

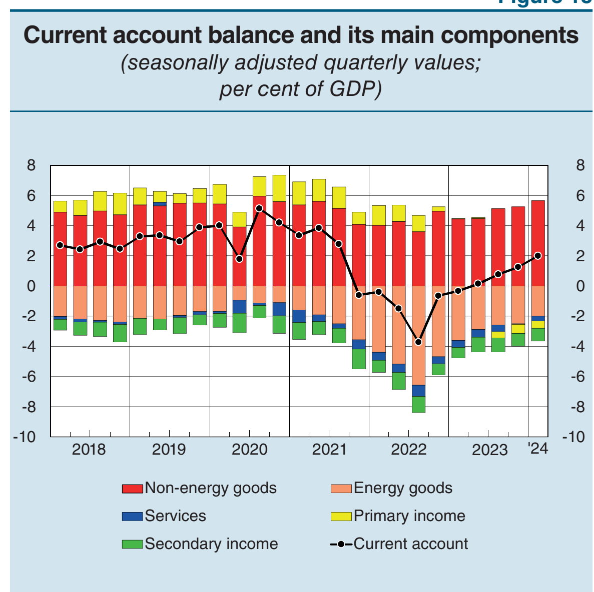


Sources: Istat and Standard & Poor's.
(1) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' or 'decreasing' foreign orders, minus the average since the start of the time series (January 2000) plus 100. The value of 100 is therefore a balance between the replies of 'increasing' and 'decreasing' in line with the historical average. Q2 2020 is the average of two months; no data were gathered in April due to the pandemic emergency. – (2) Diffusion index obtained by adding half of the percentages of responses of 'stable' to the percentage of responses of 'improving'. Values above 50 indicate an improvement, while those below 50 indicate a deterioration. Quarterly average. Right-hand scale.

Figure 18

Current account balance and its main components

(seasonally adjusted quarterly values; per cent of GDP)



Sources: For GDP, Istat; the breakdown of energy and non-energy goods is based on Istat's foreign trade data.

Table 5

Balance of payments

(billions of euros)

	2023	2023 Q2	2023 Q3	2023 Q4	2024 Q1
Current account	**9.7**	**-0.8**	**10.3**	**9.2**	**4.4**
Adjusted for seasonal and calendar effects	9.7	0.8	4.0	6.6	10.7
Memorandum item: % of GDP (1)	0.5	0.1	0.8	1.2	2.0
Capital account	**16.0**	**1.8**	**3.6**	**7.8**	**-0.5**
Financial account	**34.7**	**9.5**	**21.2**	**13.8**	**-3.4**
Direct investment	-9.3	-9.2	6.7	-9.7	1.4
Portfolio investment	-26.6	-23.4	-1.3	-23.3	-26.1
Derivatives	-0.2	-0.3	-0.4	1.3	1.4
Other investment (2)	68.1	40.6	17.1	44.2	19.7
Changes in official reserves	2.7	1.8	-0.9	1.4	0.2
Errors and omissions	**9.1**	**8.5**	**7.3**	**-3.2**	**-7.4**

(1) The annual figure for 2023 refers to the non-seasonally adjusted current account balance. – (2) Includes change in the TARGET balance.

surplus as a result of both a lower deficit in the energy component and a higher surplus in non-energy goods. The primary income deficit also improved marginally, halting the deterioration in the balance which had been under way since the second quarter of 2022 (see the box 'The balance on primary income and the recent rise in interest rates', *Economic Bulletin*, 2, 2024).

Foreign demand for Italian securities, especially public sector ones, strengthens further

The financial account balance was slightly negative in the first quarter of 2024 (-€3.4 billion; Table 5). Foreign investment in Italian public sector securities was particularly high (€42.6 billion), absorbing almost all net issuance by the Treasury. Foreign demand also continued to support the issuance of private sector debt securities, with purchases amounting to €9.1 billion, of which €4.8 billion issued by the banking sector.

In the same period, residents resumed investment in foreign portfolio assets (€26.3 billion), entirely supported by purchases of debt securities (€34.4 billion, of which €20.6 billion in government bonds), mainly from the euro area, while foreign investment fund shares continued to be sold, mostly by households. The resident banking sector increased net funding abroad, despite a temporary decline in March due to end-of-quarter effects.

The negative TARGET balance shrinks again

As a result, the Bank of Italy's debtor position in the TARGET system decreased by €20.0 billion in the first three months of 2024. The balance fell again in the second quarter (by €15.6 billion) to €485.3 billion at the end of June (Figure 19), thereby continuing the significant improvement under way since mid-2023 which, in terms of the Bank of Italy's balance sheet, reflected the repayment of loans granted by the Eurosystem to credit institutions under TLTRO III and, to a lesser extent, the reduction in the monetary policy portfolio.

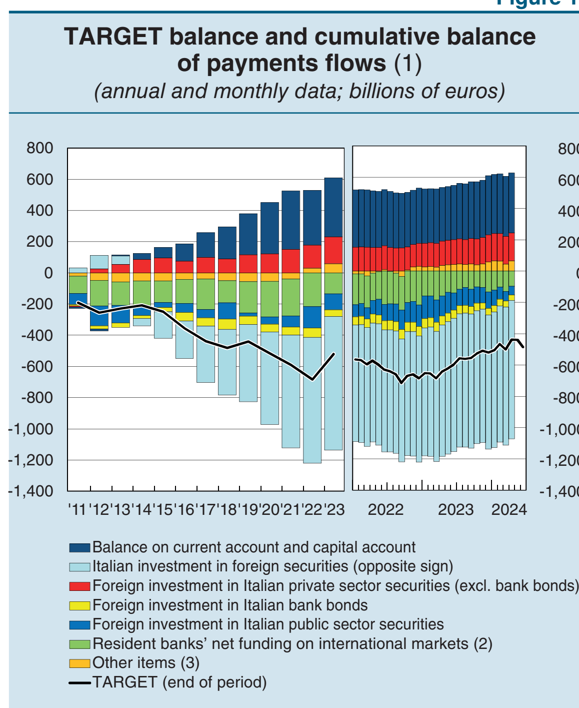
The positive net international investment position strengthens further

At the end of March 2024, Italy's net international investment position was positive by €165.2 billion, equal to 7.9 per cent of GDP. The increase compared with end-2023 (€19.5 billion) was due to the current account surplus and, above all, to positive valuation adjustments; it was particularly influenced by the rise in the price of gold, which was reflected in the value of the Bank of Italy's gold reserves.

Figure 19

TARGET balance and cumulative balance of payments flows (1)

(annual and monthly data; billions of euros)



(1) Using the balance of payments accounting identity, an improvement in the Bank of Italy's negative balance vis-à-vis the ECB in the TARGET payment system may reflect investments 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 bank funding in the form of loans, deposits and other investments by the banking sector, including those intermediated by resident central counterparties. – (3) Direct investment, derivatives, residual items in other investment, official reserves, errors and omissions.

2.5 THE LABOUR MARKET

Employment continued to grow in the first and second quarter of 2024. The labour market participation rate stabilized at high levels and the unemployment rate declined further. Labour costs in the non-farm private

sector rose at a slightly slower pace in early 2024 than at the end of 2023. Wage growth is expected to pick up in the coming months, buoyed by the renewals of the collective bargaining agreements in the service sector and by the payments due under the current agreements.

Employment continues to grow in the first three months of 2024 ...

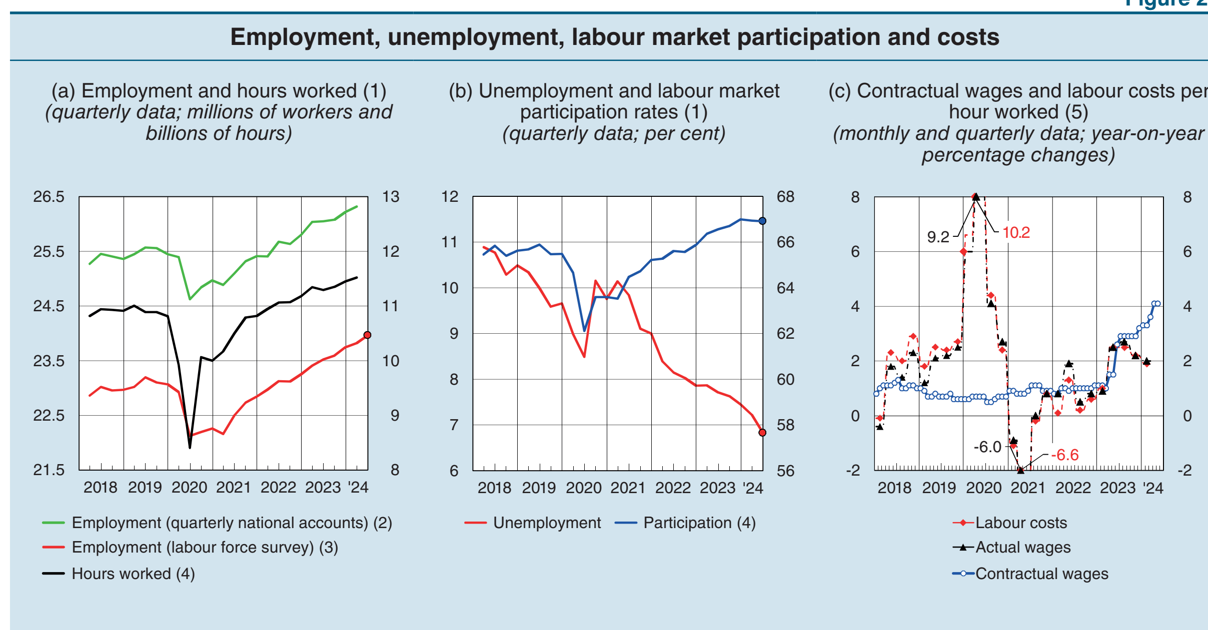
According to data from Istat's quarterly national accounts (CET), headcount employment continued to grow in the first quarter of 2024 (0.4 per cent; Figure 20.a), as a result of the increase in both permanent employees and self-employed workers, while fixed-term employment declined.[2] This growth pattern was widespread across the private sector, including in manufacturing, where employment had stagnated in the previous quarter. The number of hours worked increased more than the number of people employed (0.6 per cent); hourly labour productivity thus declined further, albeit at a slower pace than in late 2023.

... and the unemployment rate declines further

The activity rate remained stable (at 66.9 per cent; Figure 20.b) at the highest levels since the inception of the relevant time series: the decline in labour market participation among young people aged 15 to 34 was offset by the higher participation of the older population groups, in line with the trend observed since 2012, partly as a result of the pension reforms (see Chapter 7, *Annual Report for 2023*, 2024). The unemployment rate fell further to 7.2 per cent, only 0.7 percentage points higher than the euro-area average (it was 2.3 percentage points higher at the end of 2019).

Figure 20

Employment, unemployment, labour market participation and costs



Sources: For employment, hours worked, actual wages and labour costs, Istat's quarterly national accounts; for employment and for the labour market participation and unemployment rates, Istat's labour force survey; for contractual wages, Istat's contractual earnings by type of contract.
(1) Seasonally adjusted data. The points corresponding to Q2 2024 indicate the average value for the two-month period April-May. – (2) Includes all persons engaged in production activity in Italy's economic territory. – (3) Includes all resident persons that are employed, excluding workers living permanently in an institution and military personnel. – (4) Right-hand scale. – (5) Non-farm private sector. Raw monthly data for contractual wages; Seasonally adjusted quarterly data for actual wages and labour costs.

[2] The employment statistics by type of contract are taken from Istat's labour force survey and are consistent with the quarterly national accounts data on employment growth in the whole economy.

Employment continues to grow in the spring

According to provisional data from Istat's labour force survey, employment continued to rise in April and May. Growth was broad-based across age groups, with the exception of the age group 15-34, which recorded a decline after stagnating in the first quarter. The participation rate remained at high levels, driven by an increase in female participation, which offset a slight decrease among men. The unemployment rate fell further to 6.8 per cent. Firms' employment expectations over the next three months, as recorded by the European Commission in June, remained positive for both services and industry.

Growth in contractual wages picks up in early 2024 ...

In the first three months of 2024, contractual wages in the non-farm private sector rose by 3.4 per cent year on year (Figure 20.c), up from 3.0 per cent in the previous quarter, owing to wage increases in some segments of manufacturing and in the credit and insurance sector. Wage growth was more subdued for the economy as a whole, mainly due to the end of the statistical effects of the lump-sum advance payment – disbursed in December 2023 – of the 2024 contract renewal delay compensation for permanent central government employees under Decree Law 145/2023.[3]

Growth in contractual wages in the non-farm private sector only partly passed through to hourly labour costs, which are growing at an annual rate that is still well below the euro-area average (1.9 per cent in the first quarter of 2024, compared with 5.0 per cent in the euro area). Unit labour costs decelerated (to 2.6 per cent, from 3.7 per cent in the previous quarter), partly as a result of the slower downturn in productivity.

... and intensifies in the following months

Contractual wages in the private sector picked up pace in the spring months, mainly as a result of the payment in April of the wage increases agreed in the trade sector.[4] The wage floor in metalworking was raised in June, in line with inflation net of imported energy (as measured by Istat's harmonized index of consumer prices net of imported energy, IPCA-NEI) recorded in 2023, equal to 6.9 per cent.[5] Wages will continue to grow in the coming months, partly as a result of the new agreements signed for the tourism sector – for which the national collective bargaining agreements expired over two years ago – and those expected for several other sectors.

2.6 PRICE DEVELOPMENTS

In the second quarter, headline inflation remained subdued and core inflation declined further. The twelve-month change in energy prices remained negative, while inflation stayed high in the service sector, driven mainly by tourism-related components. Producer price inflation was again negative in May, owing to lower intermediate goods and energy prices. The inflation expectations of households and firms were stable.

Consumer price inflation remains low

According to preliminary estimates, consumer price inflation edged up marginally in June, to 0.9 per cent year on year (Figure 21 and Table 6). All the main components of inflation helped contain price growth, with the exception of

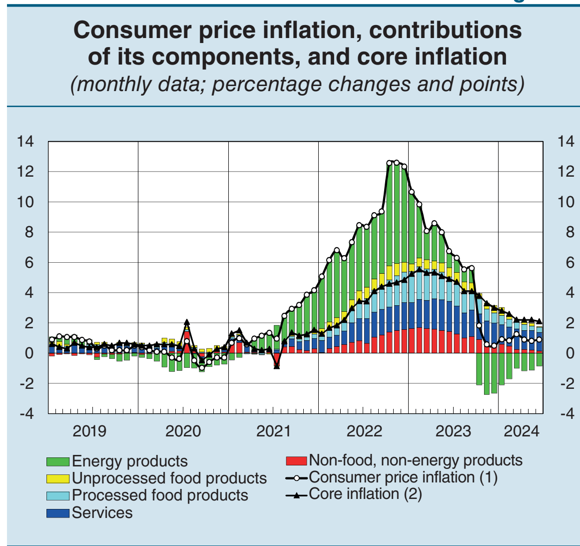
[3] Non-central government bodies were allowed to pay the allowance in instalments over the course of 2024, as was the case for fixed-term government employees.

[4] The renewal of the agreement for the trade sector, which covers almost 2 million workers, was signed in March: wages are set to increase by around 10 per cent before the end of the agreement's four-year validity period.

[5] According to data published by Istat, the IPCA-NEI is higher than the 6.6 per cent forecast of June 2023. Istat has significantly revised the increase in this index for 2024 downwards (to 1.9 per cent, from 2.9 per cent in last year's expectations). Over the three years 2025-27, the change in the IPCA-NEI is set to remain stable at 2 per cent.

Figure 21

Consumer price inflation, contributions of its components, and core inflation
(monthly data; percentage changes and points)



Source: Based on Eurostat data.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP excluding energy and food.

Table 6

Indicators of inflation in Italy
(year-on-year percentage changes, unless otherwise specified)

	HICP		CPI (1)	PPI (2)	
	General index	Excl. energy and food	General index	General index	Intermediate goods
2021	1.9	0.8	1.9	13.0	9.8
2022	8.7	3.3	8.1	42.8	18.6
2023	5.9	4.5	5.7	-8.3	-1.0
2023 – Jan.	10.7	5.2	10.0	11.7	10.4
Feb.	9.8	5.5	9.1	10.1	8.3
Mar.	8.1	5.3	7.6	3.0	4.7
Apr.	8.6	5.3	8.2	-3.5	1.0
May	8.0	5.1	7.6	-6.7	-1.3
June	6.7	4.9	6.4	-8.1	-2.2
July	6.3	4.7	5.9	-13.8	-3.5
Aug.	5.5	4.0	5.4	-16.1	-4.1
Sept.	5.6	4.1	5.3	-18.3	-5.2
Oct.	1.8	3.8	1.7	-12.4	-6.3
Nov.	0.6	3.3	0.7	-16.5	-6.2
Dec.	0.5	3.0	0.6	-20.5	-5.7
2024 – Jan.	0.9	2.8	0.8	-14.0	-6.2
Feb.	0.8	2.6	0.8	-14.2	-6.3
Mar.	1.2	2.2	1.2	-12.7	-5.9
Apr.	0.9	2.2	0.8	-8.0	-5.2
May	0.8	2.2	0.8	-4.9	-4.0
June	(0.9)	(2.1)	(0.8)	….	….

Sources: Based on Istat and Eurostat data.
(1) National 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. – (2) Index of producer prices of industrial products sold on the domestic market.

energy, for which inflation, though rising, stayed in negative territory. The growth in food prices slowed, to 1.8 per cent. Core inflation edged down to 2.1 per cent. Since the beginning of the year, disinflation has been especially strong for non-energy industrial goods and softer for services. This reflected developments in some items whose prices are regulated or tend to be adjusted on a one-off basis, but with a lag compared with headline inflation, such as housing rents and insurance-related services (see the box 'The heterogeneous developments of the components of euro-area core inflation', *Economic Bulletin*, 4, 2023). The slower pace of disinflation in services is attributable, among other factors, to the developments in tourism-related items, for which there continues to be high demand (see the box 'Recent developments in Italy's tourism sector').

The year-on-year decline in energy prices eased in June, though it is still sizeable (-8.6 per cent); this is due to the change in gas and electricity prices, which has been negative since summer 2023. The Italian Regulatory Authority for Energy, Networks and Environment (ARERA) provided for ending the regulated market for electricity as of the third quarter of 2024, with the exception of vulnerable customers.[6] ARERA has also put in place a gradual transition to the free market ('gradual protection service') to ensure continuity of supply to non-vulnerable customers who, as at end-June 2024, have not yet switched to the free market.

Producer prices continue to decline

In May, producer prices for industrial goods sold on the domestic market fell by 4.9 per cent on an annual basis (compared with -8.0 per cent in April); this decline was mainly due to the energy and intermediate goods components,

[6] Customers are defined as vulnerable if they fall within any of the following categories: (a) over 75 years of age; (b) economically disadvantaged; (c) disabled; (d) the customer is located in an emergency housing facility following a natural disaster.

despite the price increases on the previous month. The inflation for capital and consumer goods was positive (at 0.3 and 0.8 per cent respectively).

In June, the manufacturing PMI continued to show signs of an increase in input costs, reaching its highest level since the beginning of last year; nonetheless, the selling price index contracted and remained below the threshold compatible with growth. The input costs index for services, which includes intermediate services and staff costs, declined over the last two months but its values are compatible with an expansion and they were higher in the second quarter than in the first quarter of the year. Firms report that they expect short-term increases in their own prices to continue to be higher than their historical average in the food services and hospitality sectors.

Unit labour costs in the non-farm private sector slowed in the first quarter of 2024 (see Section 2.5). Profit margins remained higher than before the pandemic, especially in private services; this might help to absorb the inflationary pressures stemming from the expected upswing in wage growth over the course of 2024 (see the box 'The macroeconomic scenario published in June').

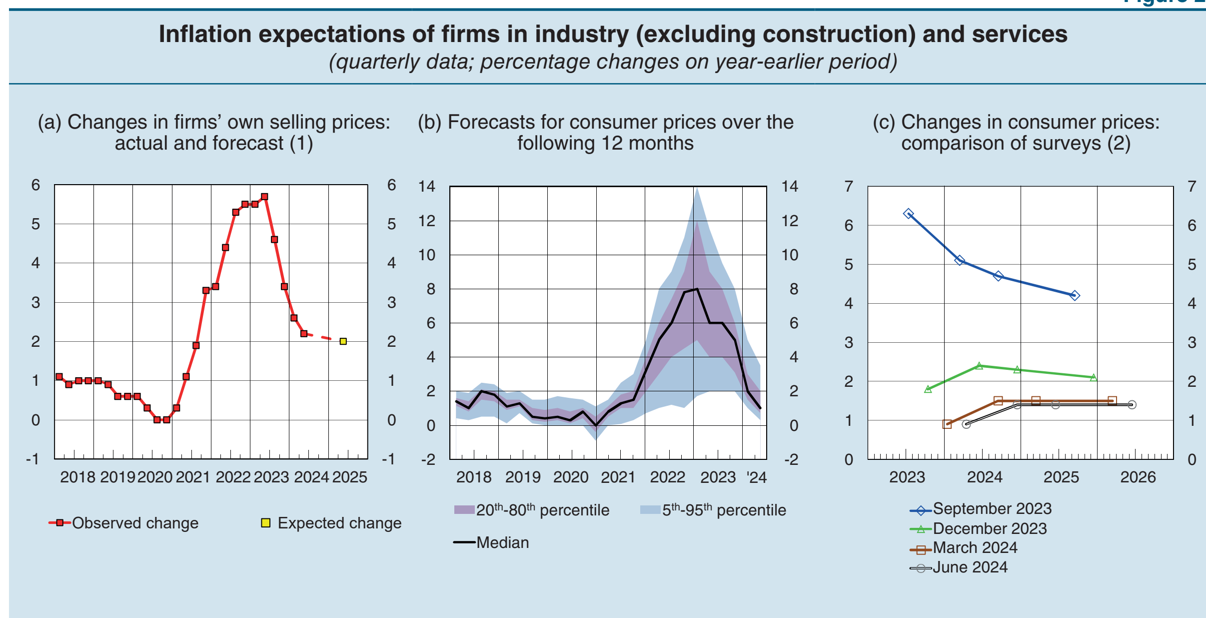
Households and firms expect moderate price growth

Istat's surveys show that in June the majority of households continued to expect prices to be stable over the next 12 months. Consumer price inflation expectations three years ahead, as assessed in the ECB's Consumer Expectations Survey in May, stood at a median value of 2.5 per cent, unchanged from April and down on the previous quarter. In the Bank of Italy's quarterly Survey on Inflation and Growth Expectations conducted between May and June, firms in industry excluding construction and in services expect a 2.0 per cent increase in their selling prices over the next 12 months, which is slightly less than the change observed over the past year (Figure 22). Firms' expectations for consumer price inflation remained broadly stable at 1.4 per cent across all time horizons.

Figure 22

Inflation expectations of firms in industry (excluding construction) and services

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



Source: Based on the findings of the Bank of Italy's quarterly 'Survey on Inflation and Growth Expectations'. Up to October 2018, the survey was conducted jointly with *Il Sole 24 Ore*.
(1) Average (excluding outliers) of firms' responses to questions on the percentage change in their own prices over the previous 12 months and the change expected over the following 12 months. – (2) The key below the graph indicates the month in which the survey was carried out. The first point on each curve is the latest definitive figure for inflation available at the time of the survey (usually referring to two months earlier); the figure is provided in the questionnaire to be used as the basis on which firms can formulate their expectations; the second point is the average of the respondents' forecasts for inflation 6 months following the survey date; the third point is the average 12 months forward; and the fourth point is the average 24 months forward.

2.7 CREDIT AND FINANCING CONDITIONS

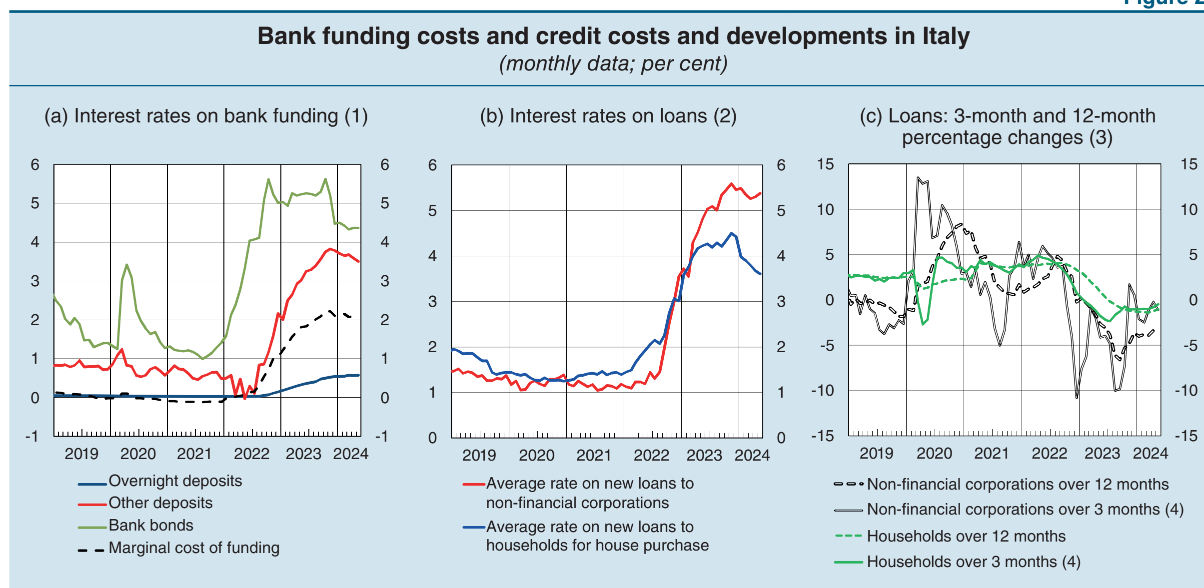
The cost of bank funding has remained high, thereby contributing to keeping credit conditions for loans to firms and households tight. Bank lending to non-financial corporations declined in May, albeit at a slower pace than in February, while mortgage loans for house purchase stagnated. Overall, these developments reflect low demand in a context of rigid credit supply standards.

The cost of bank funding remains high ...

In May, the marginal cost of bank funding remained essentially stable at 2.1 per cent (Figure 23.a), just below the peak of last November, which was the highest level recorded since 2012. Interest rates on current account deposits remained low (at 0.6 per cent), while those on new deposits by the non-financial private sector with an agreed maturity of up to one year fell slightly (to 3.5 per cent). The yield on bonds issued by Italian banks decreased by around 0.2 percentage points between late April and early July, to a level still above 4 per cent. Overall, bank funding continued to contract on an annual basis (-6.3 per cent in May, from -3.6 per cent in February), shifting towards more expensive sources: while there was a gradual repayment of TLTRO III funds and a reduction in deposits by residents, bond funding grew at a rapid pace.[7]

... thereby keeping loans to households and firms expensive

Between February and May, the interest rates on both new and outstanding bank loans to firms stood essentially unchanged at 5.4 per cent (they were just above 1.0 per cent before the beginning of the monetary policy normalization process; Figure 23.b). The cost of new mortgage loans to households for house purchase fell by 0.3 percentage points (to 3.6 per cent), partly as a result of more borrowers opting for fixed-rate



Bank funding costs and credit costs and developments in Italy
(monthly data; per cent)

Sources: Based on Bank of Italy and ICE Bank of America Merrill Lynch.
(1) The marginal cost of funding is calculated as a weighted average of the costs of banks' various funding sources, using their respective outstanding amounts as weights. This is the cost that a given bank would incur to increase its balance sheet by one unit, drawing on funding sources in proportion to the composition of its liabilities at that time. – (2) Average values. Rates on loans refer to euro-denominated transactions and are collected and processed in accordance with the Eurosystem's harmonized methodology. – (3) Includes bad debts, repos and loans not reported in banks' balance sheets because they have been securitized. The percentage changes are net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. 3-month percentage changes are annualized. – (4) Data are seasonally adjusted following a methodology that is in accordance with the guidelines of the European Statistical System.

[7] In the first quarter of 2024, banks' net bond issuance amounted to €3.6 billion. According to preliminary data from Bloomberg, net issuances by banks remained strong in the second quarter.

rather than floating-rate mortgages, as the former are currently less expensive. The interest rate on consumer credit loans increased again in May.

Bank lending to the private sector continues to decline

In May, loans to firms continued to decline (-1.1 per cent, on an annualized three-month basis; Figure 23.c), though at a slower pace than in February. The fall continues to be more pronounced for construction and manufacturing firms. The decrease in loans to households[8] eased (-0.5 per cent), while mortgage loans for house purchase stagnated.

In the euro-area bank lending survey (BLS) released in April, banks' responses indicate that the weakness in lending to Italian firms continued to reflect low demand for credit – partly on account of high interest rates – and a tightening of credit supply owing to a widespread perception of risk.[9]

According to the Bank of Italy's Survey on Inflation and Growth Expectations, conducted on a sample of firms between the end of May and mid-June, the tightening of credit access conditions under way since 2021 has come to a halt; credit access conditions have remained stable at restrictive levels and are expected to stay unchanged in the third quarter as well.

Corporate bond issuance goes up

In the first three months of 2024, the reduction in bank loans to firms was associated with an increase in gross bond issuance, while redemptions remained broadly stable: net bond issuance amounted to €4.2 billion (up from €1.1 billion in the fourth quarter of 2023). Net equity financing, on the other hand, was low. In the second quarter, according to preliminary data from Bloomberg, net issuance by non-financial corporations continued to be strong. Italian non-financial corporate bond yields have remained virtually unchanged since mid-February.

2.8 THE FINANCIAL MARKET

The yield spread between Italian and German ten-year government bonds has remained unchanged: it widened after new parliamentary elections were announced in France and narrowed thereafter. Equity prices have fluctuated, having been positively influenced by earnings performance and, more recently, negatively affected by political uncertainty in France.

Yield on ten-year government bonds remains unchanged

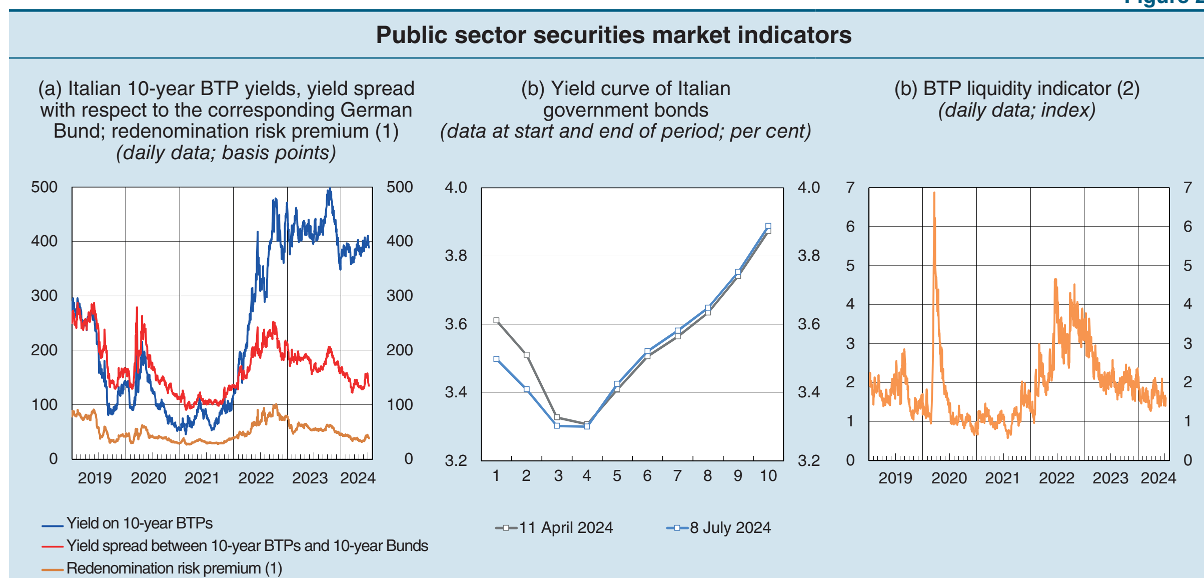
The yield on Italian ten-year government bonds has fluctuated since mid-April, owing to changing expectations about the future monetary policy stance of the main central banks; since June, uncertainty about the economic outlook has been compounded by political uncertainty connected with the announcement of parliamentary elections in France. The largely anticipated reduction in interest rates by the ECB did not have a significant impact. Overall, between April and the first ten days of July, ten-year government bond yields remained unchanged at 3.9 per cent (Figure 24.a); developments were similar for shorter maturities, with the exception of the horizons between one and three years, for which a slight decrease was observed (Figure 24.b). After the European elections, the yield spread against the German ten-year government bonds widened in France and the euro-area peripheral countries. In France, the spread widened due to political uncertainty, increasing by 13 basis points between mid-April and the first ten days of July to 63 points; in Italy, the spread initially rose, then fell to 135 basis points, below April

[8] The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.

[9] For more information on the results of the latest Bank Lending Survey see Section 2.7, *Economic Bulletin*, 2, 2024.

Figure 24

Public sector securities market indicators



Sources: Based on data from Bloomberg, ICE Data Derivatives UK Ltd, LSEG and Tradeweb.
(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. – (2) The methodology for calculating the indicator is described in R. Poli and M. Taboga, 'A composite indicator of sovereign bond market liquidity in the euro area', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 663, 2021.

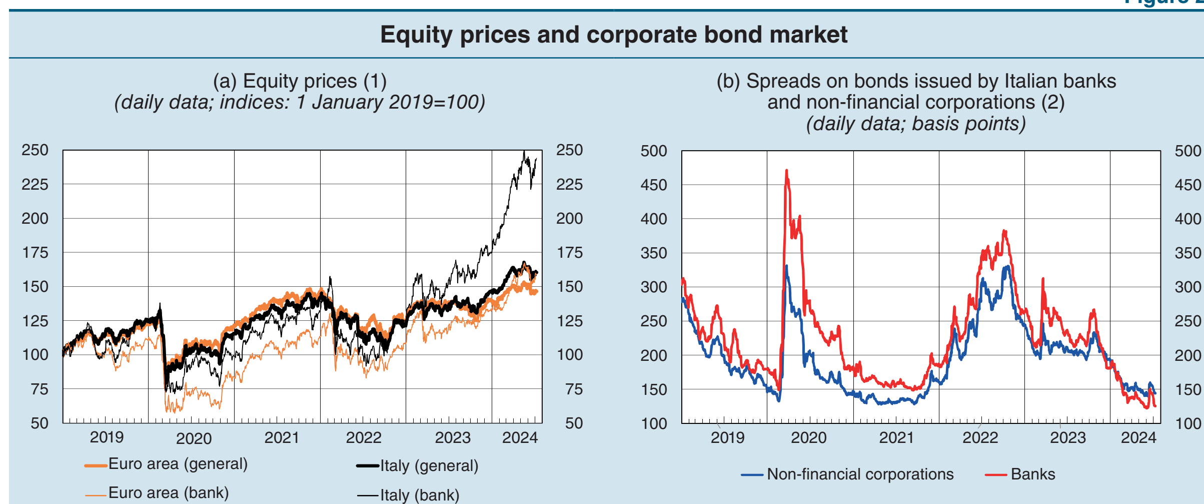
levels. Investors' perception of redenomination risk increased slightly in France and Italy and declined following the outcome of the French elections. The volatility implied by derivatives on Italian ten-year bonds has remained unchanged, while liquidity conditions have continued to be relaxed (Figure 24.c).

Equity prices fluctuate

Equity prices continued to rise between April and the first ten days of June in response to better-than-expected earnings data; they subsequently declined, again reflecting political uncertainty in France, before recovering after the first round of parliamentary elections. Overall, the change in the general stock market indexes was slight between April and the first

Figure 25

Equity prices and corporate bond market



Sources: LSEG and ICE Bank of America Merrill Lynch.
(1) Datastream general and bank indices. – (2) Yield spreads on bonds, adjusted by the value of embedded options (option-adjusted spread), based on a basket of euro-denominated bonds issued by Italian banks and non-financial corporations vis-à-vis the risk-free rate.

ten days of July (rising by 1 per cent in Italy and falling by 1 per cent in the euro area; Figure 25.a); the prices of banks shares increased by 9 per cent in Italy compared with an increase of 4 per cent in the euro area. Implied volatility decreased. The yield spread of bonds issued by banks and non-financial corporation vis-à-vis the risk-free rate remained small (Figure 25.b).

2.9 THE PUBLIC FINANCES

The European Commission announced that it will recommend opening excessive deficit procedures against five euro-area countries, including Italy, where it expects the government deficit to remain above 3 per cent of GDP this year and the next. The excessive deficit procedures should be formally adopted by the EU Council in the second half of July. At the end of June, the Government submitted a payment request for the sixth instalment under the National Recovery and Resilience Plan; in early July, the Commission gave preliminary approval to Italy's request for payment of the fifth instalment.

The European Commission to recommend opening an excessive deficit procedure

On 19 June, the European Commission, based on the 2023 notified outturn data by Eurostat and its most recent forecasts, announced that it will recommend opening excessive deficit procedures for five euro-area countries, including Italy,[10] as had been widely expected. As a matter of fact, the Commission forecasts that Italy's deficit ratio, although it is on a clear downward path compared with last year's level (7.4 per cent), will remain above the 3 per cent threshold both this year (4.4 per cent) and the next (4.7 per cent). This forecast, based as usual on unchanged policies,[11] assumes that the cut in the labour tax wedge will be extended, currently until the end of 2024. The excessive deficit procedures are expected to be formally adopted by the Council of the EU in the second half of July. All Member States will have until 20 September 2024 to submit to the Commission their medium-term financing-structural plans setting out the measures needed to comply with the new governance framework (see the box 'The new European fiscal governance framework', Chapter 2, *Annual Report for 2023*, 2024, only in Italian).

In the first five months the borrowing requirement is in line with the same period of 2023

In the first five months of 2024, the general government borrowing requirement was around €72 billion, in line with the corresponding period of 2023.[12] This year's borrowing requirement is also affected by the use of a large portion of the tax credits for building renovation incentives earned in recent years and already recorded under net borrowing; this fact contributes to the significant discrepancy between the latter and the borrowing requirement. According to estimates released by Istat in early July, net borrowing in the first quarter of the year was 8.8 per cent of GDP, down by almost 3 percentage points compared with the corresponding period of 2023, reflecting the contraction in the ratio of primary expenditure to GDP.

In May, general government debt stood at €2,919 billion, about €56 billion more than at the end of last year. The average residual maturity of the debt was 7.8 years, as at the end of 2023. Debt is set to rise by about €120 billion in 2024 as a whole, according to the Italian Government's 2024 Economic

[10] The other countries are Belgium, France, Malta and Slovakia.

[11] The 2024 Economic and Financial Document (DEF 2024), using the same criterion, provided a similar estimate for net borrowing in 2025; the estimate based on the unchanged legislation scenario was instead 3.7 per cent; For more details, see 'Preliminary hearing on the 2024 Economic and Finance Document', testimony by S. Nicoletti Altimari, Director General for Economics, Statistics and Research at the Bank of Italy, before the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Rome, 22 April 2024 (only in Italian).

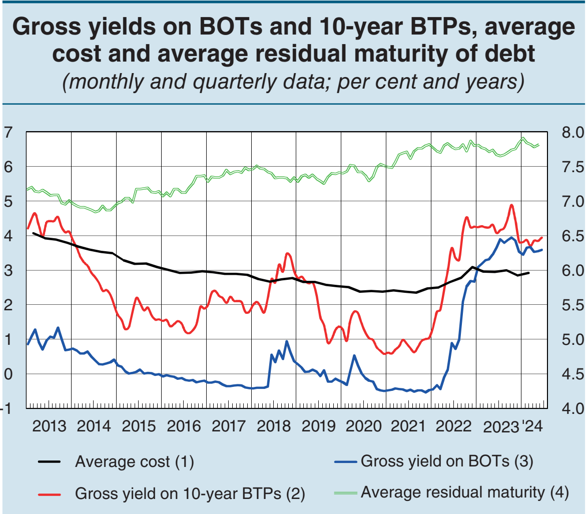
[12] This Economic Bulletin reports debt and general government borrowing requirement data for the first five months of this year; for more details, see 'The Public Finances: Borrowing Requirement and Debt', Banca d'Italia, Statistics Series, forthcoming. In June, the state sector borrowing requirement was €13.4 billion, essentially unchanged year on year.

and Financial Document and to the European Commission's latest forecasts.

The average cost of debt was 2.9 per cent at the end of March, broadly stable compared with end-2023 (Figure 26).

Figure 26

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



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

Tax incentives for building renovation are scaled down further

At the end of March, the Government intervened in the area of tax incentives for building renovation works through Decree Law 39/2024, further restricting – compared with the limitations already imposed at the beginning of 2023 – taxpayers' option to receive such incentives as a discount in their invoices or by transferring the tax credit (see Section 2.9, *Economic Bulletin*, 2, 2024).[13]

At the end of May, in converting the decree into law, the period for the use of these tax incentives – including those for the 'Superbonus' – accrued this year and not transferred to someone else was extended to 10 years (from 4 or 5 years).[14] Some restrictions on the use of tax credits by banks, insurance companies and financial intermediaries under Article 106 of the Consolidated Law on Banking (TUB) have also been introduced; for example, as of next year, such entities may no longer use these tax credits to offset social security and workers' compensation contributions owed to the Italian National Institute for Social Security (INPS) and to the National Institute for Insurance against Accidents at Work (INAIL).[15] As regards the taxation of consumer goods, it has also postponed the entry into force of the 'Sugar tax' on sweetened beverages by one year to 1 July 2025, and of the 'Plastic tax' on certain types of single-use packaging by two years to 1 July 2026.

At the start of July, Eurostat published additional methodological advice on the statistical recording of the 'Superbonus'. According to this document, 'Superbonus' tax credits earned during the current year, with the exception of those arising before the entry into force of Decree Law 39/2024 and of those that can still be transferred,[16] must be recorded under net borrowing on a cash basis. Tax credits earned in the years 2020-23 will instead continue to be recorded on an accrual basis (see Section 2.9, *Economic Bulletin*, 4, 2023).

Some work incentives are approved

In early July, Law 95/2024 (converting Decree Law 60/2024) was approved, providing for, among other things, incentives to establish new businesses and engage in self-employed entrepreneurship, as well as temporary contribution

[13] The data released by the Italian National Agency for New Technologies, Energy and Sustainable Economic Development (ENEA) on the use of the 'Superbonus', for those portions of the renovation works meant to improve energy efficiency, show a more subdued monthly pattern in both April and May than that observed up to March.
[14] This measure would not change the overall cost of the tax benefit, but would only spread it over time: according to the Government, it would entail lower costs (around €1.9 billion on average per year) between 2025 and 2028 and an increase (overall by the same amount) between 2029 and 2036.
[15] The effects of these measures on the public finances, while prudentially not estimated in the technical report linked to the legislative measure, could be positive.
[16] These credits will have to be recorded on an accrual basis.

relief for firms that hire workers in the South and Islands, young people and women. According to official estimates, the cost of these measures will be concentrated mainly in the 2025-26 period (amounting to over €1 billion per year); the entire set of measures, however, would have no impact on net borrowing since it will be financed by funding – including EU funds – that has already been earmarked.

The Government reorganizes some of its holdings

On 16 May, the Ministry of Economy and Finance (MEF) sold the equivalent of roughly 2.8 per cent of ENI's share capital in a transaction worth around €1.4 billion, causing its direct interest in ENI's capital to fall to about 2 per cent.

In early July, the MEF, together with a group of foreign and Italian investors, entered into an acquisition of TIM's fixed telecommunications network (see Section 2.9, *Economic Bulletin*, 4, 2023).

Italy continues to implement the NRRP

Concerning the NRRP, on 28 June, the Government submitted a payment request for the sixth instalment (€8.5 billion) following the achievement of the 37 milestones and targets that it was required to meet (see the box 'The state of progress of public works financed by the NRRP'). In early July, the Commission gave preliminary approval to Italy's request for payment of the fifth instalment, worth around €11 billion.

THE STATE OF PROGRESS OF PUBLIC WORKS FINANCED BY THE NRRP

Using data from the National Anti-Corruption Authority (ANAC) and from the Joint National Committee for Buildings Workers' Welfare Funds (CNCE) it is possible to assess the status of public works financed by the NRRP. Although some concerns have emerged, especially in the South and Islands, the achievement of the targets and milestones set out in the NRRP for each half-year is moving forward as agreed at EU level (see the box 'The state of progress of the National Recovery and Resilience Plan', Chapter 4, *Annual Report for 2023*, 2024, only in Italian).

The original total amount of NRRP funding was €191.5 billion, of which €120 billion was allocated to public implementing entities.[1] According to ANAC's data, the calls for tender for projects under the NRRP published between January 2020 and December 2023 absorbed around €56 billion in total, corresponding to just over half of the allocations requiring the publication of a tender.[2] Almost 80 per cent of the amount put out to tender is earmarked for public works and is divided into more than 63,000 tenders; as of June, more than two thirds of these, in terms of both number and amounts, had been awarded. In addition, some calls for tender, while they are not listed as awarded according to ANAC, are nevertheless included in the CNCE data on works that have already begun. It can therefore be estimated that, owing to individual contracting authorities failing or being late to report information, the percentage of tenders for public works actually awarded is higher, exceeding three quarters of the total number of projects and the total amount.

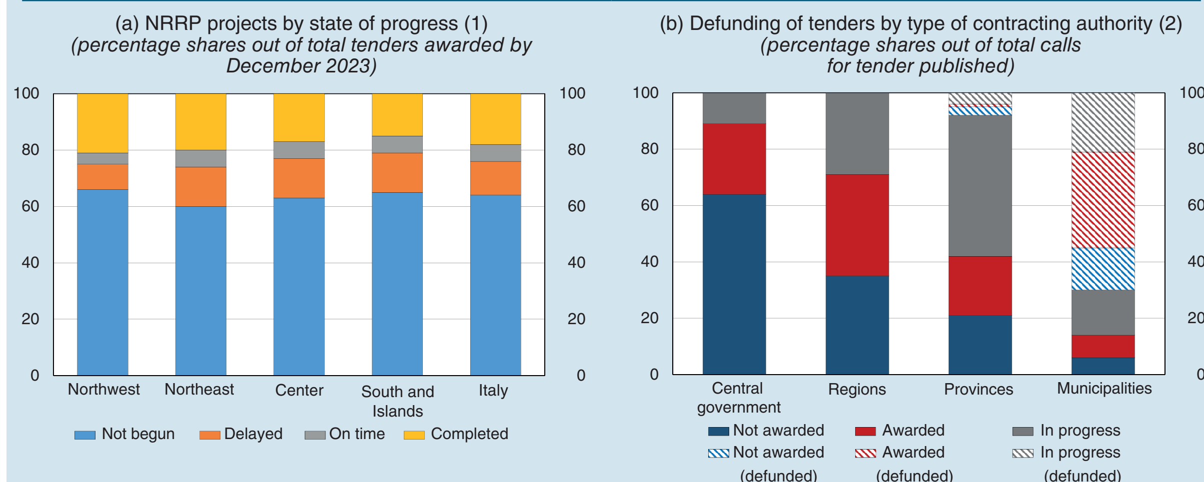
Based on the most recent data from the CNCE, 36 per cent of the calls for tender published by the end of December 2023 had proceeded to the execution phase. Of those, the works were completed in

1 A further €3.7 billion is earmarked to finance the implementation of reforms, about €41 billion has been allocated to private implementing entities, while no implementing entities have been identified for the remaining €26 billion.

2 The total amount is calculated by taking into account the maximum amount of funds that can be allocated for each project in cases in which the value of the tenders exceeds this threshold. The total includes tenders for works, services and goods, but excludes allocations that finance scholarships, training, research projects and national civil service. The data differ from those reported in the box 'The state of progress of the National Recovery and Resilience Plan' in the *Annual Report for 2023*, only in Italian, in light of the most recent update of the ANAC dataset, containing tenders published up to 31 December 2023 and reported to ANAC by June 2024.

Figure

Progress on worksites funded through the NRRP and impact of the revision of the Plan



Sources: Based on data from ANAC, the Italia Domani portal and Joint National Committee for Buildings Workers' Welfare Funds (CNCE EdilConnect).
(1) The state of progress on worksites does not take account of the revision of the NRRP and includes all tenders associated with the originally approved Plan. It is calculated by comparing the ratio of labour costs already incurred to total labour costs with the work completion schedule. The communication of the tender ID for worksites connected to public works is mandatory as of November 2021, the month from which the execution phase of the works can be monitored. — (2) Central government includes ministries (and their local offices), RFI, Anas, Infratel, schools, national museums, and the Italian Public Property Agency. Regions also include local health authorities; Provinces also include metropolitan areas; the Municipalities also include unions of municipalities and mountain communities.

18 per cent of the cases, while the remaining 18 per cent were still in progress, often with large delays compared with the estimated time frames (see panel (a) of the figure). The state of progress of works was slower in the South and Islands.

Most public works financed or co-financed by the NRRP were connected to Missions 2 and 3,[3] which account for more than 60 per cent of the allocations and also include projects already in place and for which the NRRP financed the completion.

Most of the calls for tender, mainly small and medium-sized ones, were published by local public administrations and, in particular, by municipalities (79 per cent). Central government authorities, on the other hand, managed only 6 percent of the tender procedures, but – given their larger size – absorbed 41 per cent of the total amount. As regards tenders managed by the central government authorities for which information on project execution is available, the works awarded and those already under way represented, respectively, more than two thirds and over half of the total amount tendered.

Last December, the Council of the EU approved the proposed revision of Italy's NRRP, leading to a new mission dedicated to REPowerEU, to which more than €11 billion have been allocated,[4] and to the partial or total defunding of some measures, for which Decree Law 19/2024 ('PNRR-*quater*') outlines alternative coverage (see the box 'Revision of the National Recovery and Resilience Plan', *Economic Bulletin*, 1, 2024) .

[3] The NRRP measures (as originally drafted in 2021) are grouped into six missions: digitalization, innovation, competitiveness, culture and tourism (Mission 1); green revolution and ecological transition (Mission 2); infrastructure for sustainable mobility (Mission 3); education and research (Mission 4); inclusion and cohesion (Mission 5); and health (Mission 6).

[4] Data on projects to be managed by both public and private implementing entities actors are not yet available for this mission.

The projects that were completely removed from the NRRP amounted to €8.2 billion in financing,[5] and, for some of these, calls for tender had already been published, totalling just over €6 billion (over three quarters of which for tenders that had been awarded and three fifths for those already under way). Some 37 per cent of the projects removed are for works to be carried out in the South and Islands, amounting to €2.4 billion in published calls for tender that will require alternative funding. Furthermore, 70 per cent of the tenders issued by municipalities were removed from the NRRP (19 per cent in terms of amount). Of these, about one third had been awarded and for one fifth work was already in progress. The defunding had a marginal impact on tenders by central contracting authorities (see panel (b) of the figure).

[5] Partly defunded projects amounted to €7.6 billion; detailed information on these individual projects and calls for tender is not yet available. The impact of the change on contracts already under way is therefore reported only for those measures that are entirely outside the scope of the NRRP.