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Economic Bulletin

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SYMBOLS AND CONVENTIONS

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

In the tables:

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

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

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).

OVERVIEW

The growth outlook for the global economy remains modest

Following an improvement in the spring, signs of a slowdown in the world economy are emerging, mainly owing to weak manufacturing. In the United States, economic activity remains robust; the labour market is cooling slightly. In China, the sluggish domestic demand, which continues to be affected by the real estate crisis, is curbing GDP growth. According to the OECD's September estimates, global GDP growth will stand at just above 3 per cent in 2024 and 2025, in line with last year's figure, but below the average recorded in the decade before the pandemic. According to our assessments, international trade will grow more slowly than GDP on average in 2024.

The Federal Reserve lowers its official rates and the People's Bank of China adopts new expansionary measures

Inflation continues to decrease in the United States. In September, the Federal Reserve lowered the benchmark rate by 50 basis points for the first time since March 2020, to 4.75-5.00 per cent, given the reduction in inflation and the slowdown in the labour market.

The Bank of England, which had cut its rates in August, left them unchanged in September. In Japan, the central bank raised its reference rates at the end of July; the expectation of further increases, in conjunction with disappointing data releases on the US economy, triggered strong financial market tensions in early August, which then broadly subsided. In order to support economic growth, the People's Bank of China launched a package of extraordinary expansionary measures in September, in addition to last July's cut in reference rates.

Euro-area economic activity remains disappointing and disinflation continues

According to our assessments, the stagnation in euro-area GDP continued in the summer months: the manufacturing cycle remained weak, while the expansion in services persisted, reflecting the good performance of the tourist season in particular. In September, inflation continued to decrease, as did its core component. Service price inflation remains high, especially for prices that adjust with a lag to past inflation. The ECB staff projections published in September indicate that euro-area consumer price inflation is expected to decrease gradually, from 2.5 per cent in 2024 on average, to 2.2 per cent in 2025 and to 1.9 per cent in 2026.

The ECB lowers its key interest rates again

After a first cut in June, in its September meeting, the Governing Council of the European Central Bank further lowered its deposit facility rate by 25 basis points. In September, the reduction to 15 basis points of the spread between the rate on the main refinancing operations and the deposit facility rate came into force, as decided by the Council last March.

Growth continues at a moderate pace in Italy

Based on our assessments, growth in Italy was moderate over the summer; a new expansion in services was accompanied by the persistent weakness in manufacturing. Aggregate demand benefited above all from the performance of consumption, supported by the recovery in disposable income, against a negative contribution from net exports, at a time when the main euro-area economies are sluggish.

The current account surplus increases

In the second quarter of 2024, the current account surplus increased, mainly owing to the reduction in the primary income deficit and to the services balance, which turned positive. The financial accounts remained essentially balanced; net purchases of Italian securities by non-residents, mainly government bonds, remained high. The negative TARGET balance continued to edge down in the summer months as well. Italy's positive net international investment position rose to about €225 billion.

Labour demand weakens and real wages strengthen gradually

Although the growth in headcount employment continued in the summer months, some signs of weakness in labour demand emerged: fewer job vacancies and the number of hours worked decreased in the second quarter. Labour participation fell slightly in the summer, contributing to the decline in the unemployment rate. The recent collective bargaining agreement renewals are spurring a gradual recovery in real wages.

Inflation decreases

After increasing in July, inflation fell again, reflecting the further decline in energy prices. The core component also decreased, although price growth remains relatively high in services, mainly owing to tourism-related items. Households and firms continue to expect moderate price growth in the short and medium term.

The cost of lending falls slightly, but demand for loans remains low

Financing conditions for households and firms benefited from the reduction in the cost of bank funding. Despite credit standards easing slightly in the spring, bank lending to non-financial corporations continued to contract, mainly owing to lower demand for investment loans. In contrast, the decline in lending to households came to a halt, and loans began to increase again for the first time since the beginning of 2023, albeit marginally.

The Government presents Italy's medium-term fiscal-structural plan

On 27 September, the Italian Government approved its medium-term fiscal-structural plan, which is the main budget document under the new EU economic governance framework. The Government expects net expenditure to grow by an average of 1.6 per cent per year in the period 2025-29. In the same period, under the policy scenario, the deficit will likely be higher than that in the current legislation scenario, but is expected to drop below 3 per cent of GDP in 2026. The debt-to-GDP ratio is set to continue to increase, reaching 137.8 per cent of GDP in 2026, and to then decrease by an average of 1 percentage point per year until the end of the fiscal consolidation process.

Istat revises the national accounts data

On 23 September, Istat published the general revision of its national accounts for the years 1995-2023, as agreed at European level. GDP growth was revised upwards in 2021 and 2022 and slightly downwards in 2023. The revisions were due to higher growth in domestic demand than was previously estimated, while the contribution of foreign demand remained broadly unchanged.

GDP is expected to strengthen gradually and inflation to remain moderate in the next two years

Our projections confirm for 2024 the previous assessments of GDP increasing to 0.6 per cent (0.8 per cent without calendar adjustments) and point to an acceleration in the following two years, when GDP is expected to grow cumulatively by over 2 per cent.

Consumption and export performance will gain greater momentum starting from next year, benefiting from the recovery in household purchasing power and from international trade. Investment will continue to be affected by the still high cost of financing and by the downsizing of incentives in the construction sector, the effects of which, however, be mitigated by the NRRP stimulus measures.

Consumer price inflation will remain low, at 1.1 per cent in 2024 and at 1.6 per cent in both 2025 and 2026. This year in particular, the pressures stemming from the acceleration in wages will be offset by the low growth in the prices of imported goods and by the fall in profit margins.

1 THE WORLD ECONOMY

1.1 THE GLOBAL CYCLE

Following a better-than-expected second quarter, signs of a slowdown in the world economy emerged in July, owing to the continued weakness in manufacturing, while service activity remained positive. In the United States, consumption remained strong, but the cooling labour market and the continuing reduction in inflation contributed to the Federal Reserve's decision to cut rates by 50 basis points in September. In China, the economy continued to be affected by the real estate crisis, with the People's Bank of China introducing extraordinary stimulus measures. After accelerating in the second quarter, world trade again showed signs of a slowdown. Crude oil prices have been going down since July, while natural gas prices have risen once more, albeit with fluctuations.

GDP continues to grow in the US in the spring, while consumption remains weak in China

GDP in the United States rose by 3.0 per cent in the second quarter, from 1.4 per cent in the previous quarter (Table 1), driven by private investment and consumption. Consumption also remained strong through the summer months. In July, the lower-than-expected increase in employment contributed to creating tensions in the international financial markets (see the box 'Global financial market tensions in early August'), though growth in the number of jobs regained momentum over the summer. GDP growth in China slowed from 5.3 per cent in the first quarter to 4.7 per cent in the second, reflecting weak private consumption due to the continuing real estate crisis. Driven by consumption, GDP returned to growth in Japan, following its significant contraction in the first quarter. In the United Kingdom, GDP continued to grow buoyed by domestic demand.

Table 1

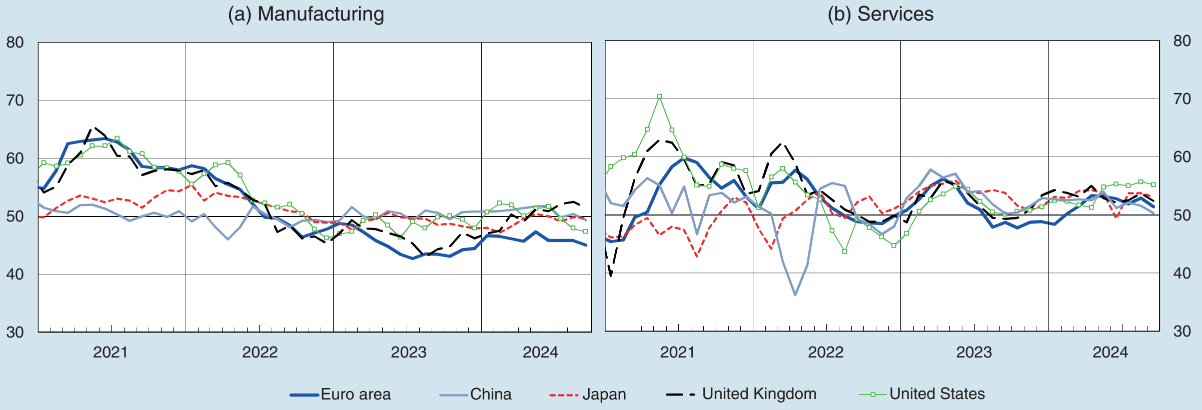
GDP growth and macroeconomic projections
(percentage changes, unless otherwise specified)

	Growth			Forecasts		Revisions (2)	
	2023	2024 Q1 (1)	2024 Q2 (1)	2024	2025	2024	2025
World	**3.3**	**–**	**–**	**3.2**	**3.2**	**0.1**	**0.0**
Japan	1.9	-2.3	3.1	-0.1	1.4	-0.6	0.3
United Kingdom	0.1	2.9	2.3	1.1	1.2	0.7	0.2
United States	2.5	1.4	3.0	2.6	1.6	0.0	-0.2
Brazil	2.9	2.5	3.3	2.9	2.6	1.0	0.5
China	5.2	5.3	4.7	4.9	4.5	0.0	0.0
India (3)	7.8	7.8	6.7	6.7	6.8	0.1	0.2
Russia	3.7	5.4	4.1	3.7	1.1	1.1	0.1

Sources: National statistics for data on growth; OECD, *OECD World Economic Outlook*, September 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,* May 2024. – (3) The actual data and the forecasts refer to the fiscal year starting in April.

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 percentage of responses of 'stable' to the percentage of responses of 'increasing'. Values greater than 50 are compatible with expansion in the sector.

Global activity is weakening, especially in manufacturing

In the main economies except for the United Kingdom (Figure 1.a), the purchasing managers' indices (PMIs) suggest a continuing weakness in manufacturing since July, with a significant decline in the United States. Despite weakening, the indicators for services remain at levels compatible with expansion (Figure 1.b).

After recovering in the second quarter, world trade is slowing

The volume of trade increased more than expected in the second quarter. The risk of longer delivery times, also on account of enduring conflicts in the Red Sea (see the box 'Tensions in the Red Sea and their macroeconomic impact', *Economic Bulletin*, 2, 2024) and of greater trade tensions between the United States and China, have seemingly led firms in advanced economies outside the euro area to front-load their imports from China and other emerging Asian economies, compared with their seasonal average. Trade showed signs of cooling, however, with global PMIs on new export orders in manufacturing clearly worsening in the third quarter. The risks of supply-chain bottlenecks and rising sea freight costs remain high, and although sea freight costs have been falling since August, they are still at levels comparable with the beginning of the year, following the Houthi rebels' attacks in the Red Sea. According to our estimates, world trade in goods and services will grow by 2.4 per cent this year (from 0.6 per cent in 2023), which is a lower rate than global GDP.

Global GDP growth is expected to continue unchanged in 2024

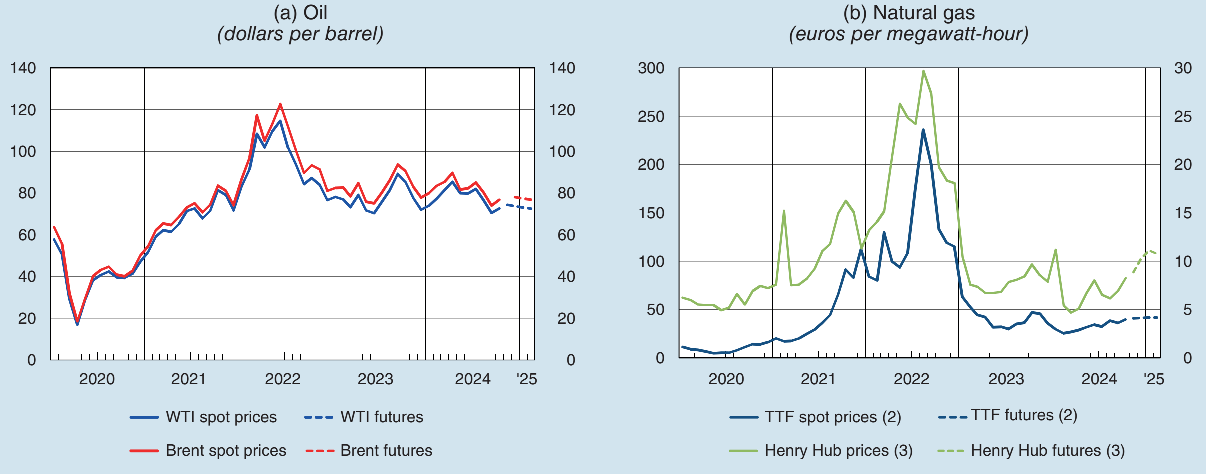
According to the projections released by the OECD in September, global GDP will grow by 3.2 per cent in 2024 and 2025, essentially in line with 2023. Downward risks remain, on account of geopolitical and trade tensions, and risks related to greater-than-expected lagged effects of restrictive monetary policy. A slower-than-expected disinflationary process in the advanced economies could also lead market participants to make sudden revisions to their expectations regarding the future path of interest rates, leading to turbulence in the financial markets.

Oil prices fall ...

Over the summer, the price of Brent crude oil went down as an effect of lower-than-expected global demand, particularly in China. It rose again in the second half of September, to almost $80 per barrel in early October (Figure 2.a), following the growing hostilities between Iran and Israel and the possible repercussions on oil infrastructures and on crude oil transport routes.

Figure 2

Commodity prices (1)
(monthly data)



Source: LSEG.
(1) For the spot prices, monthly averages up to September 2024. The figure for October 2024 refers to the average of the daily data from 1 to 4 October 2024. For futures, the data refer to the prices on 4 October 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.

... while natural gas prices rise

The Title Transfer Facility (TTF) price of natural gas has recorded heavy fluctuations since July as an effect of temporary reductions in supplies, mostly due to maintenance work on some gas facilities in Norway. Over the past few weeks, the price of natural gas has risen again, to €40 per megawatt-hour, driven by growing geopolitical tensions in the Middle East, a region of significant importance for the extraction and distribution of liquefied natural gas (Figure 2.b). While gas reserve levels remain historically high in Europe, consumption increases during the colder winter season could translate into rising gas prices, with further pressures on prices resulting from supply-side bottlenecks, as the arrangements for the transit of Russian gas through Ukraine expire in December.

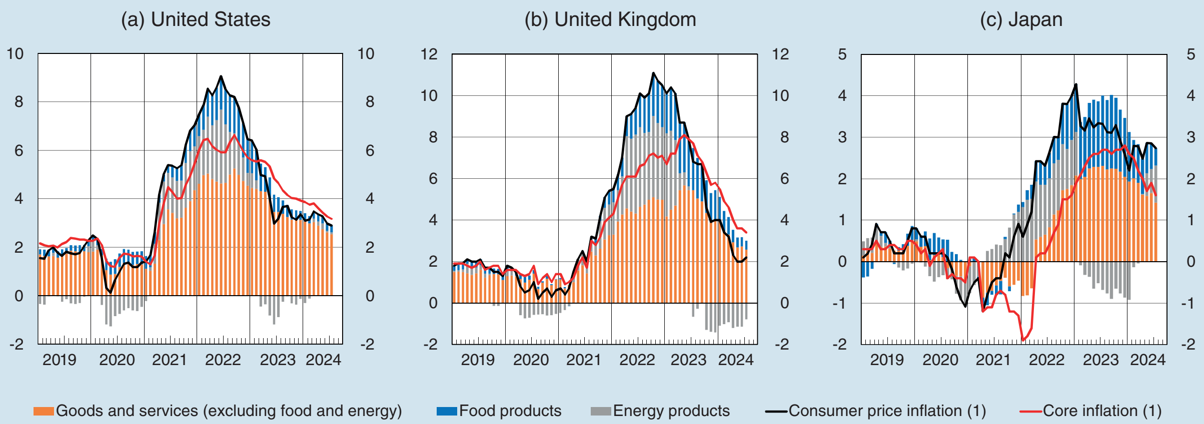
Disinflation continues in the US

In August, consumer price inflation continued to decline in the United States, to 2.5 per cent (from 2.9 per cent). Core inflation remained unchanged at 3.2 per cent (Figure 3.a). In the United Kingdom, inflation stabilized at just above 2 per cent (Figure 3.b). In Japan, it rose from 2.8 per cent to 3.0 per cent (Figure 3.c). In September, the Federal Reserve implemented the first rate cut since March 2020 and lowered the reference rate by 50 basis points, to 4.75-5.00 per cent. Its decision reflected the dynamics of inflation, which is returning to the target, and a weaker labour market. The projections made by members of the Federal Open Market Committee (FOMC) suggest further rate cuts, of 50 basis points, by the end of the year. Projections last June suggested a reduction of just 25 basis points over the year as a whole. Following the 25 basis point cut in August, the Bank of England left rates unchanged at 5.0 per cent, maintaining that its stance will remain restrictive until the risks of inflation going up have faded. At the end of July, the Bank of Japan intensified the normalization of monetary policy by raising its key interest rates[1] and announcing the start of a gradual reduction in its government bond purchase programme. The announcement of a tighter-than-expected stance surprised the financial markets

1 In August, the target level for the unsecured overnight rate was raised to 0.25 per cent (from the previous 0.0-0.1 per cent range) and the complementary deposit facility rate (which remunerates excess reserves at a predetermined rate and is reserved for financial institutions meeting particular requirements) was raised to 0.25 per cent (from 0.1 per cent).

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.

and contributed, together with weaker-than-expected quarterly data releases on the economic situation and labour market in the United States, to the rapid closure of speculative yen carry trade positions, to declining equity indices and to the increased volatility recorded in early August (see the box 'Global financial market tensions in early August'). The Bank of Japan kept its key interest rates unchanged in September.

Against a backdrop of low inflation and weakening growth, the People's Bank of China has intervened twice since July to implement extraordinary expansionary policies using various instruments. Chinese authorities also announced additional fiscal support measures.

1.2 THE EURO AREA

Euro-area GDP slowed in the second quarter of 2024, pointing to a fall in value added in manufacturing and construction; on the demand side, the negative contribution of domestic demand was more than offset by the contribution from net foreign demand. Based on the available indicators, economic activity was still weak in the summer. The disinflation process continued, driven by the energy components; growth in services remains higher than in the overall index, in part because of items whose prices adjust with a lag to past inflation. In its September meeting, the ECB Governing Council lowered its deposit facility rate by 25 basis points.

Euro-area GDP slows in the spring

In the second quarter of 2024, the slight growth in euro-area GDP compared with the previous quarter was entirely due to the growth in net foreign demand and in general government spending (Table 2). Private domestic components continue to be weak: household consumption declined slightly, after growing moderately in the previous quarter. Gross fixed investment fell considerably again, reflecting the exceptional contraction in investment in intellectual property products in Ireland and the stagnation in the other countries as a whole, owing to the weakness of the real estate cycle and to the expectations of slack demand from manufacturing firms. On the supply side, GDP was boosted by value added in services, on the increase for six consecutive quarters, while activity in industry decreased again. Among the main countries, GDP grew in France, in Italy, and more markedly in Spain, while it declined slightly in Germany.

Economic activity in the euro area remains disappointing

The latest cyclical indicators suggest a very small increase in euro-area GDP in the third quarter as well. The industrial cycle remained weak, as indicated by deterioration in business confidence in the main countries, except in France. The manufacturing PMI, which remains well below the expansion threshold, recorded particularly negative performances in Germany, with persistent declines in all components of the index. In September, the boost to growth provided by activity in services faded; in previous months it had benefited from the Olympic Games in France and – as evidenced by air transport data – from the good performance of the tourist season.

On the demand side, the timeliest indicators suggest a modest recovery in consumption in the third quarter, fostered by rising household disposable income, a resilient labour market and the gradual improvement in confidence. Investment continued to dampen growth, affected by still restrictive financing conditions. The contribution of net foreign demand decreased compared with the spring months, in line with the decline in the qualitative indicators for foreign orders in the summer and in foreign trade data for July (see Section 1.1).

The Bank of Italy's €-coin indicator continues to forecast low growth in economic activity (Figure 4).

Growth forecasts are revised slightly downwards

The ECB staff projections released in September indicate that euro-area GDP will grow by 0.8 per cent in 2024, by 1.3 per cent in 2025, and by 1.5 per cent in 2026. Compared with last June, the forecasts have been revised slightly downwards, by 0.1 percentage points in each of the three years, owing to the weaker contribution of domestic demand.[2]

Inflation continues to fall

According to preliminary estimates, annual consumer price inflation fell in September in the euro area to 1.8 per cent (from 2.2 per cent in August; Figure 5), above all because of the further reduction in the energy component (from -3.0 per cent to -6.0 per cent), while food price inflation rose just barely, from 2.3 per cent to 2.4 per cent. Core

Table 2

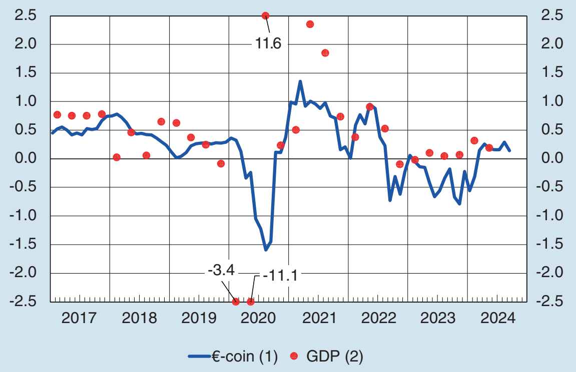
Euro-area GDP growth and inflation
(percentage changes)

	GDP growth 2023	GDP growth 2024 Q1 (1)	GDP growth 2024 Q2 (1)	Inflation 2024 September (2)
France	0.9	0.3	0.2	(1.5)
Germany	-0.3	0.2	-0.1	(1.8)
Italy	0.7	0.3	0.2	(0.8)
Spain	2.7	0.9	0.8	(1.7)
Euro area	0.4	0.3	0.2	(1.8)

Sources: Based on national statistics and 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).

Figure 4

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



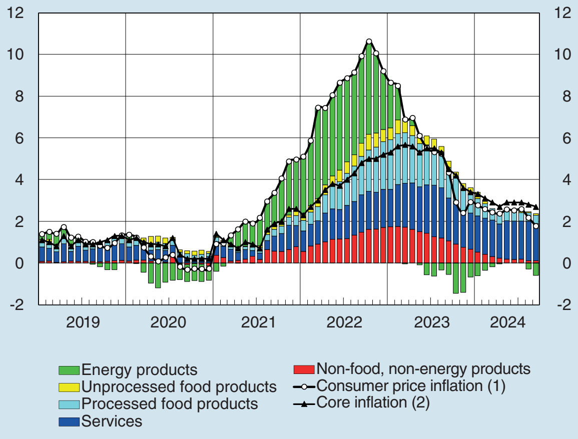
Sources: Bank of Italy and Eurostat.
(1) For €-coin, monthly estimates of changes in GDP on the previous quarter, net of the most erratic components. Latest update: September 2024. The methodology used to construct the indicator and the updated data for the indicator are available on the Bank of Italy's website: 'Cyclical coincident indicator of the euro area economy (€-coin)'. – (2) For GDP, quarterly data; percentage changes on previous quarter.

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

inflation, measured net of food and energy products, went down by 0.1 percentage points compared with August, to 2.7 per cent, because of the effect of the marginal reduction in services inflation, to 4.0 per cent; it continues to be buoyed not only by tourism-related components, but also by items whose prices are regulated or that are adjusted with a lag compared with headline inflation, such as housing rents, health services and insurance activities. Inflation indicators that exclude more erratic fluctuations, which have fallen significantly since the peak reached early in 2023, stabilized over the summer months.

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 September 2024.
(1) 12-month percentage change in the HICP. – (2) 12-month percentage change in the HICP excluding energy and food.

Contractual wages are accelerating in Germany

In the second quarter of 2024, actual wage growth in the euro area, though remaining robust, fell to 4.2 per cent, from 5.1 per cent. According to the latest available data, contractual wages (excluding one-off payments) are expected to increase in Germany in the second half of the year, against a slowdown in France and an increase broadly in line with the previous six-month period in Spain and Italy (see Section 2.5).

The prospect of inflation returning to target is confirmed

The ECB staff projections released in September indicate that euro-area price growth will be 2.5 per cent in 2024, 2.2 per cent in 2025 and 1.9 per cent in 2026. The projections also confirm the gradual reduction in core inflation over the forecasting horizon, despite a slight upward revision for the years 2024-25, attributable to the services component. The decline is likely to be supported by slower wage growth and by productivity growth, which are expected to contain unit labour costs.

Firms and households expect moderate price increases

Based on European Commission surveys, firms' expectations for increases in their prices for the next three months were stable in the summer in industry excluding construction, remaining below their long-term average, and they remained essentially unchanged in services as well. According to the ECB Consumer Expectations Survey, households' expectations for consumer price dynamics declined just barely in August, both on the 12-month horizon, to a median value of 2.7 per cent (the lowest level since September 2021) and on the three-year horizon, to 2.3 per cent.

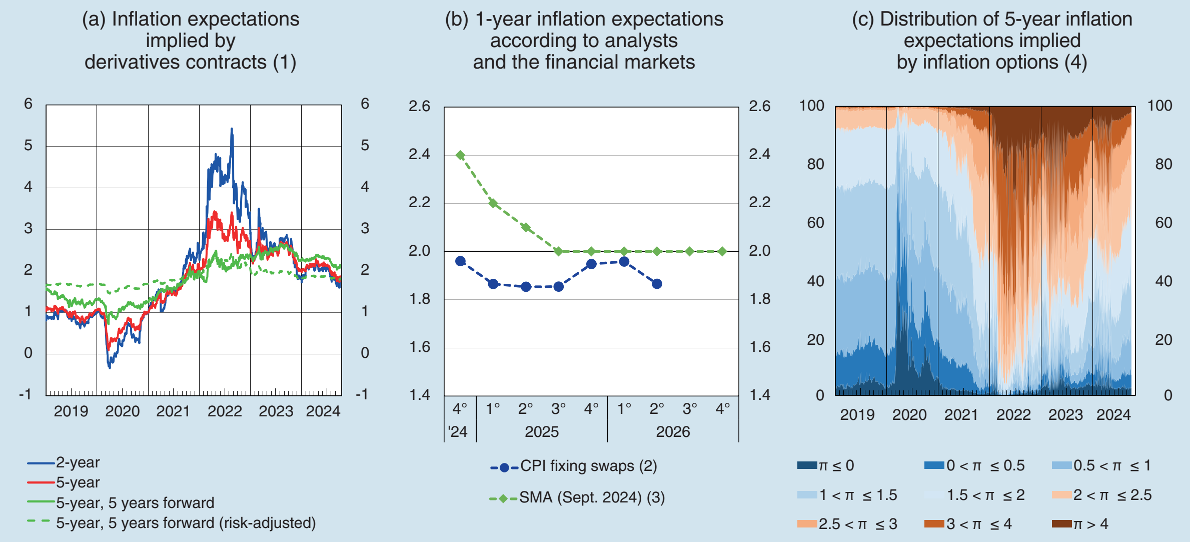
Medium-term inflation expectations fall

Between early July and early October, inflation expectations as implied by the yields on inflation-linked swap (ILS) contracts fell over both the two- and the five-year horizons, and over the five-year, five years forward horizon. As regards the latter, the yields net of the estimated inflation risk premium stand at around 1.8 per cent, essentially in line with the price stability target (Figure 6.a). Looking immediately ahead, market-inferred expectations, based on CPI fixing swaps,[3] point to a slight reduction in inflation

[3] CPI fixing swaps are swap contracts linked to the publication of monthly data on annual euro-area inflation, as measured by the HICP index excluding tobacco. The interest rates implied by CPI fixing swaps indicate the annual inflation expected by the financial markets over the next 24 months Inflation expectations based on CPI fixing swaps are updated more frequently than those of analysts, and may be affected by sudden reactions to news about macroeconomic developments in the euro area and in other major economies.

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 CPI fixing swaps 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 26 to 29 August 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 euro-area HICP excluding tobacco.

in the first quarter of 2025 and a subsequent stabilization at levels just below 2 per cent. According to the analysts interviewed at the end of August in the ECB's Survey of Monetary Analysts (SMA), inflation will be close to 2 per cent from the first half of next year (Figure 6.b). Finally, the distribution of inflation expectations based on options prices, which reflects the risks to future price growth, indicates a probability of 34 per cent of inflation being below 1.5 per cent over the next five years (the probability of inflation exceeding 2.5 per cent would instead only be 21 per cent; Figure 6.c).

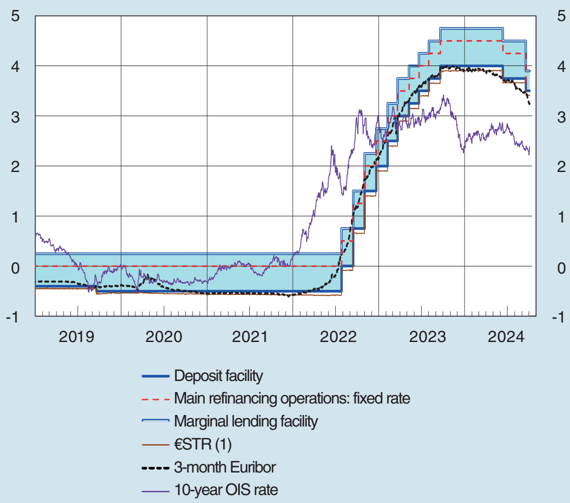
The ECB lowers its key interest rates

The ECB Governing Council lowered its deposit facility rate by 25 basis points in its September meeting, bringing it to 3.5 per cent (Figure 7).

In September, the reduction to 15 basis points of the spread between the rate on the main refinancing operations, set at 3.65 per cent, and

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 €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 deposit facility rate came into force, a reduction decided by the Council at its March meeting. The rate on the marginal lending facility was also adjusted to 3.90 per cent in order to keep the spread between this rate and the main refinancing rate unchanged at 25 basis points.

As previously announced by the Council, the pandemic emergency purchase programme (PEPP) has been cut by an average of €7.5 billion per month since July; reinvestments will stop at the end of 2024. The value of the portfolio held by the Eurosystem under the asset purchase programme (APP) continues to decline at a steady and predictable pace: it stood at €2,761 billion at the end of September.

The total amount of funds disbursed with the third series of targeted longer-term refinancing operations (TLTRO III) and still held by the banking system is €29 billion for the euro area and €12 billion for Italy.

Markets and analysts expect key interest rates to fall more quickly

Expectations of lower key interest rates implied by €STR swaps have intensified since the beginning of July. The markets anticipate two consecutive cuts in the October and December meetings and an overall reduction of around 150 basis points by the end of 2025. The experts interviewed in the SMA by the ECB expect a more gradual reduction path, with a cut in December and a reduction of another 100 basis points over the course of next year.

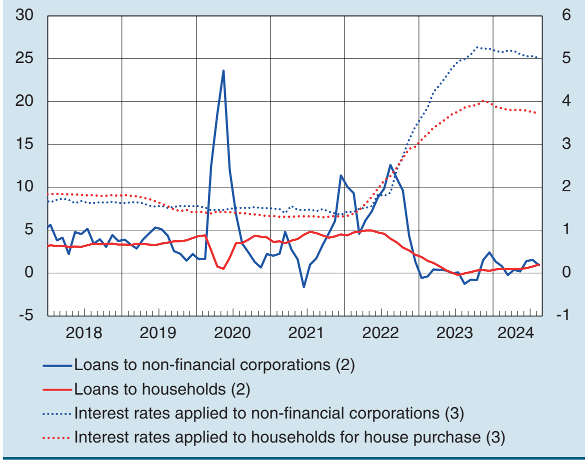
The cost of lending remains high

Between May and August, the interest rate on new loans to non-financial corporations and that on new mortgage loans to households fell by around 0.1 percentage points, to 5.0 and 3.7 per cent respectively (Figure 8), remaining at levels close to the peaks recorded in the final months of last year.

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) 3-month percentage changes are annualized. Loans include 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) Per cent. 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.

In August, growth in lending to non-financial corporations in the euro area strengthened slightly, calculated on a three-month and annualized basis, to 0.9 per cent (0.2 per cent in May; Figure 8). Among the leading countries, lending accelerated in France and turned to slight growth in Germany and Spain, while the contraction in lending to firms became more marked in Italy (see Section 2.7). Growth in lending to households continued at a higher rate than in previous months (1.0 per cent, from 0.5 per cent in May).

These trends continue to reflect a still weak demand for credit overall, owing to high interest rates; supply conditions remain restrictive.[4]

EU countries are drafting the first fiscal-structural plans

Since 10 July, €27 billion have been disbursed in funding connected with the national recovery and

[4] For more details, see ECB, 'July 2024 euro area bank lending survey', press release, 16 July 2024.

resilience plans of individual Member States, of which €11 billion to Italy, bringing the total amount of funds distributed to €267 billion.

On 26 July, as recommended by the Commission, the Council of the European Union adopted decisions establishing the existence of excessive deficits for Belgium, France, Hungary, Italy, Malta, Poland and Slovakia. For each country, the net expenditure path[5] in their respective medium-term fiscal-structural plans (the main programming tool envisaged by the EU's new economic governance) will also have to be consistent with an improvement of at least 0.5 percentage points per year in the primary structural balance in the three years 2025-27 (the minimum benchmark).[6] The same objective will apply to the structural balance from 2028 onwards.[7] The Italian plan was submitted to Parliament at the end of September (see Section 2.9) and it should be sent to the Commission by mid-October. The submission of the French plan has been delayed by the instalment of the new government.[8]

On 9 September, Mario Draghi presented the report on the competitiveness of the European Union's economy, which was prepared upon request of the European Commission.[9] The document aims to establish a common strategy for reviving the EU's competitiveness. It underlines the urgent need for policies that can combine productivity growth and decarbonization, thereby overcoming the fragmentation inherent in the actions of individual states. According to the report, completing the capital markets union and issuing common debt securities would help to meet the European Union's estimated annual needs of €750-800 billion for additional investment overall, both public and private.[10]

1.3 INTERNATIONAL FINANCIAL MARKETS

Financial market conditions remain smooth overall, partly as a result of the US Federal Reserve's monetary easing. Early-August market tensions, which especially affected equities, have largely subsided; however, investors are still highly responsive to macroeconomic and geopolitical developments.

Short-term tensions jolt markets, then ebb away

In early August, amid a volatility spike, global financial markets experienced declines in stock prices – particularly in the US technology sector – and in government bond yields. Key drivers included concerns about a US recession,

5 Net expenditure means government expenditure net of: a) interest expenditure, b) discretionary measures on the revenues side, c) expenditure on EU programmes fully matched by Union funds revenue, d) national expenditure on co-financing for programmes funded by the Union, e) the cyclical component of unemployment benefit expenditure (which could include the disbursements connected with short-time work schemes) and f) one-offs and other temporary measures. For more details, see the box 'The new European fiscal governance framework', Chapter 2, *Annual Report* for 2023, 2024 (only in Italian).

6 The expenditure path is decided based on a debt sustainability analysis specific to each country; however, it must also enable compliance with some common safeguards and benchmarks.

7 For a critical analysis of the new framework of rules, see the box 'The new European fiscal governance framework', in the *Annual Report* for 2023 (only in Italian) and the 'Review of the European Commission's proposals for economic governance', memorandum by the Bank of Italy, prepared for the 5th Committee of the Senate of the Republic (Economic Planning and Budget) and the 5th Committee of the Chamber of Deputies (Budget, Treasury and Planning), sitting jointly, Rome, 8 November 2023.

8 As of 10 October, only four plans had been published on the Commission's website (Denmark, Greece, Malta and Poland).

9 M. Draghi, 'The future of European competitiveness', 2024.

10 On the importance of investments coordinated and funded at European level, see also 'The future of Europe's economy amid geopolitical risks and global fragmentation', Lectio Magistralis delivered by Fabio Panetta, Governor of the Bank of Italy, on the occasion of the conferral of an honorary degree in Juridical Sciences in Banking and Finance by the University of Roma Tre, 23 April 2024.

disappointing quarterly results from a number of tech companies and the repercussions of the Bank of Japan's monetary policy tightening on the foreign exchange market. These pressures have largely abated following macroeconomic data releases that reassured market participants about the performance of the US economy (see the box 'Global financial market tensions in early August').

GLOBAL FINANCIAL MARKET TENSIONS IN EARLY AUGUST

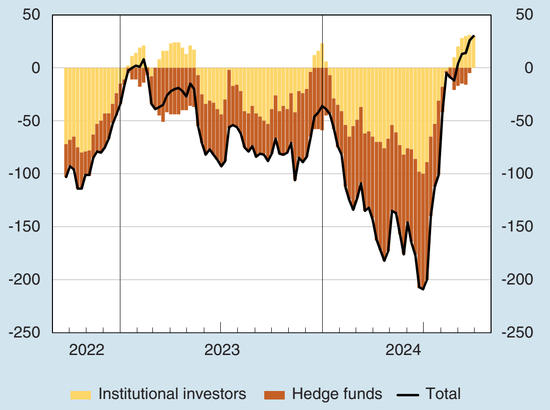
In the first few days of August, global financial markets were affected by severe tensions, leading the main stock market indices to fall, with sudden increases in volatility and sharp changes in the exchange rates of the major currencies against the yen. Several factors contributed to this. Weaker-than-expected economic and labour market data in the United States prompted investors to revise their expectations of a recession upwards. Some technology companies published disappointing quarterly results, which had strong negative effects on share prices in the sector. At the end of July, the Bank of Japan announced a tighter-than-expected monetary policy stance, surprising most market participants.

At the peak of these tensions, on 5 August, the Japanese Nikkei index ended the trading day on a 20 per cent loss compared with 31 July. In that same period, stock markets fell by around 6 per cent in the United States and in the euro area. Stocks in technology and in more cyclical sectors (finance and consumer goods in particular) suffered more pronounced losses.

The increased likelihood of a US recession led market participants to revise their expectations for Federal Reserve policy rates downwards and, to a lesser degree, for ECB key rates as well.[1] The outcome was a depreciation of the dollar against the other major currencies, and particularly against the yen, which gained 5 per cent in the same period, partly driven by the Bank of Japan's raising interest rates. With expectations of a narrower spread between US and Japanese interest rates, market participants made abrupt cuts to their speculative yen carry trade positions (Figure A),[2] with effects on other countries' markets as well.

Figure A

Net positions in yen futures (1)
(thousands of contracts; weekly data)



Source: LSEG.
(1) Difference between purchase and sale positions in yen futures held by institutional investors and hedge funds.

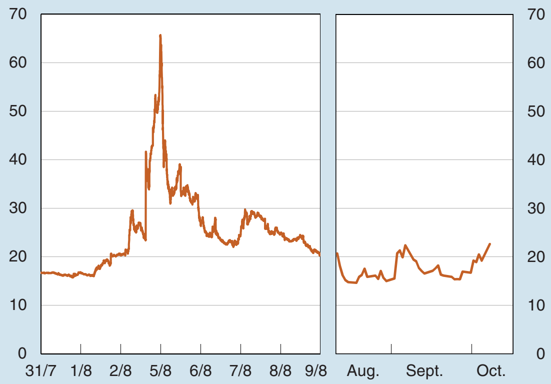
Increasing losses on equity investments and carry trade positions led investors to swiftly reduce risk in their portfolios. These sell-offs generated steeper price reductions, partly on account of the low liquidity that generally accompanies the summer months. The rebalancing of portfolios towards lower-risk financial assets (flight to quality) and the prospect of an easing of monetary policy were reflected in a significant reduction in government bond

1 On 31 July, markets were expecting cuts of 73 basis point to policy rates in the United States by the end of the year and of 59 basis point in the euro area. On 5 August, these expectations had risen to 114 and 75 basis points, respectively.

2 A carry trade is an investment strategy that exploits the spread between interest rates on different currencies.

Figure B

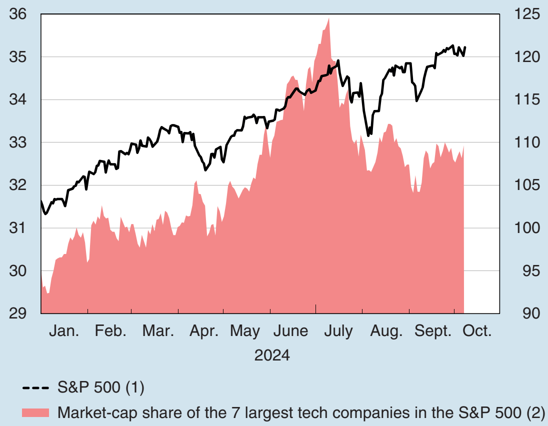
Implied volatility of US equity prices (1)
(percentage points)



Source: LSEG.
(1) Implied volatility of S&P 500 options. Left-hand panel: one-minute interval data. Right-hand panel: daily data.

Figure C

Market-cap share of the largest technology companies in the S&P 500 Index
(daily data; per cent and index)



Source: LSEG.
(1) Index: 1 January 2024=100. Right-hand scale. – (2) Ratio of the market capitalization of the seven largest technology companies listed on the S&P 500 Index (Alphabet, Amazon, Apple, Meta, Netflix, NVIDIA and Tesla) to the total capitalization of the S&P 500.

yields, especially US Treasury and German Bund yields, in both the short- and long-term segments.

These financial tensions largely subsided in the days after 5 August, as macroeconomic data were released that quelled concerns about US growth. The implied volatility of the S&P 500 Index, which had risen to levels last seen in March 2020, rapidly dropped again to its end-July levels (Figure B).

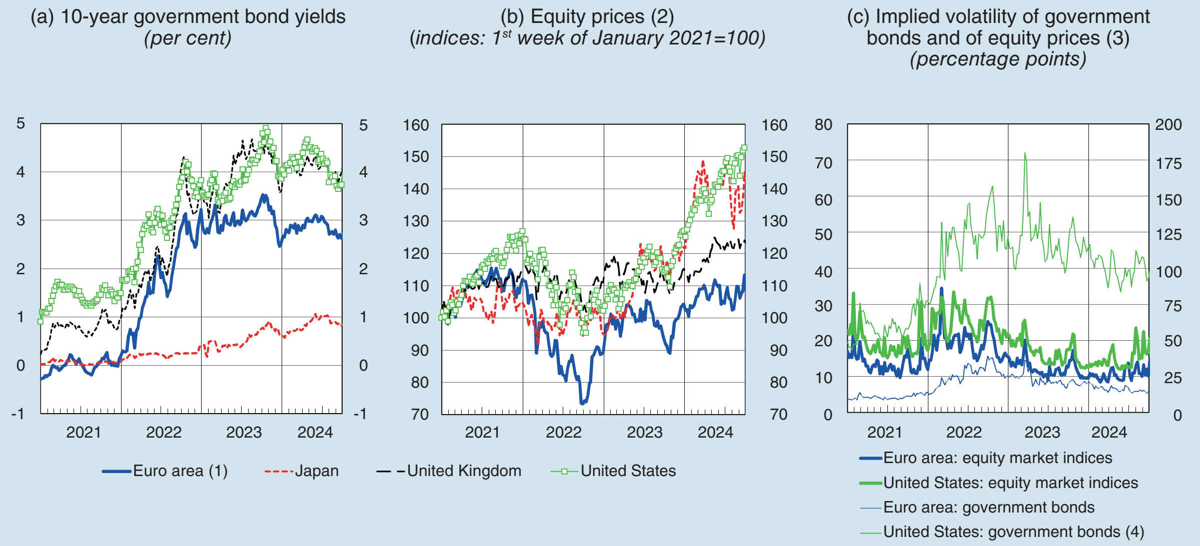
What occurred in early August highlighted two significant sources of vulnerability in financial markets. The first is the high concentration of US equity capitalization in just a small number of technology companies, which taken together account for more than 30 per cent of the total (Figure C). This exposes stock market indices to greater volatility, reflecting investors' changing expectations in the field of technological advances, especially as regards artificial intelligence. The second is the heightened market responsiveness to macroeconomic data releases (especially concerning growth) in a context in which the valuations of various financial assets, including equities and high-yield bonds, remain high.[3]

[3] According to estimates by the Bank for International Settlements, the responsiveness of the interest rate on government bonds to macroeconomic news has increased significantly in the United States since 2023, reaching 20-year highs; see 'Carry off, carry on', *BIS Quarterly Review*, September 2024, pp. 1-19.

Long-term government bond yields, which are partly affected by inflation expectations, have shed around 50 basis points overall in the US since July, with more moderate declines being recorded in the UK and Japan (Figure 9.a). Share prices have picked up above early-July levels in the US (with the exception of the technology sector) and in the UK, while they have remained below those levels

Figure 9

Indicators for international financial markets
(end-of-week data)



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 S&P 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 S&P 500 for the United States. – (4) Right-hand scale.

in Japan (Figure 9.b). Although the volatility of US stock prices remains historically low, it has recently increased owing to the growing tensions in the Middle East (Figure 9.c), which have also caused US government bond volatility indices to rise.

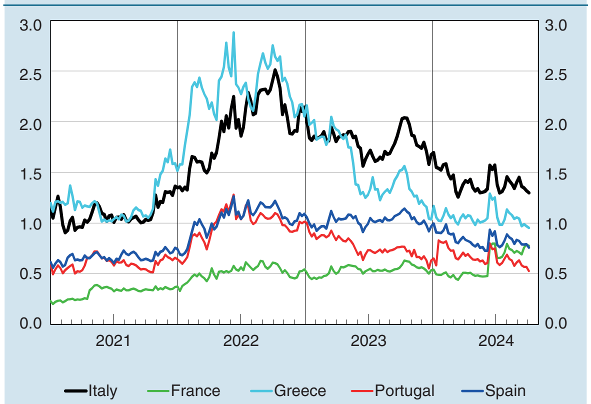
Euro-area 10-year government bond yields go down

Euro-area government bond yields have declined since July. Early-August tensions led to a rebalancing of portfolios towards financial assets perceived as less risky, adding to the decline in 10-year Bund yields; this caused the yield spreads of euro-area government bonds vis-à-vis German Bunds to widen somewhat, before quickly narrowing again across all euro-area countries except France, due to its recent phase of political uncertainty (Figure 10).

In early August, equity prices in the euro area also experienced a sharp decline and a volatility spike. Overall, valuations rebounded in the following days, albeit with significant differences across sectors. The yield spreads of

Figure 10

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



Source: Based on Bloomberg data.

euro-area financial and non-financial corporate bonds vis-à-vis the risk-free rate narrowed significantly.

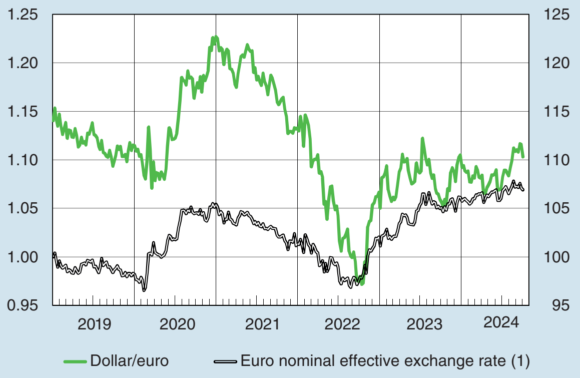
The US dollar depreciates against the main advanced economies' currencies

The nominal effective exchange rate of the euro has edged up marginally since July, while the US dollar has depreciated overall against the currencies of the main advanced economies (Figure 11), largely reflecting expectations of monetary easing in the US, which were subsequently confirmed by the Federal Reserve's rate-cut decision at its September meeting. A tighter monetary policy stance in Japan has also contributed to the US dollar depreciating against the yen.

Figure 11

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

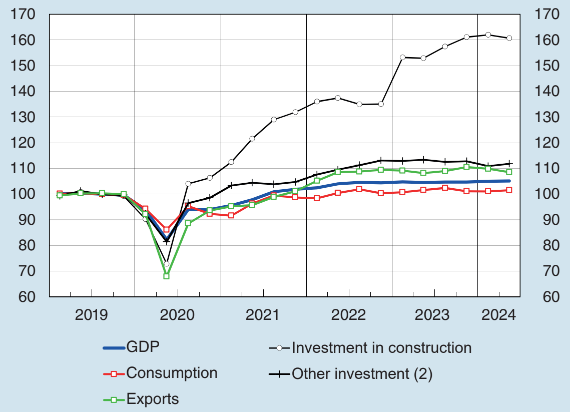
Italian GDP continued to grow moderately in the second quarter of 2024, still supported by the expansion in services, against a decline in value added in industry. Domestic demand increased, driven by household consumption and by investment in capital goods, while net exports declined. Based on our estimates, growth was moderate in the summer months too, stimulated by activity in the service sector.

GDP rises in the spring ...

In the second quarter, GDP rose by 0.2 per cent compared with the previous period (Figure 12 and Table 3). The modest recovery in household consumption continued, after the sharp drop observed at the end of last year. Gross fixed capital formation fell slightly: the negative contribution of residential construction was offset by the increase in all the other components. The change

Figure 12

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. – (2) Includes investment in machinery, equipment and weapons systems (which also consists of transport equipment), as well as cultivated biological resources and intellectual property products.

Table 3

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

	2023	2023		2024	
		Q3	Q4	Q1	Q2
GDP	0.7	0.2	0.0	0.3	0.2
Imports of goods and services	-0.4	-2.4	-1.3	-2.3	0.2
National demand (2)	0.3	-0.9	-1.0	-0.2	0.6
National consumption	1.2	0.8	-1.2	-0.1	0.5
Household spending (3)	1.0	0.9	-1.7	0.1	0.3
General government spending	1.9	0.5	0.1	-0.7	1.0
Gross fixed capital formation	8.5	1.2	1.4	-0.5	-0.1
Construction	14.5	3.0	2.4	0.6	-0.8
Capital goods (4)	2.3	-0.7	0.2	-1.7	0.8
Change in inventories (5)	-2.5	-1.9	-0.3	-0.1	0.3
Exports of goods and services	0.8	0.7	1.4	-0.6	-1.2
Net exports (6)	0.4	1.1	1.0	0.5	-0.5

Source: Istat.
(1) Chain-linked volumes; the quarterly data are seasonally and calendar adjusted. – (2) Includes the item 'changes in inventories, including valuables'. – (3) Includes non-profit institutions serving households. – (4) Includes investment in machinery, equipment and weapons systems (which also consists of transport equipment), cultivated biological resources and intellectual property products. – (5) Includes valuables; contributions to GDP growth on previous period; percentage points. – (6) Difference between exports and imports; contributions to GDP growth on previous period; percentage points.

in inventories, which slowed down growth by more than 2 percentage points in the previous three quarters, contributed 0.3 percentage points to GDP.

The contribution of foreign trade amounted to -0.5 percentage points, owing to a sharp decline in exports of goods and services, which exceeded the estimates based on monthly foreign trade data, against a slight uptick in imports (see Section 2.4).

On the supply side, value added continued to fall in industry excluding construction (-0.5 per cent) and in construction (-0.6 per cent), but rose in services. The expansion in the service sector, which involved almost all sectors, was most pronounced in information and communication services, in real estate activities and in insurance and financial activities.

On 23 September, Istat published the general revision of its national accounts for the years 1995-2023.[1] The new data adjust GDP growth upwards significantly for 2021 and 2022 and downwards by 0.2 percentage points for 2023.[2] The revisions reflect stronger growth in investment in construction and domestic final consumption in 2021 and a faster build-up of inventories in 2022. The modest adjustment to growth in 2023 reflects a sizeable reduction in the contribution of national demand, mainly owing to the sharp deceleration in inventories and the revision of the growth in investment in machinery. These developments were only partly offset by the robust increase in investment in construction. The changes to net external demand were limited overall.

... and increases moderately in the summer as well

Based on our estimates, economic activity increased slightly in the third quarter. The expansion in services appears to have continued, while value added seems to have remained essentially stable in construction and to have declined further in manufacturing. On the demand side, the further recovery in consumption appears to be linked to subdued investment and weak net external demand. In September, the Ita-coin indicator, which measures GDP growth net of cyclical volatility, although improving, remained negative. Our most recent macroeconomic projections show GDP increasing by 0.6 per cent in 2024 (by 0.8 per cent without calendar adjustments), and is expected to grow cumulatively by more than 2 per cent in 2025 and 2026 (see the box 'Macroeconomic projections for the Italian economy').

MACROECONOMIC PROJECTIONS FOR THE ITALIAN ECONOMY

The 'Macroeconomic projections for the Italian economy' for the period 2024-26, published in October by the Bank of Italy, update the projections formulated last June in light of the cyclical data and the most recent technical assumptions.[1] The forecasting scenario assumes, as the main forecasters also do, that international trade will accelerate gradually over the three years, notwithstanding the global instability. In line with the expectations embedded in futures contracts, energy commodity prices are projected to fall slightly. Interest rates, derived from

1 For further details, see 'Macroeconomic projections for the Italian economy', Banca d'Italia, 11 October 2024.

1 The revision introduces changes and improvements in methods and sources, and uses 2020 as the reference year for the volume estimates of national accounts aggregates (it was previously 2015). For further details, see Istat, 'Years 1995-2023. Annual National Accounts', Flash Statistics, 23 September 2024.

2 For the years 2021, 2022 and 2023, growth rates for GDP in volume were revised to 8.9, 4.7 and 0.7 per cent, respectively (the previous estimates were 8.3, 4.0 and 0.9 per cent).

market prices, are expected to fall over the three-year period in the short-term segment and to increase slightly in the long-term segment.[2]

The projections confirm for 2024 the assessments made previously of an increase in GDP of 0.6 per cent (0.8 per cent without any calendar adjustments) and point to an acceleration over the following two years, in which GDP is expected to grow by more than 2 per cent. It is estimated that growth will remain modest for the rest of this year and the beginning of the next, to then regain momentum driven by consumption and exports, which should benefit from the rise in disposable income and international trade. Investment is expected to slow significantly compared with the first half of the year, mainly owing to the reduction in building renovation incentives and still tight, albeit improving, credit conditions. Our estimates suggest that the negative impulse from these factors will be partially offset by the NRRP measures. Compared with those published last June, the GDP growth projections are slightly higher for 2025-26, largely owing to more favourable financial conditions and the Government's planned expansionary measures.

Consumer price inflation is expected to remain low, at 1.1 per cent this year and at just over 1.6 per cent in 2025 and 2026. The drop from 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 be over 2 per cent in 2024 and below that level in the two-year period 2025-26: it is expected that the upward pressures stemming from higher wage growth will be absorbed, especially this year, by a reduction in profit margins and moderate rises in the prices of imported goods. Consumer price inflation projections are essentially unchanged compared with those of June.

Our growth projections are more or less in line with those offered in recent months by the major international organizations and private analysts (see the table). They are higher than those of the International Monetary Fund (IMF) for 2026. Our inflation estimates are generally lower than those of the other forecasters for the entire three-year period 2024-26.

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 (October)	0.6	1.0	1.2	1.1	1.6	1.6
European Commission (May)	0.9	1.1	–	1.6	1.9	–
OECD (September)	0.8	1.1	–	1.3	2.2	–
IMF (July)	0.7	0.9	0.6	1.3	2.0	2.0
Consensus Economics (October)	0.8	0.9	–	1.2	1.7	–
Memorandum item: Bank of Italy (June)	0.6	0.9	1.1	1.1	1.5	1.6

Source: Banca d'Italia, 'Macroeconomic projections for the Italian economy', 11 October 2024; European Commission, *European Economic Forecast, Spring 2024, May 2024;* OECD, *OECD Economic Outlook, Interim Report, Turning the Corner,* September 2024. IMF, *Italy: Staff Report for the 2024 Article IV Consultation*, July 2024; Consensus Economics, *Consensus Forecasts*, October 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, 0.9 per cent in 2025 and 1.3 per cent in 2026. – (2) HICP. Consensus Economics forecasts refer to the consumer price index for the entire resident population (NIC).

[2] The projections are based on information available at 4 October. The scenario takes into account the use of EU funds under the NextGenerationEU programme and incorporates the provisions set out in the medium-term fiscal-structural plan (see Section 2.9).

2.2 FIRMS

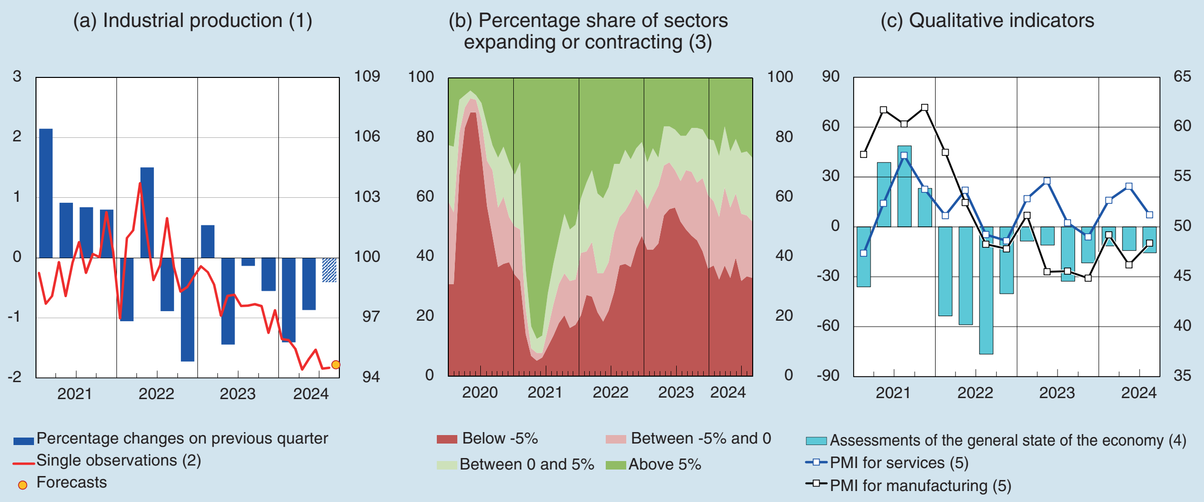
Firms' activity continued to show signs of weakness in the third quarter. According to our estimates, the decline in industrial production under way since the spring of 2023 is ongoing, albeit at a lower rate. Services continued to grow, although at a slower pace than in the spring. In the construction sector, just over half of firms expect to benefit from measures under the NRRP.

Industrial production declines further in the third quarter ...

After falling in July, industrial production remained substantially stable in August, with varying developments across sectors: the increase in consumer and energy goods stood in contrast to the decline in intermediate and capital goods (Figure 13.a). The share of manufacturing segments experiencing a contraction year on year is still high at 52 per cent (Figure 13.b): sharp drops were recorded in the manufacture of transport equipment and, aggravating a long-term trend, textiles.

Figure 13

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 September 2024, the last bar represents the forecast for the third quarter. – (2) Monthly data. Index: 2021=100. Right-hand scale. – (3) Monthly data. The share of sectors expanding or contracting (as per the 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 October 2024). – (5) Average quarterly data. Diffusion indices for economic activity in the sector. Right-hand scale.

Although it rose slightly compared with the spring months, the PMI for manufacturing remained below the expansion threshold in the third quarter (Figure 13.c). In the qualitative surveys, firms report a progressive deterioration in production levels, especially in the intermediate goods sector. Firms' assessments of the general state of the economy are still unfavourable.

Our estimates for September, based on a broad set of quantitative and qualitative indicators,[3] suggest a decline in industrial activity over the summer as a whole, though less marked than in the previous quarter. The uncertain outlook for exports and the weakness of the euro-area manufacturing cycle, particularly in Germany, are contributory factors.

[3] The estimates take account of data on electricity and gas consumption, motorway and rail traffic, and qualitative indicators of business confidence and expectations.

... and expansion in services appears to be losing momentum

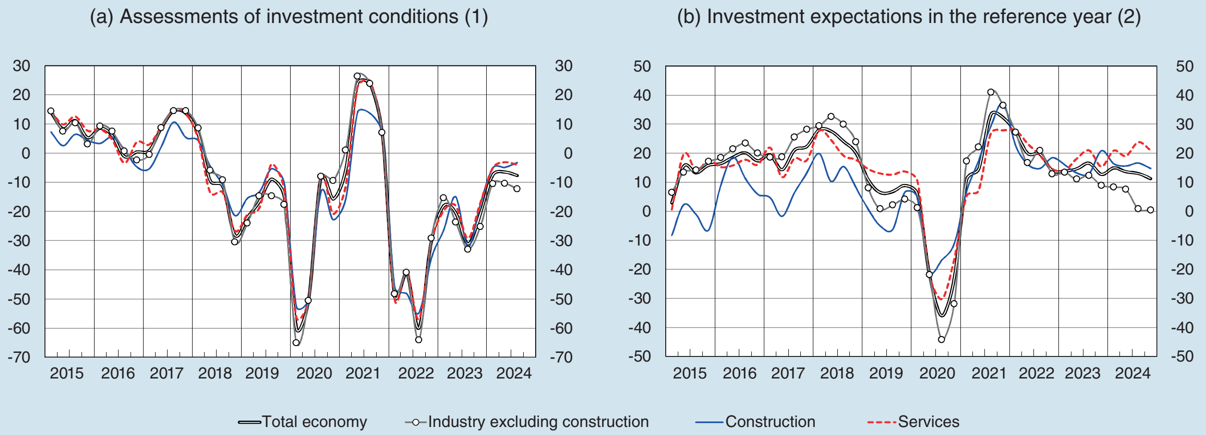
In line with the increase in turnover for services in July, the PMIs for the service sector point to a further expansion in activity in the summer months, albeit less intense than in the previous quarter. The market service and retail trade confidence indicators also point to a modest slowdown, mainly in the current business component, while expectations for future sales improved. In the tourism sector, confidence is still above its long-term average, although it has declined compared with the spring months (see the box 'Recent developments in Italy's tourism sector' in *Economic Bulletin*, 3, 2024). The Bank of Italy surveys conducted in August and September also point to signs of rising demand for service firms, while manufacturing remains weak.[4] This is also confirmed by the opinions gathered through a half-yearly survey on the regional economies conducted by the Bank of Italy's branches among firms, trade associations and financial intermediaries; the slowdown is particularly noticeable in the northern regions, which are more exposed to the German business cycle.

Investment indicators remain weak

In the second quarter, investment fell slightly (-0.1 per cent). This decline is attributable to the contraction in the residential property component (-2.0 per cent), against an increase in investment in machinery, equipment and weapon systems, as well as in non-residential construction. Data provided by Assilea, the Italian leasing association, indicate that the value of leasing contracts for the financing of capital goods slowed in July and August compared with the previous quarter. According to the firms interviewed by the Bank of Italy, investment conditions are expected to remain unfavourable (Figure 14.a; see Section 2.7). The balance between the percentage of firms planning to increase nominal investment in 2024 and those expecting to reduce it remains positive, with trends varying between sectors: expectations are weaker in industry excluding construction and more favourable in construction and, especially, in services (Figure 14.b).[5] More than half of construction firms expect to benefit from measures connected with the NRRP.

Figure 14

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 October 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.

[4] For more details, see 'Survey on Inflation and Growth Expectations', Banca d'Italia, Statistics Series, 8 October 2024

[5] For more details, see the 'Business Outlook Survey of Industrial and Service Firms', Banca d'Italia, Statistics Series, forthcoming.

2.3 HOUSEHOLDS

Household consumption rose at a moderate rate in the spring. The cyclical indicators point to another modest expansion for the third quarter of 2024, driven by the rise in disposable income and by a slight improvement in confidence. The outlook for the real estate market is gradually improving.

Household consumption continues to grow moderately in the second quarter ...

In the second quarter, household consumption rose by 0.3 per cent in real terms, indicating that the partial recovery after the significant decline in late 2023 is still under way. This slight increase reflected the sustained growth in spending on services and the more moderate rise in spending on durables. In contrast, spending on non-durable and semi-durable goods fell. Consumption continued to benefit from the significant improvement in purchasing power in the first half of the year, helped by the gradual rise in real earnings (see Section 2.5), although there was still a high propensity to save (Figure 15).

... and is expected to continue in the third quarter

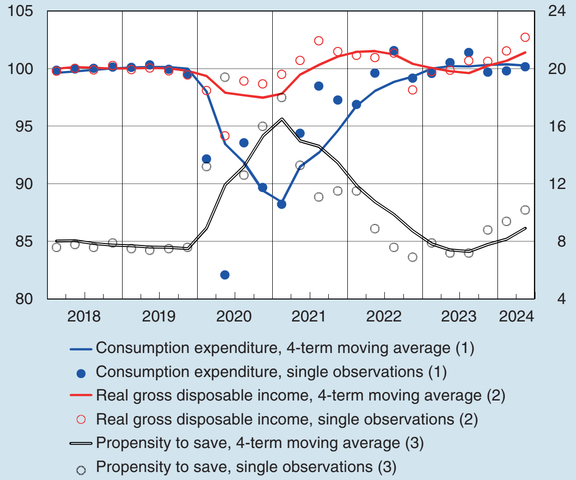
Based on our estimates, household consumption also grew moderately in the third quarter. Confcommercio's consumption indicator points to a slight increase in expenditure on services in July and August, while goods purchases were stagnant. Compared with the second quarter, there was a partial improvement in the growth of electronic payments, valued in real terms, in the summer; however, new car registrations fell on a seasonally adjusted basis after rising in the spring months.

Consumer confidence continued to grow in the third quarter, driven by more favourable views and expectations about the state of the economy – both at general and personal level – as well as more optimistic assessments of opportunities for saving in the future. However, employment expectations worsened (Figure 16).

The Bank of Italy's Survey of Italian Households (Short-term Outlook), carried out between the end of August and the start of September, reported that almost half of the households

Figure 15

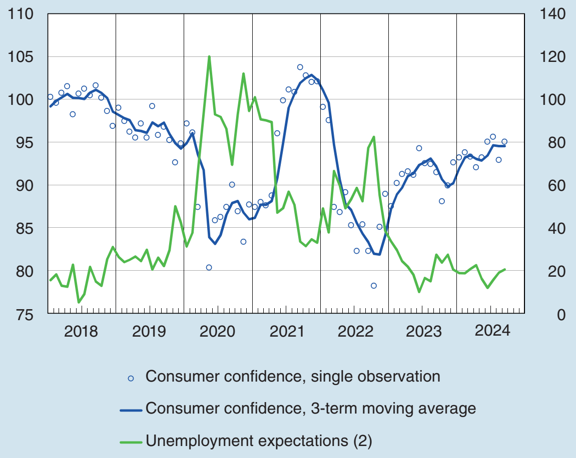
Consumption, income and propensity to save
(seasonally adjusted quarterly data; index numbers and percentage points)



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 16

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.

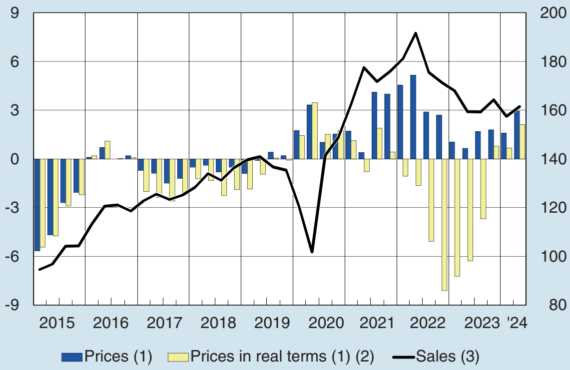
interviewed expect consumption expenditure to remain stable over the next twelve months, about two fifths expect it to increase and just one tenth to fall. Persistently tight credit conditions (see Section 2.7) are, however, expected to hinder plans to buy durable goods, especially by less affluent households.

The outlook for the real estate market is less unfavourable

In the second quarter of 2024, house price growth accelerated, especially for new construction. House sales rose slightly (Figure 17). According to the *Italian Housing Market Survey (Short-term Outlook)* conducted by the Bank of Italy last summer, the difficulties encountered in obtaining mortgage loans partially eased (see Section 2.7). The supply of leases shrank, reflecting the propensity of owners to prefer short-term rentals, mainly in Central Italy's medium-sized and large cities, whereas demand for leases remained robust, connected with the problems some categories of buyers have found in purchasing property, especially in northern urban areas. Compared with the same period of 2023, agents' expectations regarding real estate market conditions, in both the short and long term, were less unfavourable; house price expectations also improved, although there is lingering pessimism. Our calculations, based on the listings published on the Immobiliare.it online platform, also seem to suggest a slight recovery in demand in the summer months.

Figure 17

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 negative in the second quarter: exports, which had stagnated at the beginning of the year, contracted, while imports edged up. However, the current account surplus rose, reflecting the narrowing primary income deficit and the improvement in the services balance, which also benefited from the good performance in international tourism flows. Net purchases of Italian securities, especially those of the public sector, by non-resident investors remained high. The negative TARGET balance decreased further. Italy's positive net international investment position improved.

Exports decline in the second quarter …

After stagnating in early 2024, export volumes fell by 1.2 per cent in the second quarter (Table 4). The decline in the goods component more than offset the increase in services. Sales declined both in foreign markets (above all in

Table 4

Export and import volumes (1)
(percentage changes on previous period)

	2023	2023		2024	
		Q3	Q4	Q1	Q2
Exports	**0.8**	**0.7**	**1.4**	**-0.6**	**-1.2**
Goods	**-1.2**	**0.4**	**1.2**	**-0.6**	**-1.8**
To euro-area countries	-1.2	0.1	-0.7	-1.3	-0.7
To non-euro area countries (2)	-1.3	0.6	2.5	-0.1	-2.5
Services	**10.5**	**2.0**	**2.6**	**-0.6**	**1.2**
Imports	**-0.4**	**-2.4**	**-1.3**	**-2.3**	**0.2**
Goods	**-1.2**	**-3.1**	**-1.5**	**-1.8**	**-0.1**
From euro-area countries	2.4	0.6	-1.3	3.5	-1.2
From non-euro area countries (2)	-4.8	-6.7	-1.7	-7.6	1.3
Services	**3.6**	**0.6**	**-0.4**	**-4.3**	**1.1**

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.

the United States) and, to a lesser extent, in euro-area markets. At the sectoral level, the reduction in exports was pronounced in machinery and motor vehicles.

Instead, imports grew slightly, driven by the services component, while purchases of goods from foreign markets stagnated. This was due to lower purchases from euro-area markets, especially from Germany, while those from foreign markets, particularly from Asian countries, increased. The largest drop was recorded for energy products and motor vehicles.

... and foreign sales of goods remain weak in the summer months

According to our assessments based on partial foreign trade data, seasonally adjusted exports of goods in volume declined in July and August, while imports grew. Manufacturing firms' assessments of foreign orders as recorded by Istat and the corresponding PMI continued to signal weak foreign demand in the quarter on average, while delivery times held stable (Figure 18).

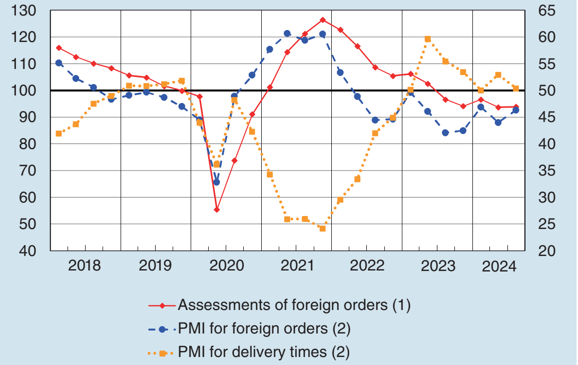
The current account surplus widens again

On a seasonally adjusted basis, the current account surplus widened in the second quarter compared with the previous one (to 2.0 per cent of GDP; Figure 19 and Table 5).[6] The improvement was driven by the narrowing of the primary income deficit, while the non-energy goods surplus deteriorated and the energy deficit remained stable (see the box 'The balance on primary income and the recent rise in interest rates', *Economic Bulletin*, 2, 2024).

Figure 18

Manufacturing firms' assessments of foreign orders and delivery times

(seasonally adjusted quarterly data)

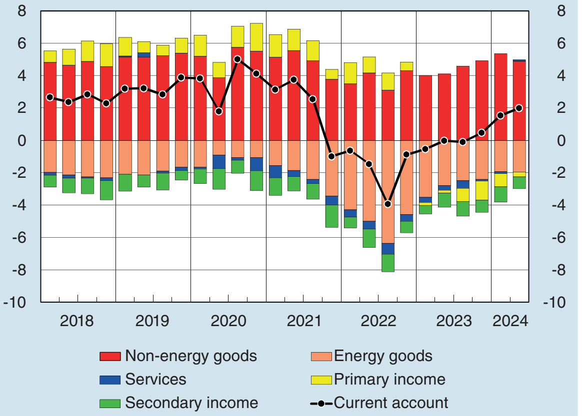


Sources: Istat and Standard & Poor's.
(1) Quarterly average based on Istat's monthly survey of firms; percentage balance of replies of 'increasing' or 'decreasing' foreign orders, minus the average since the start of the time series (January 2000) plus 100. The value of 100 is therefore a balance between 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 19

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.

[6] At the end of September, new balance of payments data were released as part of the general five-year revision of European macroeconomic statistics (see 'Benchmark Revision of Balance of Payments and International Investment Position Statistics (September 2024)', Banca d'Italia, 30 September 2024). The revision had a limited impact on the main balance of payments and international investment position aggregates and did not affect the trends observed over the last 15 years. According to the revision, the current account in 2023 was broadly balanced – while previous data showed a slight surplus – and the net international investment position at the end of 2023 was positive by €158 billion, compared with €146 billion before the revision.

The positive balance on services, which partly reflects the more positive trend in the tourism balance, also contributed favourably.

Foreign investors continue to purchase Italian government securities

The financial account was balanced in the second quarter (€0.6 billion; Table 5). The direct investment balance was negative (-€1.6 billion) and the net portfolio investment balance even more so (-€32.1 billion), owing to large foreign purchases of Italian securities, mostly government bonds (€29.3 billion, entirely in long-term securities and equal to around half of the Treasury's net issues). Investments by residents in foreign portfolio assets (€11 billion) consisted mainly of purchases of bonds, mostly private bonds, thus continuing the rebalancing towards debt securities under way since 2022 in the wake of rising bond yields.

In the same quarter, the 'other investment' balance was positive (€32.5 billion), owing above all to the reduction in net foreign funding by the resident banking sector (€16.9 billion).

The negative TARGET balance shrinks further

The Bank of Italy's debtor position in the TARGET system fell by €15.6 billion in the second quarter, mainly reflecting the inflows of foreign investment in Italian securities. The significant reduction in the Bank of Italy's negative balance under way since mid-2023 continued, reflecting 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, which fell by €61 billion between July 2023 and July 2024. In the third quarter, the negative balance shrank by €38.9 billion to €446.4 billion at the end of September (Figure 20).

The positive net international investment position strengthens

At the end of June, Italy's net international investment position was positive by €225.2 billion, equal to 10.5 per cent of GDP. The €32.8 billion increase compared with end-March was mainly due to valuation adjustments linked to price changes, especially for portfolio securities and official gold reserves.

Table 5

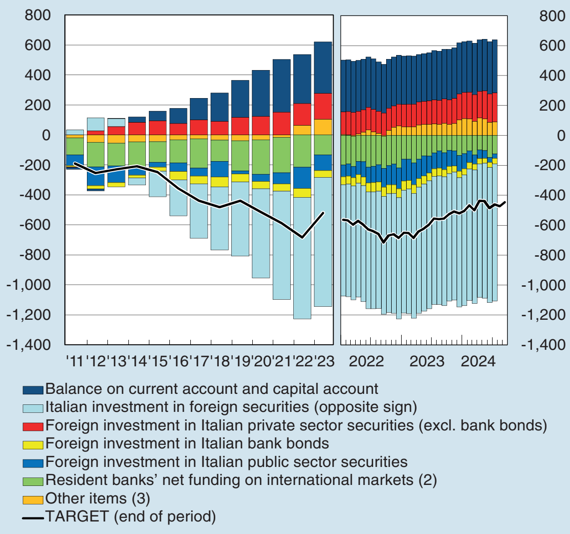
Balance of payments
(billions of euros)

	2023	2023		2024	
		Q3	Q4	Q1	Q2
Current account	**-0.3**	**6.0**	**4.1**	**1.6**	**8.5**
Adjusted for seasonal and calendar effects	-1.2	-0.6	2.4	8.3	10.7
Memorandum item: % of GDP (1)	..	-0.1	0.5	1.5	2.0
Capital account	**15.2**	**4.0**	**6.0**	**-0.4**	**-1.5**
Financial account	**31.5**	**17.9**	**17.7**	**0.8**	**0.6**
Direct investment	-10.6	7.3	-13.2	4.6	-1.6
Portfolio investment	-24.8	-1.1	-20.2	-25.6	-32.1
Derivatives	-4.7	-1.6	0.9	1.3	0.3
Other investment (2)	68.8	14.3	48.8	20.1	32.5
Changes in official reserves	2.7	-0.9	1.4	0.2	1.5
Errors and omissions	**16.5**	**7.9**	**7.5**	**-0.4**	**-6.4**

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

Figure 20

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

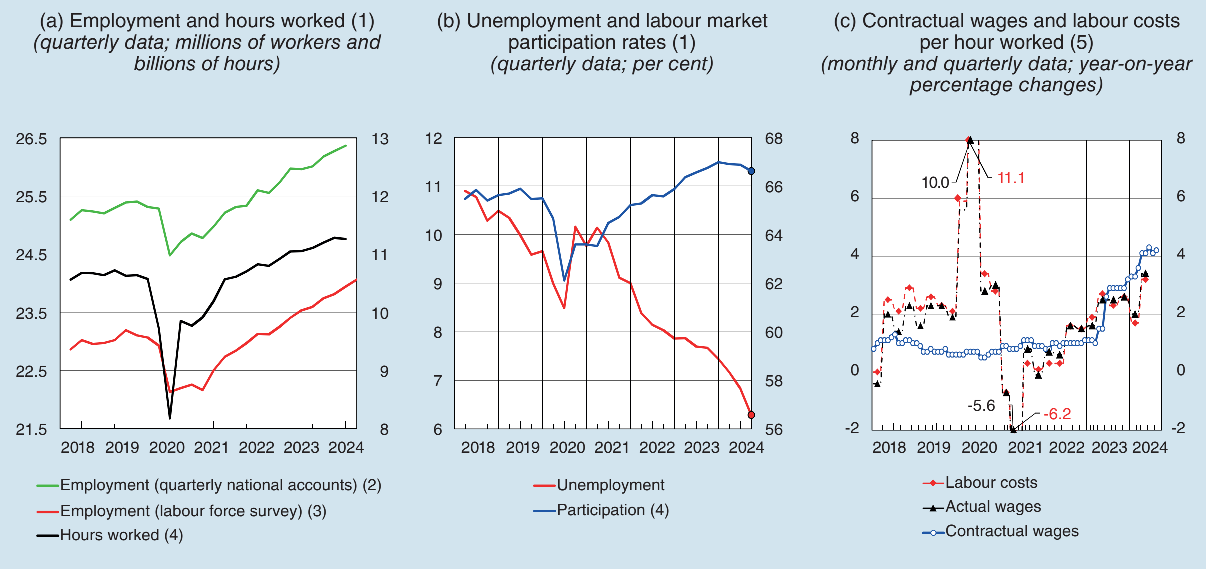
The labour market is showing signs of slowing down: headcount employment continued to rise, but the number of hours worked declined, especially in industry excluding construction. The reduction in hours worked per employee was accompanied by an improvement in productivity. The contraction in the participation rate, which continued in the summer months as well, contributed to the decrease in the unemployment rate. Unit labour costs accelerated in the non-farm private sector, driven by wage increases in retail trade and metalworking. Wage growth is expected to strengthen further in the autumn as a result of the payments due under current collective bargaining agreements.

Hours worked fall and the participation rate stagnates in the second quarter

According to data from Istat's quarterly national accounts, total hours worked decreased in the spring months (-0.2 per cent), especially in industry excluding construction, despite an increase in the number of workers (0.4 per cent;[7] Figure 21.a). The decline in the vacancy rate in the first two quarters of the year and the year-on-year increase in the number of wage supplementation hours authorized in manufacturing also confirm the gradual weakening of firms' labour demand.

Figure 21

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 wages by type of contract.
(1) Seasonally adjusted data. The points corresponding to Q3 2024 indicate the average value for the two-month period July-August. – (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.

The participation rate, which rose rapidly between 2021 and 2023, remained essentially stable, after edging down in the previous quarter (Figure 21.b). Employment growth, combined with the stagnation of the labour force, led to a further reduction in the unemployment rate (to 6.8 per cent).

[7] The levels of both aggregates were revised downwards in the new version of Istat's national accounts (for more details, see Istat, 'Years 1995-2023. Annual National Accounts', Flash Statistics, 23 September 2024), but their rates of change were broadly confirmed.

Employment grows and labour market participation declines in the summer

According to provisional data from Istat's labour force survey, the participation rate decreased in July and August (-0.2 percentage points), while headcount employment grew; the unemployment rate thus declined to 6.3 per cent, slightly below the euro-area average. Firms' employment expectations three months ahead, as recorded by the European Commission in September, remain positive for services, while they are negative for industry.

Contractual wages accelerate ...

In the second quarter, contractual wages in the non-farm private sector rose by 4.2 per cent year on year (from 3.2 per cent; Figure 21.c), mainly owing to the payment in April of the wage increases agreed in retail trade and the wage floor adjustment in metalworking in June. Although actual earnings accelerated sharply (from 1.9 per cent to 3.4 per cent), they grew less than contractual wages, mainly reflecting the more moderate developments in the components in excess of wage floors. Istat revised wages slightly upwards in its new national accounts, but the trend in the non-farm private sector in recent years remained virtually unchanged.[8] Although the decline in productivity eased, the increase in unit labour costs picked up pace.[9]

... and continue to grow apace in the autumn months

In July and August, growth in contractual wages remained strong. It is set to continue apace in the autumn months, owing to the increases already agreed in the recently signed agreements (see the box 'The impact of recent negotiated wage increases on wage growth'). In the private sector, 40 per cent of workers are waiting for their collective bargaining agreements to be renewed; negotiations are under way for construction and metalworking agreements, which expired in June and affect more than one fifth of all workers.

THE IMPACT OF RECENT NEGOTIATED WAGE INCREASES ON WAGE GROWTH

In the first half of 2024, growth in negotiated wages remained strong in the euro area as a whole, with very heterogeneous patterns across major countries, mainly owing to differences in collective bargaining systems, particularly in terms of the duration of agreements and the timeliness of their renewals.[1] Wages accelerated in countries such as Germany and Italy, where important long-expired collective bargaining agreements were renewed, while they slowed in France and Spain, where renewals had been more frequent in the three years 2021-23.[2]

In Italy, national collective bargaining agreements typically last three years, but their actual duration is often extended by long negotiations, resulting in slower wage adjustments to shocks,

1 There are also other factors at play, including mismatches between labour demand and supply, inflation expectations and indexation mechanisms; for more details, see the box 'Collective bargaining in the main euro-area countries', Chapter 2, *Annual Report for 2022*, 2023.

2 M. Bing, S. Holton, G. Koester and M. Roca I Llevadot, 'Tracking euro area wages in exceptional times', The ECB Blog, 23 May 2024; and ECB, *Economic Bulletin,* 5, 2024.

8 Revisions to hourly wage growth were instead significant in the economy as a whole, following the shift from a cash basis to accrual accounting for recognizing arrears in the public sector. The growth rate was therefore revised downwards in 2022 – when substantial arrears relating to the previous year had been paid – and upwards in 2021 and 2023.

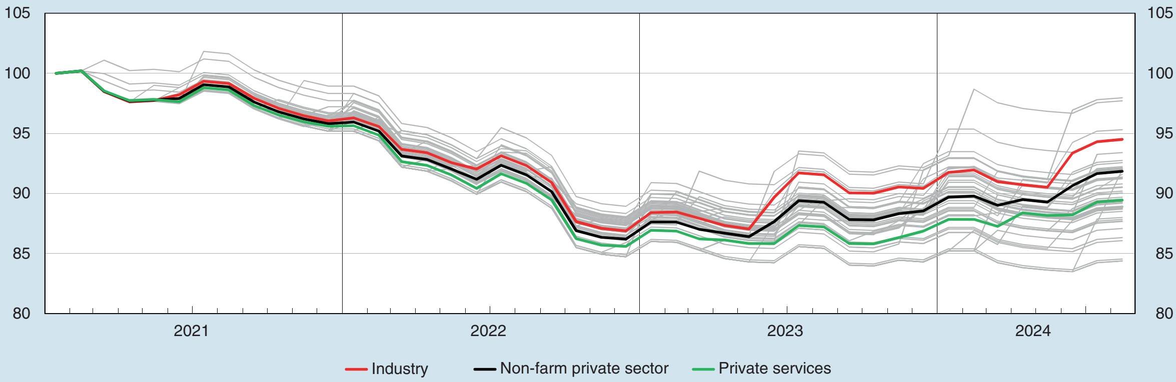
9 In 2022 and 2023, the rising costs of intermediate and energy goods led to a shift in production that favoured labour-intensive firms over those that rely more on other inputs; at the aggregate level, this contributed to the increase in total hours worked and to the reduction in average labour productivity (see the box 'The decline in hourly labour productivity: developments at firm level', *Economic Bulletin*, 4, 2023).

as was the case during the first part of the inflationary phase between the second half of 2021 and 2022. Since the beginning of this year, a large number of national collective bargaining agreements have been signed, particularly in services, some of which had expired more than two years ago. These new agreements, alongside pending tranches under active agreements and the automatic adjustment mechanisms in some manufacturing sectors,[3] resulted in non-farm private sector wage growth of 3.8 per cent year-on-year in the first half of 2024, up from 2.2 per cent in 2023.

At the end of June, average real negotiated wages nonetheless remained roughly 8 per cent lower on average than in 2021.[4] Changes in real wages over the last three years were very heterogeneous across sectors (Figure A), with greater losses in private services and smaller ones in industry.

Figure A

Average real negotiated wages across sectors (1)
(index number: January 2021=100)



Sources: Our calculations based on Istat data and on information from the Bank of Italy's database for non-farm private sector national collective bargaining agreements.
(1) Each grey line represents a different agreement.

Over the next few quarters, growth in negotiated wages will be driven by the increases already envisaged in recent agreements and by the new rises to be negotiated in future renewals. The first component is the wage tracker for Italy (WT; the red line in Figure B), which is constructed in a similar way to the ECB wage tracker for the euro area.[5] It measures wage growth based only on active collective bargaining agreements. Expired agreements are excluded, while they are included in Istat's negotiated wage index[6] (the green line in Figure B).

3 Under some collective bargaining agreements for the manufacturing sector, e.g. for metalworkers, the inflation differential between the actual HICP net of imported energy (HICP-NIE) in the previous year and the wage growth forecast at the time of renewal is measured annually. As a result, negotiated wage floors are automatically adjusted in June of the following year. Under the collective bargaining agreement for the wood and furniture industry, the differential is measured at the beginning of each year, based on the overall HICP.

4 The contraction was smaller in the countries where renewals were more frequent, such as France and Spain (3 and 6 per cent, respectively); Germany, where negotiations generally take longer, saw a reduction in real wages (net of one-off bonuses) comparable to the decline in Italian wages.

5 L. Górnicka and G. Koester, 'A forward-looking tracker of negotiated wages in the euro area', European Central Bank, Occasional Paper Series, 338, 2024.

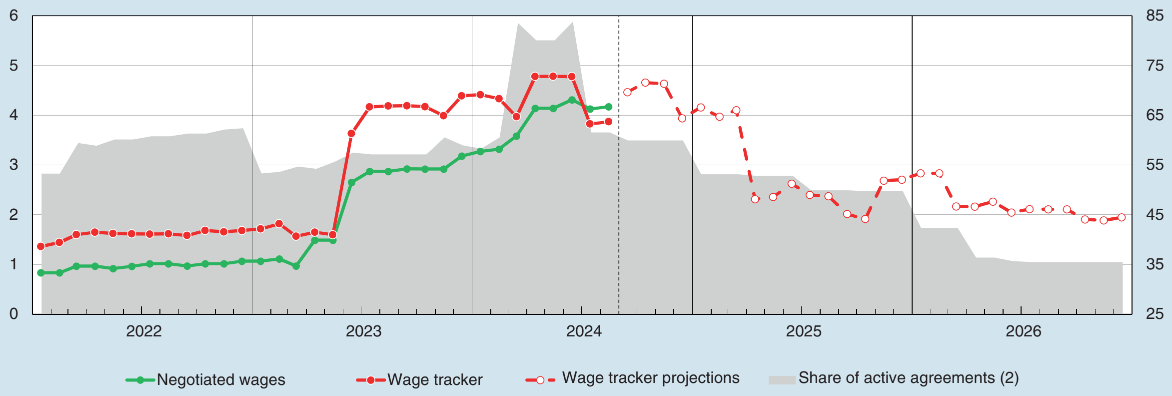
6 The survey of collective bargaining agreements and negotiated wages covers the 75 most representative national collective bargaining agreements, including farming and the public sector.

The WT is therefore a signal of wage pressures; its information content depends on the share of underlying collective bargaining agreements[7] (the grey area in Figure B) and is greater in the short term and smaller in the medium term, as active agreements gradually expire. According to this indicator, wage pressures averaged 4.5 per cent in the first six months of 2024[8] and will remain robust in the second half of the year as well, with the increases already agreed in services (especially in retail, credit, hotels, and professional and technical activities) accounting for about three quarters of the total. Going forward, the rise resulting from pending tranches under active agreements is expected to average 2.8 per cent in 2025 and around 2 per cent in 2026.

As mentioned above, as agreements expire, future renewals will weigh more in aggregate wage growth. Under the current bargaining framework, negotiations between trade unions and employers are anchored to the inflation forecasts released by Istat, which presently stand at low levels;[9] however, in the near future, trade unions could step up their push for wage increases to compensate for the loss of purchasing power.

Figure B

Year-on-year wage growth for active agreements: non-farm private sector (1)
(percentage changes and per cent)



Sources: Our calculations based on Istat data and on information from the Bank of Italy's database for non-farm private sector national collective bargaining agreements.
(1) The dashed vertical black line represents the latest update available for Istat's negotiated wage index series (August 2024). – (2) Right-hand scale.

[7] This share varies over the horizon, from time to time including signed agreements that are still in force in the month under review.
[8] The WT recorded a sharper fall than the overall wage index did in July. This is largely due to the exclusion of metalworking and construction agreements, which expired in June, from the set of underlying collective bargaining agreements.
[9] The 2009 framework agreement on the collective bargaining system and the agreement signed by trade unions and employers' associations in 2018 ('Patto per la fabbrica') require negotiated increases to be anchored to the HICP-NIE forecasts published annually by Istat. According to the latest forecasts released in June, the HICP-NIE will stand at 1.9 per cent in 2024 and at 2 per cent over the three years 2025-27.

2.6 PRICE DEVELOPMENTS

Inflation returned to below 1 per cent in September, mainly owing to the negative contribution of the energy component. Inflation in services decreased, although it remains high. The twelve-month change in producer prices remained negative in August, but less so than in July. Households and firms expect moderate price growth over the next few months.

Consumer price inflation remains subdued

After increasing in July, consumer price inflation began to decline again in the following two months, reaching 0.8 per cent year on year in September, based on preliminary estimates (Figure 22 and Table 6). The reduction reflects the slowdown in the prices of non-energy industrial goods and the marked drop in fuel prices. Food price inflation remained moderate, below 2 per cent; inflation in services, which is still affected by tourism, edged down to 3.1 per cent. Core inflation net of energy and food fell to 1.8 per cent. While remaining low, average inflation in the third quarter rose slightly to just above 1.0 per cent.

The year-on-year decline in producer prices eases

The twelve-month reduction in the producer prices of industrial goods sold on the domestic market eased to -1.1 per cent in August (from -1.6 per cent in July), reflecting developments in the energy component. The change in the prices of capital and consumer goods is still barely positive, while it remains negative for intermediate goods.

In September, the purchasing managers' indices pointed to a slowdown in input costs and selling prices in manufacturing, while input costs in services, which include staff costs, are expected to accelerate.

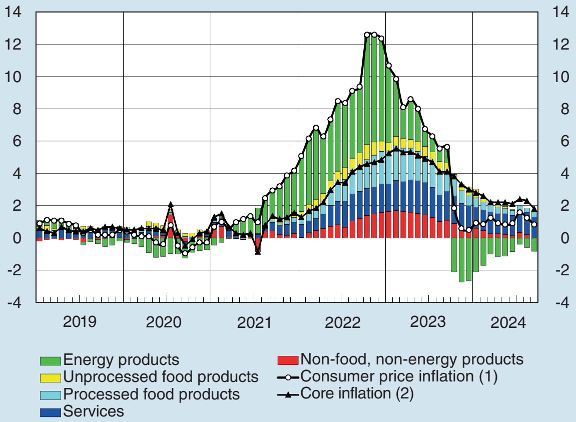
Unit labour costs in the non-farm private sector accelerated in the second quarter of 2024, driven by wage growth that was only partly offset by improved productivity growth (see Section 2.5).[10] Profit margins narrowed, allowing pressures on selling prices to ease; they are still above pre-pandemic levels in construction and services, and should make it possible to absorb the expected wage increases over the coming months.

[10] According to Istat's new national accounts data, hourly labour productivity growth in the private sector was almost 2 per cent between 2019 and 2023; it was virtually nil in the previous edition of the report. This adjustment, driven by the upward revision of growth in value added, was reflected in lower growth in unit labour costs (to 7.0 per cent, from 9.0 per cent in previous estimates).

Figure 22

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	-3.5	-3.1
July	1.6	2.4	1.3	-1.6	-1.4
Aug.	1.2	2.3	1.1	-1.1	-1.5
Sept.	(0,8)	(1.8)	(0.7)	…	…

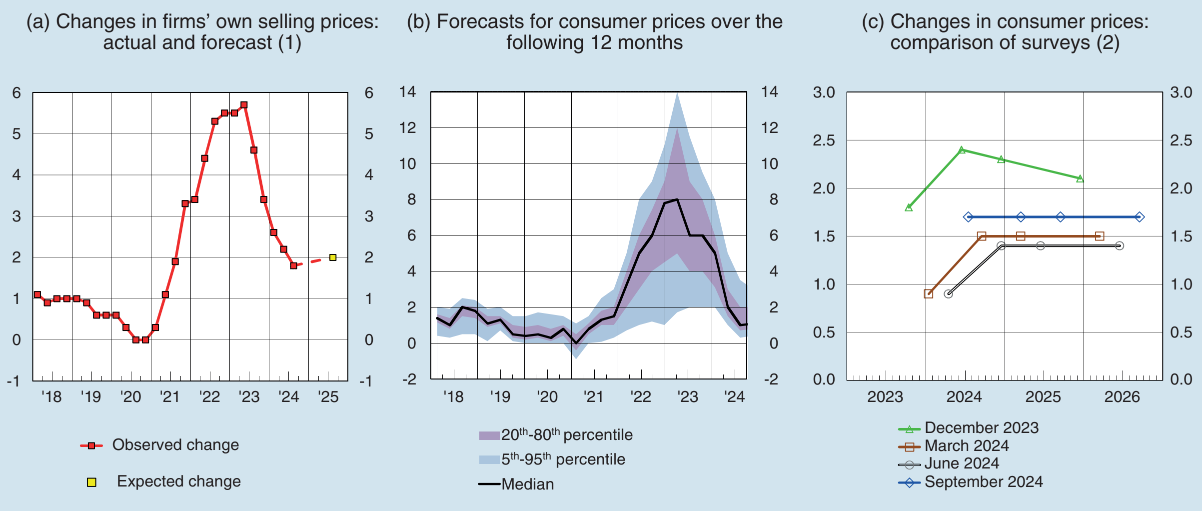
Sources: Based on Istat and Eurostat data. The figures in brackets are preliminary estimates.
(1) National consumer price index for the entire resident population. This differs from the HICP principally because of the different method for recording the prices of pharmaceutical products and promotional sales. – (2) Index of producer prices of industrial products sold on the domestic market.

Households and firms continue to expect moderate price growth

Istat's surveys show that in September the vast majority of households continued to expect prices to be stable over the following 12 months. Consumer price inflation expectations twelve months ahead, taken from the ECB's Consumer Expectations Survey in August, stood at a median value of 2.9 per cent, down slightly from July; they stood at 2.5 per cent over a three-year horizon. In the Bank of Italy's quarterly Survey on Inflation and Growth Expectations conducted between August and September, firms in industry excluding construction expect moderate growth in their prices over the next 12 months, while those in services expect them to remain unchanged (Figure 23). Firms' expectations for consumer price inflation rose slightly across all time horizons, although they remained low.

Figure 23

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

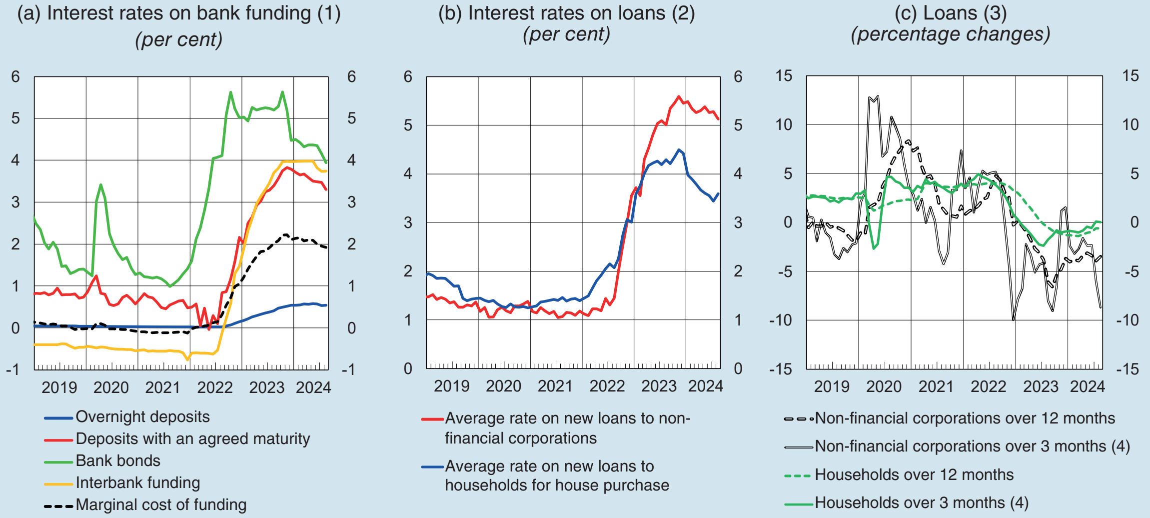
The cost of bank funding decreased slightly, thereby contributing to a modest decline in interest rates on loans to firms in the summer months. While credit standards began to ease in the spring, bank lending to non-financial corporations contracted further, reflecting still weak credit demand. Corporate bond issuance also declined, despite lower yields. The growth in loans to households for house purchase showed timid signs of improvement, although it remained low. In the third quarter, firms reported virtually unchanged credit access conditions.

The cost of bank funding decreases slightly ...

Between May and August, the marginal cost of bank funding decreased by around 15 basis points (to 1.9 per cent; Figure 24.a). Contributory factors were the fall in interbank market rates – following the cut in key interest rates – and the lower cost of bond funding (from 4.4 to 3.9 per cent); the latter declined further in September. Interest rates on current account deposits were broadly unchanged at 0.5 per

Figure 24

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



Sources: Based on data from the Bank of Italy, Bloomberg 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.

cent, while those on new deposits with an agreed maturity decreased by 0.2 percentage points, to 3.3 per cent. The considerable spread between these two rates continued to support the shift towards deposits with an agreed maturity. Bank bond funding grew significantly: in the second quarter, net issuance was €14.9 billion (compared with €2.8 billion in the previous quarter).[11] The repayment at maturity of TLTRO III funds, however, caused overall bank funding to decrease further (-2.6 per cent year on year in August, against -6.2 per cent in May).

… as do interest rates on loans to firms

Between May and August, the interest rates on new and outstanding loans to firms decreased, from 5.4 to 5.1 per cent and from 5.4 to 5.2 per cent respectively (Figure 24.b), though still standing at levels close to the peaks reached at the end of 2023. The average interest rate on new mortgage loans to households for house purchase held broadly stable, at 3.6 per cent, while that on floating-rate loans declined by around 0.2 percentage points. The cost of consumer credit turned slightly downward (from 9.0 to 8.8 per cent).

In August, loans to firms contracted again (-8.7 per cent on an annualized three-month basis; Figure 24.c). The decline was sharper for service firms and in the medium to long-term lending segment, which is generally associated with investment needs. Loans to households remained weak,[12] despite the slight recovery in mortgage loans (1.3 per cent on an annualized three-month basis) and the acceleration in consumer credit.

[11] According to preliminary data from Bloomberg, banks made net bond redemptions in the third quarter.
[12] The definition of households used here is the Eurosystem's harmonized definition, which includes consumer households, sole proprietorships and unincorporated partnerships.

Credit standards start to ease, but demand remains weak

The Italian banks interviewed in June for the euro-area quarterly bank lending survey[13] reported that credit standards for loans to firms eased slightly in the second quarter, reflecting higher risk tolerance and lower funding costs; they also reported a further decline in demand, ascribable to lower financing needs for expenditure on investment and greater use of internal funding.

The latest information from the Bank of Italy's Survey on Inflation and Growth Expectations, conducted between the end of August and mid-September, points to credit access conditions staying unchanged at restrictive levels overall, with a slight improvement for medium-sized and large firms and for service firms.

Corporate bond issuance declines despite lower yields

Weak credit demand affected the bond markets as well: net bond issuance by non-financial corporations almost halved in the second quarter (€2.2 billion, from €4.3 billion in the previous quarter), mainly as a result of the sharp increase in redemptions, which was only partly offset by the growth in gross issuance;[14] net equity financing remained low. Italian non-financial corporate bond yields have declined by around 40 basis points since mid-July, broadly in line with the decrease in risk-free rates on medium-term maturities.

2.8 THE FINANCIAL MARKET

The yields on Italian government bonds have decreased since the start of July, especially for shorter-term maturities. The spread between Italian and German ten-year government bonds widened in early August, mainly reflecting investors' heightened risk aversion triggered by the tensions on international financial markets, and then narrowed again. Italian equity prices fluctuated strongly during the summer months.

Yields on ten-year government bonds decline

Between the first ten days of July and early October, Italian ten-year government bond yields declined by 38 basis points, to 3.5 per cent (Figure 25.a); the reduction was sharper for shorter-term maturities (Figure 25.b). The fall was the result, especially in the first phase, of investors' renewed confidence in the disinflation process in the euro area and of the ensuing monetary policy expectations. In early August, when tensions on international financial markets made investors significantly more risk averse (see the box 'Global financial market tensions in early August', Chapter 1), the yield spread against the German ten-year government bonds, which benefited from investors shifting towards safer bonds, temporarily widened. As tensions waned, the spread started contracting again: at the beginning of October, it reached levels slightly below those of early July (130 basis points). The implied volatility of derivatives on Italian ten-year government bonds held broadly stable as well, while liquidity conditions continued to be relaxed (Figure 25.c). Italian households and foreign investors continued to make net purchases of Italian government securities in the second quarter (for more details on foreign demand for Italian securities, see Section 2.4); Italian banks, which had been progressively reducing their exposure to domestic government securities since mid-2022, also made net purchases, though to a lesser extent (see *Financial Stability Report*, 1, 2024).

13 The survey sample included 13 of the leading Italian banking groups. The results for Italy are available on the Bank of Italy's website: 'Bank Lending Survey (BLS)'.

14 In the third quarter of 2024, according to preliminary data from Bloomberg, net issuance by non-financial corporations was strong.

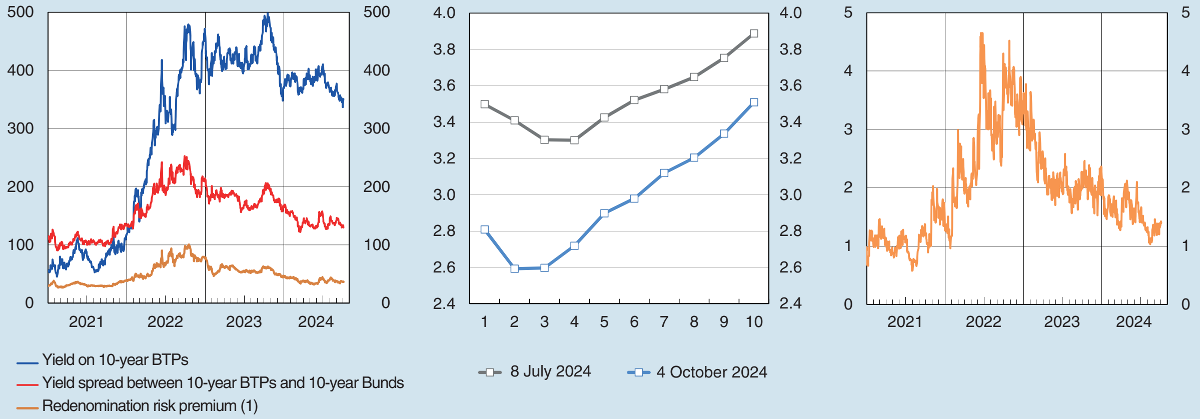
Figure 25

Public sector securities market indicators

(a) Italian 10-year BTP yields, yield spread vis-à-vis the corresponding German Bund; redenomination risk premium
(daily data; basis points)

(b) Yield curve of Italian government bonds
(data at start and end of period; per cent)

(c) BTP liquidity indicator (2)
(daily data; index)



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.

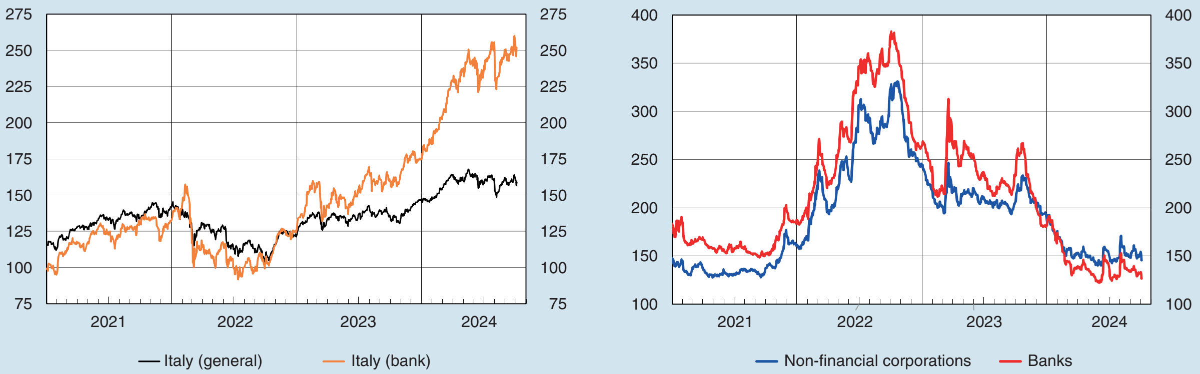
Equity prices fluctuate Italian equity prices, affected by the trends observed at global level (see Section 1.3), also fell sharply at the beginning of August, and then quickly recovered in the following days. Overall, the change in the general stock market index was small between the first ten days of July and early October (-1.6 per cent; Figure 26.a). Bank equity prices increased by 7.8 per cent in Italy, more than the euro-area average, which remained stable. Implied volatility rose, reaching levels, in early August, not far from those recorded in June after the French elections. The yield spreads of bonds issued by banks and non-financial corporations vis-à-vis the risk-free rate have shrunk considerably since early July (Figure 26.b).

Figure 26

Equity prices and corporate bond market

(a) Equity prices (1)
(daily data; indices: 1 January 2019=100)

(b) Yield spreads on bonds issued by Italian banks and non-financial corporations (2)
(daily data; basis points)



Sources: ICE Bank of America Merrill Lynch and LSEG.
(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.

2.9 THE PUBLIC FINANCES

The Council of the European Union officially opened the excessive deficit procedure against Italy. According to the medium-term fiscal-structural plan approved by the Italian Government in 2024, net borrowing is projected to decrease to 3.8 per cent of GDP. For the years 2025-29, the Government expects net expenditure to grow by an average of 1.6 per cent per year and the deficit to be higher than under the current legislation scenario. Net borrowing is projected to fall below 3 per cent of GDP in 2026. Public debt is set to continue to increase, up to 137.8 per cent of GDP in 2026, and then fall to 134.9 per cent in 2029. In August, Italy received the fifth instalment of funds available under the Recovery and Resilience Facility (RRF).

According to the Government's updated estimates the deficit is set to fall more than expected

In July, the Council of the European Union officially opened excessive deficit procedures against Italy and six other Member States (see Section 1.2). On 27 September, the Government approved its medium-term fiscal-structural plan for the years 2025-29 (2025-29 MTP),[15] updating, among other things, the fiscal forecasts for the current year.[16] According to the Government's estimates, net borrowing is projected to stand at 3.8 per cent of GDP in 2024, 3.4 percentage points lower than in 2023; the primary balance is expected to turn positive (0.1 per cent of GDP) for the first time since 2019, mainly thanks to the cutback in spending on 'Superbonus' incentives. The deficit estimate is 0.5 percentage points of GDP lower than the figure contained in the 2024 Economic and Finance Document (2024 DEF) published in April: the revision is largely attributable to better than expected direct tax revenues (Table 7). The debt-to-GDP ratio is forecast to rise by 1 percentage point on 2023, to 135.8 per cent, in part owing to the cash impact of the building renovation tax credits accrued in recent years.

Table 7

Public finance targets and estimates for 2024

(per cent of GDP)

	General government				Memorandum items:	
	Net borrowing	Structural net borrowing	Primary surplus	Change in debt (1)	Real GDP growth rate	Nominal GDP growth rate
Targets						
September 2023 (2)	4.3	4.8	-0.2	-0.1	1.2	4.1
September 2024 (3)	3.8	4.4	0.1	1.0	1.0	2.9
Estimates based on current legislation						
September 2023 (2)	3.6	4.0	0.6	-0.3	1.0	3.9
April 2024 (4)	4.3	4.8	-0.4	0.5	1.0	3.7
September 2024 (3)	3.8	....	0.1	....	1.0	2.9

Sources: Update to the 2023 Economic and Financial Document (2023 NADEF), 2024 DEF, 2025-29 MTP.
(1) Year-on-year change in the debt-to-GDP ratio. – (2) 2023 NADEF. – (3) 2025-29 MTP. – (4) 2024 DEF.

Istat's quarterly accounts estimates released on 4 October also point to an improvement in Italy's public finances: net borrowing was 5.8 per cent of GDP in the first half of 2024, 2.1 percentage points less year on year. The primary deficit improved by 2.4 percentage points, reaching 1.9 per cent of GDP. More specifically, the primary balance recorded a surplus (1.1 per cent of GDP) for the first time since the fourth quarter of 2019.

[15] For further details, see the *Medium-term Fiscal-Structural Plan. Italy, 2025-2029*, 2024 (only in Italian).

[16] See 'Preliminary hearing on the mid-term fiscal-structural plan 2025-29', 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 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Chamber of Deputies, Rome, 7 October 2024 (only in Italian).

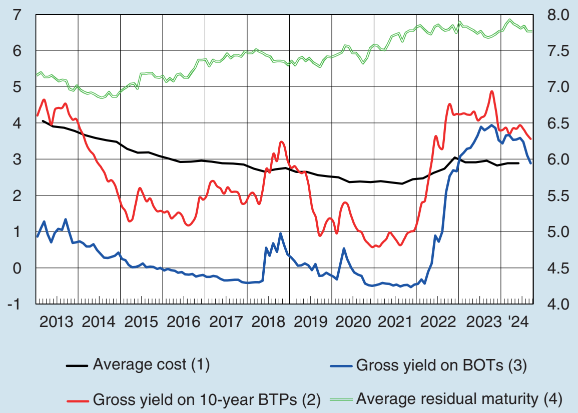
In the first seven months of this year, the general government borrowing requirement was €83 billion, up by about €13 billion from the same period of 2023.[17] This also reflects the postponement of some tax deadlines. In the first nine months of 2024, the tax revenue entered in the State's budget, net of lottery and gaming receipts, grew by almost €22 billion year on year. This improvement is mainly due to favourable developments in direct taxes, in particular the withholding tax on employee incomes and pensions and the substitute taxes on financial assets.

In July, general government debt stood at €2,950.6 billion, €82 billion more than at the end of 2023; its average residual maturity shortened marginally to 7.8 years, from 7.9 years at the end of last year.[18] The average cost of the debt in the second quarter remained stable at 2.9 per cent (Figure 27). The share of public debt held by the Bank of Italy stood at 23 per cent, continuing the downward trend under way since end-2022.

Figure 27

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.

In the 2025-29 MTP, the Government's net expenditure target is broadly in line with the Commission's reference trajectory

In its 2025-29 MTP, the Government updated the current legislation scenario for net borrowing for the next years. The deficit is projected to fall to 2.9 per cent of GDP in 2025, and to continue on a downward path to reach 1.5 per cent in 2027. The removal of a number of temporary measures including, in particular, the cuts in social security contributions that are set to expire by the end of 2024, is expected to contribute to the decline in the forecast for next year. The further drop over the next two years is set to be driven by lower public spending on intermediate consumption and labour income as a share of GDP, as well as by smaller capital expenditure (presumably also because of the ending of NRRP investments). Under the current legislation scenario, the net borrowing forecast presented in the 2025-29 MTP is lower than the figure reported in the 2024 DEF by 0.8 percentage points of GDP per year on average.

Under the Government's policy scenario, the deficit is projected to exceed the current legislation forecasts by an average of 0.7 percentage points per year over the next three years (Table 8). The difference would help finance some expansionary measures, including, in particular, the extension of labour tax wedge cuts and the implementation of the enabling law for the tax system reform. On the expenditure side, the Government has pledged to maintain nationally financed public investment beyond 2026 at

[17] In the two-month period August-September, the general government borrowing requirement totalled €17.5 billion, approximately €10 billion lower than in the corresponding period of 2023.

[18] The debt-to-GDP ratio for 2023 is now 2.5 percentage points lower than the figure reported in the 2024 DEF. This mainly reflects Istat's revision of nominal GDP at the end of last month (see Istat, 'Years 1995-2023. Annual National Accounts', Flash Statistics, 23 September 2024), which was offset, to a small extent, by the Bank of Italy's slight upward revision of nominal debt (within the context of its regular public finance report to the European Commission). The Bank of Italy's revision is due, among other things, to a decision taken at EU level on the treatment of deferred interest on loans to Greece under the European Financial Stability Facility (EFSF). For more details, see Eurostat's advice of 17 September 2024 on 'Methodological treatment of the deferred interest on EFSF loans – Article 10 par.1 Council Regulation (EC) 479/2009 clarification request'; and 'The Public Finances: Borrowing Requirement and Debt', Banca d'Italia, Statistics Series, 15 October 2024.

Table 8

Outturns and official targets for key public finance indicators (1)
(per cent of GDP)

	2023	2024	2025	2026	2027	2028	2029
Net borrowing	7.2	3.8	3.3	2.8	2.6	2.3	1.3
Primary surplus	-3.5	0.1	0.6	1.1	1.5	1.9	2.4
Interest expense	3.7	3.9	3.9	3.9	4.1	4.2	4.2
Structural net borrowing	8.2	4.4	3.8	3.3	3.0	2.6	2.1
Debt (2)	134.8	135.8	136.9	137.8	137.5	136.4	134.9

Source: 2024 Medium-term Fiscal-Structural Plan.
(1) Outturns for 2023 and official targets for 2024-29. Any mismatches are due to the rounding of decimals. – (2) Gross of financial support to other EMU countries.

the same average level of recent years. In the policy scenario net borrowing is still projected to fall to 2.8 per cent of GDP in 2026 and to 1.8 per cent in 2029. The debt-to-GDP ratio is expected to grow to 137.8 per cent in 2026, and then fall to 134.9 per cent in 2029. The trajectory of the ratio would be especially influenced by the use of a large portion of the tax credits for the 'Superbonus'.

In accordance with the new EU rules, the 2025-29 MTP provides for a fiscal adjustment period of seven rather than four years, against the commitment to continue the reforms and investments undertaken under the NRRP beyond 2026. The net expenditure growth rate set by the Government at an average of 1.6 per cent per year for the years 2025-29, and binding for the five-year period covered by the MTP, is projected to be in line with the average rate of the European Commission's reference trajectory throughout the adjustment horizon ending in 2031.

The two-year composition with creditors regime is amended

On 5 August, Legislative Decree 108/2024 amended the rules governing the composition with creditors, introduced by Legislative Decree 13/2024 for the tax periods of 2024 and 2025. This measure allows VAT-registered taxpayers[19] to agree in advance with the revenue agency on the tax base for the income tax and the regional tax on productive activities (IRAP).[20] The main changes include the introduction of an optional substitute tax regime with a reduced tax rate (between 10 and 15 per cent) on any surplus income exceeding the agreed taxable amount for 2024 compared with the actual income declared for 2023.[21] To further encourage taxpayers to opt in the new tax regime, Law 143/2024 converting Decree Law 113/2024 provides for an optional late compliance regime for the years 2018-22 that shields those years from tax audits for taxpayers who agree to pay a reduced substitute tax.

Italy receives the 5th NRRP instalment

In August, Italy received the fifth instalment under the Recovery and Resilience Facility (€11 billion), bringing total disbursements to €113.5 billion. According to the data updated as at 30 June and contained in the fifth NRRP progress report released on 22 July, the expenditure incurred for NRRP-related projects amounted to €51.4 billion, up by €8.5 billion compared with the end of December 2023. The measures not yet implemented, amounting to €29.6 billion out of a total of €194.4 billion, are mainly those envisaged by the amendment to the NRRP approved in December 2023.

[19] With a few exceptions, the composition with creditors regime is applicable to VAT-registered taxpayers required to submit the Summary Reliability Indices (ISA) form or those who have opted for the flat-rate scheme. For the latter, the new tax regime applies on a trial basis and only for the 2024 fiscal year.

[20] Any amounts above or below the agreed taxable income are not taken into account in the calculation of the two taxes and of the compulsory social security contributions, without prejudice to the ordinary accounting and reporting requirements. See 'Enabling act to the Government for tax reform: Draft Law AC 1038', testimony by G. Ricotti, Head of the Tax Directorate of the Bank of Italy, before the 6th Committee of the Chamber of Deputies (Finance), Chamber of Deputies, Rome, 18 May 2023 (only in Italian).

[21] The optional substitute tax regime is applicable to taxpayers required to submit the ISA form.