

THE DETERMINANTS OF ECONOMIC ACTIVITY IN 2017 ACCORDING TO THE BANK OF ITALY'S MODEL

In 2017 Italy benefited from the favourable global economic climate and from the firming of domestic consumption and investment. Economic policies also provided significant support, albeit to a lesser extent than in previous years. Overall, growth was more solid and balanced, exceeding the initial projections of all the leading analysts and institutional forecasters.

Based on calculations made using the quarterly model of the Italian economy,¹ Table A shows the contribution of several factors to the deviation of the growth in GDP and inflation from the projections formulated at the start of 2017 (see *Economic Bulletin*, 1, 2017). Overall, GDP growth was more than 0.5 percentage points higher than projected.

Table A

Main contributions to growth and to inflation: revisions with respect to the projections made in January 2017 (per cent and differences, in percentage points, in annual growth rates)				
	GDP	Investment	Exports	Inflation
Outturn for 2017 (1)	1.6	3.9	6.0	1.3
January 2017 projections (1)	0.9	2.8	3.8	1.3
Differences (2)	0.7	1.1	2.2	0.0
of which: foreign demand	0.2	0.2	1.5	0.0
international prices	0.4	0.3	1.1	0.1
exchange rates	-0.1	-0.1	-1.0	-0.1
energy prices	0.1	0.0	0.1	0.0
lower uncertainty	0.1	0.8	0.0	0.0
other (3)	0.0	-0.1	0.5	0.0

(1) For GDP and its components: chain-linked values; growth rates calculated using quarterly data adjusted for seasonal and calendar effects. – (2) Contributions to the revisions of GDP, inflation, exports and investment deriving from the changes in the performance of each of the factors with respect to that hypothesized in the projections presented in *Economic Bulletin*, 1, 2017. – (3) Includes certain residual factors.

The more positive developments in the international economy contributed significantly to strengthening the growth in GDP: the acceleration in global demand and the greater, partly related increase in the prices of our main trading partners more than offset the negative effects of the euro's nominal appreciation, thereby stimulating exports.

The growth in Italian firms' investment in instrumental goods was also higher than projected at the start of 2017, driven by better prospects in foreign markets, lower uncertainty and greater confidence. These indications can be inferred from business surveys, which reported a lower dispersion of demand expectations and

¹ A description of the general characteristics and main equations of the quarterly model of the Italian economy is contained in G. Bulligan, F. Busetti, M. Caivano, P. Cova, D. Fantino, A. Locarno and M.L. Rodano, 'The Bank of Italy econometric model: an update of the main equations and model elasticities', Banca d'Italia, Temi di Discussione (Working Papers), 1130, 2017.

more favourable assessments on expected order levels and production. In fact, confidence indexes have reached their highest levels since 2007.

Inflation was above the slightly negative levels recorded the previous year, consistent with the projections made at the start of 2017. Upward pressures stemming from the acceleration in prices at international level were mitigated by the effects of the euro's nominal appreciation. Overall, the gradual strengthening in inflation solidified, although inflation remains low.

While economic policies (specifically, the persistence of very favourable monetary and financial conditions and the moderately expansive fiscal stance) continue to contribute significantly to economic activity, growth seems to be progressively less reliant on this form of support.

Table B shows our assessments of the contributions of monetary and fiscal policies to GDP growth in the three years 2016-18, formulated with the quarterly model of the Italian economy.² According to these estimates, roughly two thirds of the growth in GDP in 2018 will be attributable to expansionary policies, which accounted for all of the growth in 2016. The contribution of monetary policy should average about half that calculated for 2016, consistent with the reduction in monetary stimulus (see Chapter 3, 'Monetary policy in the euro area'), while the contribution of fiscal policy should remain broadly stable throughout the three-year period.

Table B

GDP growth and the contribution of economic policies (differences in annual growth rates and contributions in percentage points)			
	2016	2017	2018
GDP growth (1)	1.0	1.6	1.4
Contribution of economic policies (2)	1.8	1.2	0.9
of which: monetary policy	1.5	0.9	0.7
fiscal policy	0.3	0.3	0.2

(1) For 2018, the projection published in *Economic Bulletin*, 1, 2018. –
(2) 'Monetary policy' takes account of all the measures introduced by the ECB Governing Council since 2014. The contribution of 'fiscal policy' is calculated by simulating the macroeconomic effects of the measures included in the budget law. For the two years 2017-18, the measures that provide the largest expansionary contribution are the tax incentives to firms for investment (super- and hyper-amortization), the increase in public investment, and the renewal of public-sector employment contracts.

² These factors are not shown in Table A as the information necessary to calculate their impact on economic activity in the previous year was largely already available when the projections were formulated at the start of 2017.