6 Feb 2020

Country Economic Forecast
Italy

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A contraction in Q4 2019 and a very sluggish outlook makes it likely that GDP will be broadly flat in 2020

Politics will be again an important factor to watch over the next few quarters

- **Italian GDP contracted in Q4 last year. According to the flash estimate, GDP was down 0.3% quarter-on-quarter, the worst performance since early 2013, with domestic demand responsible for the drag on growth. While we envisage some, albeit small, rebound in Q1, likely driven by construction and stockbuilding, the much weaker end to 2019 and the negative impact of the coronavirus outbreak has prompted us to cut our 2020 growth forecast for Italy. We now see zero growth this year (down from 0.3% last month), after just 0.2% in 2019. The 'big picture' remains of a country stuck in stagnation.**
- While we had expected the Italian economy to continue stagnating, the Q4 outcome was much more negative than expected and likely driven by falling industrial and construction output in Q4, with inventories also pulling down growth (while net exports were positive). Recent data, such as the PMIs and the confidence indicators from ISTAT, do not point to a meaningful improvement in the short term. We expect some rebound in Q1 this year but the risks to our forecast remain on the downside.
- Although the unemployment rate was unchanged at 9.8% in December, the number of people employed fell sharply over the month. We think employment growth will be very sluggish over the next few quarters, in line with subdued employment intentions, and we expect the unemployment rate will stabilise at just below 10%. Meanwhile, CPI inflation is likely to remain very low in 2020, under 1% for a second year in a row, and this should help – at the margin – developments in real incomes.
- The recent results of regional elections most likely reduce the risk of a swift end to the current government coalition but we continue to think that this cabinet is unlikely to be able to survive until the end of its mandate (2023). The markets remain too complacent about the volatile political situation and the weakening fiscal metrics.

Forecast for Italy
(Annual percentage changes unless specified)

	2018	2019	2020	2021	2022	2023
Domestic Demand	1.0	-0.1	0.3	0.6	0.7	0.7
Private Consumption	0.8	0.5	0.4	0.5	0.6	0.6
Fixed Investment	3.0	2.3	0.0	0.7	0.8	0.8
Stockbuilding (% of GDP)	0.5	-0.4	-0.3	-0.3	-0.2	-0.1
Government Consumption	0.4	0.4	0.1	0.3	0.3	0.3
Exports of Goods and Services	1.3	1.7	1.1	1.7	1.8	1.8
Imports of Goods and Services	2.4	0.9	2.1	2.0	1.9	1.8
GDP	0.7	0.2	0.0	0.5	0.7	0.7
Industrial Production	0.5	-1.2	-0.5	1.2	0.7	0.4
Consumer Prices, average	1.1	0.6	0.7	1.0	1.3	1.5
Current Balance (% of GDP)	2.6	2.9	3.0	2.5	2.5	2.4
Government Budget (% of GDP)	-2.2	-2.2	-2.5	-2.1	-1.9	-1.8
Short-Term Interest Rates (%)	-0.32	-0.36	-0.39	-0.39	-0.28	-0.01
Long-Term Interest Rates (%)	2.61	1.95	1.23	1.75	2.29	2.71
Exchange Rate (US$ per euro), average	1.18	1.12	1.09	1.11	1.15	1.18
Exchange Rate (£ per euro), average	0.885	0.877	0.827	0.828	0.837	0.846

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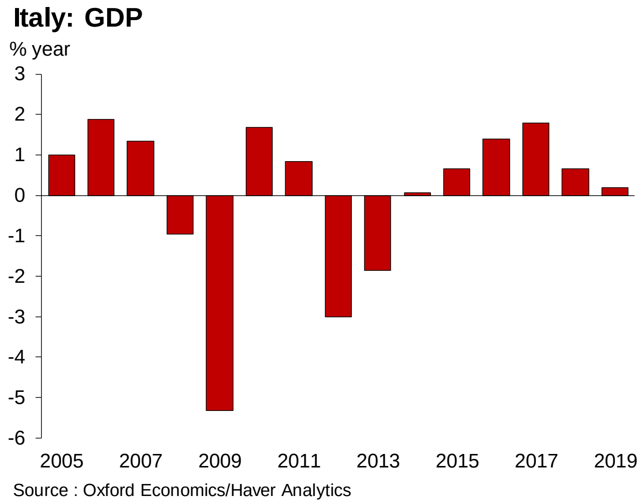
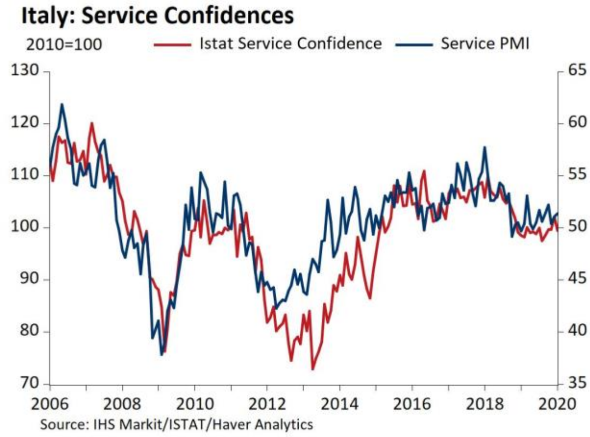
Forecast overview

2020 not that different from a poor 2019

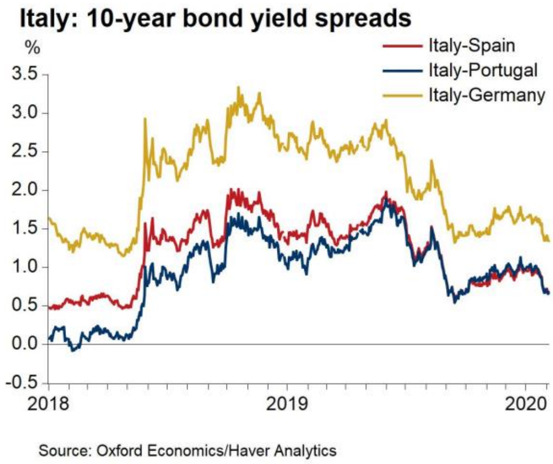
The Italian economy barely grew last year, with annual GDP growth only 0.2%, its slowest increase since 2014. This gloomy news was coupled with a very bad end to 2019. According to the flash estimate, GDP was down by 0.3% on the quarter, the worst quarterly result since 2013. While ISTAT has not yet reported the full breakdown of demand, we know that net trade contributed positively to growth, while domestic demand was negative. This is consistent with a combination of decreasing industrial and construction output in Q4 and collapsing inventories.



Given the likely temporary nature of some of the weakness seen in Q4, we expect some, albeit small, rebound in Q1 2020. But the overall picture is that this year will not be different from a poor 2019. The most recent indicators suggest that the stagnation in industry is not over yet, with industrial production in Q4 very likely to post another quarterly drop. And while we have started to see some signs of stabilization in the manufacturing sector at the eurozone level, the Italian manufacturing PMI remains in recession territory. Moreover, the services sector does not look particularly buoyant. The recent more positive services PMI reading in January, 51.4, needs to be put into perspective; new orders strengthened only slightly, and the ISTAT measure of services sentiment edged down in the month.



We have cut our 2020 GDP growth forecast by 0.3 pp to zero. The revision incorporates both the impact from the weak Q4 2019 figures and the impact of the coronavirus outbreak. Apart from domestic factors, related to weakness in domestic demand, external factors could further depress activity (such as the eurozone slowing more than anticipated or the impact of coronavirus being more disruptive than currently assumed).



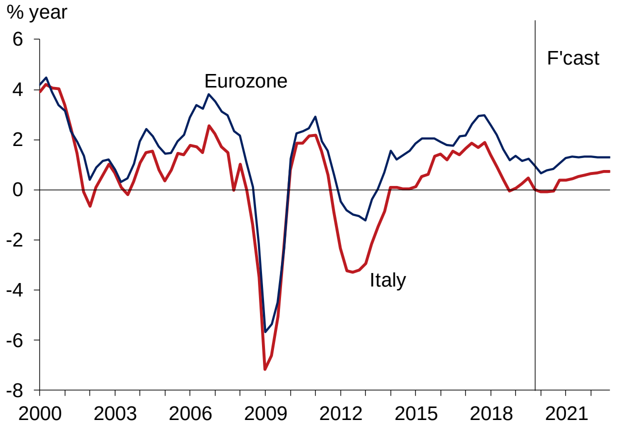
Government finds comfort in local elections

Over the last two years, Italian government bond yields have closely followed political developments: shooting up when the populist government was created in 2018 and rallying impressively when the current government, with a much more friendly tone with respect to the European Commission, was formed in September 2019. Moreover, the January local elections did not result in a swift end to the current coalition and spurred a rally in the BTP. But we continue to think that it is unlikely that this cabinet will manage to survive until the end of its mandate (2023). Our forecast already takes into account the high level of uncertainty and sees an increase in Italian bond yield spreads over the next year, although at a slower pace than our previous forecast. On the fiscal side, the new government is aiming for a deficit of 2.2% of GDP in 2020; however, we think the target will be hard to reach and forecast the deficit at 2.5%.

Short-term prospects remain very sluggish

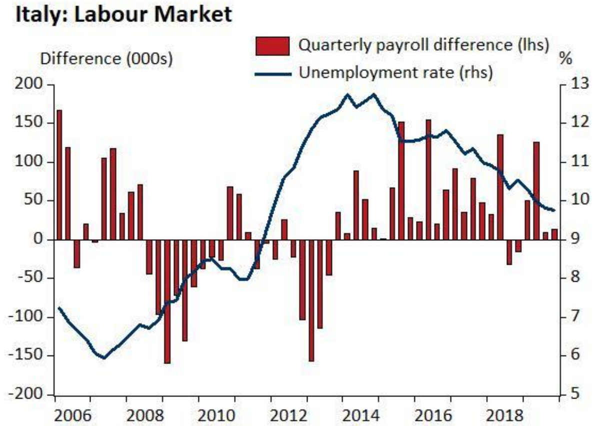
- **Slowing labour market outlook**: job creation improved in H1 2019, but then faltered in the second half of the year. Moreover, as labour markets typically lag real activity, which we expect to remain subdued, we think employment creation will stay sluggish over the next few quarters. Monthly data show that the unemployment rate is still close to 10%, but, despite this relatively high level, we do not think there is room for strong employment growth.
- **Very modest export prospects**: exports to the eurozone countries struggled to make progress in 2019, but the monthly data pointed to a positive contribution from net trade in the last quarter of the year, albeit mainly due to some military exports to the US in October. Gains in exports over the coming quarters will likely be small. We see export volume growth staying below 2% pa.
- **Low inflation**: CPI inflation was 0.6% in January and is likely to remain very low in 2020, below 1%. This should help – at the margin – developments in real incomes.
- **Rise in investment has stalled**: investment grew strongly in Q1 2019, as construction investment was strong, but then stalled in Q2 and Q3, in line with our view. We think that investment in construction took a big hit in Q4 and we see overall investment remaining sluggish this year. Tightening credit conditions, a lack of credit for companies and worsening prospects will weigh on investment over the coming quarters.
- **Larger fiscal deficits leave Italy's debt position much more vulnerable to risks**: Italy's weak public finances keep it on the edge of sustainability. Although even our below-consensus GDP growth forecast does not suggest an imminent fiscal crisis, we expect the government debt to GDP ratio to increase to around 137% by the end of 2020, from 135% at the end of 2018.

Italy and Eurozone: GDP



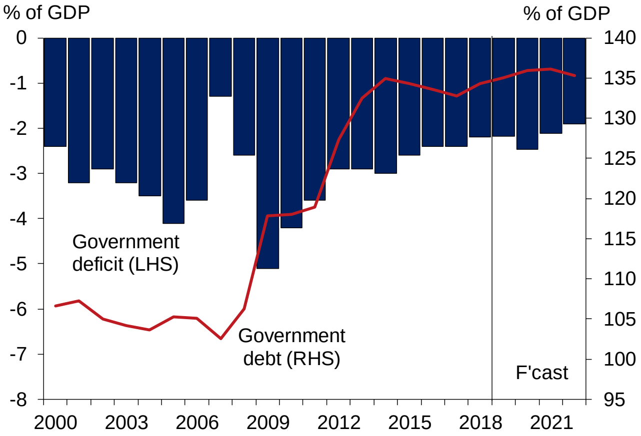
Source: Oxford Economics

Italy: Labour Market



Source: Oxford Economics/Haver Analytics

Italy: Government deficit and debt



Source: Oxford Economics

Economic Risk Evaluation

Overall risk for Italy: 3.8/10*

Italy's overall economic risk score of 3.8 is moderate, leaving it ranked 39th out of 164 countries and slightly worse than its advanced economy peers.

GDP grew by 1.8% in 2017, the strongest pace of growth in seven years, but was then followed by only 0.7% in 2018 and 0.2% in 2019. Over the long term the economy will be held back by weak demographics and modest gains in productivity due to the slow pace of economic reform. Moreover, political risks remain high given the results of the March 2018 elections, which were followed by two different governments in less than 16 months.

Market demand: 3.0/10

The market demand risk score of 3.0 is in line with the Western Europe average. Domestic demand picked up in 2016 and strengthened further in 2017, but from a low base. Private consumption and demand growth will continue to rise over the forecast period, but only at a very modest pace, with risks on the downside.

Inflation returned to positive territory at the end of 2016 and averaged 1.1% in 2018. The labour market has improved since 2015, though it stagnated for much of 2018 and any gains in 2020 are likely to be small. Despite very low inflation, the positive effect on real incomes will be small, as we see employment and earnings only increasing very modestly.

Market cost: 5.0/10

The market cost risk score of 5.0 is well above the Western European average of 2.8.

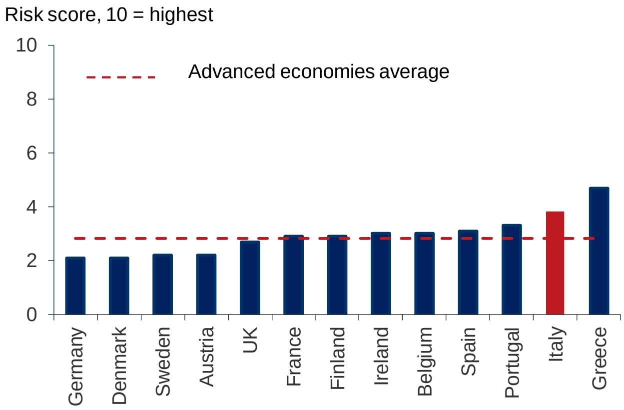
Wages have been rising faster than productivity since the introduction of the euro. This meant that the country has been losing competitiveness for over a decade, but the depreciation of the euro between mid-2014 and the end of 2016 helped in this regard. However, among the main eurozone countries, Italy is still the least competitive, though the outlook of subdued CPI inflation suggests that cost increases will at least remain moderate.

Italy:
Economic risk index
(Scores from 1 to 10 with 10 = highest risk)

	Feb 2020	Rank out of 164†	Score change from August
Overall	3.8	39	0.1
Market demand	3.0	7	0.0
Market cost	5.0	68	0.0
Exchange rate *	2.4	22	0.1
Sovereign credit	3.4	36	0.4
Trade credit	5.0	39	0.0

† (1 indicates lowest risk ranking)
* As of May 2019, the exchange rate risk score is based on our new methodology. The change from six months ago also refers to the respective score under the new methodology.

Economic risk: Italy vs Advanced economies average



Source : Oxford Economics

Exchange rate: 2.4/10

Exchange rate risk is 2.4, in line with other eurozone economies.

The sharp fall of the euro in 2014 and 2015 in response to ECB asset purchases pushed it well below our estimate of the equilibrium rate. However, the euro appreciated significantly in 2017 before experiencing a setback in 2018 (in part triggered by the political developments in Italy). Against the US dollar, we now see the euro appreciating on a much more gradual path than previously anticipated and only approaching its long-term equilibrium rate, of $1.25 per euro, in 2025.

Sovereign credit: 3.4/10

Italy has a higher sovereign credit risk score, at 3.4, than the average for the advanced economies. This reflects its fiscal deficit and concerns about the government's high level of debt.

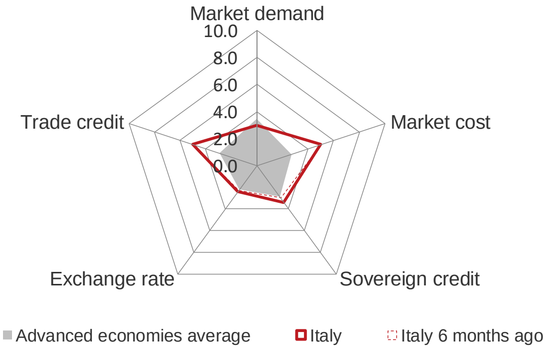
Italy's sovereign credit rating is BBB/Baa3, after Moody's downgrade. There are risks of debt deviating from a sustainable path, particularly if the government opts for a major fiscal easing. Moreover, if credit rating agencies were to downgrade Italian government bonds to below investment grade, banks could no longer use the bonds as collateral for repos with the ECB. In this unlikely scenario, we think the ECB would impose a "waiver" on Italian bonds and continue to accept them as collateral, as it has done for Greece.

Trade credit: 5.0/10

Trade credit risk – a measure of private sector repayment risk – remains high by regional standards at 5.0 and is disappointing for one of the largest economies in the EU.

While there were some reforms in 2014-17, there are still quite a lot of constraints in the economy stemming from a non-business friendly public administration and a lethargic judicial system.

Economic risk: Italy vs Advanced economies average



Source : Oxford Economics

Risk warnings

GDP growth	🔴	Italy's growth underperformance intensifies
CPI inflation	🟢	Low inflation to support, at the margin, real incomes
Current account balance	🟢	Current account to remain in surplus in the medium term
Government balance	🟡	Government deficit is seen increasing in 2020
Government debt	🔴	Debt is the second highest in the Eurozone
External debt	🟡	30% of government debt is held by non-residents

* Risk scores are from 1 to 10, with 10 representing the highest risk. For our full country risk service, see www.risk-evaluator.com. Sovereign credit risk comes from our sovereign risk tool and foreign exchange risk comes from our FX tool. Find out more.

What to watch out for

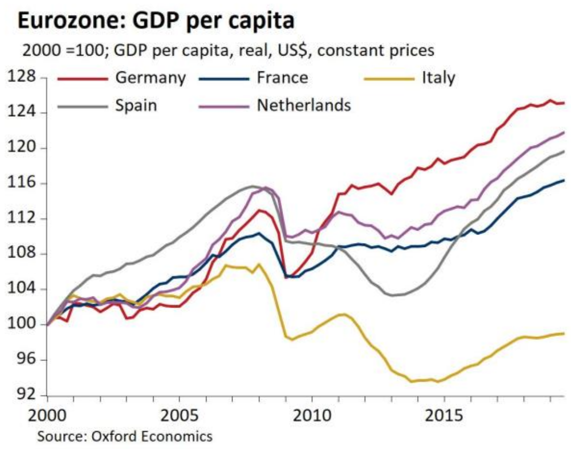
The recovery started in 2014, but it has not been strong enough to bring output back to pre-crisis levels. Indeed, the economy fell back into its third recession in 10 years in the second half of 2018 and it has stagnated since then.

High public debt: public finances are vulnerable to downside risks, particularly if deteriorating global financial market conditions were to be followed by disappointingly slow growth. We expect the government debt to GDP ratio to increase to around 137% by the end of 2020, from 135% at the end of 2018. This makes the long-term position of Italian debt much more vulnerable to risks.

Political uncertainty: the latest political crisis in Italy came to a conclusion in summer 2019. Giuseppe Conte, the prime minister of the previous government, now heads a new government supported by the Five Star Movement (M5S) and the Democratic Party (PD). However, we don't think the new cabinet, which remains very fragile, will have the strength to introduce the policies that Italy needs to kickstart growth, so we continue to expect that the country's economy will stagnate over the next few quarters.

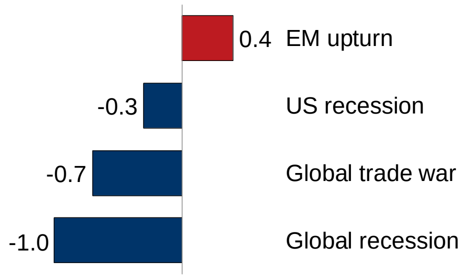
Banking system: there have been some improvements in the country's banking sector over the past few years. The sale of banks' bad debt, coupled with an increasing demand for credit and rising bank share prices, facilitated a pick-up in corporate credit growth, while lending to households started to expand in mid-2015. However, the Italian banking sector experienced tightening credit conditions in late 2018, thereby restricting its support to the economy.

Low potential growth: an ageing population, lower education levels relative to its peers, and subdued investment will keep potential growth very low.



Impact of scenarios on GDP growth

Average annual impact over the next 3 years (% points)

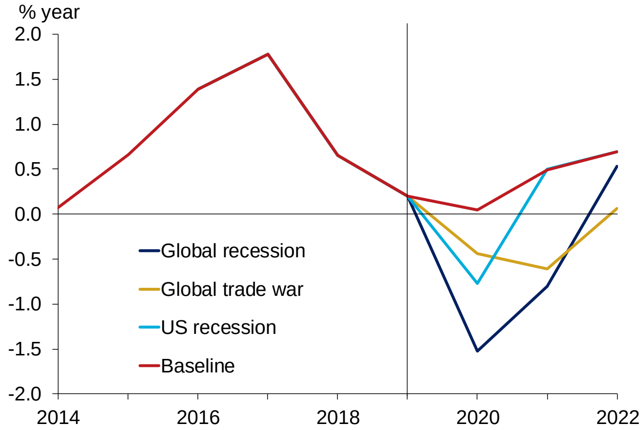


Exposure to key global risks

US recession: in this scenario, domestic developments trigger a deterioration in the late-cycle US economy. Corporate profits start to weaken, business and household confidence are shaken. Within a year, the US economy has fallen into recession. Lower demand weighs on Italian exports, which are also depressed by a stronger euro and tighter financial conditions.

Global trade war: this scenario, in which we assume that current trade policy tensions escalate, might cut Italian GDP by a cumulative 1.6 percentage points by the end of 2021, pointing to a two-year period of recession.

Impact of scenarios on GDP growth



Source : Oxford Economics

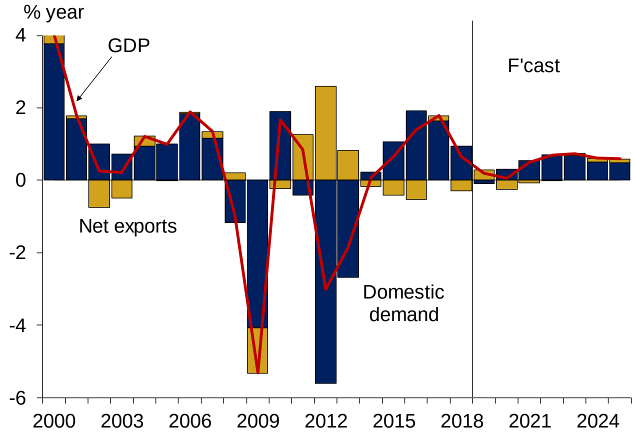
Long-term prospects

Very slow recovery from crises

Italy's long-term growth will remain below the already disappointing pre-crisis trend.

- **Stagnating capital accumulation**: structural weaknesses, very subdued economic prospects and tight credit conditions imply that the capital stock is expected to stagnate over the coming decade.
- **Limited gains in total factor productivity**: the level of employment is expected to be fairly stable over the next 10 years. As a result, rising labour productivity will be key to keeping growth positive. The extent of the improvement in total factor productivity is only expected to be modest unless there is a much bigger shift in economic policies, but the latter is unlikely to happen in the current political environment.
- **Room for rising labour participation**: on the upside, Italy has one of the lowest participation rates among developed countries – about 65%. As a result, reforms to increase participation in the labour force could potentially have a significant impact on long-term growth.

Italy: Contributions to GDP growth



Source: Oxford Economics

Potential GDP and Its Components Average Percentage Growth	2009-2018	2019-2028
Potential GDP*	0.1	0.3
Employment at NAIRU	0.5	-0.1
Capital Stock	0.0	0.1
Total Factor Productivity	-0.3	0.3

*ln(Potential GDP)=0.65*ln(Employment at NAIRU) +0.35*ln(Capital Stock)+ln(Total Factor Productivity)

Long-Term Forecast for Italy
(Average annual percentage change unless otherwise stated)

	2009-2013	2014-2018	2019-2023	2024-2028
GDP	-1.6	0.9	0.4	0.6
Consumption	-1.3	1.1	0.5	0.4
Investment	-5.6	2.0	0.9	0.7
Government Consumption	-0.9	-0.1	0.3	0.3
Exports of Goods and Services	0.0	3.2	1.6	1.5
Imports of Goods and Services	-2.5	4.6	1.7	1.4
Unemployment (%)	9.5	11.6	9.8	9.0
Consumer Prices, average	1.9	0.5	1.0	1.7
Current Balance (% of GDP)	-1.4	2.3	2.7	2.6
Exchange Rate (US$ per Euro), average	1.34	1.17	1.13	1.24
General Government Balance (% of GDP)	-3.7	-2.5	-2.1	-1.7
Short-term Interest Rates (%)	0.84	-0.14	-0.28	0.87
Long-term Interest Rates (%)	4.69	2.15	1.99	3.81
Working Population	0.8	0.4	-0.1	-0.3
Labour Supply	0.4	0.6	0.1	-0.1
Participation Ratio	66.2	65.4	66.1	66.8
Labour Productivity	-0.8	0.0	0.1	0.6

Background

Economic development

Over the decade to 2007, the performance of the economy was less than satisfactory when compared with both its historical performance since 1945 and other eurozone countries. This was mainly the result of a loss in market share for its exports, combined with low potential growth. The economy started to contract in 2008 and the collapse in trade and the weakness of domestic demand led to GDP falling 5.5% in 2009, one of the largest declines seen among the major eurozone countries. Moreover, the subsequent recovery was brought to an abrupt halt by the deepening eurozone crisis, with the economy re-entering recession in mid-2011. In 2015 the economy started to recover but growth was below 1%. And with growth set to remain very modest, the economy will not return to the size it was in 2007 until 2027.

Structure of the economy

Despite the sharp recession, Italy remains the second largest manufacturing economy in the eurozone. With total exports at around 30% of GDP, the economy is a reasonably open economy, but its export performance has been relatively poor when compared to Germany or Spain (this was particularly the case in the 2000s). Among other structural factors, this could be related to the low level of investment and innovation – which in turn may be influenced by the generally small scale of Italian companies. This translates into difficulties for companies when it comes to financing, investing and innovating, and it is usually associated with a mismatch in the allocation of resources.

Balance of payments and structure of trade

However, Italy has seen an adjustment in its current account recently, moving from a deficit of 3.5% of GDP in 2010 to a solid surplus in 2013-16. Intra-euro area trade remains extremely important for Italy. But as trade with other countries has been more dynamic over recent years, the share of intra-euro area trade has declined since the creation of the euro in 1999 and it is now around 40%. Machinery products and transport equipment are the largest single categories of exports.

Policy

After a long period of inaction by previous governments, the Renzi administration started a series of major structural reforms in 2014. The Renzi government implemented significant labour market reforms and announced, or partially applied, other important reforms. However, the resignation of Renzi after his failure at the referendum on Senate reform inevitably meant that the next government focused on the electoral system and the immediate problems in the banking sector rather than long-term economic reforms. On fiscal policy, the Renzi government and its successor pushed for a modest fiscal policy stimulus, albeit recognising the problem of debt sustainability as Italy's public debt as a % of GDP is the second highest in the eurozone. However, the following Five Star-Lega coalition government in 2018 pursued a more aggressive fiscal policy, putting it at odds with the European Commission and unnerving the financial markets.

Politics

After his third time in office as Prime Minister, Berlusconi resigned on November 2011, handing over power to a technocrat government led by the former EU commissioner Monti. The latter aimed to regain some confidence in the markets and introduce some structural reforms, such as to the pensions system. However, the technocrat cabinet lost the support of the majority party in parliament and new elections were held on February 2013. A fragile coalition government representing the main right and left-wing parties was formed in April 2013 and Enrico Letta became Prime Minister. But his government lasted just one year before being replaced by a narrower multi-party government with a much clearer reform agenda led by Matteo Renzi. The latter's government implemented a number of economic reforms but Renzi lost the referendum on a constitutional change and resigned in December 2016. A government with a similar majority and a broadly similar composition was subsequently constructed, under the leadership of Paolo Gentiloni, albeit the impetus for economic reform was inevitably diminished. Three months after the elections in March 2018, Lega and Five Star managed to form a populist government. But after la Lega – looking for another election – pulled the plug on that administration, a new government between Five Star and Democratic party was formed in September 2019.

Data & Forecasts

Key Indicators: Italy Percentage changes on a year earlier unless otherwise stated	Industrial production	Real retail sales	CPI	Industrial producer prices	Contracted hourly earnings	Household confidence (2010=100)	Business expectations (balance)	Trade balance (€ mn)
Jan	-0.8	1.8	0.9	4.4	1.8	113.8	101.8	4562
Feb	0.7	0.3	1.0	3.9	1.7	112.3	101.6	4089
Mar	-1.8	0.2	1.0	3.6	1.4	111.2	100.8	3959
Apr	-1.4	1.7	1.1	2.8	1.5	110.5	100.6	3830
May	-0.8	-0.6	0.8	1.9	1.6	111.7	101.8	4047
Jun	-1.3	1.6	0.7	1.1	0.7	109.7	100.7	5125
Jul	-0.6	1.3	0.4	-1.0	0.7	113.3	100.2	4304
Aug	-1.8	0.5	0.4	-2.1	0.7	111.9	99.7	3786
Sep	-2.2	1.2	0.3	-2.4	0.8	112.2	99.0	4348
Oct	-2.4	0.9	0.2	-4.1	0.6	111.7	99.7	6450
Nov	-0.6	0.0	0.2	-3.6	0.6	108.7	99.1	4726
Dec	-	-	0.5	-3.1	0.6	110.8	99.3	-
2020								
Jan	-	-	0.6	-	-	111.8	99.9	-

Financial Indicators: Italy Percentage changes on a year earlier unless otherwise stated	3-month rate %	10-year bond rate %	Money Supply M3	Total household lending	Lending to non fin. corp.	Real exch. rate 2010=100	Stock market: Mibtel	Reserve assets (€ bn)
Jan	-0.31	2.79	1.7	-0.4	-8.6	96.3	19307	135.6
Feb	-0.31	2.83	2.0	-0.3	-7.7	95.7	20033	136.6
Mar	-0.31	2.55	2.6	-0.8	-9.1	95.5	20967	137.7
Apr	-0.31	2.57	2.6	-0.8	-9.0	95.1	21772	137.7
May	-0.31	2.66	3.0	-0.6	-9.0	95.3	20741	140.2
Jun	-0.33	2.30	3.0	0.3	-6.4	95.4	20757	145.2
Jul	-0.36	1.66	5.0	0.5	-6.2	94.9	21870	150.2
Aug	-0.40	1.40	6.6	0.5	-6.6	95.5	20742	157.7
Sep	-0.42	0.89	4.4	0.6	-6.8	94.5	21911	157.1
Oct	-0.42	1.01	6.2	0.6	-7.1	94.1	22143	155.9
Nov	-0.40	1.28	8.6	0.2	-7.8	93.8	23415	153.7
Dec	-0.40	1.40	5.8	-	-	93.9	23348	156.0
2020								
Jan	-0.39	1.29	-	-	-	-	23829	-

ITALY — TABLE 1 SUMMARY ITEMS

Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE (C)	REAL PERS. DISPOSABLE INCOME (PEDY)	SAVING RATIO (%) (PESR)	REAL GDP (GDP)	INDUSTRIAL PRODUCTION (IP)	UNEMPLOY-MENT RATE (%) (UP)	AVERAGE EARNINGS (ER)	WHOLE ECONOMY PRODUCT-IVITY (GDP/ET)	COMPETIT-IVENESS (2008=100) (WCR)	PRODUCER PRICES (PPI)	CONSUMER PRICES (CPI)
YEARS BEGINNING Q1											
2018	0.8	0.5	9.4	0.7	0.5	10.6	1.8	-0.2	97.7	3.9	1.1
2019	0.5	1.1	9.9	0.2	-1.2	10.0	1.2	-0.4	95.1	0.0	0.6
2020	0.4	0.2	9.7	0.0	-0.5	9.8	1.0	-0.2	90.9	1.4	0.7
2021	0.5	1.3	10.4	0.5	1.2	9.8	1.5	0.3	90.0	1.9	1.0
2022	0.6	0.9	10.7	0.7	0.7	9.8	1.8	0.5	90.0	2.0	1.3
2023	0.6	0.7	10.8	0.7	0.4	9.6	2.2	0.5	90.5	1.9	1.5
2018											
Q1	1.0	0.9	9.0	1.4	3.4	10.9	0.8	0.5	96.7	1.9	0.7
Q2	0.7	1.0	9.8	0.9	1.8	10.8	2.1	-0.4	98.1	2.4	0.9
Q3	0.6	0.1	9.5	0.4	-0.4	10.3	2.3	-0.4	98.4	5.3	1.5
Q4	0.8	0.0	9.2	-0.1	-2.4	10.5	1.8	-0.6	97.4	6.0	1.4
2019											
Q1	0.4	0.8	9.4	0.1	-0.7	10.3	2.2	-0.5	96.9	4.0	1.0
Q2	0.5	0.7	10.0	0.2	-1.2	10.0	0.9	-0.3	96.0	1.9	0.8
Q3	0.8	1.6	10.2	0.5	-1.5	9.8	0.8	-0.2	94.6	-1.8	0.4
Q4	0.4	1.1	9.9	0.0	-1.5	9.8	0.8	-0.8	92.9	-3.6	0.3
2020											
Q1	0.5	0.6	9.5	-0.1	-1.8	9.8	0.5	-0.7	91.8	-1.1	0.4
Q2	0.5	-0.2	9.4	-0.1	-1.1	9.7	1.1	-0.2	90.9	1.0	0.5
Q3	0.2	-0.2	9.9	0.0	-0.2	9.8	0.9	-0.2	90.6	2.4	0.9
Q4	0.4	0.5	10.0	0.4	1.2	9.8	1.4	0.2	90.2	3.2	0.9
2021											
Q1	0.4	1.3	10.2	0.4	1.0	9.8	1.4	0.2	90.0	1.8	0.9
Q2	0.5	1.7	10.4	0.5	1.4	9.8	1.5	0.3	90.1	2.0	0.9
Q3	0.6	1.2	10.5	0.5	1.4	9.8	1.5	0.3	90.1	2.0	0.9
Q4	0.6	1.2	10.5	0.6	1.2	9.8	1.6	0.4	90.0	2.0	1.2
2022											
Q1	0.6	1.1	10.6	0.6	1.0	9.8	1.7	0.5	89.9	2.0	1.2
Q2	0.6	1.0	10.7	0.7	0.8	9.8	1.8	0.5	90.0	2.0	1.2
Q3	0.6	0.8	10.7	0.7	0.5	9.7	1.9	0.5	90.1	2.0	1.2
Q4	0.6	0.8	10.7	0.7	0.4	9.7	1.9	0.6	90.1	2.0	1.4
2023											
Q1	0.6	0.7	10.8	0.8	0.4	9.7	2.0	0.6	90.1	1.9	1.4
Q2	0.6	0.7	10.8	0.8	0.3	9.7	2.1	0.6	90.3	1.9	1.4
Q3	0.6	0.7	10.8	0.7	0.3	9.6	2.2	0.5	90.6	1.9	1.4
Q4	0.6	0.6	10.8	0.7	0.3	9.6	2.3	0.5	90.8	1.9	1.5

ITALY — TABLE 2 SUMMARY ITEMS

	TRADE BALANCE (EURO BN) (BVI)	CURRENT ACCOUNT (EURO BN) (BCU/1000)	CURRENT ACCOUNT (% OF GDP) (BCU*100 /GDP!)	GOV. FIN. BALANCE (MAAS. DEF.) (EURO BN) (GBM)	GOVERNMENT FINANCIAL BALANCE (% OF GDP) (GBM*100 /GDP!)	SHORT-TERM INTEREST RATE (RSH)	LONG-TERM INTEREST RATE (RLG)	REAL SHORT-TERM INTEREST RATE (Note 1)	REAL LONG-TERM INTEREST RATE (Note 1)	EXCHANGE RATE US DOLLAR PER EURO (RXD)	EFFECTIVE EXCHANGE RATE 2010=100 (RX)
YEARS BEGINNING Q1											
2018	47.1	46.4	2.6	-38.8	-2.2	-0.32	2.61	-1.46	1.47	1.18	97.96
2019	58.2	52.5	2.9	-38.6	-2.2	-0.36	1.95	-0.97	1.34	1.12	96.80
2020	58.1	53.9	3.0	-44.3	-2.5	-0.39	1.23	-1.06	0.57	1.09	95.89
2021	56.1	46.6	2.5	-38.6	-2.1	-0.39	1.75	-1.36	0.78	1.11	96.09
2022	58.7	46.1	2.5	-35.7	-1.9	-0.28	2.29	-1.55	1.02	1.15	96.47
2023	61.8	46.7	2.4	-35.0	-1.8	-0.01	2.71	-1.46	1.25	1.18	96.83
2018											
Q1	13.4	13.2	3.0	-9.7	-2.2	-0.33	2.01	-1.06	1.28	1.23	98.58
Q2	11.7	10.8	2.4	-9.7	-2.2	-0.33	2.25	-1.25	1.32	1.19	98.06
Q3	11.2	12.2	2.8	-9.7	-2.2	-0.32	2.87	-1.80	1.39	1.16	97.80
Q4	10.8	10.2	2.3	-9.7	-2.2	-0.32	3.30	-1.73	1.89	1.14	97.39
2019											
Q1	14.2	13.3	3.0	-9.0	-2.0	-0.31	2.72	-1.26	1.77	1.14	97.07
Q2	14.1	13.9	3.1	-9.5	-2.1	-0.32	2.51	-1.17	1.67	1.12	96.98
Q3	15.2	12.6	2.8	-9.8	-2.2	-0.40	1.33	-0.75	0.97	1.11	96.79
Q4	14.7	12.7	2.8	-10.4	-2.3	-0.40	1.23	-0.70	0.93	1.11	96.36
2020											
Q1	15.1	14.4	3.2	-11.6	-2.6	-0.40	1.21	-0.79	0.82	1.11	96.15
Q2	14.9	13.8	3.1	-11.2	-2.5	-0.40	1.09	-0.86	0.62	1.09	95.78
Q3	14.3	13.1	2.9	-10.8	-2.4	-0.39	1.25	-1.29	0.36	1.09	95.78
Q4	13.7	12.6	2.8	-10.6	-2.3	-0.39	1.38	-1.29	0.48	1.09	95.87
2021											
Q1	13.9	12.2	2.7	-10.2	-2.2	-0.39	1.52	-1.32	0.60	1.09	95.96
Q2	14.0	11.5	2.5	-9.8	-2.2	-0.39	1.69	-1.30	0.79	1.10	96.04
Q3	14.0	11.3	2.5	-9.5	-2.1	-0.39	1.84	-1.28	0.94	1.11	96.14
Q4	14.3	11.6	2.5	-9.1	-2.0	-0.37	1.97	-1.54	0.80	1.12	96.24
2022											
Q1	14.4	11.5	2.5	-9.0	-1.9	-0.35	2.11	-1.59	0.87	1.13	96.34
Q2	14.6	11.5	2.5	-8.9	-1.9	-0.32	2.25	-1.55	1.02	1.14	96.43
Q3	14.9	11.5	2.5	-8.9	-1.9	-0.26	2.36	-1.47	1.15	1.15	96.52
Q4	14.8	11.5	2.4	-8.9	-1.9	-0.19	2.45	-1.60	1.03	1.16	96.61
2023											
Q1	15.0	11.5	2.4	-8.8	-1.9	-0.08	2.55	-1.52	1.11	1.17	96.70
Q2	15.3	11.6	2.4	-8.8	-1.8	0.00	2.66	-1.42	1.23	1.18	96.79
Q3	15.7	11.8	2.4	-8.7	-1.8	0.02	2.76	-1.39	1.35	1.19	96.88
Q4	15.8	11.9	2.5	-8.7	-1.8	0.04	2.86	-1.51	1.32	1.20	96.96

Note 1 : REAL INTEREST RATES = Nominal interest rate (RSH or RLG) - % change in CPI

Long-Term Forecast for Italy

Annual percentage changes unless otherwise specified

	2009-2018	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
GDP	-0.3	0.7	1.4	1.8	0.7	0.2	0.0	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
Consumption	-0.1	1.9	1.2	1.5	0.8	0.5	0.4	0.5	0.6	0.6	0.6	0.5	0.3	0.4	0.5	0.5
Investment	-1.9	1.6	4.2	3.5	3.0	2.3	0.0	0.7	0.8	0.8	0.8	0.7	0.6	0.6	0.7	0.8
Government Consumption	-0.5	-0.6	0.7	-0.2	0.4	0.4	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Exports of Goods and Services	1.6	4.1	2.0	6.5	1.3	1.7	1.1	1.7	1.8	1.8	1.8	1.7	1.3	1.2	1.3	1.6
Imports of Goods and Services	0.9	6.3	4.2	6.7	2.4	0.9	2.1	2.0	1.9	1.8	1.6	1.5	1.1	1.2	1.3	1.5
Unemployment (%)	10.5	11.9	11.7	11.3	10.6	10.0	9.8	9.8	9.8	9.6	9.4	9.1	8.9	8.8	8.8	9.4
Consumer Prices, average	1.2	0.0	-0.1	1.2	1.1	0.6	0.7	1.0	1.3	1.5	1.6	1.6	1.7	1.8	1.9	1.4
Consumer Prices, EOP	1.2	0.2	0.1	0.9	1.4	0.3	0.9	1.2	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.4
Current Balance (% of GDP)	0.4	1.5	2.6	2.7	2.6	2.9	3.0	2.5	2.5	2.4	2.5	2.6	2.6	2.6	2.5	2.6
Exchange Rate (US$ per Euro), average	1.26	1.11	1.11	1.13	1.18	1.12	1.09	1.11	1.15	1.18	1.22	1.25	1.25	1.25	1.25	1.19
Exchange Rate (US$ per Euro), EOP	1.25	1.09	1.05	1.20	1.15	1.12	1.09	1.13	1.16	1.20	1.24	1.25	1.25	1.25	1.25	1.19
General Government Balance (% of GDP)	-3.1	-2.6	-2.4	-2.4	-2.2	-2.2	-2.5	-2.1	-1.9	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7	-1.9
Short-term Interest Rates (%)	0.3	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3	0.0	0.3	0.6	0.9	1.2	1.4	0.3
Long-term Interest Rates (%)	3.4	1.7	1.5	2.1	2.6	1.9	1.2	1.8	2.3	2.7	3.1	3.5	3.9	4.2	4.4	2.9
Working Population	0.6	0.3	0.2	0.2	0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4	-0.2
Labour Supply	0.5	0.0	1.0	0.7	0.2	-0.1	0.1	0.2	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.3	0.0
Participation Ratio (%)	65.8	65.0	65.5	65.8	65.8	65.7	65.9	66.2	66.3	66.5	66.6	66.7	66.8	66.9	67.0	66.5
Labour productivity	-0.4	-0.2	0.1	0.6	-0.2	-0.4	-0.2	0.3	0.5	0.5	0.4	0.4	0.5	0.7	0.8	0.3
Employment	0.1	0.9	1.3	1.2	0.9	0.6	0.3	0.2	0.2	0.2	0.2	0.2	0.1	-0.1	-0.2	0.2
Output gap (% of potential GDP)	-3.9	-5.5	-4.3	-2.8	-2.3	-2.1	-2.3	-2.0	-1.5	-1.0	-0.7	-0.6	-0.4	-0.3	-0.2	-1.1

Country Economic Forecast | Italy

Key Facts

Politics
Head of state: President Sergio MATTARELLA
Head of government: Prime Minister Giuseppe CONTE
Political system: Republic
Date of next presidential election: January 2022
Date of next legislative election: 2023
Currency: Euro

Source : CIA Factbook

Location: Southern Europe, a peninsula extending into the central Mediterranean Sea, northeast of Tunisia (CIA Factbook)

Long-term economic & social development	1980	1990	2000	2018*
GDP per capita (US$)	8457	20826	20088	34483
Inflation (%)	21.1	6.5	2.5	1.1
Population (mn)	56.3	57.0	56.9	60.4
Urban population (% of total)	66.6	66.7	67.2	70.4
Life expectancy (years)	73.9	77.0	79.8	83.2

Source : Oxford Economics & World Bank

Structure of GDP by output	2018
Agriculture	1.9%
Industry	21.4%
Services	76.7%

Source : World Bank

* 2018 or latest available year

Long-term sovereign credit ratings & outlook	Foreign currency	Local currency
Fitch	BBB (Negative)	BBB (Negative)
Moody's	Baa3 (Stable)	Baa3 (Stable)
S&P	BBB (Negative)	BBB (Negative)

Corruption perceptions index 2019	Score
Developed economies (average)	74.5
Emerging economies (average)	38.3
Italy	53.0

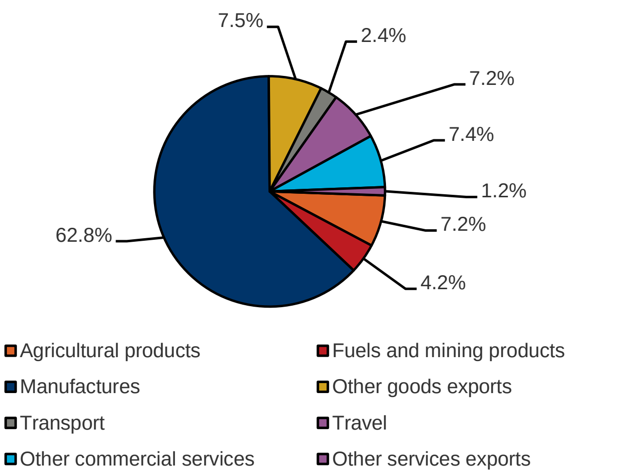
Source: Transparency International

Scoring system 100 = highly clean, 0 = highly corrupt

Structural economic indicators	1990	1995	2000	2018*
Current account (US$ billion)	-16.4	22.6	-3.2	55.0
Trade balance (US$ billion)	-1.7	37.8	8.7	55.7
FDI (US$ billion)	-1.0	-2.2	6.7	-0.2
Govt budget (% of GDP)	-11.2	-7.2	-2.4	-2.2
Govt debt (% of GDP)	93.5	115.6	106.6	134.3
Long-term interest rate	13.5	12.2	5.6	2.6
Oil production (000 bpd)	86	92	89	90
Oil consumption (000 bpd)	1868	1942	1854	1269

Source : Oxford Economics / World Bank / EIA

Composition of goods & services exports 2018



Source : WTO

Destination of goods' exports 2018	
European Union	56.3%
U.S.	9.1%
Switzerland	4.8%
P.R. China	2.8%
Other	27.0%

Source : IMF DOTS

OXFORD ECONOMICS

Overall risk for Italy: 3.8/10

Factors affecting risk scores: Italy

Overall risk: 3.8/10

	2018	2019	2020	2021	2022	2023	2024
Market demand rating: 3.0/10							
Domestic demand, % y/y	1.0	-0.1	0.3	0.6	0.7	0.7	0.5
Government balance, % of GDP	-2.2	-2.2	-2.5	-2.1	-1.9	-1.8	-1.8
Gross government debt, % of GDP	134.8	135.5	136.6	137.0	136.5	135.3	134.0
Policy interest rate, %	0.00	0.00	0.00	0.00	0.00	0.24	0.49
Domestic credit, % of GDP	162.1	165.7	167.3	168.4	169.3	170.1	171.0
Fixed investment, % of GDP	17.8	18.1	18.1	18.2	18.3	18.3	18.3
Output gap, % of GDP	-2.3	-2.1	-2.3	-2.0	-1.5	-1.0	-0.7
Real GDP per capita, 2015 US$	31564	31693	31775	31992	32272	32566	32815
Market cost rating: 5.0/10							
Nominal unit wage costs, 2008=100	114.7	117.1	118.1	119.5	121.1	123.1	125.9
Real fuel imports % total imports	10.0	10.0	10.2	10.2	10.1	10.1	10.0
Energy use per unit of GDPPPP	67.1	65.2	63.2	60.7	58.4	55.7	52.7
Exchange rate, average, US$ per LCU	1.18	1.12	1.09	1.11	1.15	1.18	1.22
Output gap, % of GDP	-2.3	-2.1	-2.3	-2.0	-1.5	-1.0	-0.7
Unemployment rate, %	10.6	10.0	9.8	9.8	9.8	9.6	9.4
Real GDP per capita, 2015 US$	31564	31693	31775	31992	32272	32566	32815
Exchange rate rating: 2.4/10							
Exchange rate, average, US$ per LCU	1.18	1.12	1.09	1.11	1.15	1.18	1.22
Exchange rate, avg, PPP, US$ per LCU	1.36	1.37	1.38	1.40	1.40	1.41	1.41
Current account of BOP, % of GDP	2.6	2.9	3.0	2.5	2.5	2.4	2.5
External debt, % of GDP	121.9	122.8	119.6	116.3	113.8	111.9	110.6
Policy interest rate, %	0.00	0.00	0.00	0.00	0.00	0.24	0.49
FX reserves, months of imports	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Sovereign credit rating: 3.4/10							
GDP, real, % y/y	0.7	0.2	0.0	0.5	0.7	0.7	0.6
GDP per capita, PPP, US$	37738	37893	37990	38249	38585	38936	39234
Government balance, % of GDP	-2.2	-2.2	-2.5	-2.1	-1.9	-1.8	-1.8
Gross government debt % of GDP	134.8	135.5	136.6	137.0	136.5	135.3	134.0
Trade credit rating: 5.0/10							
GDP, real, % y/y	0.7	0.2	0.0	0.5	0.7	0.7	0.6
External debt, % of GDP	121.9	122.8	119.6	116.3	113.8	111.9	110.6
GDP per capita, PPP, US$	37738	37893	37990	38249	38585	38936	39234