

Italy – 2Q22

Macroeconomic Outlook Report



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1. Italian macroeconomic view

Italy

During the second quarter of 2022, the Italian economy reduced the GDP growth with respect to the previous quarter, due to a reduction in the growth rate of both domestic and external demand. The Italian CPI incremented up to a 6.72% annual growth rate driven by elevated energy and food prices.

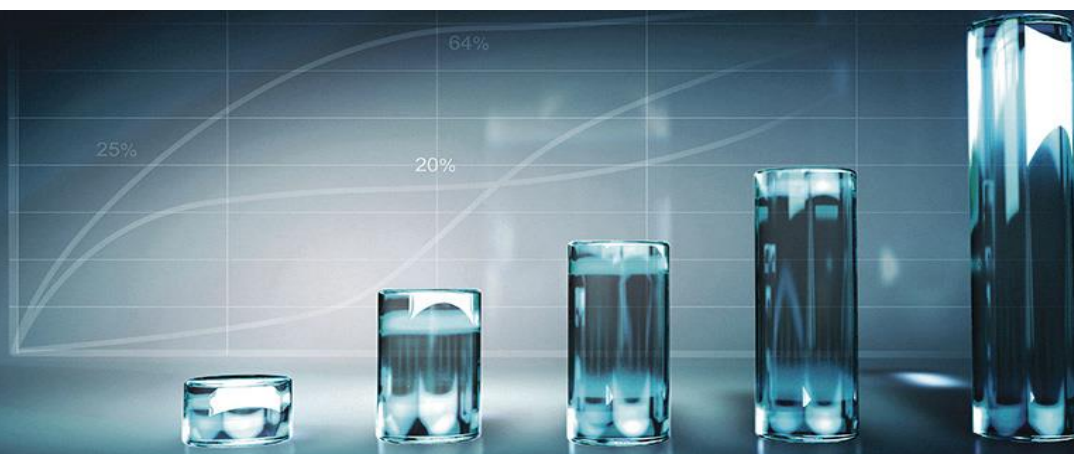
MAIN MACROECONOMIC INDICATORS 2T22 (YoY %)

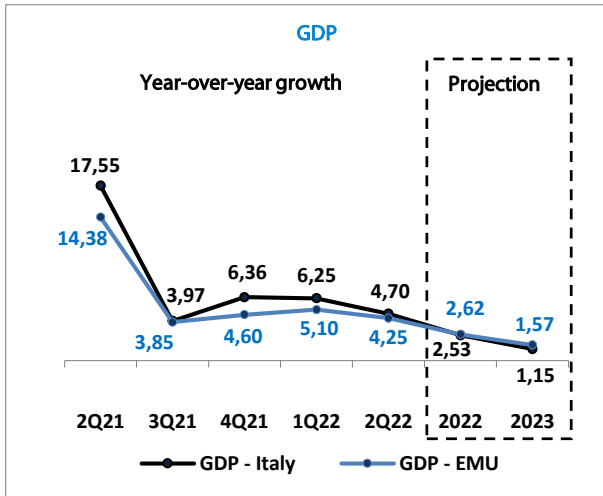
INDICATOR	2Q21	3Q21	4Q21	1Q22	2Q22	2022	2023
GDP	17.55	3.97	6.36	6.25	4.70	2.53	1.15
DOMESTIC DEMAND	15.48	4.50	3.42	6.83	4.94	3.28	0.83
PRIVATE CONSUMPTION	14.70	4.37	7.28	7.12	4.29	1.60	0.70
PUBLIC CONSUMPTION	0.57	-2.84	-2.70	-0.05	0.08	0.56	0.70
GROSS FIXED CAPITAL FORMATION	38.91	10.35	13.80	12.87	11.61	17.01	8.59
EXTERNAL DEMAND							
EXPORTS	40.92	11.41	10.00	13.03	12.14	7.91	3.22
IMPORTS	30.72	16.49	14.35	15.34	14.99	10.50	2.28
INFLATION							
CPI*	1.20	2.18	3.37	5.67	6.72	6.34	3.79
LABOR MARKET							
UNEMPLOYMENT	9.80	9.25	9.10	8.60	8.20	9.02	9.34
EMPLOYMENT	0.18	1.62	1.01	3.07	1.05	1.91	0.84

Source: ISTAT and ECB, Projections: OECD June 2022

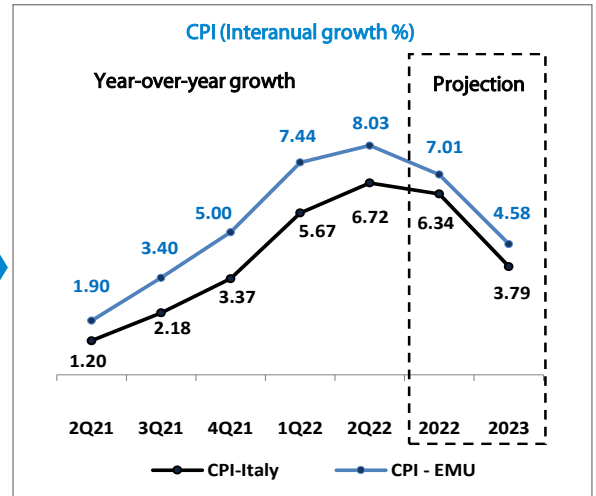
*ECB inflation target <2%.

- ▶ In the second quarter of 2022, the Italian economy recorded a GDP annual growth rate of 4.70%, decelerating 1.55 p.p. compared to the previous quarter. Moreover, the OECD has predicted an annual growth of 2.53% for 2022 and 1.15% for 2023. This reduction in the growth rate of the GDP is driven by a reduction in the growth of the private consumption and the sharp increase of the interest rates. The gross fixed capital formation was also impacted by this interest rate increase, and the global uncertainties from the Ukraine conflict.
- ▶ As in the previous quarter, the conflict between Russia and Ukraine caused uncertainty among the population and an increase in the prices of many commodities. Indeed, in 2Q22, the Italian Consumer Price Index accelerated by 1.05 p.p. compared with the previous quarter, reaching a 6.72% year-over-year growth rate. This had a knock-on effect on consumption, as these high prices were further aggravated by the rise in interest rates. The OECD expects the Italian CPI to increase to 6.34% by the end of 2022 and to drop back down to 3.79% in 2023 following an easing of global supply chain disruptions.
- ▶ During the second quarter of the year, the unemployment rate experienced a 0.40 p.p. fall when compared to the previous quarter, down to an 8.20% rate, consolidating the downward trend initiated in 2Q21. Regarding the year over year growth rate of employment, it decelerated by 2.02 p.p. during this period relative to the previous quarter, although standing at a positive 1.05% rate.

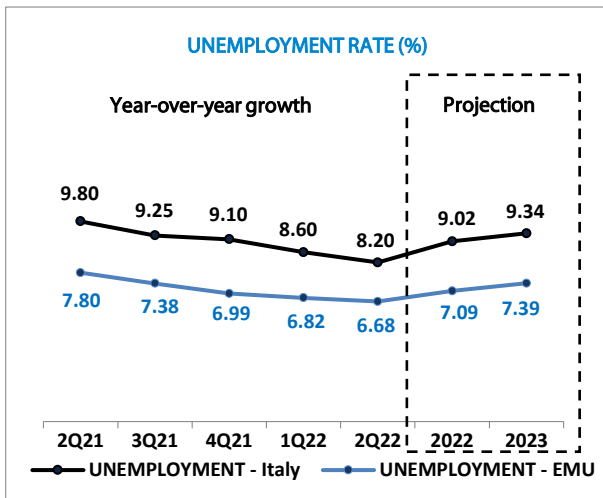




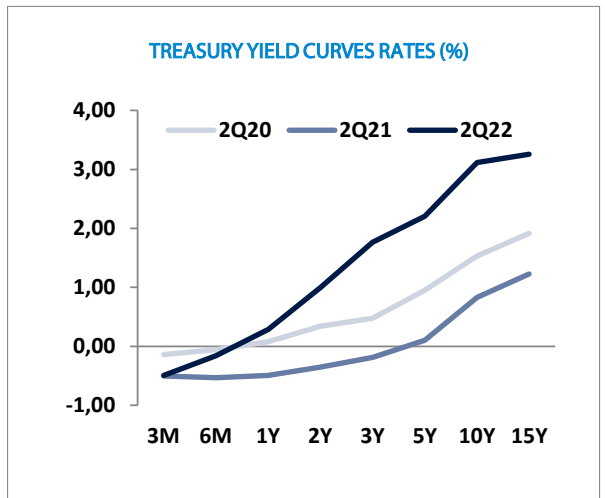
Source: ISTAT and ECB, Projections OECD.



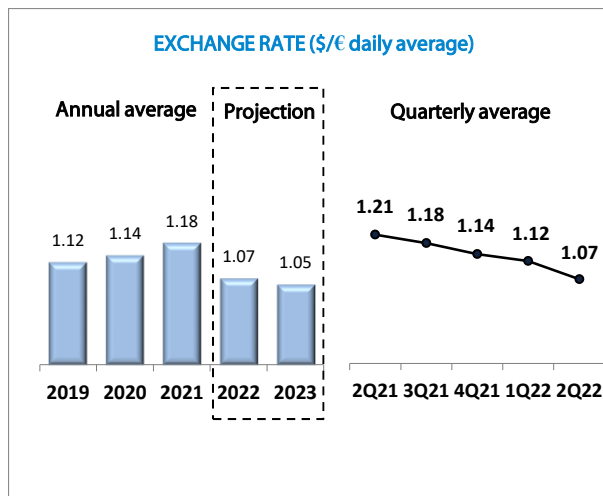
Source: ECB and Banca d'Italia. Projections: OECD June 2022.



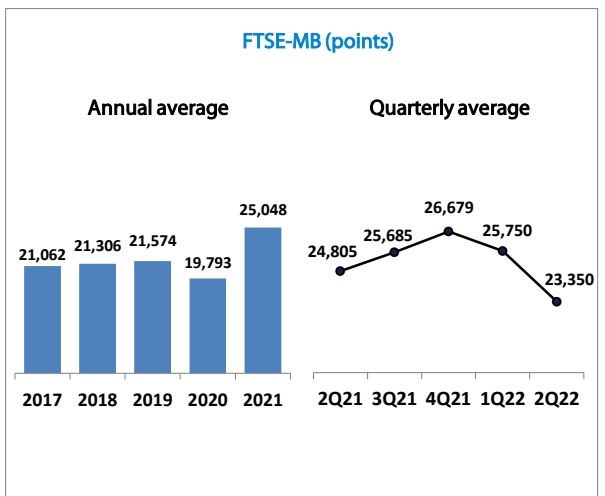
Source: ISTAT, EUROSTAT and ECB. Projections: OECD June 2022.
Note: Annual rates refer to the annual average of the quarterly rate.



Source: ECB and Banca d'Italia.



Source: ECB. Projections: OECD June 2022



Source: Borsa Italiana



2. International overview

LatAm, OECD and China

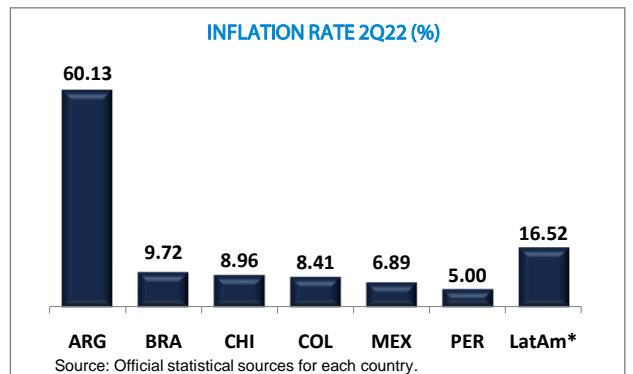
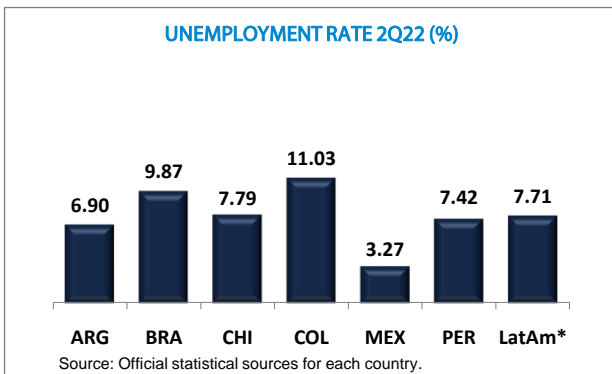
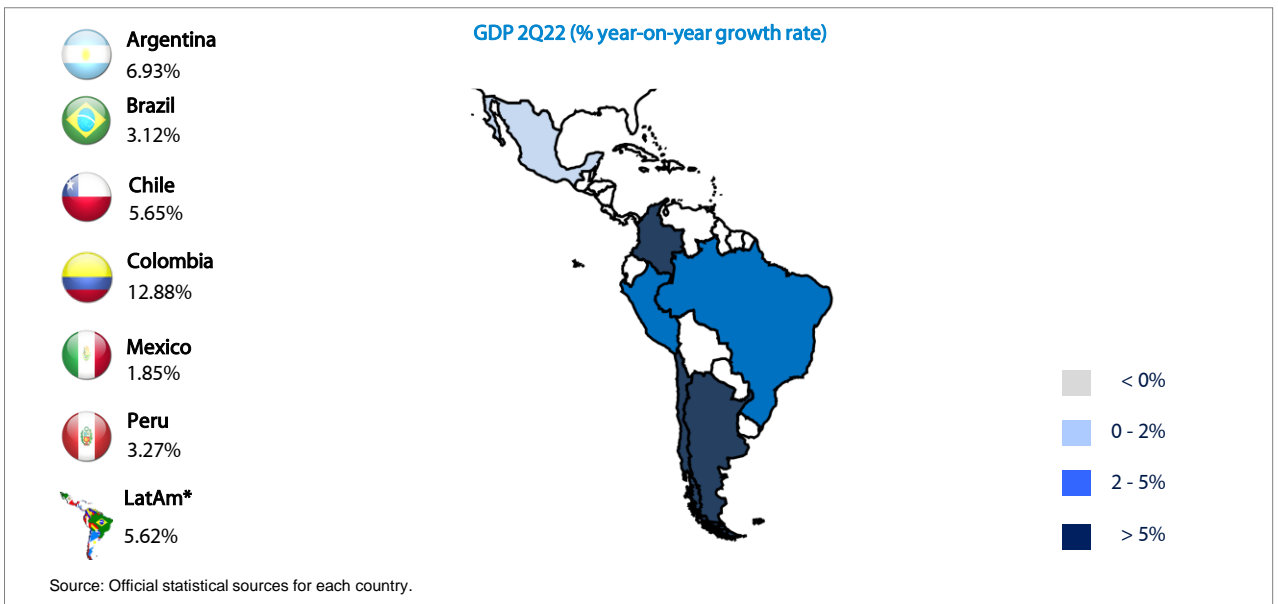
The upward inflationary trend has determined the monetary policies of major global banks and the stagnation of economic growth during 2Q22.

Macroeconomic outlook

- ▶ During the quarter, the global economic recovery continued after the most acute phase of the pandemic, albeit in a very uncertain environment. The main constraints on economic developments were the unfolding war in Ukraine, the slowdown in China, and the intensification of inflationary pressures in the short term, which affected the conduct of monetary policies at the global level. All this dampened households' purchasing power and increased firms' production costs.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) revised in October its forecast for the Latin American economy for 2022, raising the region's growth by 3.2% and cutting it to 1.4% for 2023. World trade dynamics are expected to be negatively affected by the war, which would lead to a decrease in Latin America's external demand. For its part, the European Commission has acknowledged a slower than expected economic recovery, affected by the outbreak of the war in Ukraine. Likewise, the Fed modified its previous projections for the US, predicting lower GDP growth of 2.3% in 2022 and 1% in 2023.
- ▶ During the second quarter of 2022, the labor market continued to recover from the economic consequences of the pandemic to near pre-pandemic levels. Most countries recorded declines in their unemployment rate compared to 1Q22. Mexico ranked as the country with the lowest unemployment rate (3.27%) while Colombia had the highest rate (11.03%) for Latam. Moreover, Spain reached a 12.48% unemployment rate during this quarter.
- ▶ In 2Q22, inflation increased in all the economies analyzed concerning 2Q21, with the highest rates in Argentina (60.13%), Brazil (9.72%), the United Kingdom (9.16%), and Spain (9.07%). The EMU registered an increase of 6.70 p.p. compared to 2Q21, reaching a rate of 8.60%. The average for Latam was 16.52%. China registered the smallest year-on-year increase, with inflation of 2.23%. Inflation grew at a very high rate due to the energy component. On the other hand, all economies contracted their labor markets, except Canada and China, which recorded slight year-on-year increases.
- ▶ Foreign trade in the G20 countries continued to grow in monetary terms on the back of higher commodity prices and inflation. Exports of the group of the world's 20 largest economies increased by 2.1 % from the previous quarter, while imports rose by 2.6 %. Exports of the European Union as a whole rose by 2 %, Latin America by 2.8 %, and North America by 1.5 % in the quarter.

Financial sector

- ▶ In response to rising inflation, central banks' monetary policy became more restrictive, and most central banks have raised interest rates significantly, reaching levels like those observed in 2017.
- ▶ On the fiscal side, public debt levels remained high in many countries. In a context of high demands for public spending, measures were required to strengthen fiscal sustainability and expand fiscal space by strengthening public revenues.
- ▶ In terms of their ratings, all OECD, China, and Latin American countries kept their ratings constant in the second quarter of the year, except for Chile, which moved from a Moody's rating of A1 to A2, and Mexico, which moved from a Moody's rating of Baa1 to Baa2 during this period.



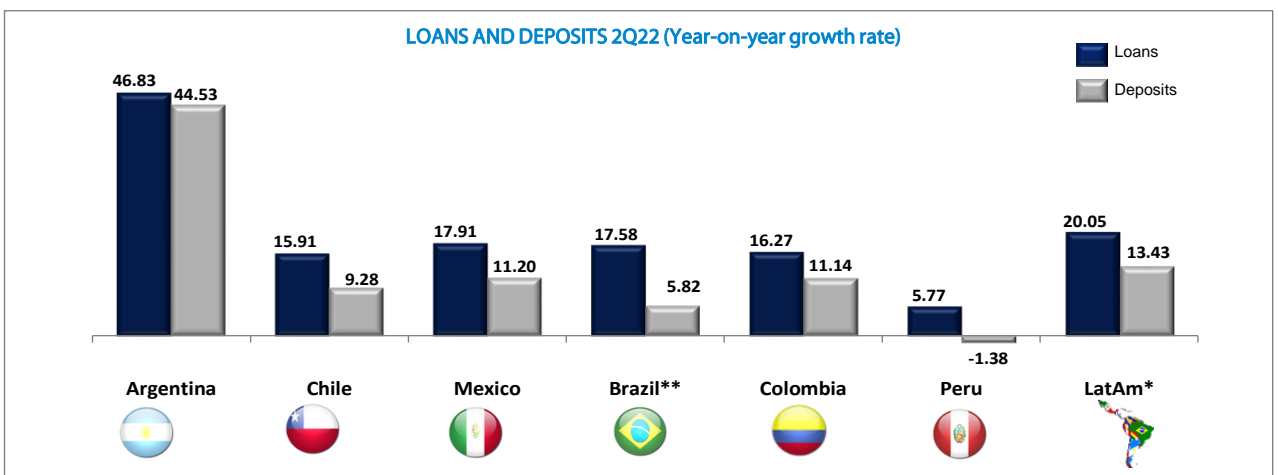
LONG TERM RATES 2Q22

	MOODY'S		S&P		FITCH	
Argentina	Ca	–	CCC+	–	CCC	–
Brazil	Ba2	–	BB-	–	BB-	–
Chile	A2	▲	A	–	A-	–
Colombia	Baa2	–	BB+	–	BB+	–
Mexico	Baa2	▲	BBB	–	BBB-	–
Peru	Baa1	–	BBB	–	BBB	–

▲ Increase since 1Q22

– Constant since 1Q22











▼ Decrease since 1Q22



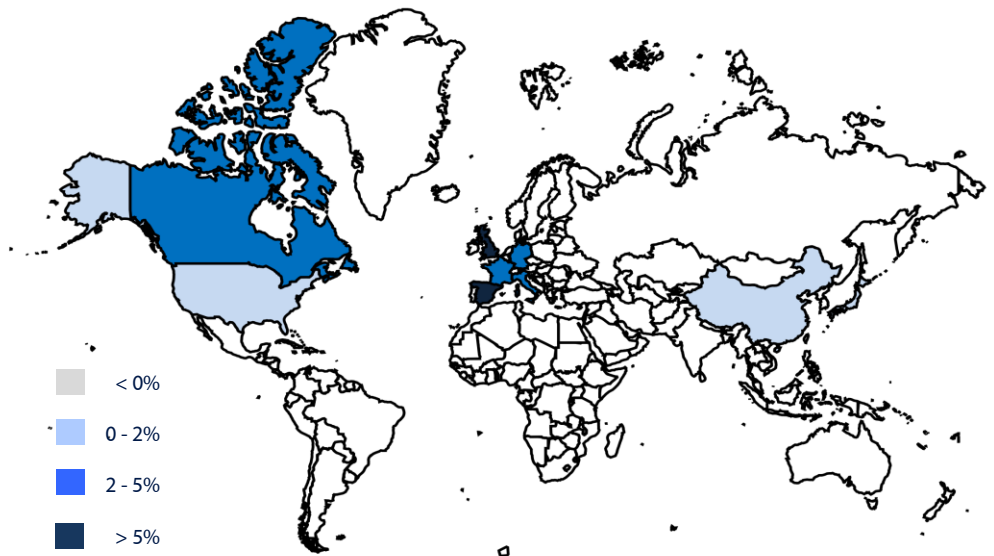
*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Most updated figures available at the date of the release correspond to 2Q22, except for Brazil's deposits (1Q22)

Source: Official statistical sources for each country.

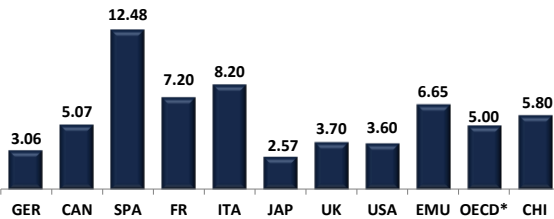
-  **Germany**
2.56%
-  **Canada**
4.56%
-  **China**
0.40%
-  **France**
4.01%
-  **Spain**
6.78%
-  **Italy**
4.70%
-  **Japan**
1.40%
-  **EMU**
4.25%
-  **UK**
9.95%
-  **USA**
1.70%

GDP 2Q22 (% year-on-year growth rate)



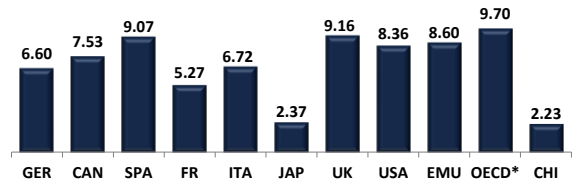
Source: Official statistical sources for each country.

UNEMPLOYMENT RATE 2Q22 (%)



Source: Official statistical sources for each country.

INFLATION RATE 2Q22 (%)



Source: Official statistical sources for each country.

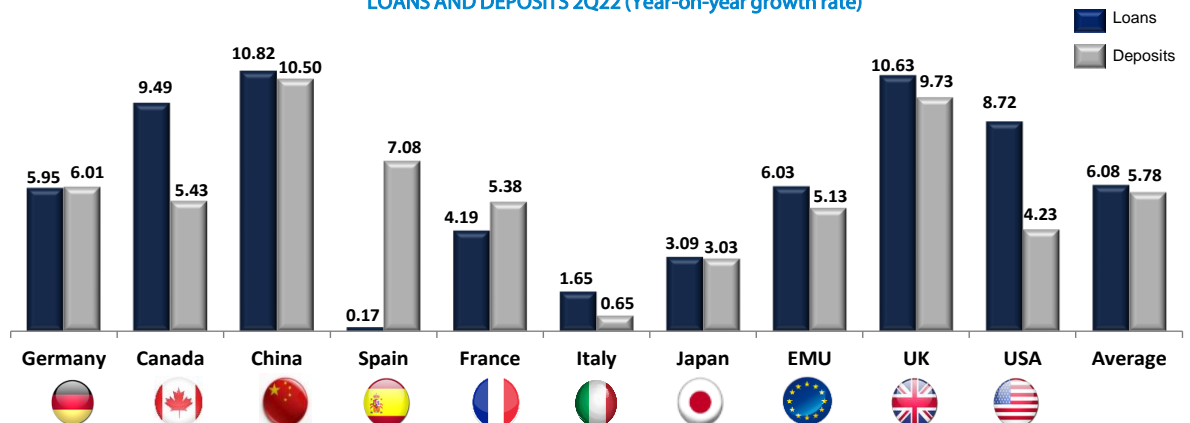
LONG TERM RATES 2Q22

	MOODY'S		S&P		Fitch	
Germany	Aaa	—	AAA	—	AAA	—
Canada	Aaa	—	AAA	—	AA+	—
China	A1	—	A+	—	A+	—
Spain	Baa1	—	A	—	A-	—
France	Aa2	—	AA	—	AA	—
Italy	Baa3	—	BBB	—	BBB	—
Japan	A1	—	A+	—	A	—
UK	Aa3	—	AA	—	AA-	—
USA	Aaa	—	AA+	—	AAA	—

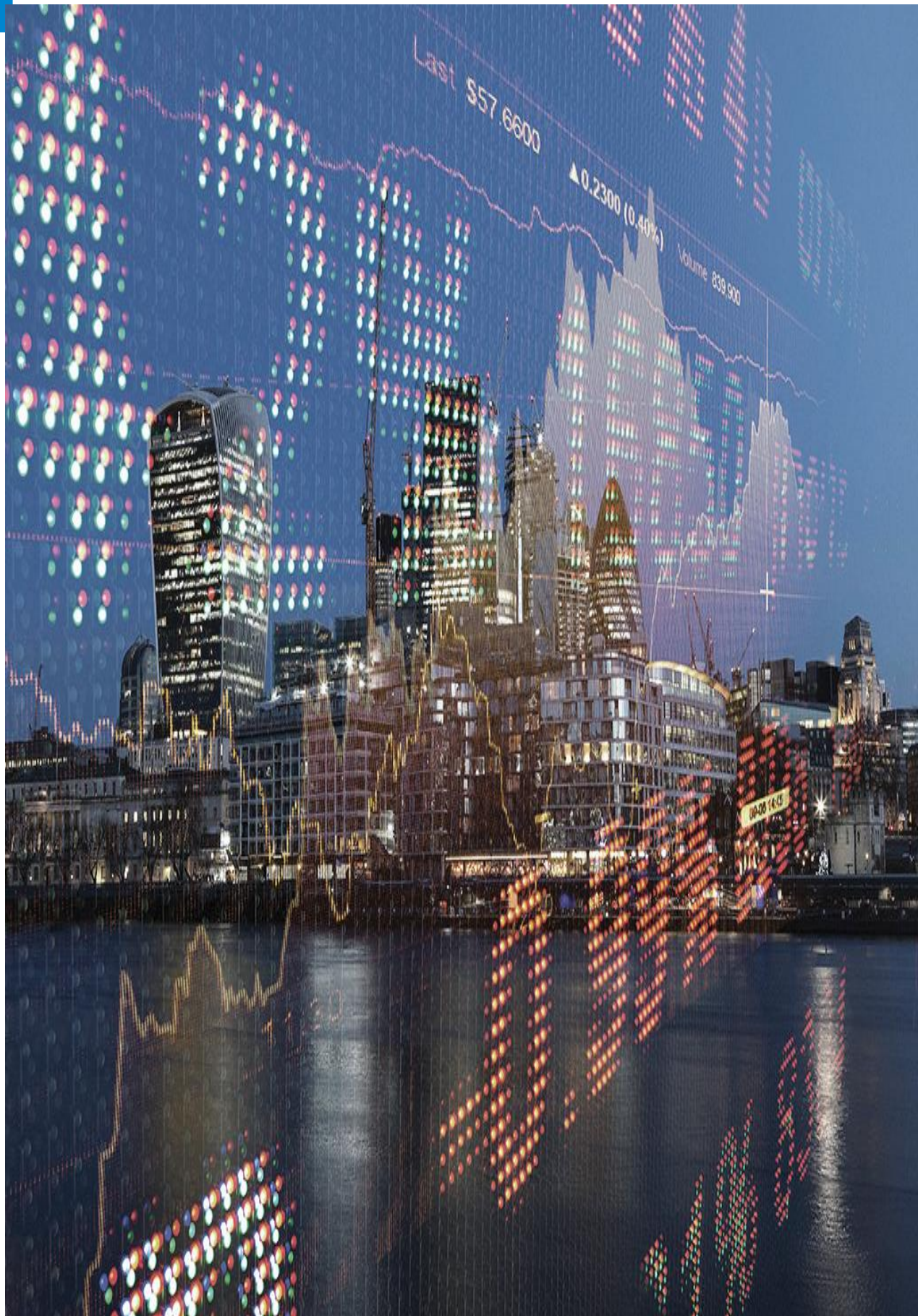
- ▲ Increase since 1Q22
- Constant since 1Q22
- ▼ Decrease since 1Q22

Source: Official statistical sources for each country.

LOANS AND DEPOSITS 2Q22 (Year-on-year growth rate)



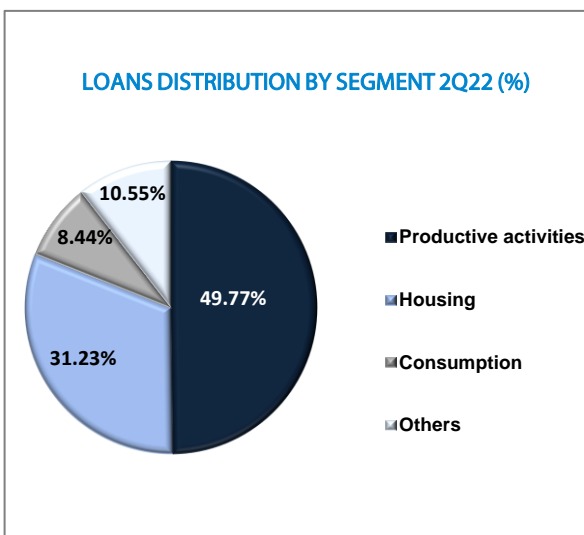
OECD aggregate data, updated as of publication date for 2Q22.
Source: Official statistical sources for each country.



3. Banking sector: general overview

During the second quarter of 2022, the total value of loans granted in the financial system for non financial corporations and households (consumer and housing) registered a positive year-over-year growth rate of 2.09%, and the NPL reduced down to 2.57%.

Banking sector

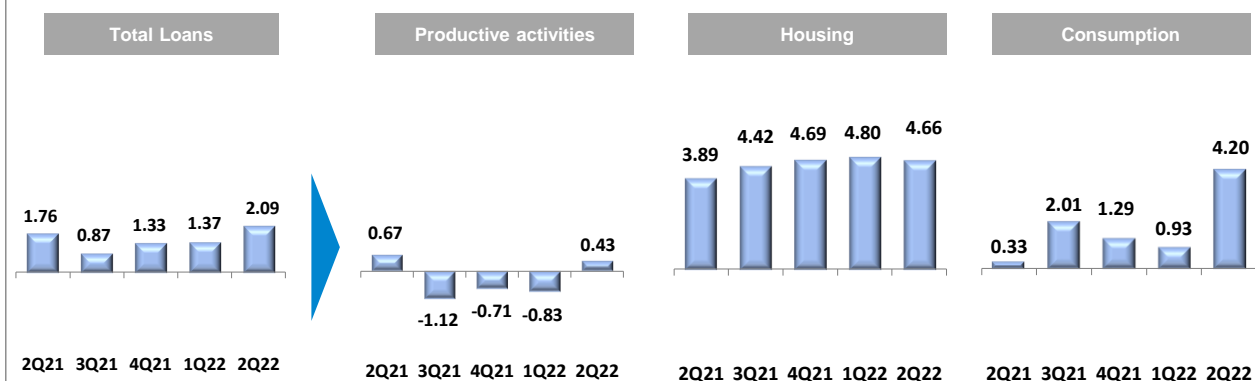


Source: Banca d'Italia

- ▶ During the second quarter of 2022, the year over year growth rate of loans to productive activities and households (housing and consumption) increased by 0.33 p.p. compared to 2Q21, recording a positive growth rate for the eighth consecutive quarter (2.09%).
- ▶ By type of loans, loans to productive activities registered a 0.43% y/y growth rate in 2Q22, after increasing 1.26 p.p. relative to the previous quarter.
- ▶ Regarding the y/y growth rate of housing loans, it decreased by 0.14 p.p. compared to the previous quarter, reaching a 4.66% rate.
- ▶ Moreover, consumption loans also rose by 3.26 p.p., when compared to the second quarter of the previous year recording a 4.20% y/y growth rate.

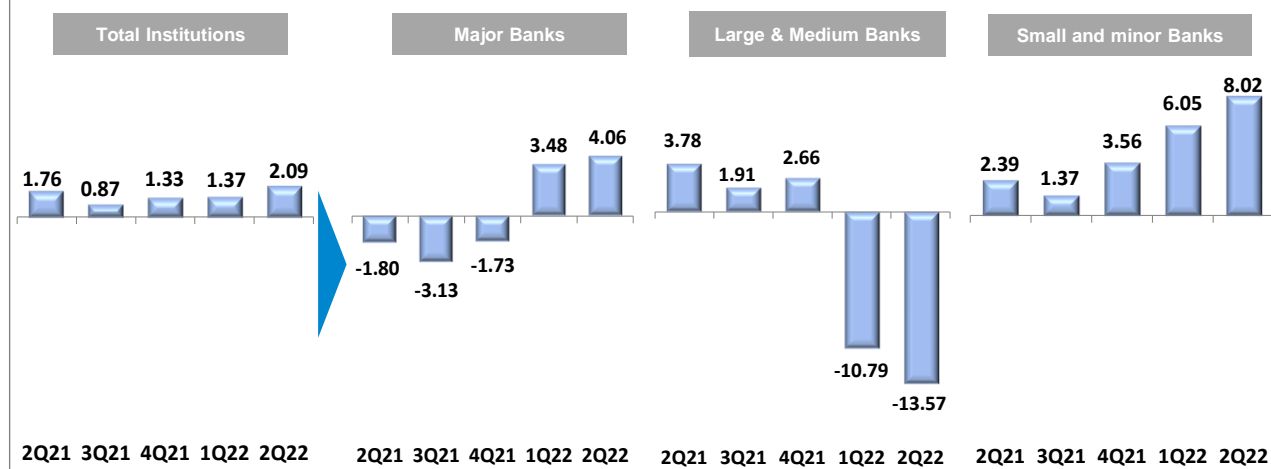
- ▶ In the second quarter of 2022, the y/y growth rate of total deposits dropped down to 3.03%, after decelerating 1.36 p.p. compared to 1Q22. This implies a year-over-year reduction of 4.85 p.p..
- ▶ In the second quarter of 2022, the Non-Performing Loans ratio stood at 2.57%, after a decrease of 0.43 p.p. when compared to the first quarter of 2022. In addition, with respect to the same quarter of the previous year, the NPL ratio declined by 1.13 p.p.. The Italian NPL ratio was above the European Union average for this period (1.92%).
- ▶ The coverage ratio of the Italian financial system decreased by 2.42 p.p. in the second quarter of 2022 with respect to the first quarter of 2022, down to a 52.71% ratio. Moreover, this ratio was 0.79 p.p. lower than the one registered in the same quarter of the previous year (53.50%).
- ▶ In terms of efficiency, the efficiency ratio of the Italian financial system decreased by 2.14 p.p. compared to the first quarter of 2022 and decreased also by 2.49 p.p. relative to the same quarter of the previous year, standing at a 61.21% cost-to-income ratio.

LOANS (Year-over-Year %)



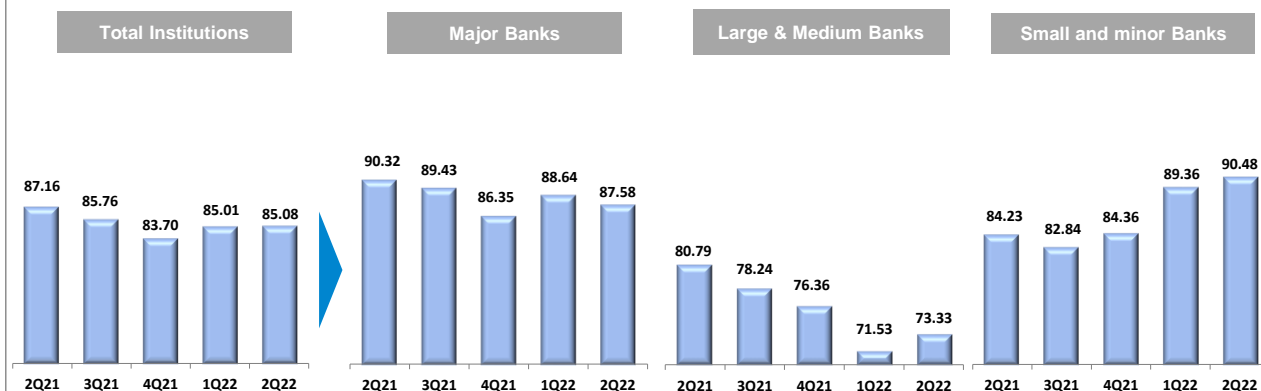
Source: Banca d'Italia.

LOANS BY TYPE OF ENTITY (Year-over-Year %)



Source: Banca d'Italia.

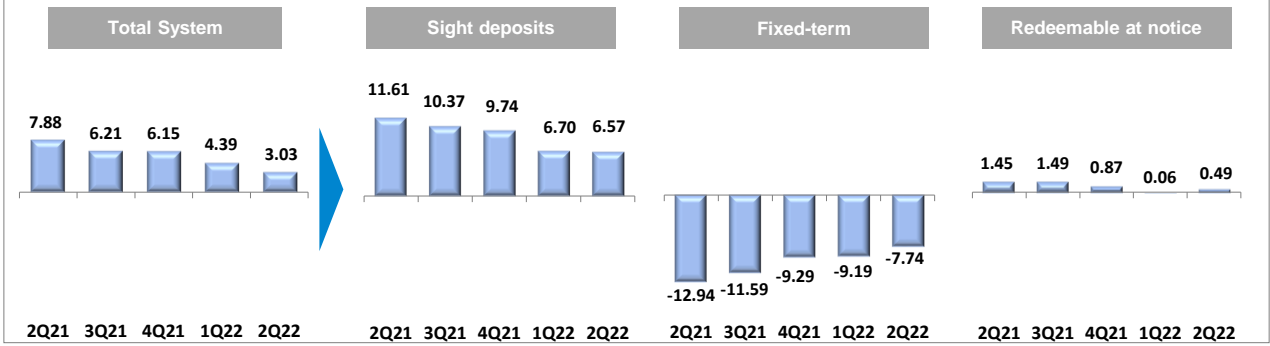
LOANS/DEPOSITS (%)*



Source: Banca d'Italia.

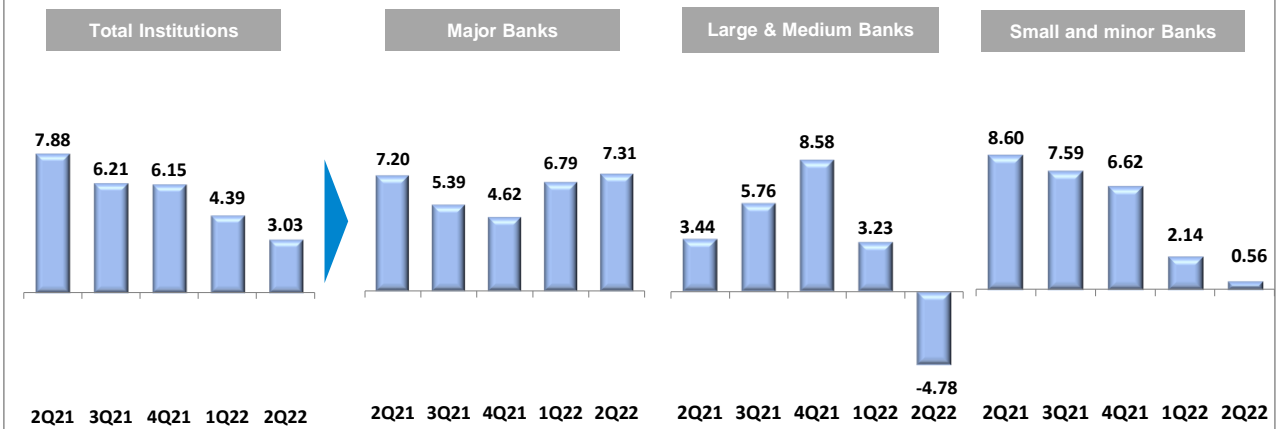
*Note: Data according to the methodology of Banca d'Italia. Includes loans to productive activities + loans to housing + loans to consumption.

DEPOSITS BY MATURITY (Year-over-Year %)



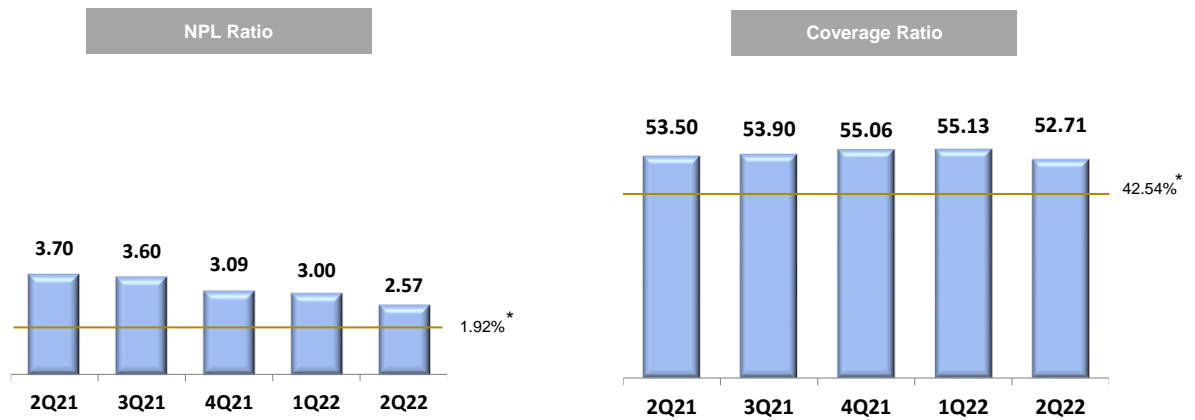
Source: Banca d'Italia.

DEPOSITS BY TYPE OF ENTITY (Year-over-Year %)



Source: Banca d'Italia.

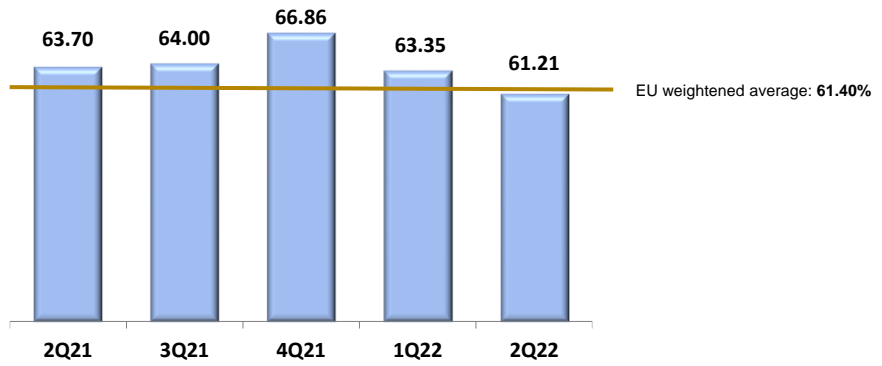
NON-PERFORMING LOANS RATIO AND COVERAGE RATIO (%)



Source: European Banking Authority

*Indicates EU weighted average for 2Q22 as calculated by the EBA.

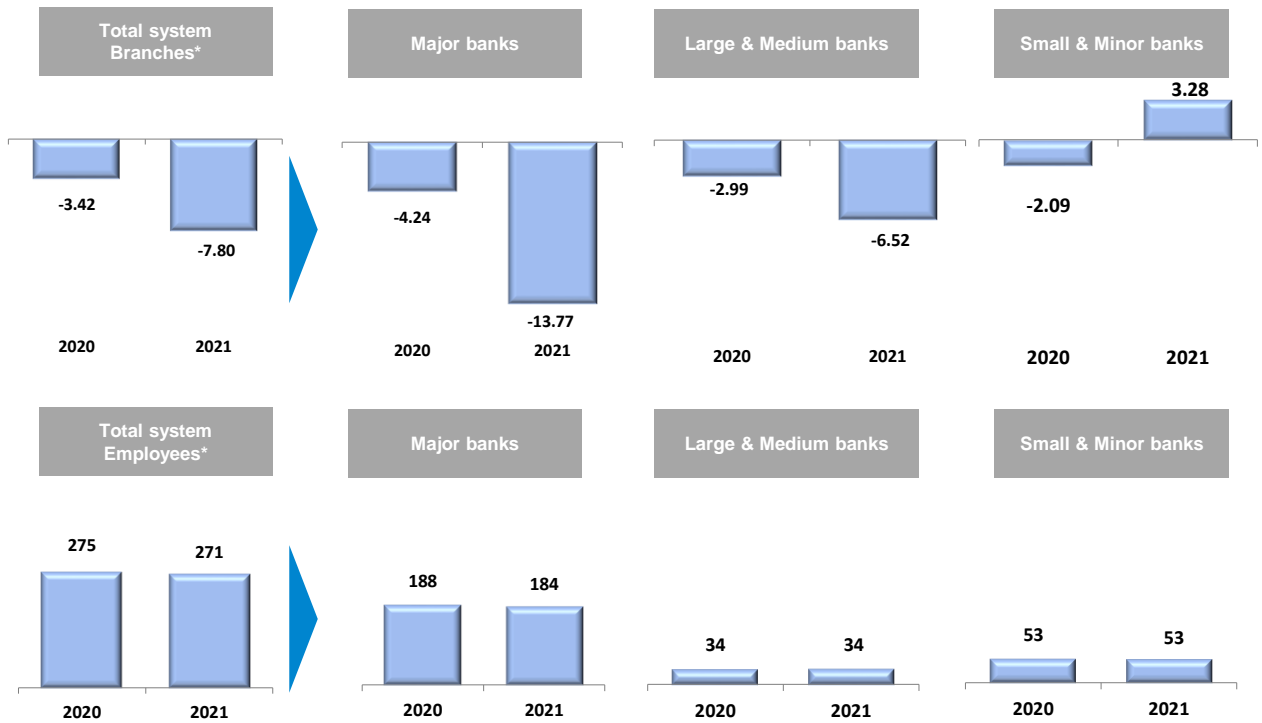
EFICIENCY RATIO (%)



Source: European Banking Authority

Note: Non-exhaustive analysis conducted by the EBA on the financial system of the country covering more than 80% of total assets. Entities considered in Appendix.

BRANCHES (Year-over-Year growth, %) and EMPLOYEES (Number of employees, in thousands)



Source: Banca d'Italia.

*Note: System = Total credit institutions (Large Banks + Medium Banks + Small Banks)



4. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- ▶ Banca d'Italia:
<http://www.bancaditalia.it>
- ▶ The National Institute for Statistics, Istat:
<http://www.istat.it/en/>
- ▶ Bloomberg: <http://www.bloomberg.com>
- ▶ Fundación de las Cajas de Ahorros, FUNCAS:
<http://www.funcas.teca.es/>
- ▶ International Monetary Fund, IMF:
<http://www.imf.org/>
- ▶ Organisation for Economic Co-operation and Development, OECD:
<http://www.oecd.org/>
- ▶ Standard & Poor's:
<http://www.standardandpoors.com/>
- ▶ Fitch Ratings:
<http://www.fitchratings.com/>
- ▶ Moody's:
<http://www.moody.com/>
- ▶ European Central Bank:
<https://www.ecb.europa.eu/>
- ▶ Banco Central de la República Argentina:
www.bcra.gov.ar/
- ▶ Banco Central de Chile:
www.bcentral.cl/
- ▶ Banco de México:
www.banxico.org.mx/
- ▶ Banco Central do Brasil:
www.bcb.gov.br/
- ▶ Departamento Administrativo Nacional de Estadística de Colombia (DANE):
<http://www.dane.gov.co/>
- ▶ Banco de la República de Colombia:
<http://www.banrep.gov.co/>
- ▶ World Bank: <https://www.worldbank.org/>
- ▶ Banco Central de Reserva del Perú:
www.bcrp.gob.pe/
- ▶ Banco de España:
<http://www.bde.es/>
- ▶ Bank of England:
<http://www.bankofengland.co.uk/>
- ▶ US Federal Reserve:
<http://www.federalreserve.gov/>
- ▶ BBVA Research:
<http://www.bbvarsearch.com/>

Appendix

SOURCES (CONTINUED)

FINANCIAL SECTOR

- ▶ Banca d'Italia:
<http://www.bancaditalia.it/>

GLOSSARY

- ▶ **Large banks:** Major Banks (according to Banca d'Italia).
- ▶ **Medium banks:** Large and Medium Banks (according to Banca d'Italia).
- ▶ **Small banks:** Small and Minor Banks (according to Banca d'Italia).
- ▶ **Efficiency ratio:** Administrative and depreciation expenses / Total net operating income
- ▶ **NPL ratio:** Outstanding balance/ Total loans.
- ▶ **ROE:** Net profit / Equity
- ▶ **ROA:** Net profit/ Total assets.
- ▶ **BCRA:** Central Bank of the Argentine Republic.
- ▶ **BCB:** Central Bank of Brazil.
- ▶ **EBA:** European Banking Authority
- ▶ **OECD:** Organization for Economic Co-operation and Development



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