



# Italy's Outlook

## AIECE Meeting

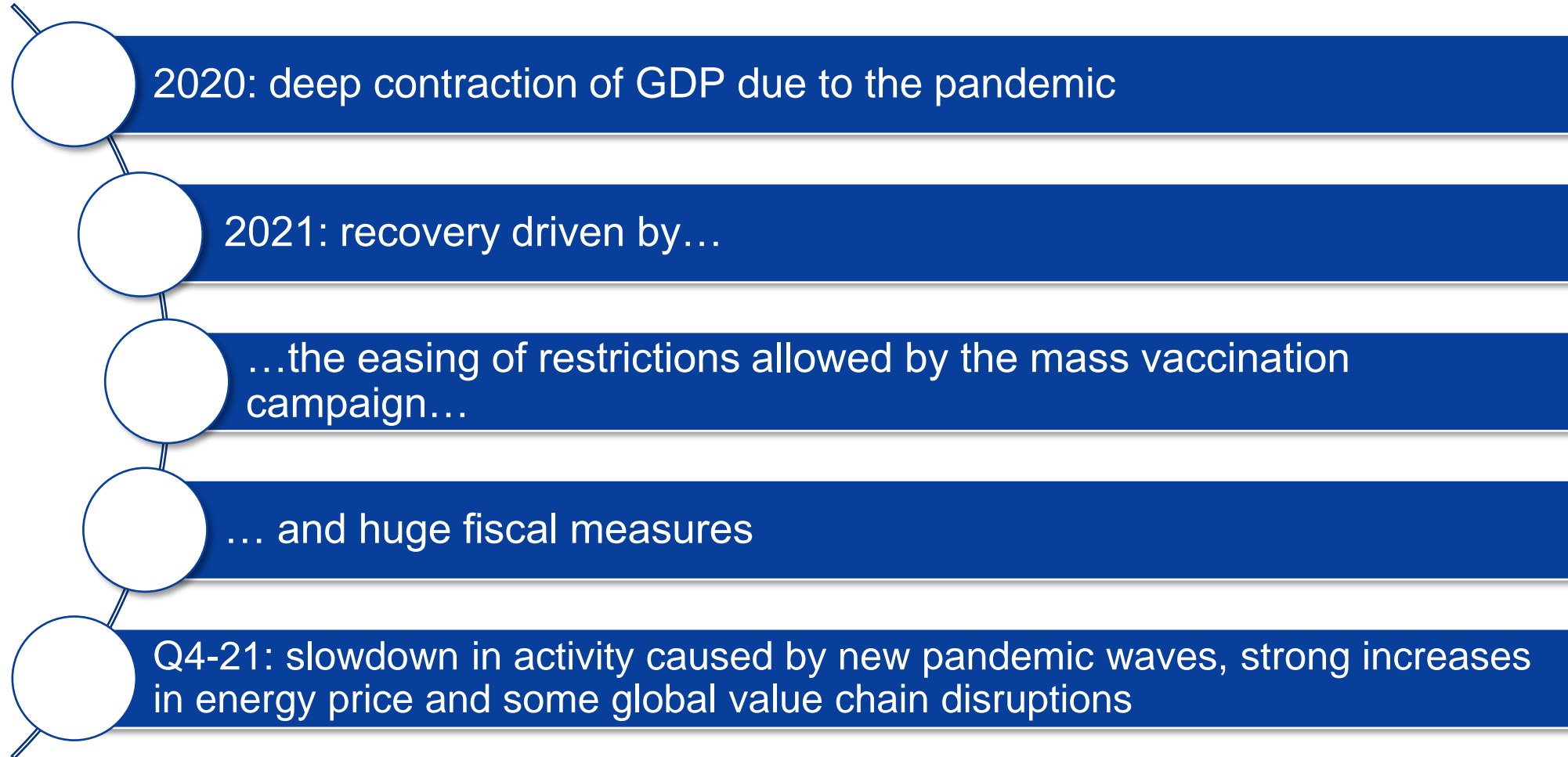
STEFANIA TOMASINI – SENIOR PARTNER, HEAD OF ECONOMIC ANALYSIS AND FORECASTING

Brussels, November 2022

# Agenda

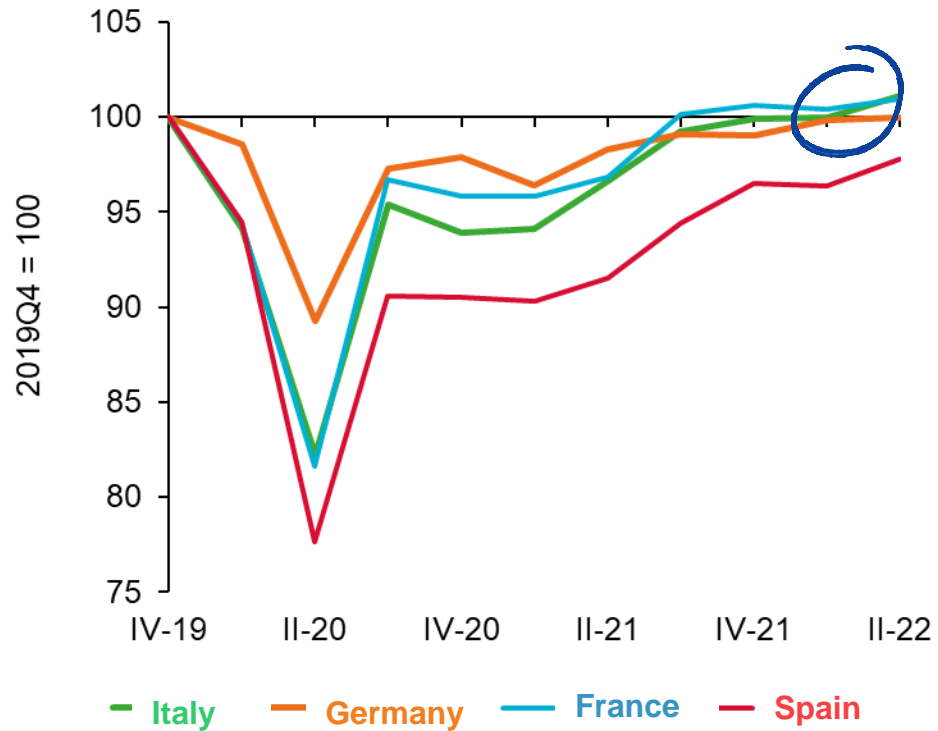
- A. **The Italian economy after the Covid19 crisis**
- B. The Ukraine-energy crisis
- C. Outlook

# Italy's economy through the Covid-19 crisis



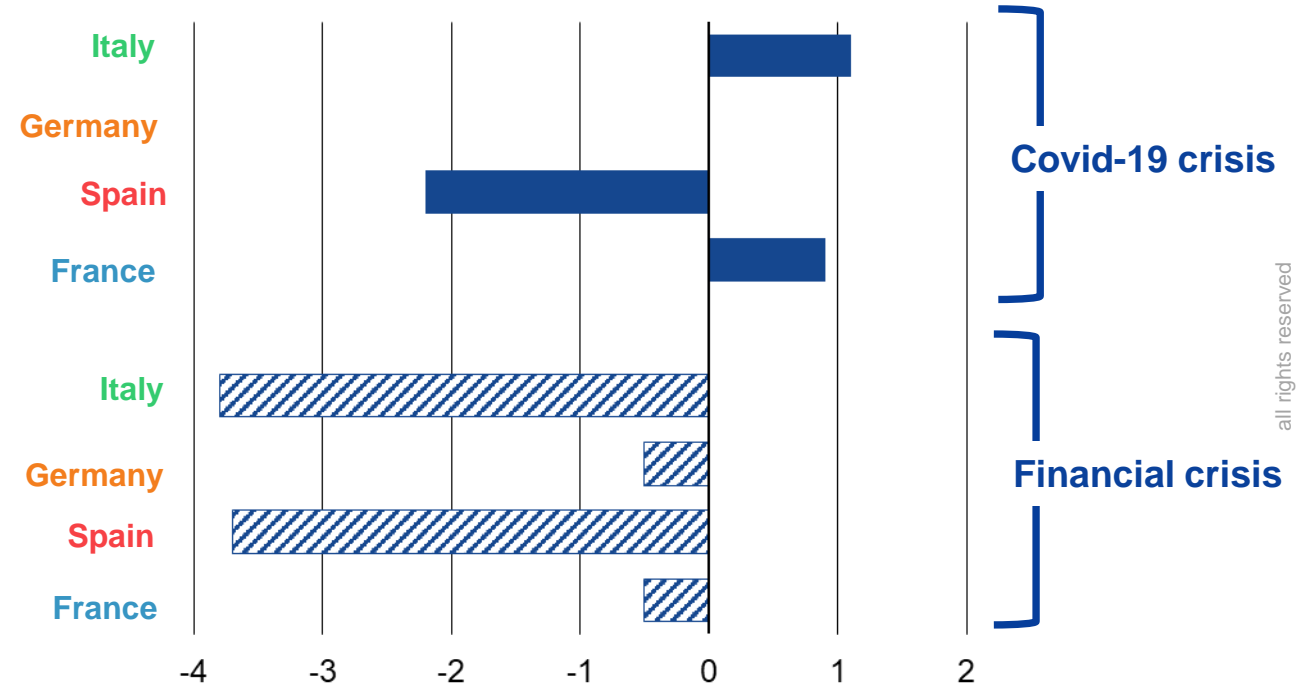
# Covid-19: Italy more hit but proved to be resilient ...

GDP



Source: Eurostat

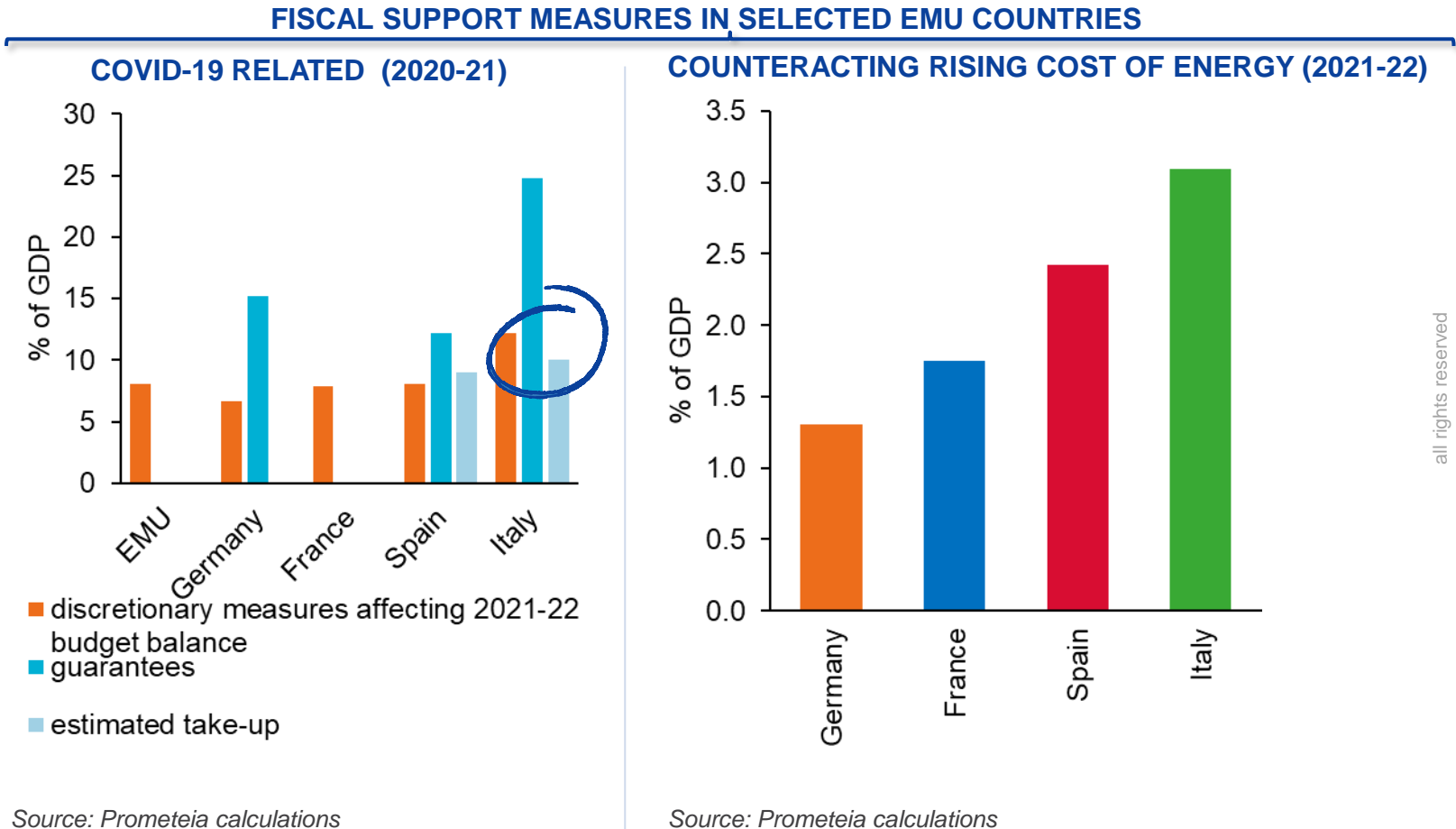
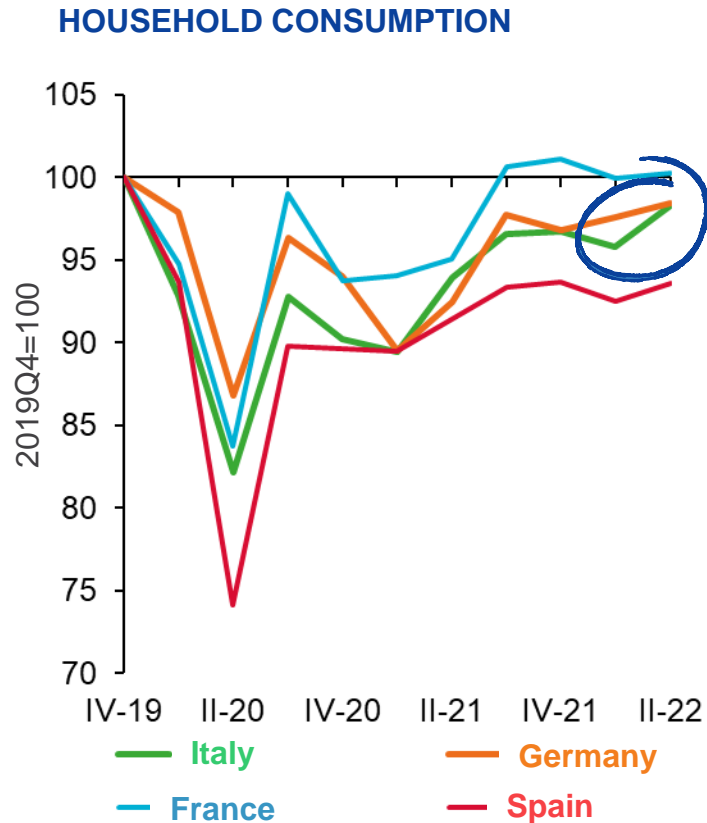
GDP AFTER RECESSIONS



Source: Eurostat

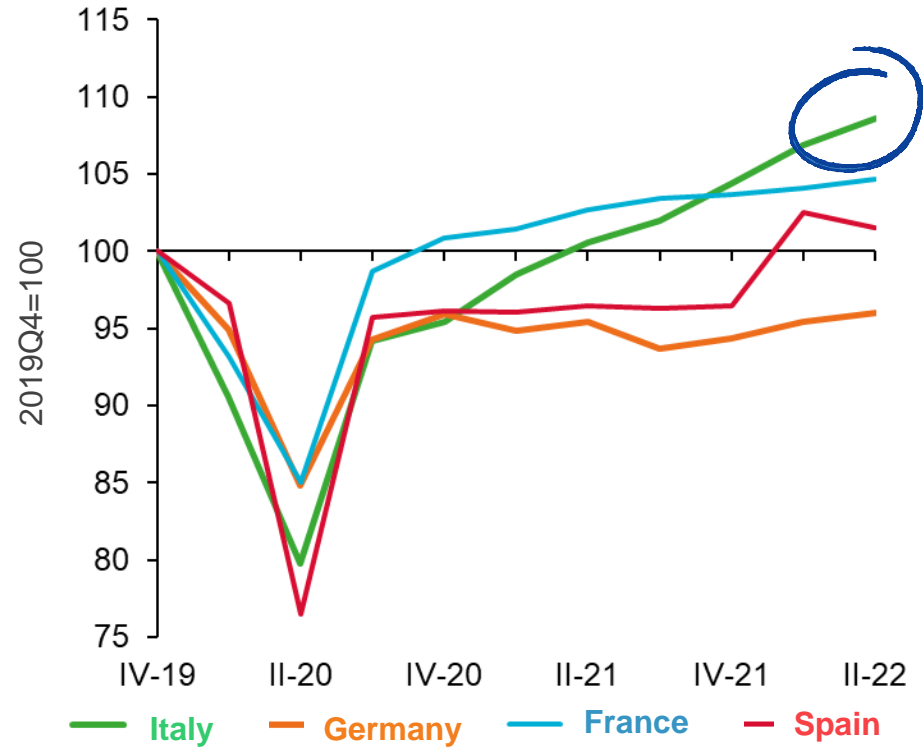


# ... also with the help of fiscal policy...



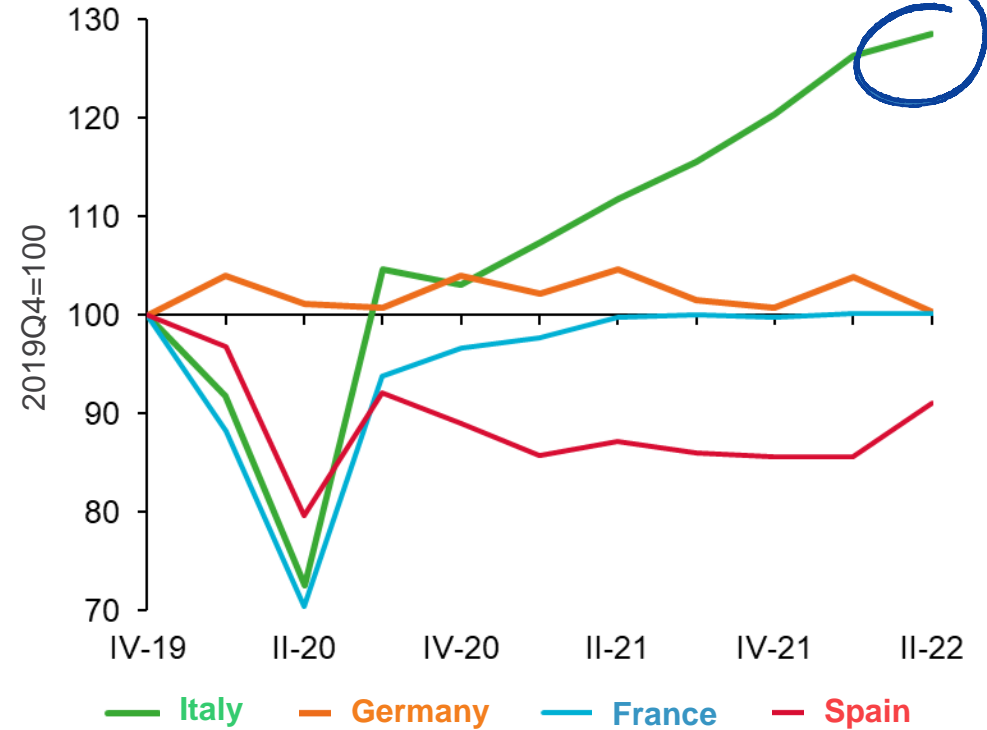
# ... that supported private investments...

## BUSINESS INVESTMENT



Source: Eurostat

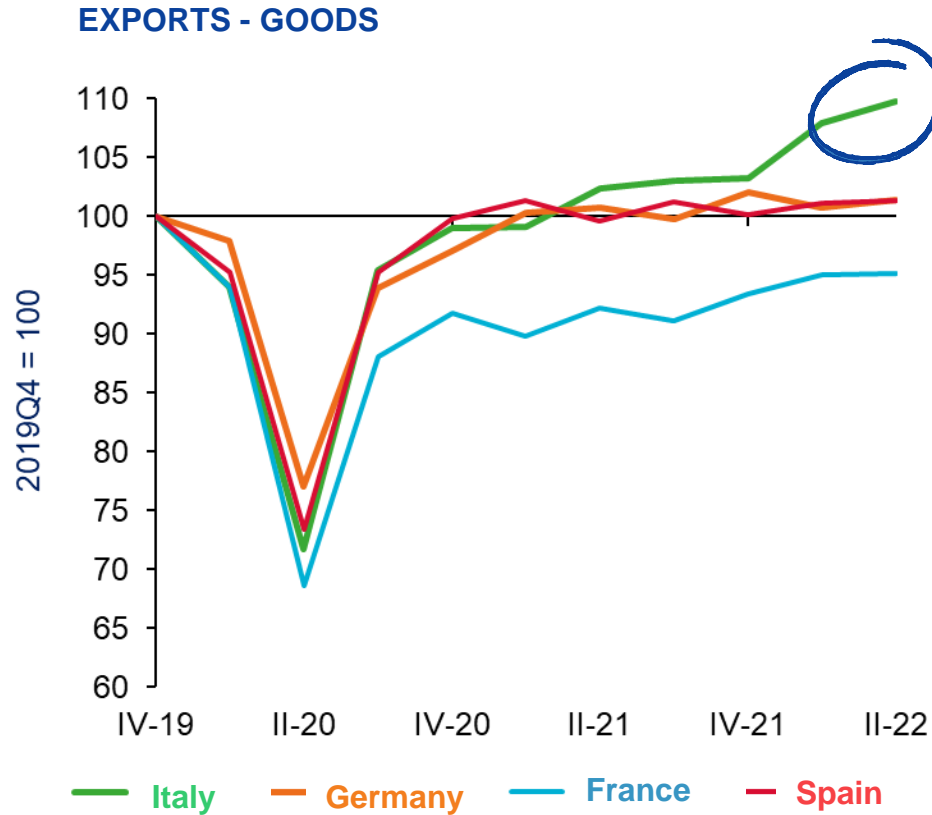
## INVESTMENTS IN CONSTRUCTION



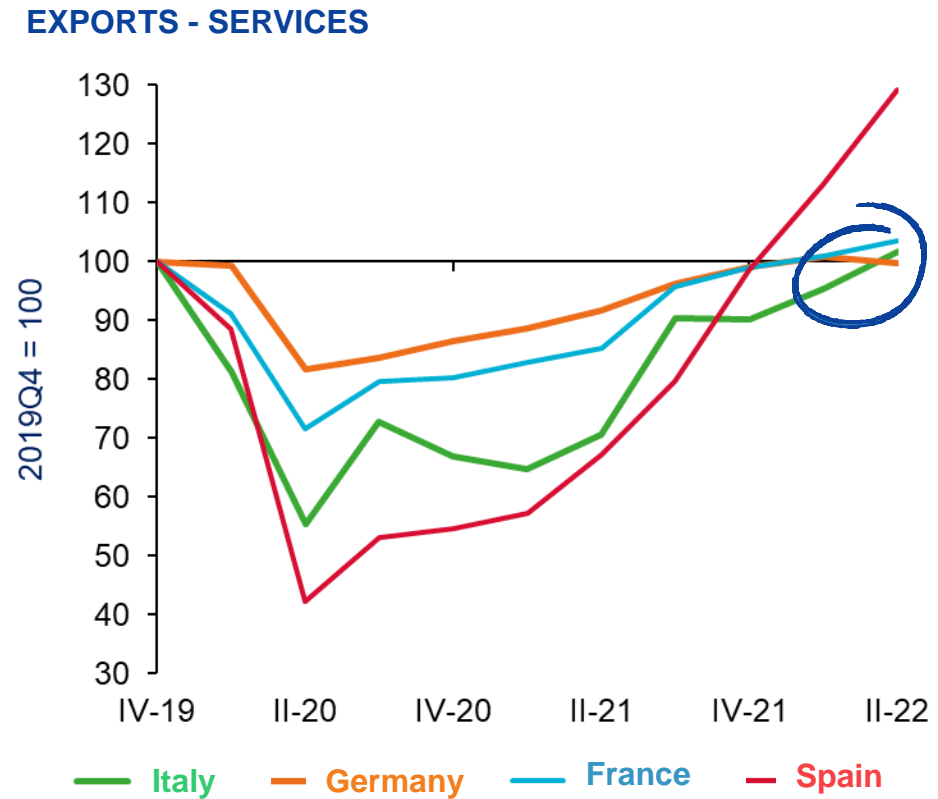
Source: Eurostat

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# ... and by the competitive mix



Source: Eurostat



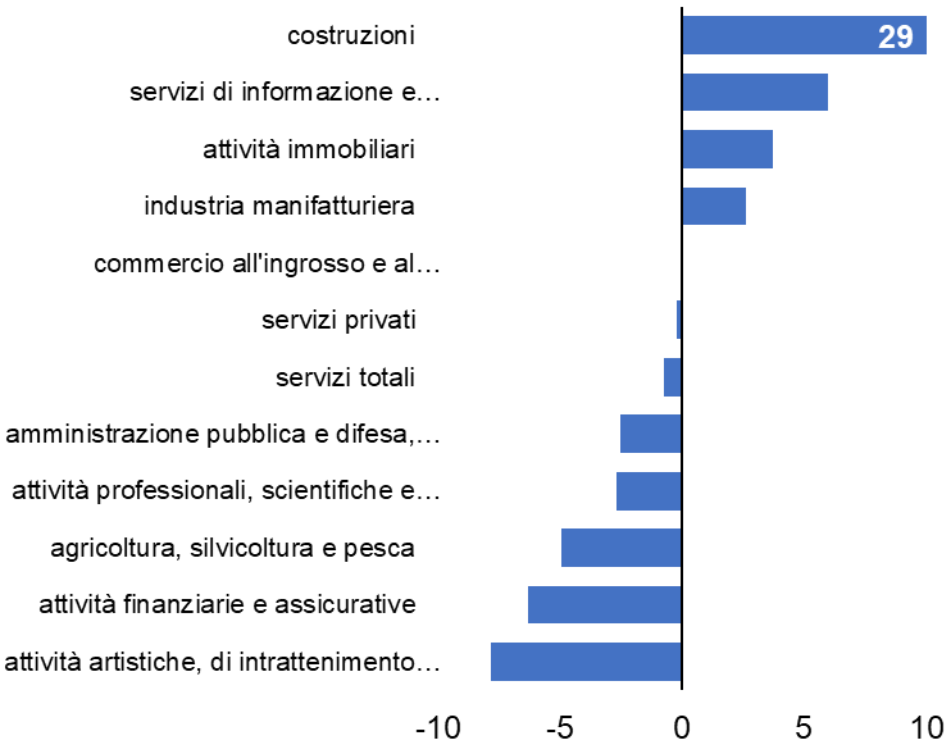
Source: Eurostat

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# Nevertheless, many scars still remained at the onset of the gas crisis

## SECTORAL VALUE ADDED – GAP COMPARED TO PRE-COVID

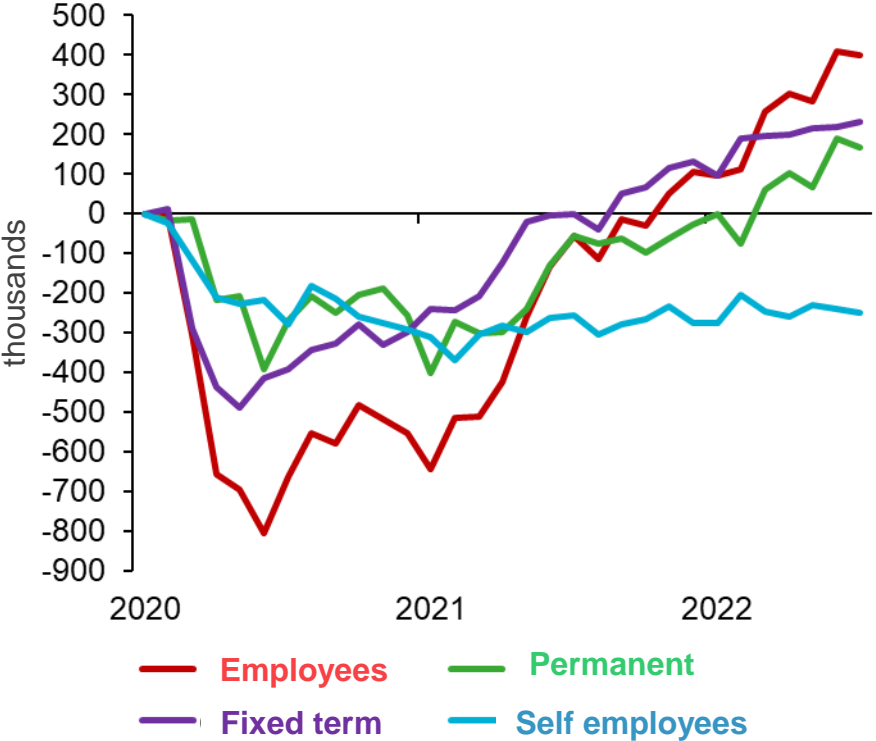
Q2-2022 vs Q4-2019, %



Source: Istat

## EMPLOYMENT,

Differences compared to January 2020, latest data July 2022



Source: Istat

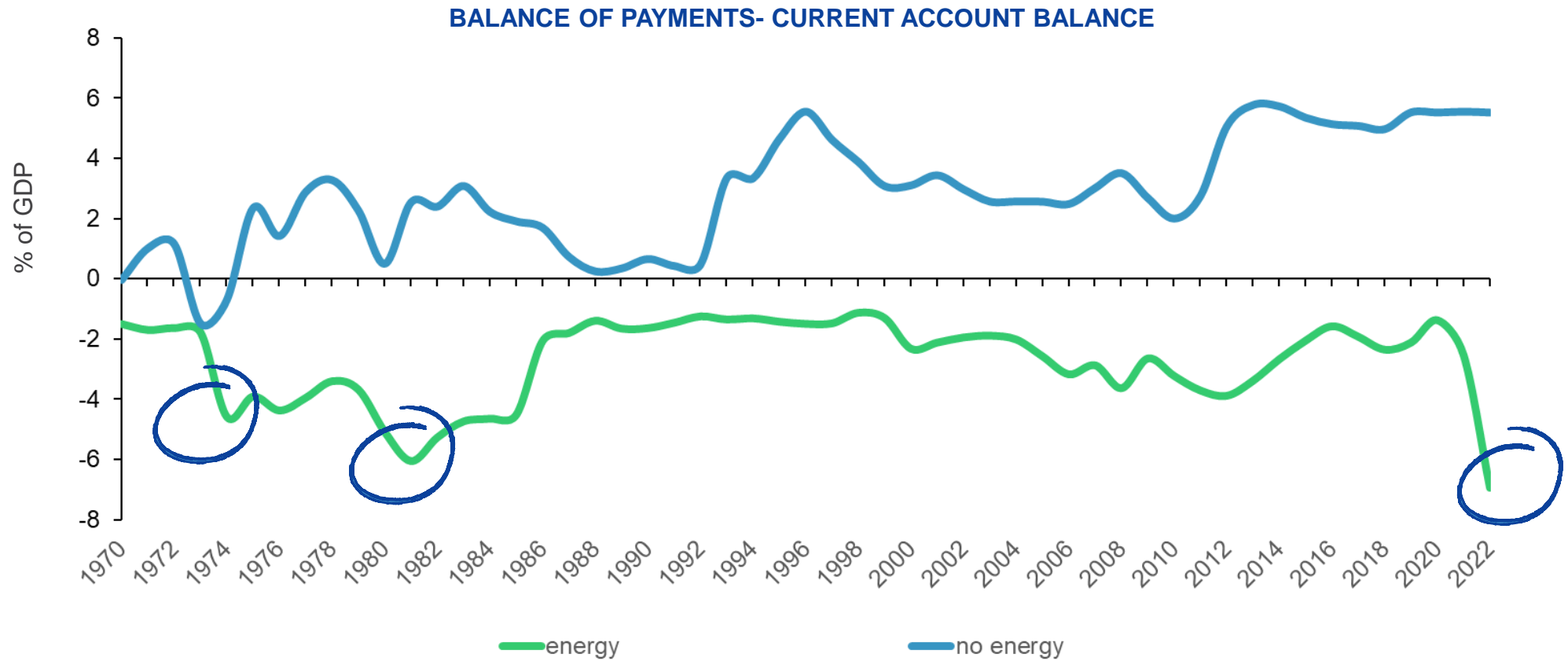
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# Agenda

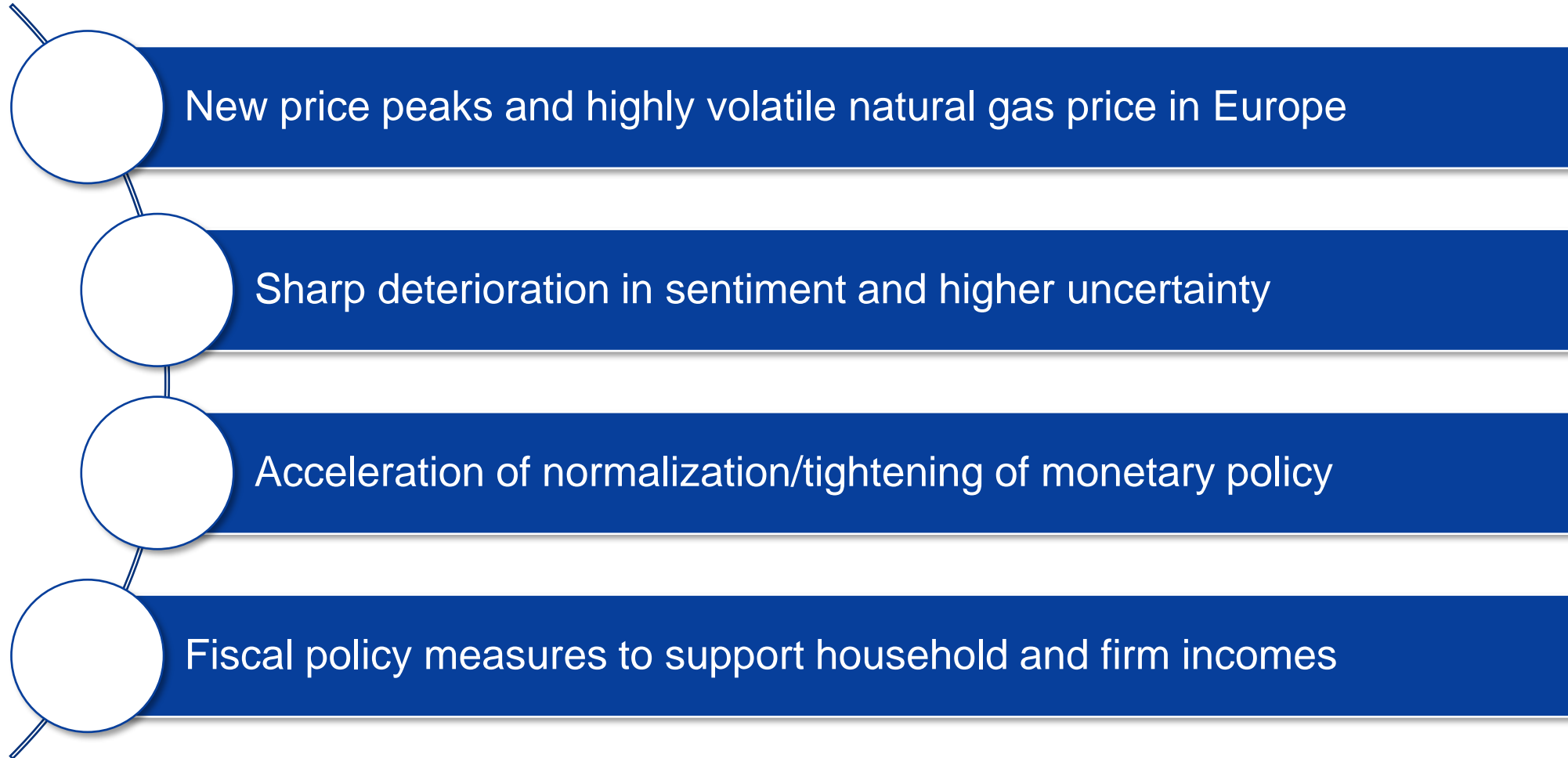
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# The war and energy prices have dramatically changed the outlook: an energy crisis comparable to 73-80 but the Italian economy is now more robust



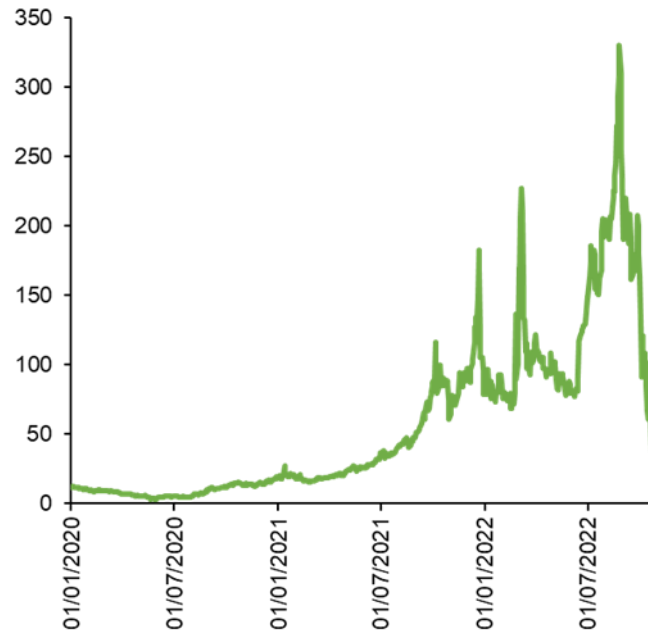
# The Ukraine-energy crisis

Impact of the war on Italy's economy



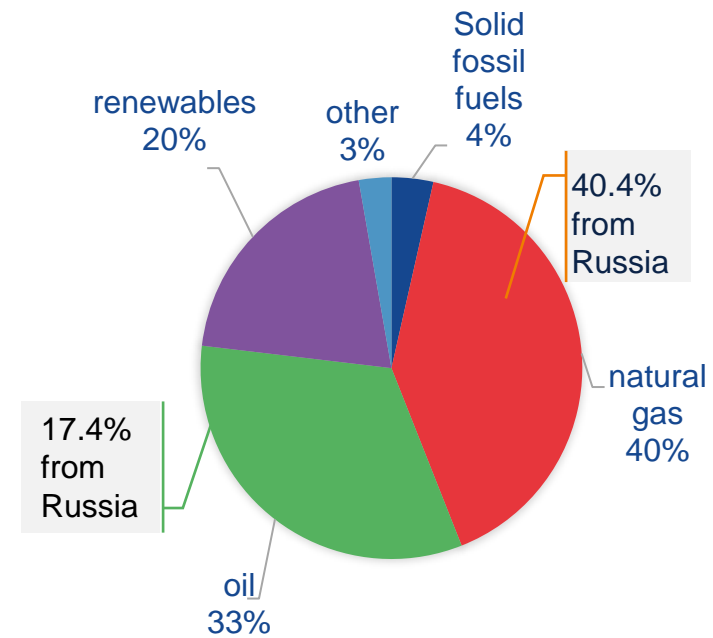
# Gas price and Italy's energy mix

Dutch TTF natural gas price (€MWh)



Source: Prometeia's calculations on Eurostat data

Italy's energy mix in 2020

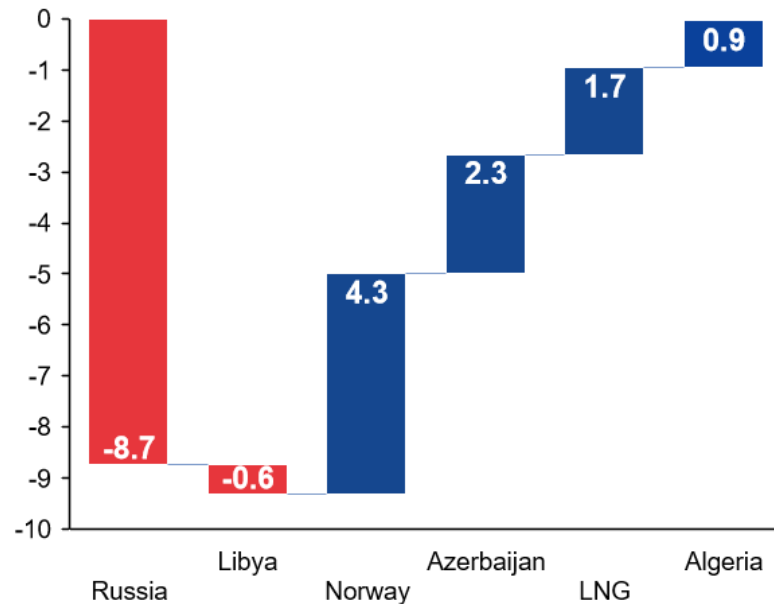


Source: Refinitiv



# Gas imports from Russia offset for now, but next winter demand reductions will be needed

HOW ITALY OFFSET RUSSIAN GAS, JAN – AUG 2022  
billion cubic metres (bcm)



Source: Prometeia elaboration on data from SNAM

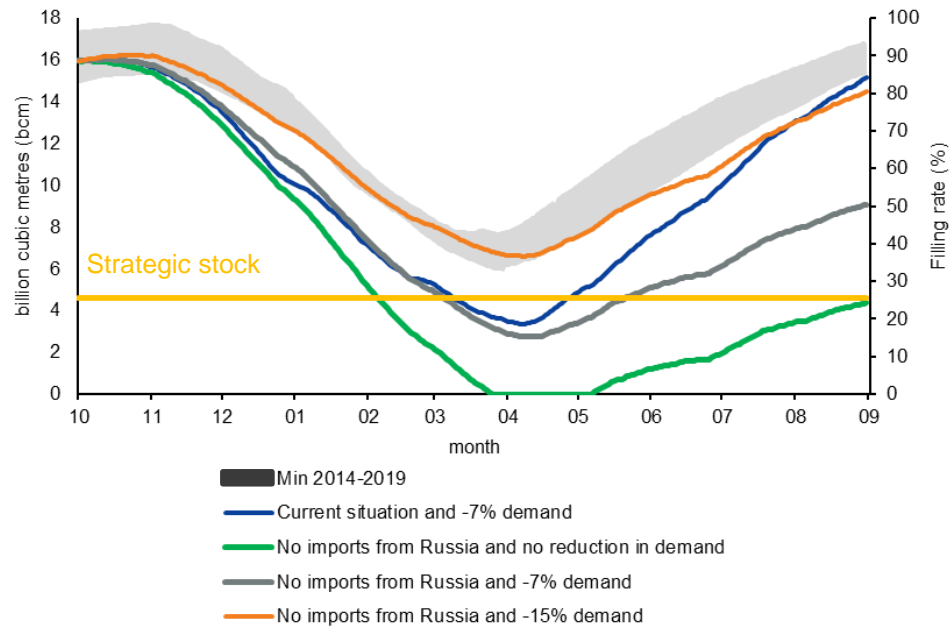
ITALIAN PLAN FOR 15% REDUCTION IN THE GAS CONSUMPTION  
AUG 1, 2022 – MAR 31, 2023  
billion cubic metres (bcm)

<b>a) Power generation</b>	1) + coal	1) 1.8
	2) + biofuels	2) 0.3
<b>b) Heating</b>	1) Buildings (19°C +/- 2°C)	1) 2.7
	2) Public and commercial activities (17°C +/- 2°C)	2) 0.5
Total a+b		<b>5.3</b>
<b>c) Behavioural policies</b>	1) Zero cost	1) 2.7
	2) Up-front investment	2) 0.2
Totale a+b+c		<b>8.2</b>

Source: Ministero della Transizione Ecologica

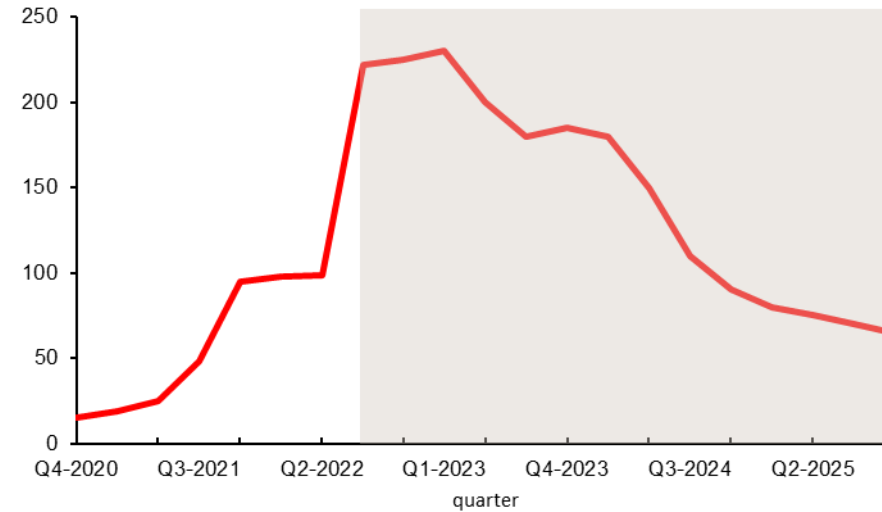
# Gas: our assumptions

**SCENARIOS FOR THE GAS STORAGE OF ITALY, OCT 2022 – AUG 2023**  
billion cubic metres (bcm) and filling rate (%)



Source: Prometeia forecast on data from SNAM

**EUROPE GAS PRICE DUTCH TTF**  
euro per megawatt hour



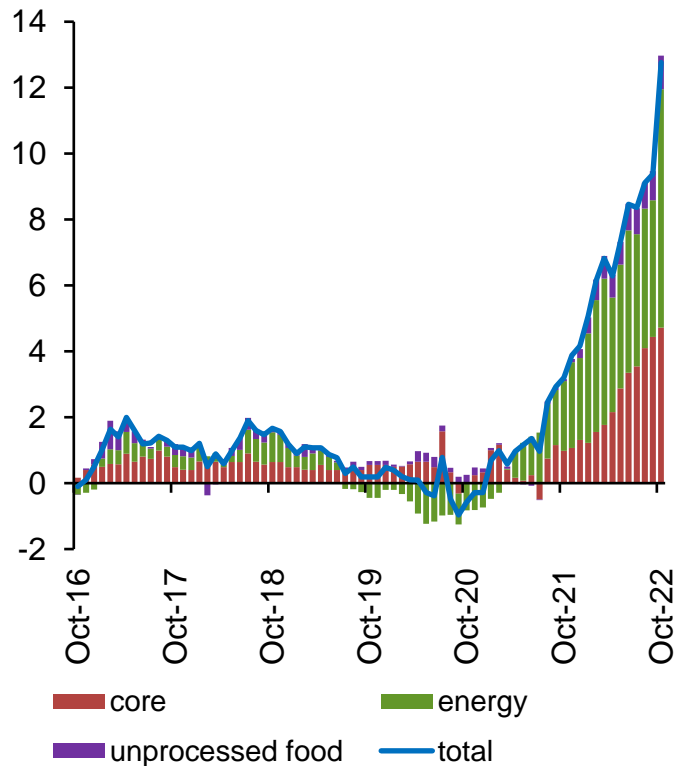
Source: Prometeia forecast on RFV Natural Gas TTF NL 1st Fut. Day



# Inflation and the greatest cost-of living loss in decades

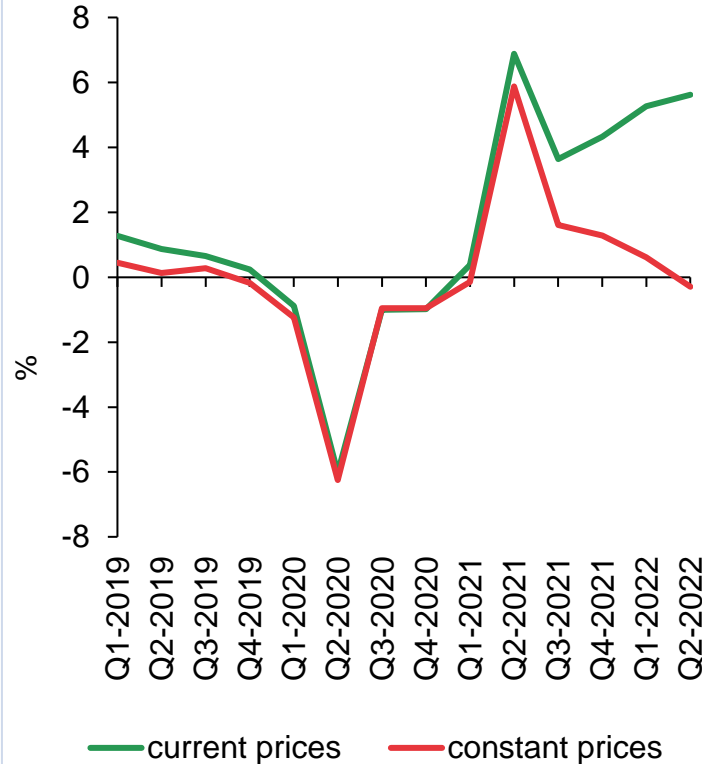
Italy's inflation reaches an all-time high since the late 1980s reducing households' purchasing power

**CONSUMER INFLATION (% change yoy) and contribution (pp) of the components**



Source: Prometeia's forecast on Refinitiv data.

**HOUSEHOLD DISPOSABLE INCOME**



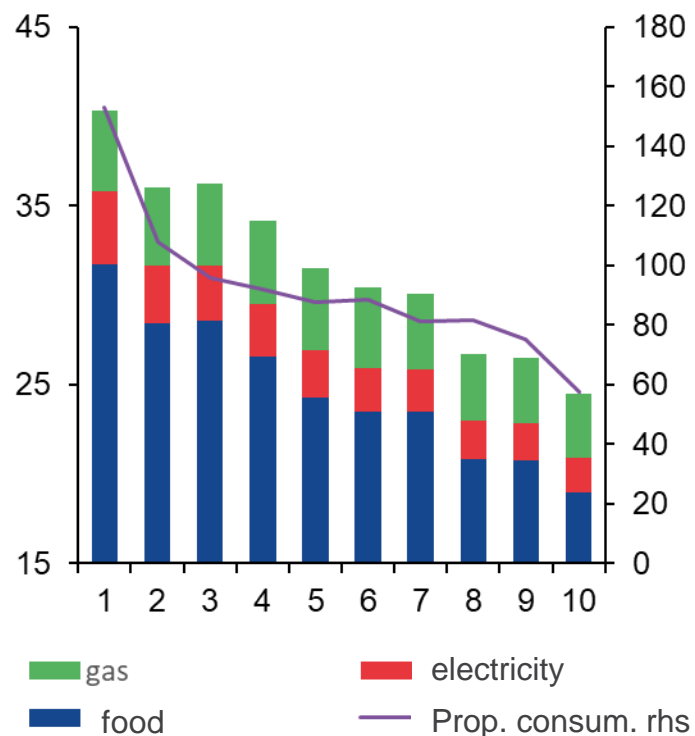
Source: Prometeia's forecast on Refinitiv data.

- In October, the HCPI increased by 12.6% yoy, a new record (11.8% CPI)
- Higher energy and food prices (mainly as a result of the war in Ukraine) feeding into other goods and services prices
- Strong impact of inflation on household real disposable income

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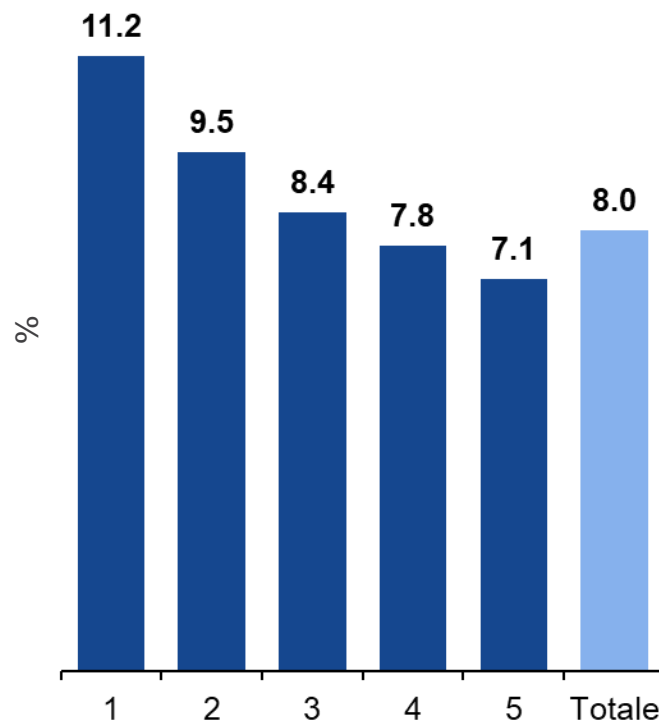
# But with wages growing slowly, risks for low-income households

### CONSUMPTION SHARES BY DECILES OF EXPENDITURE



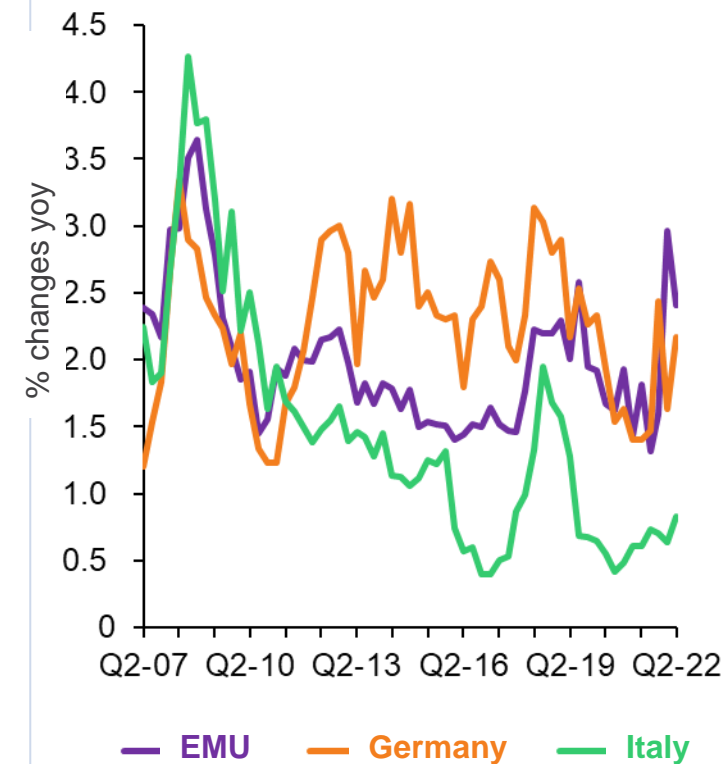
Source: Prometeia calculations on Istat data

### INFLATION FOR QUINTILES OF EXPENDITURE



Source: Prometeia calculations on Istat data

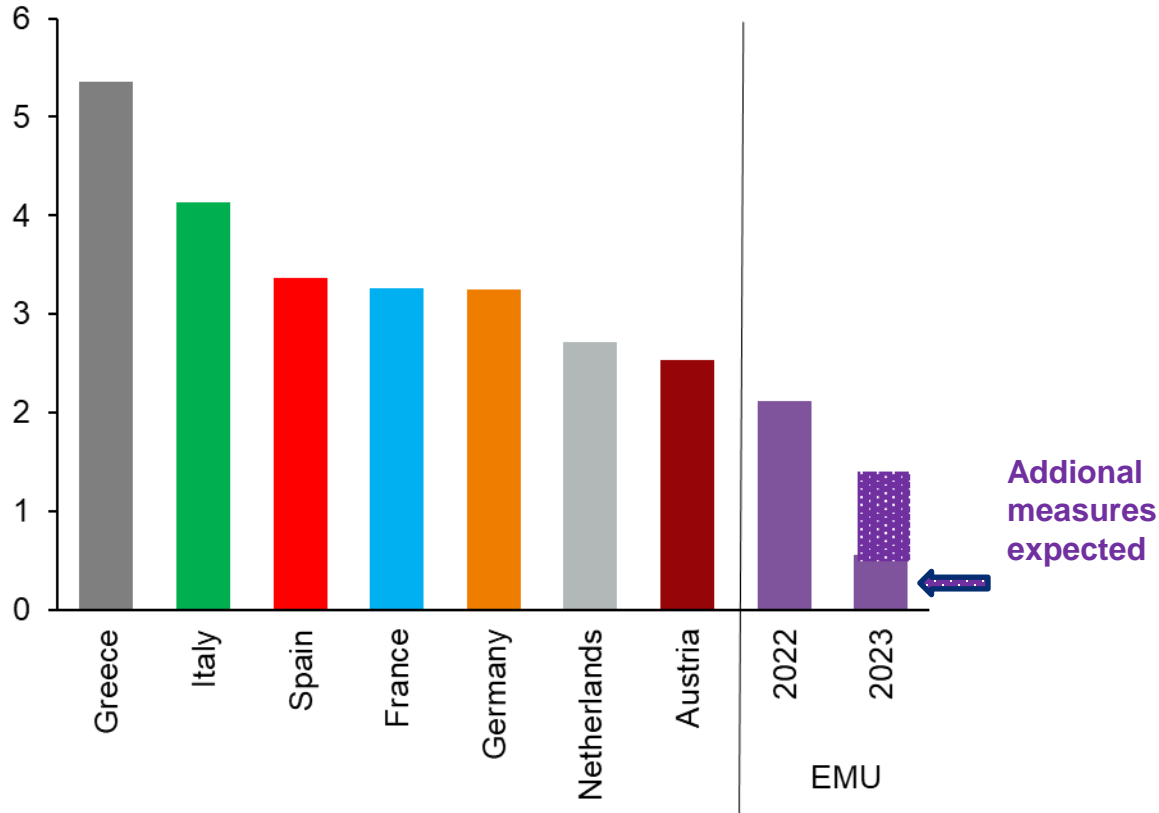
### NEGOTIATED WAGES



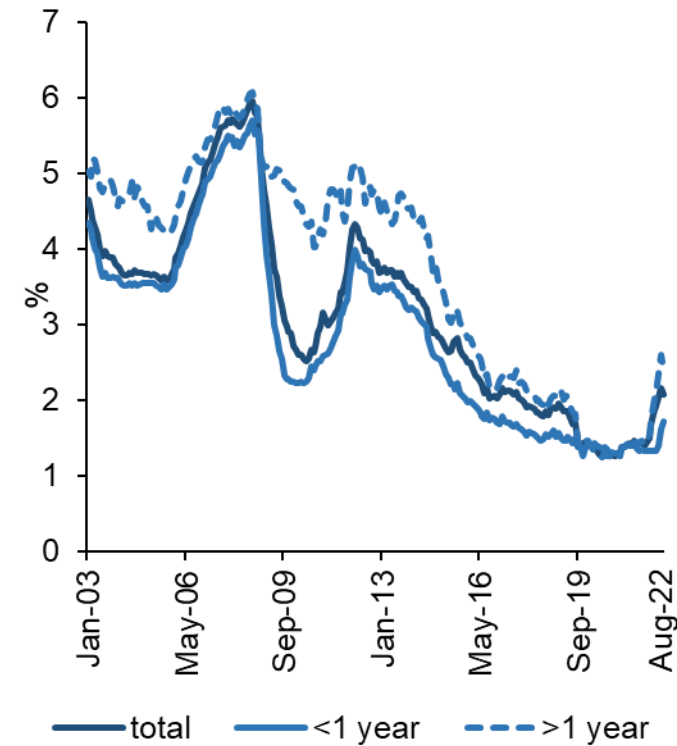
Source: ECB, Bundesbank, Istat

# Fiscal policy reaction while ECB hikes are feeding into banking interest rates

FISCAL MEASURES (UNA TANTUM) TO ADDRESS ENERGY PRICES in 2022 and 2023 (% of GDP)



BANK INTEREST RATES ON NEW LOANS FOR HOUSE PURCHASES



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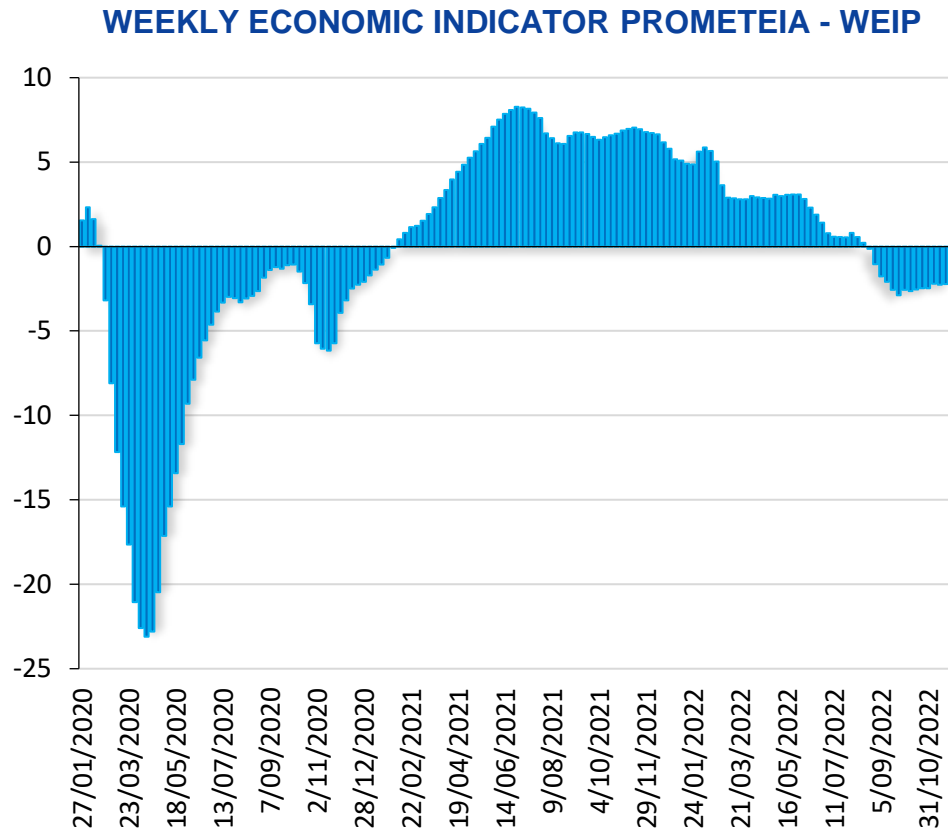
Source: Prometeia calculations on National sources



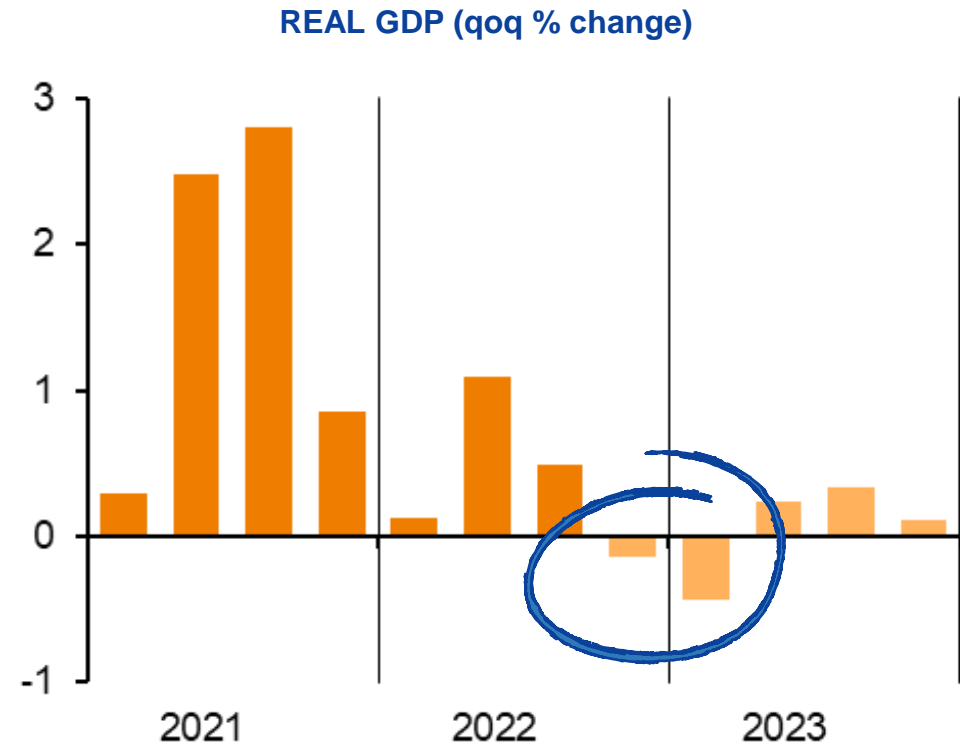
Source: Bank of Italy

Source: Prometeia elaboration on data from Refinitiv

# Mild recession during the winter



Source: Prometeia calculations



Source: Prometeia forecasts

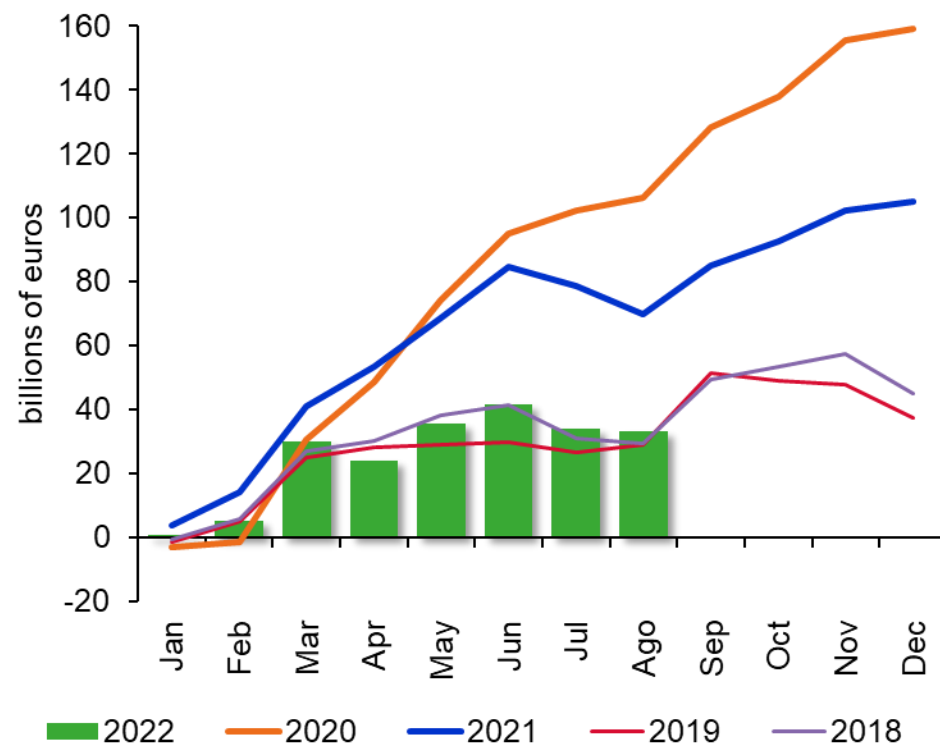


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# Public finance is in a «safe» zone

STATE SECTOR BORROWING REQUIREMENT - CUMULATIVE



Source: MEF

Revenue up, expenditure down, back to pre-crisis despite new measures for energy crisis

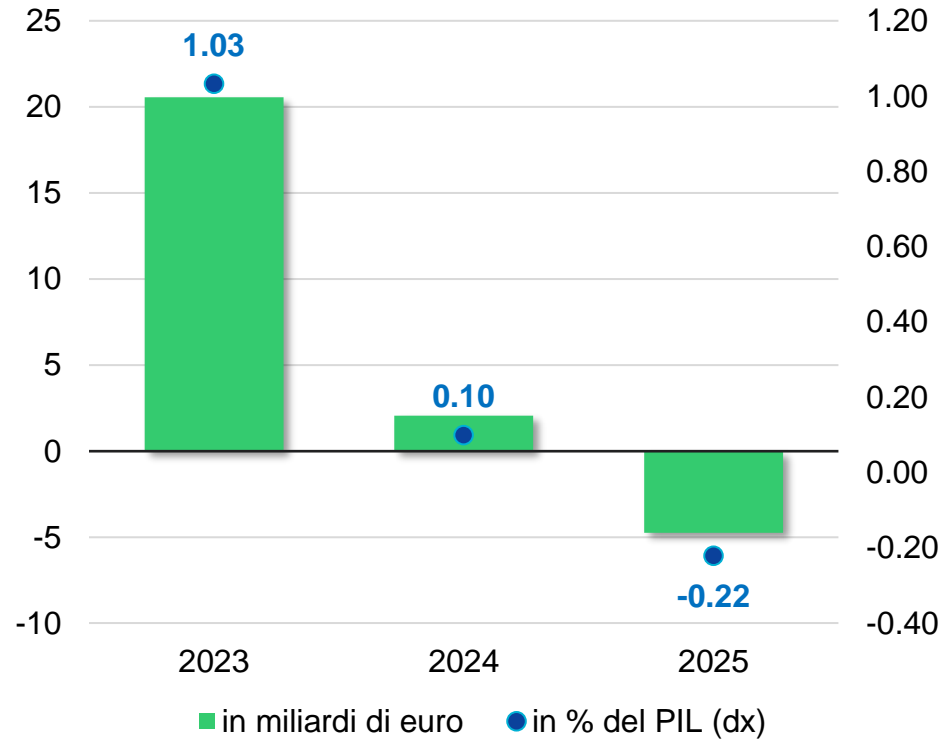
In 2022, general government borrowing requirement is expected to fall to 5.5%

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# The new government budgetary policy

GENERAL GOVERNMENT CHANGE IN BORROWING REQUIREMENT



Fonte: DPB 2023, MEF



*Prudent?: Consistently with the targets, net expansionary effect of 1pp of GDP. In 2024 the net impact neutral (0.1pp of GDP) and restrictive in 2024*



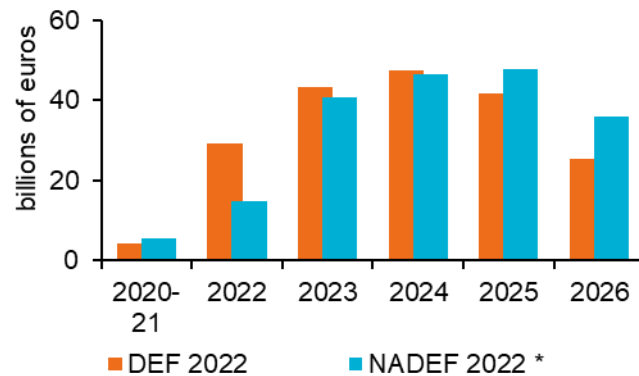
*Stance? Expansionary measures mainly temporary, they are mostly extensions of already active measures, should be refinanced in spring*

# The role of the RRP will be crucial also because from 2023 debt repayment will be hampered by rising interest rates

## FUNDING FOR ITALY' RECOVERY AND RESILIENCE PLAN 2021-2026

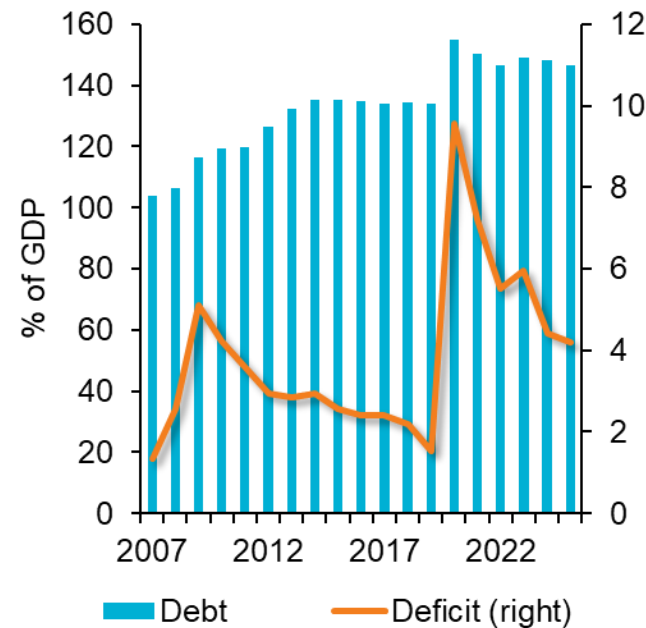
- € 191.5 bn Recovery and Resilience Facility
- €14.4 bn React-EU
- € 30.6 bn National Complementary Fund

### RRF-FUNDED EXPENDITURES IN DEF AND NADEF SCENARIOS



Source: MEF

## GENERAL GOVERNMENT DEFICIT AND DEBT



Source: Prometeia forecasts



RRP: milestones reached, implementation phase at risk for inflation shock

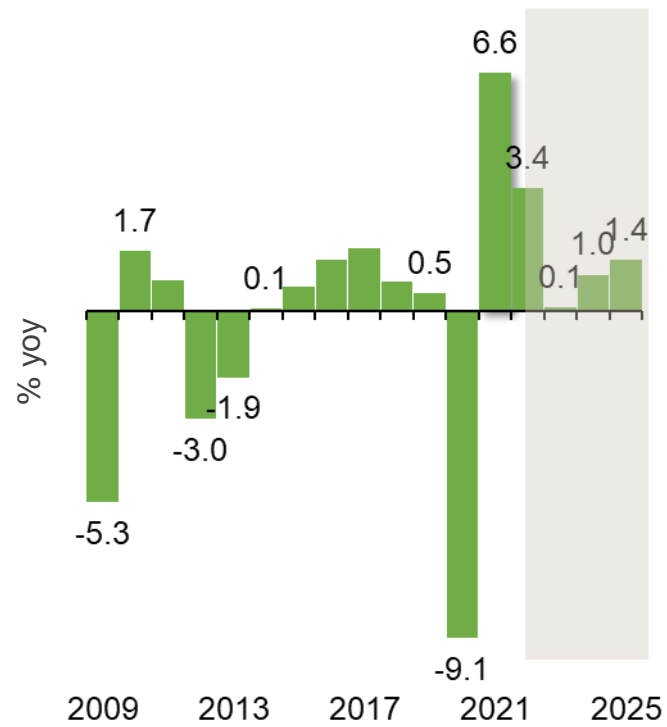
Cautious approach: slower implementation

All in all, the RRP contribution to growth will be substantial

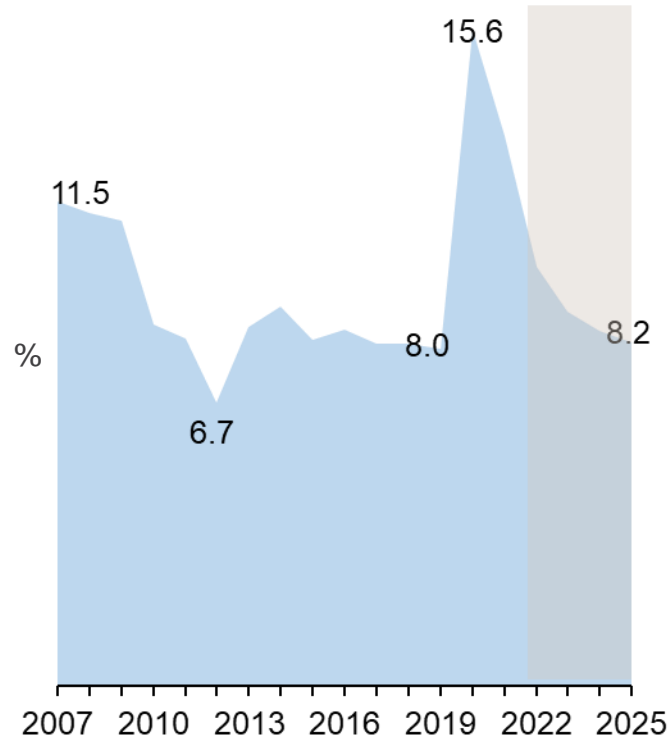
Deficit is expected to decrease, slowly, but debt will remain quite high, because its increasing cost

# Outlook in summary

## REAL GDP

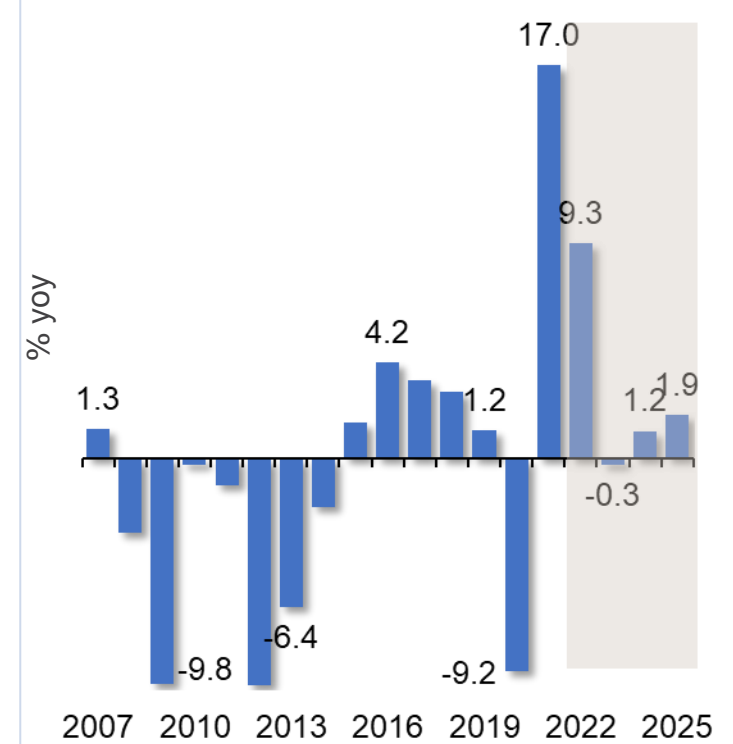


## HOUSEHOLDS PROPENSITY TO SAVE



Source: Prometeia forecasts

## TOTAL INVESTMENT



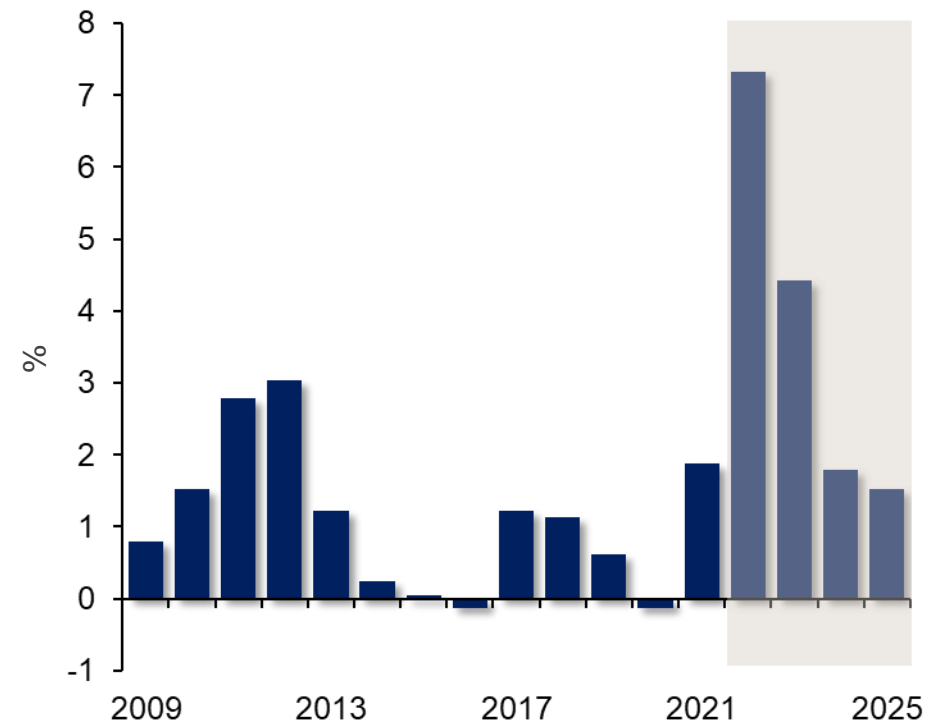
# Outlook in summary

## LABOUR MARKET



Source: Prometeia forecasts

## CONSUMER PRICE INFLATION



Source: Prometeia forecasts

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# Contacts

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## Bologna

Piazza Trento e Trieste, 3  
+39 051 6480911  
info@prometeia.com

## London

Dashwood House 69 Old Broad Street  
EC2M 1QS  
+44 (0) 207 786 3525  
uk@prometeia.com

## Cairo

Smart Village - Concordia Building, B2111  
Km 28 Cairo Alex Desert Road  
6 of October City, Giza  
info@prometeia.com

## Milan

Via Brera, 18  
+39 02 80505845  
info@prometeia.com

## Istanbul

River Plaza, Kat 19  
Büyükdere Caddesi Bahar Sokak  
No. 13, 34394  
| Levent | Istanbul | Turkey  
+ 90 212 709 02 80 – 81 – 82  
turkey@prometeia.com

## Moscow

ul. Ilyinka, 4  
Capital Business Center Office 308  
+7 (916) 215 0692  
russia@prometeia.com

## Rome

Viale Regina Margherita, 279  
info@prometeia.com

## Zurich

Technoparkstrasse 1 – 8005  
switzerland@prometeia.com

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