BANCA D'ITALIA
EUROSISTEMA

The Governor's Concluding Remarks

Annual Report
Rome, 31 May 2023

129th FINANCIAL YEAR

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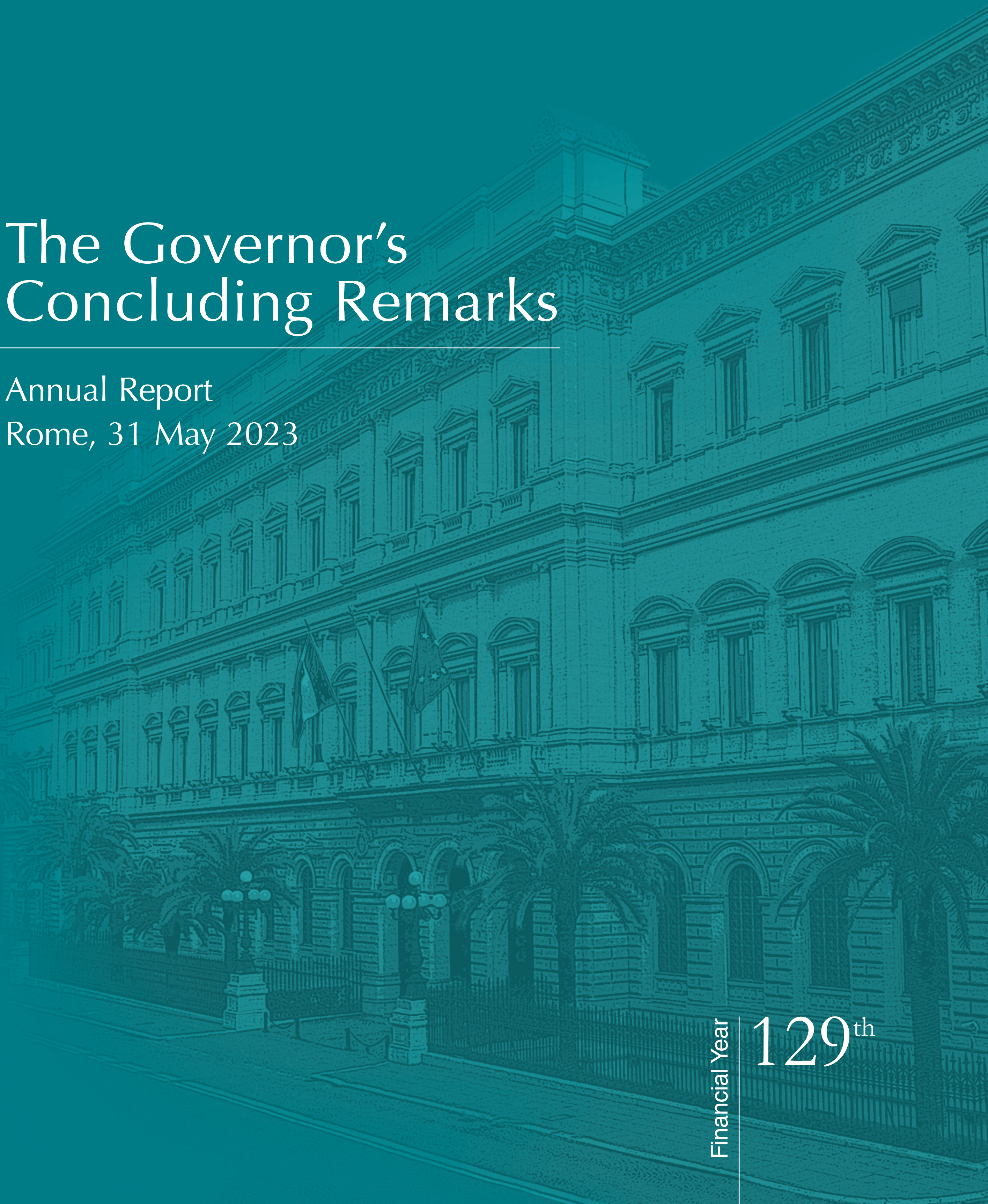

Financial Year 129th

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Ladies and Gentlemen,

Russia's invasion of Ukraine continues to have heavy repercussions on the global economy, calling into question international economic and financial integration and the multilateral world order that took shape after the end of the Cold War. A return to the tensions and divisions between opposing blocs of countries poses a real threat to the sustainable and balanced development of all economies. As well as condemning the blatant violation of the sovereignty and territorial integrity of a free nation, it is essential, in spite of everything, to pursue international cooperation strongly, including in the economic and financial fields, and to seek dialogue that embraces the diversity of values across countries and cultures in keeping with the basic principles of peaceful coexistence.

The Italian economy has demonstrated a reassuring capacity to react to the consequences of the war in Ukraine, just as it did when exiting the pandemic. Corporate restructuring processes over the last ten years, although incomplete and uneven across sectors and regions, have made our production system more robust. The acceleration of capital accumulation, the improvement in productivity after a long period of stagnation, and the recovery of international competitiveness are all encouraging signs that need to become stronger, in order to overcome the delays and underlying weaknesses that still prevent our economy from unlocking its full potential. Our ability to return to a less uncertain and more balanced structural growth path will depend on how well we are able to tackle climate change and the digital transition, and to deliver on the ongoing reform process.

The international environment

In 2022, global economic growth remained below 3.5 per cent, 1 percentage point less than expected on the eve of the outbreak of war. According to the International Monetary Fund (IMF), it is unlikely to reach 3 per cent this year (Figure 1). Inflation almost touched 9 per cent globally; in the advanced countries, it exceeded 7 per cent on average, the highest value for 40 years.

In some economies, and particularly in the United States, the acceleration in prices was largely driven by a sharp rebound in consumption that began in 2021, while supply was still constrained by pandemic-related restrictions and, as regards international trade, by the resulting bottlenecks in the supply of commodities and intermediate inputs (Figure 2). In Europe, by contrast, inflation was fuelled mainly by higher energy prices, especially natural gas prices, which soared to unprecedented levels.

After hovering around €20 per megawatt hour in early 2021, gas prices later edged up, accelerating over the summer, and exceeded €100 on average at the end of the year. This increase was due to the cuts in gas supplies from Russia, initially on account of the weather conditions, and later mostly as a means of political pressure in connection with the controversial opening of the Nord Stream 2 pipeline. With the outbreak of war, gas prices started to fluctuate dramatically, peaking at €350 in the summer of 2022, when all European countries were trying to replenish their stocks to secure minimum supplies for the winter. On average over the year, gas prices were more than six times higher in Europe than in the United States. A mild winter season, lower gas consumption following price increases, governments' saving measures, and the fulfilment of gas storage targets all combined to bring prices down to below €30.

The growth outlook for the world economy remains uncertain for the coming months. It is burdened by the ongoing conflict in Ukraine, as well as by doubts about the strength of the economic recovery in China after it decided to lift its severe pandemic restrictions at the end of last year. Along with energy prices, inflation is now falling both in Europe and in the United States. However, its core component, i.e. excluding food and energy, is still high and, for the time being, monetary policies remain tight to keep price growth under control over the medium term. The effects of these policies, which have been deployed almost simultaneously in all the main countries, may be compounded by risks of instability in the global financial system.

These risks materialized last March with the failures of a number of banks in the United States and Switzerland, which led to a sharp increase in market volatility and significant portfolio reallocations. These tensions have largely ebbed away, also thanks to the firm and timely response of the authorities in those countries. However, financial bond yields in the advanced markets remain significantly higher than in early March, as opposed to corporate bond yields.

The fallout of global tensions, weaker growth and tighter financial conditions is felt more strongly in the emerging and developing economies. The public finances, already burdened by the increase in the debt as a result of the pandemic, are more vulnerable. Around one fourth of emerging countries are currently regarded as high-risk by the IMF, as their sovereign spreads are now close to default levels.

Even beyond the short term, uncertainty still abounds. In recent decades, cross-border trade and the organization of production on a global scale have made for a more efficient allocation of inputs. However, the pandemic has exposed the vulnerability of complex international supply chains, with potential sudden disruptions in intermediate input flows originating from critical hubs. The war in Ukraine and the subsequent energy crisis have made these weaknesses even clearer; several countries, not only in the advanced world, have embarked on policies to limit these disruptions.

Rifts in international relations can have long-lasting effects and influence long-term business strategies, including manufacturing location decisions. Since the invasion of Ukraine, business surveys, both in Italy and abroad, show that a trend, though still moderate, is underway towards the regionalization and diversification of supply chains. In Italy at least, this trend is stronger among the firms more exposed to China.

Public policies too should aim to protect and diversify the sourcing of commodities and essential intermediate inputs, though this kind of adjustment will take time and entail costs that cannot be ignored. It is hampered by the geographical distribution of primary resources and, at least in the short term, by the high level of specialization of certain production processes. This goal should be pursued without calling into question the foundations of a world order that is based on common rules and open to the movement of goods, services, capital, people and ideas.

National security can be protected by steering clear of broad-based protectionism, which would reinforce the trend of rising barriers to trade and foreign direct investment that has emerged over the last five years (Figure 3). Not only would indiscriminate use of subsidies and restrictions in international trade distort competition in an attempt to influence firms' location decisions, it could also spark new tensions, including in relations between countries sharing similar values, institutions and policies. In some cases, protectionist measures may even prove detrimental to the goal of increasing geographical diversification in sourcing.

Over the past three decades, cross-border trade has made a fundamental contribution to the general and economic well-being of a large part of the world's population. The number of people living in extreme poverty has fallen from almost 2 billion to less than 700 million; the share of the population suffering from malnutrition has dropped from over 25 per cent to below 15 per cent in the developing countries. Meanwhile, there has been a dramatic improvement in literacy and an extension of life expectancy of more than ten years on average.

The improvements were more palpable for those economies that were fully integrated into global trade and global value chains over this period. Instead, some countries, mainly in Sub-Saharan Africa, where most of the projected demographic expansion in the coming decades is concentrated, have only benefited marginally. In recent years, the explosion of regional conflicts, the increased frequency of natural disasters and the pandemic have held back progress.

Globalization and the technological innovation that has expedited it have therefore created an extraordinary opportunity for development. In the advanced countries, however, the result has been less employment stability and, in some cases, greater inequality, which has not been properly addressed by public policies. A growing sense of insecurity and injustice has thus crept in among large sections of the population, whose incomes have struggled to increase. This feeling has been exacerbated by the continuous rise in the incomes of the population segment that is already much richer, particularly in English-speaking countries. Partly as a result of this, public opinion has become increasingly critical of opening up to international trade.

It would be a mistake to underestimate the benefits of market integration, especially for an open economy like ours. Nor can we forget that the challenges we need to address today – from combating climate change to countering pandemic threats, from reducing poverty to managing migrant flows – are global in nature and can only be solved through orchestrated efforts worldwide. Externally, it is therefore necessary to preserve the functioning of multilateral institutions and reinforce international cooperation. Internally, however, it is crucial to introduce economic measures that can actually improve the well-being of all citizens, as well as to communicate them effectively in terms of tools and targets.

European policies show that confidence in the benefits of international economic integration can indeed be strengthened. According to Eurobarometer surveys, public support for Europe's integration process, which worsened in the decade preceding the vote on the United Kingdom's exit from the European Union, has grown again in recent years (Figure 4). This has also reflected the measures taken to support the post-pandemic recovery, particularly the Next Generation EU (NGEU) programme.

The economic situation and monetary policy in the euro area

The effects of the conflict in Ukraine on the euro-area economy have been amplified by the marked dependence of many Member States on energy imports, especially natural gas. The rises in their prices, together with those of agricultural products, also mainly caused by the war, have affected households' purchasing power, above all of the less well-off, and firms' production costs. Yet if we look at 2022 as a whole, aggregate demand, production and employment continued in the recovery that began when the most acute phase of the pandemic emergency was over and that was supported by the considerable resources allocated by national governments and by the European Union. Since last autumn, however, economic activity has stagnated overall.

Consumer price inflation has risen to 8.4 per cent on average over the year, reaching a peak of 10.6 per cent in the twelve months up to October (Figure 5). The increases in commodity prices have gradually passed through to the prices of other goods and services. More than three quarters of the growth in the overall consumer price index seems to be directly or indirectly attributable to the higher prices of energy and of food products. The delays in adapting the global supply of intermediate goods have contributed to the increase in production costs.

Headline inflation has fallen since the final part of 2022, thanks to the sharp drop in energy costs, going down to 7 per cent in the spring of this year, but core inflation has continued to rise, standing at 5.6 per cent in April. This component includes items whose prices are reviewed less frequently; it is still responding, with some delay, to the higher prices of imported commodities, and it is expected to reflect their reduction in an equally gradual way.

In 2022, wage pressures in the euro area remained limited overall: the growth in actual hourly pay stood at just over 3.5 per cent, thus remaining well below inflation. Requests for high salary increases have become more frequent recently, sometimes in tandem with a high level of conflict, especially in countries with lower unemployment. Thanks to the limited presence of automatic wage indexation mechanisms based on past inflation and to the one-off nature of a large part of wage increases, and with no widespread rises in profit margins, the risk of a wage-price spiral has remained low up until now.

According to the latest projections, following an increase of 3.5 per cent in 2022, economic activity in the euro area will slow down considerably on average this year, and will then return to sustained growth. Inflation will come down over the next few months, reflecting above all the trend in the prices of energy products; in the scenario drawn up in March by the European Central Bank (ECB), currently being updated, it is projected to return to 2 per cent in the second half of 2025. The margin of uncertainty remains high.

In line with the resolve to bring inflation back fairly rapidly to the target of 2 per cent, at the beginning of May, the ECB Governing Council confirmed its restrictive measures, though limiting the increase in the key interest rates to 25 basis points. The interest rate applied to deposits that banks hold with the Eurosystem rose from the negative levels recorded last July to 3.25 per cent. The Council reiterated that future decisions will continue to be guided, on a meeting-by-meeting basis, by an overall assessment of the medium-term inflation outlook in light of new economic and financial data, the performance of the core component and the intensity of monetary policy transmission to the economy.

Leverage on key interest rates is still the main element for defining the monetary policy stance. To ensure full alignment with this stance, there was a more rapid repayment of the long-term refinancing provided to banks and a measured and predictable decrease in the assets held in the Eurosystem's monetary policy portfolios was begun last March.

The response of the Governing Council to the acceleration in prices has been fully in line with the gradual changes in the situation and in the data as they have become available. It should be remembered that, in June 2021, despite the rises in natural gas prices and the bottlenecks in the supply of intermediate products, headline inflation in the euro area had still not reached 2 per cent and core inflation was below 1 per cent. In the same period, inflation was around 5 per cent in the United States, largely due to the recovery in demand linked to the strong stimulus of fiscal policy. Not even the markets were signalling expectations of a prolonged acceleration in prices: in the euro area, the two-year inflation expectations derived from inflation-linked swaps equalled 1.5 per cent, compared with almost double that figure in the United States.

The subsequent increase in euro-area inflation, which was extraordinary and mostly unexpected, was caused above all by the equally exceptional leap in energy prices. The extensive forecasting mistakes made by ECB and Eurosystem staff, and by almost all analysts, were mainly attributable to the general underestimation of the effects of geopolitical changes. At the end of 2021, when we announced the start of the monetary normalization process, which immediately led to a sharp rise in long-term interest rates, market prices continued to indicate expectations of a marked fall in gas prices (Figure 6).

The Russian aggression against Ukraine transformed a temporary price shock into something far more intense and persistent. Despite all the uncertainties connected with the conflict, monetary normalization was swift. The termination of net purchases of financial assets was brought forward to the end of June. A resolute process was begun immediately afterwards to raise the key interest rates from the highly accommodative levels set in previous years to successfully counter the risk of deflation. In order to ensure that monetary policy is transmitted as evenly as possible across euro-area countries, it was decided to reinvest the securities purchased under the pandemic emergency programme in a flexible manner, and the new Transmission Protection Instrument (TPI), aimed at mitigating the risks of fragmentation of financial conditions, was introduced.

Market yields have adapted quickly to the altered monetary policy stance. Since the start of the normalization process, one-year risk-free interest rates have picked up from barely negative levels to the current 3.7 per cent, while those at ten years have come from barely positive levels to 2.9 per cent (Figure 7). The effectiveness of the Governing Council's actions is confirmed by the changes in inflation expectations, which are an important anchor for firms' decisions on prices and for wage growth. Having reached almost 9 per cent at the end of August 2022, market expectations over a twelve-month horizon now stand at just below 3 per cent; signs of a fall in expectations are also emerging from surveys conducted on firms and households. Longer-term expectations, which are a measure of a central bank's credibility, remain in line with the definition of price stability, while the risk of inflation being higher than the target for too long has gone down considerably compared with the peak of mid-2022 (Figure 8).

Monetary tightening also affects credit dynamics. The cost of bank loans is rising sharply; the surveys of credit institutions and firms point to a marked reduction in demand and to much tighter credit access conditions. Having risen to almost 13 per cent (on an annual basis) in the three months ending in August 2022, the growth in loans to non-financial corporations in the euro area has recently come to a halt; this trend also concerns loans to households, albeit to a lesser extent. Although these developments are a necessary consequence of monetary normalization, care must be taken to prevent the intensity of its transmission from causing an excessive brake on consumption and investment.

This is a tough challenge. The shock caused by the higher energy prices renders it necessary to search for a balance between the risk of insufficient tightening, which could lead to inflation becoming rooted in expectations and in processes for determining nominal income, and the risk of a disproportionate tightening, which could have overly acute repercussions for economic activity, and negative effects on financial stability and, ultimately, on medium-term price stability.

The monetary policy stance must continue to be defined so as to guarantee a gradual, though not slow, return of inflation towards the target. The pace and the range of the adjustment of monetary conditions have already been unprecedented, just as the deflationary pressures of past years and the risks linked to the pandemic had been, which had pushed us to take the key interest rates into negative territory, and then keep them there. The impact of our decisions on the economy and on prices should fully unfold over the next few months; after bringing the reference rates to restrictive levels, we now have to proceed with the right degree of graduality.

As I have observed on more than one occasion, the rise in energy prices is in actual fact an unavoidable tax for the euro-area economy. The return of inflation to levels in line with the target will be faster and less costly if everyone – firms, workers and governments – contributes to this goal, thereby improving the effectiveness of an indispensable, though balanced, monetary normalization. Firms' price strategies will play a fundamental role: just as in the phase when energy prices rose in 2022, the recent cost reductions should now be passed through to the prices of goods and services.

A purely retrospective approach to labour market bargaining is to be avoided, as wage dynamics replicating those of past inflation would only translate into a futile wage-price spiral. A more sustained growth in productivity is instead needed to restore purchasing power. Any fiscal measures will have to be temporary and targeted; these interventions must be promptly removed when they are no longer indispensable, both because returning to the price stability target would be more difficult in the event of excessive public transfers and in order to not hinder the necessary transition to renewable energy sources.

The architecture of the economic and monetary union

The last few years have been of great significance for the prospects of the European Union. Above all, the importance of having a fully-fledged common economic policy, in addition to the single monetary policy, has come to the fore. However, we need to make further substantial progress to complete the journey we embarked on when we adopted the euro.

During the difficult years of the sovereign debt crisis, the incompleteness of the monetary union and the inadequate economic governance had fuelled pervasive mistrust in the future of the euro. Those difficulties spurred the debate on the need to move towards greater integration. However, the major reforms outlined at that time, and in some cases initiated, lost momentum: the banking union is still incomplete, the capital markets union is still at a very early stage and no progress has been made towards achieving a fully-fledged fiscal union.

Only the most recent and serious emergencies have helped us to overcome doubts and hesitations in a decisive way. The European policy response to the pandemic crisis has been strong and swift. As well as the massive coordinated efforts made to contain the spread of the virus and to purchase and distribute vaccines among countries, the European Union has used innovative instruments at a strictly economic level too: member countries were granted loans to mitigate unemployment risks, and the NGEU programme has made substantial resources available to national budgets to finance investments and reforms to support the economic recovery and for the twin green and digital transitions. There has also been a cohesive response to the energy crisis, including by integrating the REPowerEU plans, aimed at reducing energy dependency on Russia, into national NGEU plans.

These measures are extremely important, not only because of their magnitude, but above all because they testify to the ability of EU institutions and Member States to assume shared responsibilities to face common challenges, first and foremost in the interest of future generations. However, despite having inherently structural effects, these measures are mostly temporary.

If the national measures financed by these programmes are successful, they could be the first steps towards a fully integrated economic union. Aside from having an unprecedented opportunity to tackle long-lasting problems, the countries that benefit most from these resources – first and foremost Italy – must also demonstrate the real usefulness of such greater integration, providing tangible results.

At the same time, however, we need to be aware that to complete the European project we must first overcome major institutional and political hurdles. An essential requirement for this lies in a renewed and firm commitment by all Member States to seeking common solutions to common problems. We need to increase and, on certain matters, restore trust between European citizens, keep the political dialogue alive and constructive, and reduce the seemingly widespread mistrust of the EU institutions.

As for fiscal policies, the reform should rest on two key pillars: rethinking the rules and building an effective fiscal capacity, backed by own resources and, when necessary, by issuing debt. On the former pillar, a major step forward was taken with the presentation of the European Commission's reform proposal in April, a proposal that goes in the right direction. It focuses on medium-term fiscal sustainability and long-term economic growth, while making the rules less complex and more credible by involving national authorities in the fine-tuning process.

The Commission's proposal may not meet the expectations of all member countries, for various reasons. The goodwill of all is needed to find a viable and shared solution. The rules must be applied to a world that is marked by intricate interdependencies and unexpected shocks, where national fiscal outcomes cannot be assessed out of context. Yet compliance with the fiscal rules and their credibility are in the interest not only of the Union as a whole, but also of each of its countries. They are crucial for Italy, aiming to reduce its overly high public debt over time, and consistent with the fiscal discipline recognized as necessary by our Constitution.

The introduction of a supranational fiscal capacity, which is missing in the Commission's reform proposal, would make it possible to manage both country-specific shocks and common adverse events, such as the pandemic and the energy crisis, more efficiently. If the current institutional and political challenges make it difficult to achieve a fully-fledged fiscal union in the near future, we could build on the tools put in place during the pandemic emergency pragmatically, for example by designing forms of joint financing for automatic stabilizers, as we did with the borrowing scheme for the measures to mitigate unemployment risks. To ensure that some European public goods – such as those in the digital, energy, environment and security sectors – are delivered in adequate amounts, we should devise instruments similar to those under the NGEU programme.

The shocks that hit the European economy have left a burdensome legacy in terms of public debt. We must prevent it from becoming the cause of new crises. Wide and long-lasting spreads between the bond yields of the various EU Member States hamper economic convergence. As postulated by numerous proposals in recent years, the management at European level of part of the liabilities already issued by each Member State, with adequate safeguards to avoid systematic cross-border transfers of resources, would give the monetary union greater stability.

Furthermore, as has been suggested on several occasions, a common public debt security, to be issued in connection with the functioning of the European fiscal capacity or determined by sharing part of the national liabilities, could act as a safe asset, typically attributed to government bonds in the other main economies, and could support reforms designed to bring the capital markets union to life. On this front, the proposals put forward by the Commission at the end of last year and the ongoing discussions – on insolvency law, listing of firms, especially smaller ones, financial markets and central counterparties – are heading in the right direction. However, we need to move fast to ensure that the European capital market can best contribute to the financial effort needed to successfully tackle the climate and digital innovation challenges, against a backdrop of enhanced financial stability.

Lastly, the importance of completing the banking union cannot be ignored, by revising the current crisis management framework to make it faster and more effective, and by establishing a single deposit guarantee scheme. The recent episodes of instability outside the European Union clearly show the importance of achieving these goals. As soon as its reform is fully operational, the European Stability Mechanism – thanks to the resources at its disposal – will be able to play a key role by providing a backstop to the Single Resolution Fund.

The stability of the financial sector

The crises that have broken out in the United States and Switzerland serve to remind us that banking is an inherently risky business and that it is not possible to reduce the probability that a bank failure will occur to zero. The role of institutions, regulatory and supervisory authorities is to lower this probability as much as possible, by defining the rules and imposing safeguards. It is critical, when managing crises, to have appropriate tools available to limit their impact on and costs to society and to prevent isolated events from turning into systemic ones, with ripple effects on the economic and social outlook.

In the US regional banking sector, the business models of the banks that were hit displayed serious weaknesses, with an excessive interest rate risk exposure and highly concentrated funding skewed towards large, and therefore uninsured, customer deposits. Poor corporate governance played a crucial role in these crises. Other factors likely contributed, including the failure to fully apply international regulatory standards to banks deemed non-systemic, lapses in supervision, the speed with which fears about the banks' solvency spreads through digital channels and the ease with which new technologies allow depositors to transfer funds.

In the European Union banking system, in part thanks to stricter regulations and a supervisory approach that focuses on business model sustainability, no signs of situations akin to those in the US have emerged. However, market turbulence serves as a warning of how quickly investor confidence can crumble and, as a result, how the risks to financial stability should never be underestimated. Rather, it underscores the need for a prudent, data-dependent monetary policy.

Italy, like the other euro-area countries, has not witnessed unusual outflows of deposits. Since July of last year, when deposits peaked at almost €1,620 billion, this source of funding has fallen by 6 per cent, reflecting the natural reduction in the liquidity accumulated during the pandemic and customers' pursuit of higher-yield investments, better able to shield savings from inflation. The reduction in deposits has had a modest impact on the liquidity coverage ratio and the net stable funding ratio, which remain well above the regulatory minimum requirements.

Rising interest rates have caused the value of portfolio securities to fall. The unrealized losses on those securities that banks plan to hold until maturity (booked at amortized cost), estimated to have an average impact of 200 basis point on the CET1 ratio, would only materialize if banks were compelled to sell them before maturity. Less than 2 per cent of these unrealized losses are currently accounted for by banks with a relatively low liquidity coverage ratio. More generally, the well-developed mechanism that regulates the use of central bank asset-backed refinancing in the euro area helps to lower the probability that banks will have to liquidate their portfolio securities before maturity.

Overall, the banking system is in a sufficiently good position. Last year, all the main balance sheet ratios were at satisfactory levels as a whole and in many cases they have improved. The share of non-performing loans has remained stable, at low levels and in line with the European average. Profitability, long compressed by low interest rates and high credit losses, has risen significantly, benefiting from the increase in net interest income. The capital position has also slightly improved.

Yet uncertainty about the economic outlook warrants caution. We expect the cyclical slowdown and tighter credit standards to cause credit quality to deteriorate, which would have an impact on loan loss provisions, still low at the moment. Adjusting the interest rates paid to customers will cause funding costs to increase. The shift towards more expensive sources of funding as the third series of targeted longer-term refinancing operations gradually reach maturity, and as banks are required to comply with resolution requirements, is also expected to contribute to this increase.

The stability of the Italian banking system is the result of an intense decade-long process of cleaning up balance sheets, improving efficiency, and strengthening corporate governance and internal controls. It is a result that many observers, including authoritative ones, had doubted could be achieved. It was not, however, without its challenges. More than a few times, prompt intervention has made it possible to overcome fragilities through mergers with other intermediaries, changes in ownership structures, comprehensive reviews and transformations of business models. In other cases, some of which were due to malfeasance, resolution or liquidation with purchase and assumption transactions was unavoidable (such cases accounted for 3 per cent of total system assets). Despite the restrictions imposed by the European regulatory framework, which I have discussed in the past, financial stability was never at risk. Depositors were protected. Where necessary, public resources were used, the total amount of which has nonetheless been particularly low by international standards (Figure 9).

This does not mean that there are no weak or vulnerable banks. Compared with larger banks, the ratios for the less significant institutions are not always as good. There are many reasons for this, from the limitations that may result from the small size, to corporate governance systems that are sometimes not up to the task. To address these weaknesses, important reforms were introduced over the years regarding the *popolari* banks and the cooperative credit banks and, in recent years, among other things, we have considerably raised the Pillar 2 capital requirements set by supervisory authorities in addition to the minimum ones.

We are now focusing on examining the sustainability of business models and the associated risks, also taking into account the impact of technological innovation on the financial system. Assessing governance structures continues to be crucial, since high-quality corporate bodies and executives serve as the primary guarantors of sound and prudent management.

To be effective, supervisory action requires a strong regulatory framework fully aligned with the most rigorous international standards. In late 2021, the European Commission published its proposal for implementing the most recent Basel Accord, finally completing the review of banking regulations begun more than a decade ago. Negotiations between the Council and the European Parliament are currently underway. It is important that the new rules are finalized quickly and that they are fully applicable.

Looking ahead, we must take advantage of the experience gained from the recent banking crises to assess whether some adjustments to the prudential regulations are needed. Discussion has centred around the scope of application of the standards, which are currently directed, in principle, only at internationally active banks, although they have been extended to smaller institutions within the European Union. The concept of systemic intermediaries needs to be better defined: the recent episodes show how even crises involving medium-sized, regional banks are capable of sparking contagion and generating significant turbulence in financial markets, and not just national ones. Further thought should also be given to the calibration of liquidity requirements, also taking into account that it is now much easier to transfer deposits thanks to digital finance, and to the prudential treatment of interest rate risk in the banking book.

The changes occurring at global level mean that we must strengthen the rules governing the non-bank financial intermediation sector. The strong interconnection between the banking and the investment funds sectors, as well as the insurance sector, could amplify risks and influence investors' decisions. In some countries, in the face of a reduction in uncovered deposits with banks, monetary market funds have recently registered a large inflow of funds. Work is being done at the Financial Stability Board, to which we are actively contributing, to promptly review the recommendations on liquidity risks in the investment funds sector and to determine the actions to be taken to improve intermediaries' management practices.

Just as for banks, in the life insurance sector, higher interest rates could lead to a contraction in net inflows into fixed-income products. Italian insurance companies, as a whole, are sound and well capitalized and are capable of reacting to changing market conditions, primarily by once again prioritizing the pure insurance component of their product range. In one case, marked by specific weaknesses that were uncovered by supervisory action and by the failure to promptly undertake the recapitalization required by the supervisory authority, recovery and safeguarding measures were taken, including temporary suspension of early surrenders of policies. In the absence of guarantee funds to protect policyholders, negotiations are underway for a group of banks and insurance companies to take action to protect customers. We are closely following the matter in collaboration with IVASS and by liaising with government authorities.

As I stated earlier, despite rigorous regulation and intensive supervision, it is not possible to fully exclude the possibility of bank failures occurring. The deposit guarantee schemes are a key piece of the crisis management system. Recent events have demonstrated the importance of also paying proper attention to the percentage of deposits that exceed the guaranteed amount.

International and European regulations in the area of crisis management require large banks to have adequate liability buffers (in the European Union these are the minimum requirement for own funds and eligible liabilities, MREL) to absorb losses and to recapitalize a bank in the event of a crisis, thereby minimizing the fallout on uncovered deposits. It has, however, become clear in recent years that such buffers cannot be extended to all banks, given that smaller ones inevitably encounter problems in accessing wholesale capital markets. That is why in a number of crisis management models – especially in the United States – the role of protecting small banks' deposits continues to be performed by deposit guarantee schemes in the form of financial support for purchase and assumption transactions. Following such a model, since 1980 the Federal Deposit Insurance Corporation has managed the failure of over 3,500 banks in an orderly fashion.

The changes set out in the European Commission's proposal for revising the rules on managing bank crises would enable the deposit guarantee schemes, with appropriate safeguards, to more easily help address them. More specifically, eliminating their preferential ranking in the priority of claims in bankruptcy – which we have advocated for some time – would enable these schemes to intervene effectively as a precaution or, in the event of a bank failure, to support purchase and assumption transactions. However, the difficulty that small and medium-sized banks have in accessing capital markets that I mentioned earlier should be borne in mind. For those subject to resolution, intervention by deposit guarantee schemes could be combined with requiring a smaller minimum amount of liabilities to be used in the event of a crisis.

The option to temporarily lift restrictions that limit access to extraordinary sources of financing, albeit with appropriate safeguards to discourage its indiscriminate use, would strengthen the crisis management framework, making it possible to react swiftly to situations posing a systemic risk, which may also be set off by small banks. Access to such a 'safety valve' was crucial in the United States, where the triggering of the systemic risk exception enabled the FDIC to intervene freely, exceptionally protecting all depositors, and thereby reducing the risk of contagion.

The outlook for the Italian economy

The Italian economy has proven to be remarkably resilient and reactive in the face of the unprecedented shocks of the last few years. As early as the end of 2021, Italy's GDP had already recovered the ground lost due to the collapse recorded in the quarters following the outbreak of the pandemic. It continued to grow throughout 2022, despite the difficulties caused by the war in Ukraine, with a 3.7 per cent increase that far exceeded expectations. The labour market fully recouped the plunge in employment, which had involved young people and women most of all. In the first quarter of this year, economic growth exceeded expectations once again. The forecasts available to date suggest an increase of GDP of around 1 per cent in 2023.

The recovery was more pronounced in construction, supported by tax incentives to upgrade buildings, and in services, which resumed significant growth as the anti-contagion measures were lifted. Despite the difficulties experienced during the year, manufacturing production has stayed, on average, at 2019 levels.

The renewed vibrancy of the economic system has translated into strong growth in exports and a robust recovery in investment. Since the fourth quarter of 2019, exports of goods have expanded by 11 per cent in volume, more so than in the other main euro-area countries. Over the past two years, investments have grown by more than 20 per cent, thus putting a clear end to the phase of prolonged weakness that followed the global financial crisis.

These developments, while supported by generous public policy measures, are a reflection of the gradual progress that has been made. The restructuring of the production system provided firms with the tools to face the pandemic crisis and the energy shock from a stronger and more balanced financial position than they had during severe crises in the past. Between 2007 and 2019, in contrast with the euro-area average, Italian firms' debt dropped by nearly 7 percentage points, to 68 per cent of GDP (compared with an average of more than 100 per cent in the euro area). In the same period, household debt remained low overall, standing at 41 per cent of GDP in 2019 (15 percentage points less than the euro-area average), with a greater concentration among higher-income households, who are more equipped to sustain it.

All this, together with the strength of the recovery, is reassuring, also in light of the weaknesses that still affect our economy and which, over the past few decades, have caused the per capita income gap with other advanced countries to widen progressively. This has been the subject of extensive discussion, including in this setting, and we observed that the prolonged stagnation in labour productivity reflected both the low efficiency of production processes and weak capital investment in the phase following the global financial crisis.

In the last twenty-five years, GDP per hour worked rose by just 0.3 per cent per year, less than one third of the average figure for the other euro-area countries. The flexibility introduced in the labour market was not matched by investment in up-to-date technology; the quality of human capital is still insufficient. This benefited neither firms' profitability nor hourly wages, for which growth, net of inflation, was among the weakest in Europe.

Although hourly wage inequality among payroll employees in the private sector remained limited, the share of workers with very low annual compensation – conventionally, less than 60 per cent of the median, equal today to €11,600 per year – rose again, up to 30 per cent from 25 per cent at the turn of the century. As temporary and part-time positions have become more common, the number of people who today have a job for only part of the year has significantly increased.

Atypical forms of contract have made employment more responsive to cyclical developments in the economy and, in many households, have facilitated an increase in the number of people employed, albeit with low wages. In 2022, as the recovery was being driven by labour demand, the conversion of fixed-term contracts into permanent ones increased significantly. In many cases, however, fixed-term employment goes hand in hand with long-term precariousness, with close to 20 per cent of young people still on fixed-term contracts even after five years of employment. Too many, not just the young, do not have official jobs or, if they do, are not offered adequate contractual conditions; as in the other major countries, introducing a well-designed minimum wage system could be the response to non-trivial demands for social justice.

Raising incomes and creating better employment opportunities requires an improvement in the quality and capacity of production for the entire economic system, which is all the more necessary today in light of the ongoing demographic changes. In the coming decades, world population dynamics will continue to be highly unbalanced, with strong growth in the developing countries on the one hand and weak, or negative, growth in the advanced countries on the other hand; among the latter, Italy has one of the fastest ageing populations. In just three years, since 2019, the number of people conventionally defined as being of working age (15 to 64 years old) has fallen by nearly 800,000 units. Based on Istat's demographic projections, by the year 2040, Italy's resident population will decline by 2.5 million in the central scenario, and that of people between the age of 15 and 64 by more than 6 million (Figure 10).

The improvement in the life and health conditions achieved in the past decades will allow quite a few people to work past the traditional retirement age of 64, in line with the current trends that are also reflected in the pension reforms. We will certainly need to create more jobs for young people and women, whose participation rates across the country are very low, with Italy's South and Islands accounting for the lowest rates in Europe.

Even in the best case scenario where the participation rates of young people and women rise progressively to catch up with the EU average, in the next twenty years, economic growth will not be able to rely on the endogenous expansion of the labour force: the effects of the decrease in the population in the central age groups may be mitigated in the medium term, besides by an extension of the working age, only by an increase in net migration (which in Istat's baseline scenario is projected to amount to 135,000 people per year, more than double that of the past ten years, after averaging more than 300,000 in the previous decade). Managing migration flows will require well-designed training and integration policies, which are indispensable for absorbing migrants into the social fabric and production system. A recovery in birth rates, from the particularly low levels of 2021, albeit desirable, would strengthen labour supply only in the very long term.

Italy's outlook for economic growth, however, will to a large extent depend on its ability to return to levels of labour productivity that increase at a much faster pace than that observed over the past twenty-five years, and are at least equal to the average levels recorded in the other euro-area countries. Since 2015, clear progress has been made: despite the contribution from investment being nil, GDP per hour worked in the private sector is growing at a rate not far from the euro-area average. Bolstering this trend requires firms to continue to make investments in production to buoy the recent recovery and support technological innovation.

Even if corporate restructuring has helped in strengthening the economy, some unusual features, which we have discussed on several occasions in the past, continue to affect its development. The size distribution of firms is still skewed towards small or very small family-run businesses. This problem is greater still in the construction industry and in some branches of the service sector, such as the professional and the hospitality segments which, since the second half of the 1990s, have recorded very low or even negative rates of productivity growth.

Important regulatory changes such as the reduction of entry barriers and simpler procedures for starting up new businesses have stimulated competition and raised firms' efficiency levels. This confirms the fact that it is necessary to persevere with the reform agenda and overcome the obstacles and disincentives to growing in size that still exist and are often embedded in the administrative and tax regulations. Tax evasion and the spread of the shadow economy continue to distort competition to the detriment of those companies with the highest potential.

An innovative economy needs a well-qualified labour force, whose workers have adequate and continuously updated skills. The share of university graduates among people aged 25-34 years is still below 30 per cent, against the European average of over 40 per cent (Figure 11). The level of skills acquired is also often unsatisfactory, as shown by the surveys conducted by international organizations. In Italy, there is no lack of highly qualified young professionals or of dynamic, successful firms, but there are still too few of the latter decisively seeking to enhance their human capital and managerial skills, which are key to reaping the benefits of the new technologies and to increasing the competitiveness of their products and services on national and global markets. The firms that have embarked on this process are different from the others in terms of their growing market shares, greater capital intensity, higher profitability and better working conditions and remuneration.

It is equally important to increase the quality of central and local government activities. In all the important areas – education, health, and justice – besides differences in terms of European averages, there are significant regional differences. Reducing these and making the necessary improvements will require monitoring systems and effective instruments to intervene in places where minimum quality standards are not being met. Delays in using digital technologies, the high average age of staff, and insufficient specialist skills contribute to these results. Italy's National Recovery and Resilience Plan (NRRP) could stimulate significant progress in digitalizing general government's administrative processes. The current staff turnover in the public sector presents an opportunity to acquire human resources with adequate professional skills in relation to the services that the State is committed to providing. Besides being an objective of the Plan, strengthening general government is a crucial factor in rapidly using the available resources to the full in all sectors.

Lastly, our economy's growth potential is hindered by a complex taxation system, which has often been adjusted but without a comprehensive plan. The government has expressed its intention to carry out a far-reaching reform and a draft enabling bill is currently being debated in parliament. A rebalancing to reduce the weight of taxation on the factors of production could stimulate employment and investment. The removal of measures that negatively affect firms' choices as to their size and organization, while at the same time keeping those that incentivize capitalization, would contribute to increasing efficiency. Changes to personal income tax carefully taking account of the redistributional effects should be structured so as to consider the overall size and specific characteristics of social welfare programmes. Rationalizing the rules and simplifying requirements can provide certainty and stability to the system, keeping the administrative costs down. No intervention can realistically disregard the constraints of our high public debt nor the principles of progressivity of taxation and ability to pay that are enshrined in the Constitution.

Reducing the size of the public debt is an economic policy priority regardless of European fiscal rules. A high public debt means that a large share of government revenue has to be spent on interest payments rather than being put to more productive uses; it poses serious problems of intergenerational equity; it makes it more difficult to adopt counter-cyclical measures; and it generates uncertainty for economic operators. The need to refinance it each year for huge amounts makes the country vulnerable to adverse market trends, even when the latter do not seem to be justified by the economic and financial fundamentals.

The debt-to-GDP ratio decreased significantly in the early years of monetary union and then declined only marginally to just over 100 per cent in 2007, but with the dual financial and sovereign debt crises, it rose sharply, mainly because of low nominal growth and despite the continuing primary surpluses, remaining at around 135 per cent until the outbreak of the pandemic (Figure 12). In 2020, the collapse of production activity on the one hand, and the support measures for firms and households on the other, increased the ratio by a further 20 percentage points. Half of this increase has been reabsorbed in the last two years, thanks to the extraordinarily favourable differential between nominal growth and the cost of the debt. At the end of 2022, the ratio stood at 144 per cent.

The reduction achieved in the early years of this century could have been greater, but today's high levels are less the result of imprudent fiscal policies than of the extremely severe crises that have occurred since 2007. Just as at the time of the launch of the single currency, Italy's public debt-to-GDP ratio is today still more than one and a half times the average for the rest of the euro area.

Whatever the reasons for these levels being reached, the priority is now to provide continuity to the consolidation process initiated over the past two years. To this end, given that the cost of the debt will gradually increase, partly as a consequence of the normalization of monetary policy, what we need to achieve is a return to significant primary surplus levels, such as those planned for the medium term in the latest Economic and Financial Document. Over the next few years, any increase in expenditure or reduction in revenue, including those prospected in reforms that have already been announced, such as tax reform and differentiated regional autonomy, will require adequate and stable structural budgetary coverage.

Maintaining a prudent management of our public finances will send out a clear signal of credibility, and contribute to lowering the yields on Italian government bonds, bringing them closer to those of other main euro-area countries. In order to reduce the share of debt, it is essential to attain stable and sufficiently high growth rates. In contrast to what has happened in the past, an adequate level of expenditure and quality in public investment needs to be maintained, and it will be crucial for general government to be able to identify the best projects and have them implemented as scheduled and at the expected cost, so as to stimulate private investment decisions as well.

We have often remarked on how the NGEU programme affords Italy an opportunity to generate new momentum in the economy and address the weaknesses I have again mentioned today. Furthermore, we should not underestimate the importance of the programme in making up for the considerable lags that have continued to build up in the South, have a profound impact on the prospects of the local population and translate into an unsustainable waste of human energies and resources that hold back the overall growth of Italy's economy.

Improvements to the NRRP are possible, though any proposals for changes need to take into account the tight schedule agreed with the European authorities. Constant liaising with the Commission will be absolutely necessary, as well as useful and constructive. There is no time to lose. While there is talk of presumed inadequacies in the general debate over its design, of a limited time frame for its realization and of possible shortcomings in implementing its measures, it has to be emphasized that the NRRP is a rare and, on the whole, sound attempt to define a strategic vision for Italy. Apart from the investments and other expenditure that it involves, this is a further reason why it is crucial to carry out its ambitious programme of reforms, all of which are long overdue.

This is therefore a decisive turning point, but it also needs to be part of a broader long-term strategy to facilitate the transformation of our economy. This is made all the more necessary by the inevitable twin challenges that await us – inevitable if we are to counteract climate change and its dramatic consequences, as we are once again experiencing; and if we are to encourage a safe and comprehensive diffusion of technological, and above all digital, innovation. The timescale will have to be relatively long, covering several legislatures, and the objectives will need to be pursued with perseverance and far-sightedness, with widespread consensus among the population. Its success will depend on the extent to which public initiative can combine with an adequate response of the productive and financial system. New opportunities will be created, but considerable investment will also be required, together with an efficient allocation of savings and careful management of risks.

The financial system will also have to play a part. In order to exploit the opportunities connected with financing the energy transition, intermediaries will need to incorporate adequate models for the assessment of climate risks into their operational processes. The aim is not to phase out the activities with a bigger carbon footprint altogether, but to help energy-intensive firms to significantly reduce their emissions whenever possible and appropriate. To go in that direction, it will be decisive for firms to provide intermediaries and investors with detailed and reliable information, and to make credible transition plans.

Managing the implications of the digital transition effectively is a crucial challenge for the financial system. The Bank of Italy supports and promotes innovation by ensuring that market infrastructures are safe and efficient, that the regulatory framework and risk management processes are up to date, and by providing consumer protection and financial education. These safeguards are key to ensuring that Italy can make the most of the digitalization of the economy and of finance, thereby minimizing their risks.

This area also includes the challenge posed to the Eurosystem by the possible introduction of a digital euro, which we are actively helping to develop. The ECB Governing Council will decide this autumn whether and how to proceed to the phase of defining the required technical and commercial solutions. A final decision on going ahead with a digital currency will in any case require the adoption of the necessary regulatory framework by the European Parliament and the Council of the European Union.

* * *

At a time of deep uncertainty, with the distress caused by the emergency, we wondered three years ago what effects the pandemic would have on our behaviour, on the production system, on how we work and on our consumption habits. Recognizing that 'we knew that we did not know', we discussed new 'equilibriums' and a new 'normality', with profound doubts, and we talked about the crucial role that extraordinary budgetary interventions and sizeable and timely monetary policy measures would have in softening and diluting over time the consequences of the crisis.

Now that the health crisis is over, the dramatic fall in demand has been recouped and 'social distancing' is a thing of the past, we find ourselves facing new challenges and new emergencies. It is of course legitimate to wonder to what extent these factors – ranging from the geopolitical tensions and risks to the economic and financial uncertainties and the return of inflation itself – are linked to those events and those responses. Counterfactual analyses are difficult in history, and not only in economic history, but a strong dose of humility is needed when conducting them: those interventions and measures not only helped to moderate the social and economic effects of the pandemic, they also certainly played a key role in making tangible the commitment and the hope expressed when we said then: 'we will survive this together'.

This is why we cannot forget those who sacrificed themselves in the sometimes unequal fight against infections. We cannot ignore how much the swift response of research benefited from the absence of impassable borders to the spread of knowledge. Neither can we fail to properly acknowledge the successes, including logistical ones despite various kinds of difficulty, achieved by the work relating to the production and distribution of vaccines, as well as the capacity for action, including at supranational level.

Let us go back, though, to the tensions, to the uncertainties and to inflation. I have already talked about the last of these, underlining once again the importance of steering the monetary response on a straight course, but with the necessary graduality owing to the lingering uncertainty over the evolution of the main determinants of the acceleration in prices and over the behaviours that may prolong their duration and their effects. The phasing out of the extremely accommodative monetary conditions was of course necessary: in this case too, however, let us remember the success in countering the deflationary risks linked to the financial, global and sovereign debt crises in the euro area. Monetary normalization and credit tightening will bring us back to price stability; the repercussions for the euro-area economy will be smaller the more responsible the behaviour of all the parties involved: firms, trade unions and governments.

The political, economic and financial consequences of the dramatic conflict still taking place in Ukraine, which is inconceivable in light of the lessons from the twentieth century and unacceptable because of the violation of the basic principles of the ensuing international law, look set to be deep-rooted and long-lasting. They will need to be faced, not by abandoning but rather by strengthening the commitment to international cooperation. The great forces for change and the challenges of our time are global in nature, and the responses to them cannot be partial or not shared. Above all, we must give up the logic of the zero-sum game in the competition between nations, and not go back to the old models of winners and losers, but work to involve various actors – based on their history, values and perspectives – in leading future initiatives with the aim of generating widespread benefits for everyone.

In the last fifteen years, Italy has had to deal with an almost unprecedented series of challenges and emergencies. I have often talked here about how they have been addressed, about the constraints that have slowed down our responses, about the delays and the mistakes made and about the successes achieved. I shall therefore not go into specific detail about the sequence of my memories, from the global financial crisis to the sovereign debt crisis and their prolonged effects, which once again, to use an effective expression common at that time, 'caught us on the back foot', following the delays accumulated at the end of the last century.

The pandemic struck our country at a time when it had still not absorbed the damage inflicted by that double-dip crisis and when the slow and piecemeal adoption of the necessary reforms was still struggling to resolve the difficulties that hinder our growth. Nevertheless, Italy has overcome this third, extremely serious crisis, as well as the energy shock that followed Russia's aggression against Ukraine, and has done so better than we expected. The rebalancing of the production structure at world level now forces us to strengthen our international standing and to avoid being pushed, as in the not so distant past, to the margins of the transformations underway. These are not merely emergencies to be tackled; they are factors that interact with unstoppable trends – environmental, demographic, technological – and that are destined to change the existing economic and social structures radically.

The magnitude of these trends cannot help but generate uncertainty. When considering the associated risks, we are asking ourselves questions about the future in which today's children and those not yet born will live, we wonder what to do, not only to respond to the fears and opposition connected to them, but also and above all to seize the opportunities they herald. New ways to organize work and society will emerge, together with new ways of life and new ways of working together. We will need to be aware of this, first and foremost at individual level, and rely on our curiosity, education and knowledge, as we have been saying for some time.

As regards the ‘special institution’ that I have served in different roles for fifty years, and that I will leave this year, I am certain that it will continue to base its work on this awareness in the years to come as well. We always keep in mind the need to ground our assessments and decisions on data and analyses that are as broad and accurate as possible. As former Governor Bonaldo Stringher stated in 1900 – and as Gianni Toniolo reminds us in his book *History of the Bank of Italy*, covering its first fifty years, which he completed shortly before passing away so suddenly – this is for the sole purpose, together with and not in conflict with the State, of ‘improving the conditions for national economic activity and improving its lot’. Today, by sharing it within the Eurosystem, we are extending this purpose to the area of monetary and financial stability in which we have been sharing the responsibility of ‘governing the euro’ for the last 25 years.

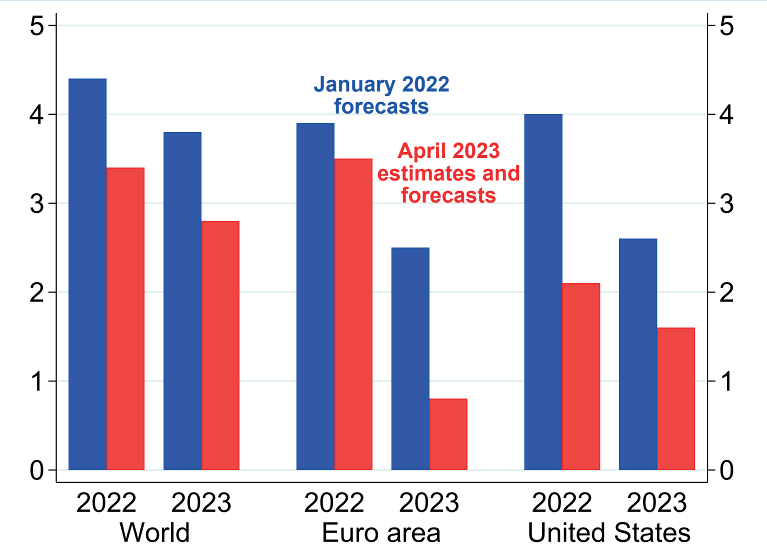
Indeed, as we have known for centuries, acquiring this awareness must also occur at a collective level. In the words of our ‘Supreme Poet’, Dante Alighieri: ‘the Philosopher says that man is by nature a social animal’, to pursue ‘a life of happiness ... no single individual is able to provide’. Problems such as reducing the public debt or adopting ways of life consistent with protecting the environment require society to understand and internalize them, not because ‘the EU is asking us to do it’ but because they shield us from risks and open up opportunities. This is why there needs to be a new collective reflection at all levels, in order to grasp their importance and to decide together how to manage their impact. The same can be said of openness to the world, which is so important for our economy and our culture, as we have known for centuries and despite our delay in reaping its benefits in the last few decades.

However, we are not just ‘social animals’. As Yuval Noah Harari puts it, what distinguishes us is the capacity ‘not merely to imagine things, but to do so collectively’. This ability to imagine the future will be crucial. This is why we need to keep dialogue going, to strengthen cooperation as much as possible in a world where it is necessary to guarantee economic, health and welfare benefits to all, and to reduce disparities rather than increase them. It is really up to young people, who are less conditioned by the past, to imagine that world and identify its opportunities. They will have to be listened to and helped to grow by the other generations, with no constraints, in order to translate into realistic action the ideas they will be able to develop for a future world that is not poorer, but rather safer and fairer.

FIGURES

Figure 1

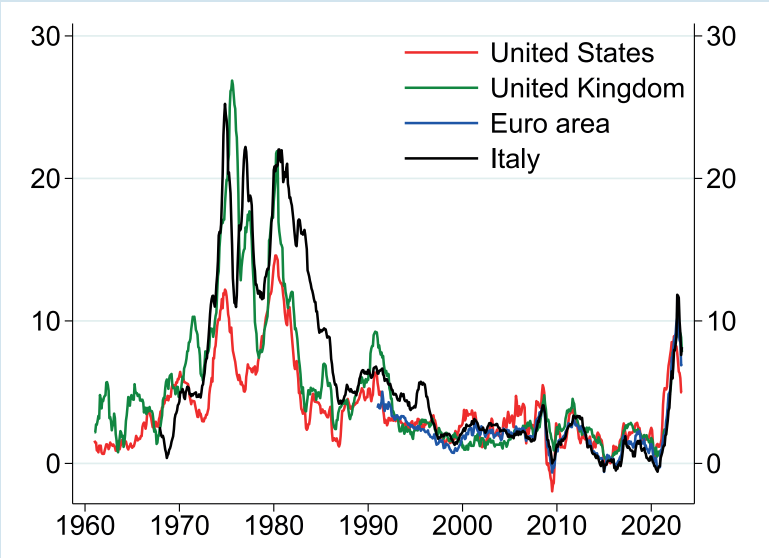
GDP growth forecasts
(per cent)



Source: International Monetary Fund.
Note: Percentage changes on previous year.

Figure 2

The return of inflation
(percentage changes)

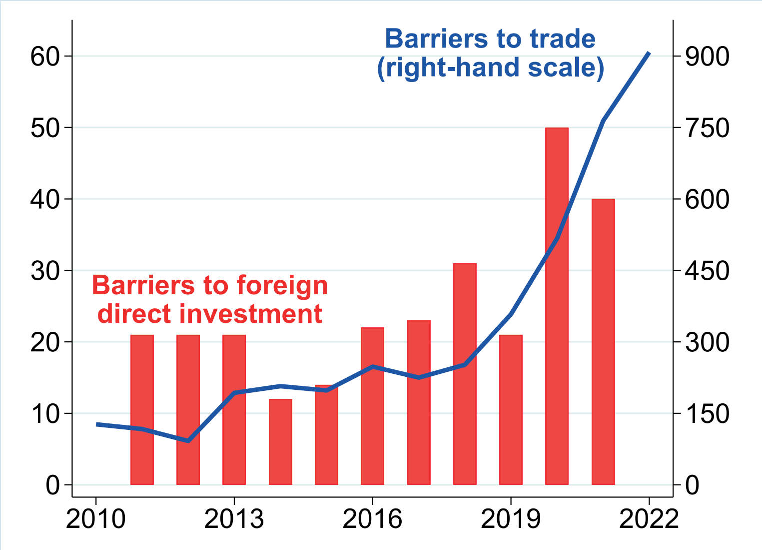


Sources: Eurostat, Istat, UK Office for National Statistics and US Bureau of Labor Statistics.
Note: Twelve-month percentage changes. Euro area: changing country composition since 1999; weighted average of the 11 countries initially participating in the third stage of the Economic and Monetary Union, for the years before 1999.

Figure 3

New barriers to trade and to foreign direct investment

(number of new barriers)

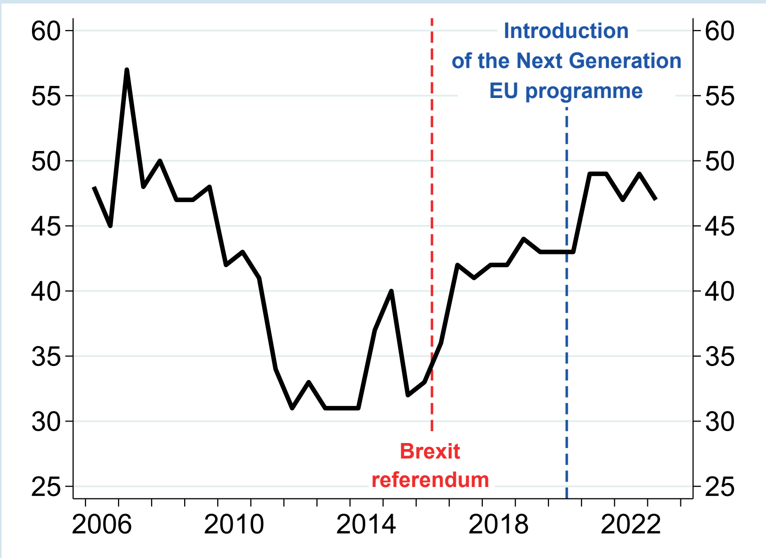


Sources: Global Trade Alert and UNCTAD.

Figure 4

Citizens' trust in the European Union

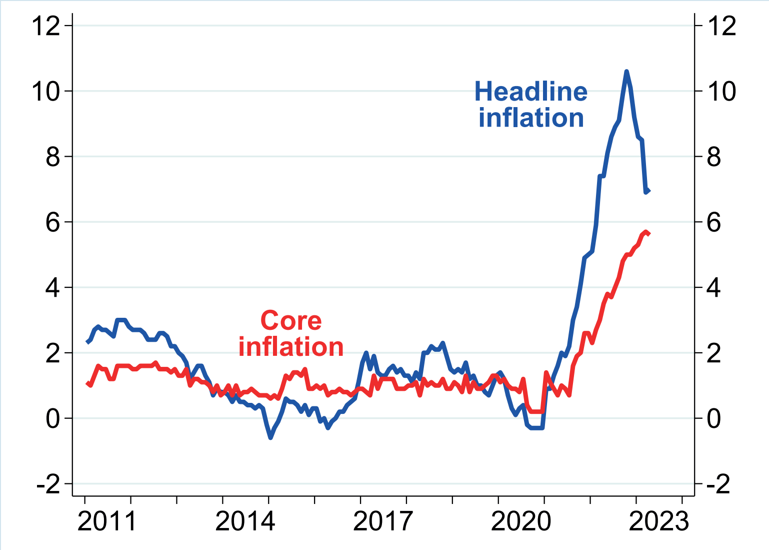
(per cent)



Source: European Commission.
Note: Percentage of EU citizens interviewed in the Eurobarometer's half-yearly surveys who trust in the European Union.

Figure 5

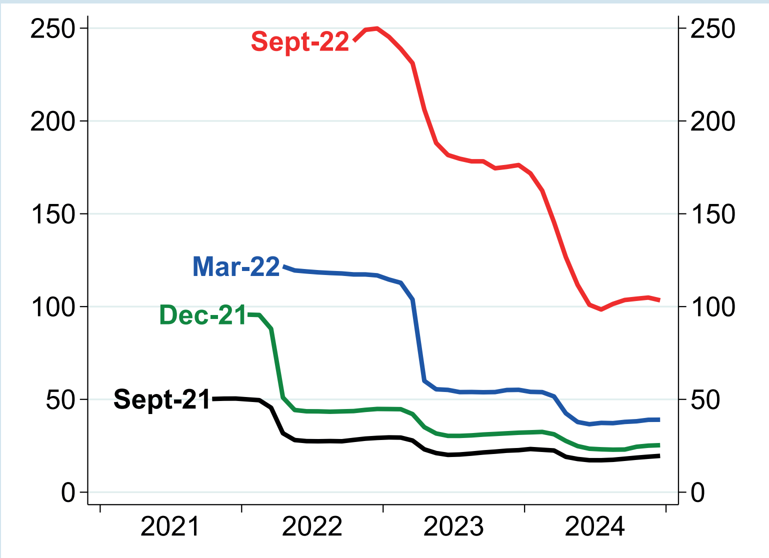
Consumer price growth in the euro area
(percentage changes)



Source: Eurostat.
Note: Twelve-month percentage changes.

Figure 6

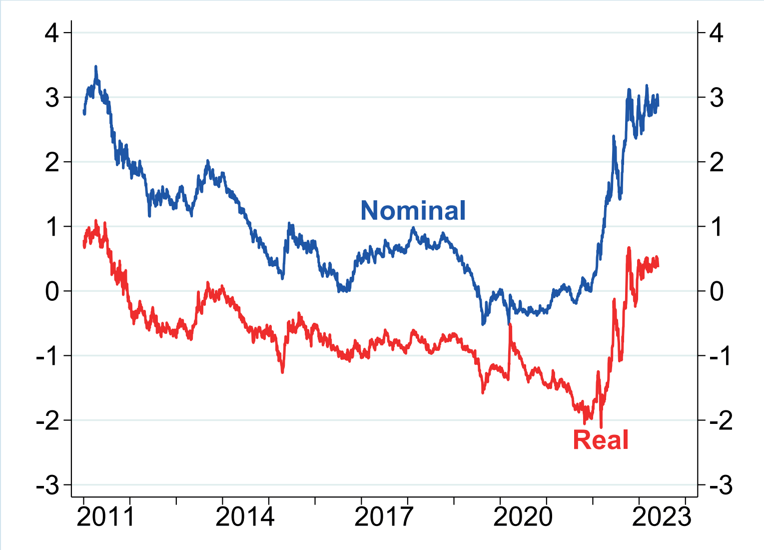
Market expectations for natural gas prices in Europe
(euros per megawatt-hour)



Source: Refinitiv.
Note: Prices of natural gas futures in the Title Transfer Facility (TTF) market; start-of-month data.

Figure 7

Long-term nominal and real interest rates in the euro area
(per cent)



Sources: Bloomberg and Refinitiv.
Note: Ten-year interest rates; the real interest rates are obtained by deflating the nominal interest rates (overnight index swaps) using the rates of inflation-linked swaps with the same maturity.

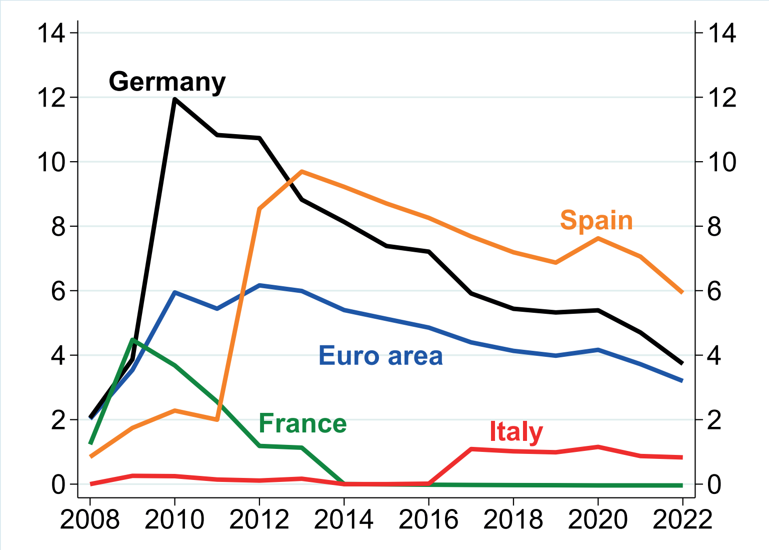
Figure 8

Long-term inflation expectations in the euro area
(per cent)

Sources: Bloomberg and European Central Bank.
Note: Median of the long-term inflation expectations (4-5 years) of the experts interviewed for the quarterly Survey of Professional Forecasters; five-year, five years forward inflation-linked swap rates, net of an estimated inflation risk premium.

Figure 9

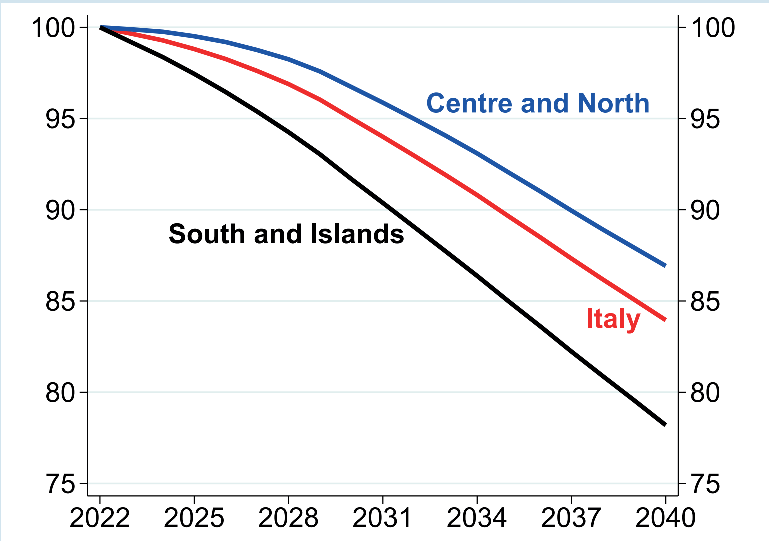
Support measures for financial intermediaries: impact on public debt
(per cent of GDP)



Source: European Commission.
Note: Euro area, fixed composition (19 countries).

Figure 10

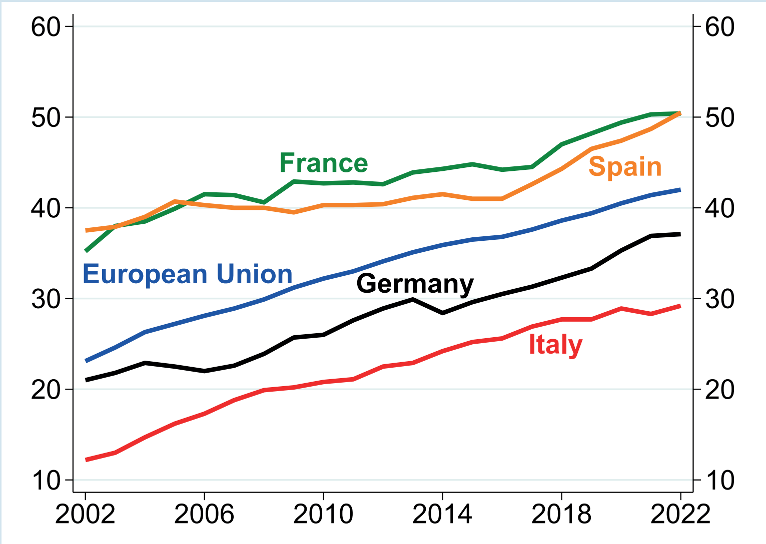
Population aged 15-64 in Italy: projections
(2022 = 100)



Source: Istat.
Note: Central scenario.

Figure 11

University graduates
(percentage of the population aged 25-34)



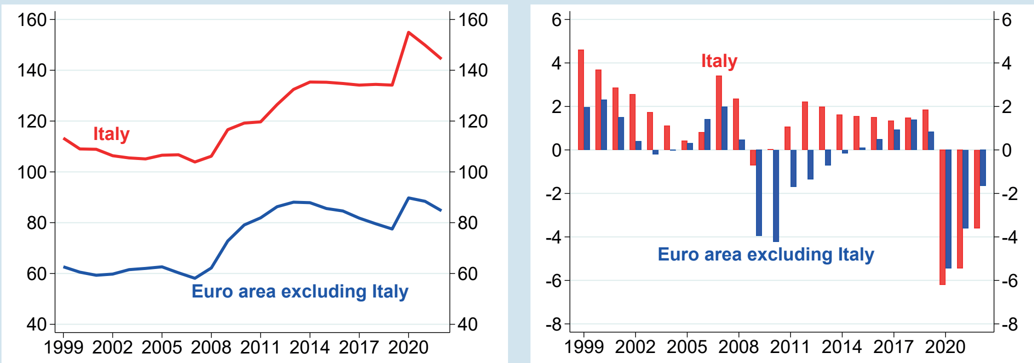
Source: Eurostat.

Figure 12

The public finances
(per cent of GDP)

Public debt

Primary balance



Source: European Commission.
Note: Euro area excluding Italy, fixed composition (18 countries); primary balance: general government revenue minus expenditure net of interest expense.

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