MONETARY POLICY IN ITALY. pdf

1: Monetary Policy - Italy's Resources

The Bank of Italy contributes to draft monetary policy for the euro area through the Governor's participation in the Governing Council of the European Central Bank (ECB).

While growth has accelerated in the United States, it remains weak in Japan and is slowing in China and in other emerging economies; in Russia it is contracting rapidly. The slump in oil prices may bolster economic activity in the advanced countries but it is also the result of weak demand; it must be prevented from entrenching expectations of deflation. Financial conditions are favourable, but market volatility is on the rise. Economic developments in the euro area and Italy The euro area is struggling to re-establish satisfactory rates of growth and unemployment is still very high. While consumption has picked up somewhat, domestic demand has been held down by investment, which contracted in the second and third quarters of The difficulties are widespread: After a long series of unexpected drops in consumer price inflation, in December the twelve-month variation was negative in eleven countries and, for the first time since October , in the euro area as a whole. Nowhere did inflation top 1 per cent. Preliminary estimates indicate that in January consumer prices fell by 0. Medium- and long-term inflation expectations have been affected and this downward shift must be countered with firmness. In the first week of February the expectations implied by five-year inflation swaps were still 0. Italy is among the countries that are struggling hardest to make a start on the road to recovery. GDP has been declining almost without a break for three years and is expected to show no increase in the last quarter of , mainly owing to the further contraction in investment, which is more than a quarter below the level of The latest data point to some encouraging developments for both the euro area and Italy. In December the unemployment rate fell marginally in the euro area by 0. Household and business confidence has been picking up since the beginning of the year. These developments have likely been affected by the drop in oil prices and the changes in interest and exchange rates caused by expectations of expansionary monetary policy measures. A revival of capital expenditure is essential in order to consolidate growth. In many countries, especially Italy, the uncertain economic outlook has led firms to take a "wait and see" approach. In the December surveys conducted by the Bank of Italy almost half of the firms still expected their expenditure on investment to remain virtually unchanged in Signs of a possible resumption have emerged only in some branches of manufacturing. A suitable policy mix must contribute to reversing the trend in investment and strengthening consumption. The new monetary policy measures are designed to defuse the risk of a negative spiral of deflation and economic stagnation. Budget policies in the euro-area countries, which have been persistently restrictive, can now be better adapted to cyclical conditions. Monetary policy On 22 January the ECB Governing Council announced a programme of purchases of bonds issued by euro-area public authorities and European institutions to supplement the existing ones for covered bonds and asset-backed securities. It is a far-reaching measure, broader than markets expected, to be rolled out immediately, and open ended. The programme will in any event continue to run until a lasting change is achieved, with the trend of inflation returning close to 2 per cent. The Council viewed the expanded asset purchase programme as a legitimate tool of monetary policy and voted by a large majority to deploy it immediately. Equal sharing of the attached risks would have been more consistent with the singleness of monetary policy. The decision to let the balance sheets of the single NCBs carry the risk of losses on government bond purchases reflects a concern within the Governing Council that in the present institutional framework such a monetary policy measure might lead to transfers of resources between countries without the approval of the competent bodies. Asset purchases can transmit effects to the economy through a variety of channels. They exert downward pressure on medium- to long-term interest rates, directly for the assets included in the programme, and indirectly for all the others through portfolio reallocations. They encourage bank credit by making it relatively more profitable than buying government securities and by reducing the cost of funding. They sustain inflation expectations and confidence. They help to ensure that changes in the exchange rate are consistent with cyclical developments: The effects on financial asset prices and, looking ahead, on real asset prices can stimulate consumption. The risk that the programme could lead to excessive price increases for real and financial assets, such as to threaten financial stability, is limited in the current climate. There are no indications that any widespread imbalances are forming in the euro area at the moment: Should tensions emerge in local market segments, they would be countered by the national authorities with targeted macroprudential measures such as those already introduced in some countries without altering the expansionary stance of monetary policy. The purchase of government securities does not make the introduction of reforms to increase the growth potential of the euro-area countries any less necessary or likely. Indeed, it can foster them by improving the macroeconomic outlook and reducing its uncertainty. The effects of the programme have already been seen in part on the financial and currency markets. Lower interest rates and the depreciation of the exchange rate could bring euro-area inflation to levels more consistent with the definition of price stability towards the end of By acting on demand, they will also help to raise GDP. For Italy, we consider that the effect on GDP could exceed 1 percentage point in , other things being equal. The further variations in the interest and exchange rates deriving from the new measures could lead to higher GDP growth, currently estimated at more than 0. These effects could be joined by those connected to the other transmission channels, which are more difficult to quantify but also potentially important. The forecasts remain, however, subject to a high degree of uncertainty, mostly connected with developments in geopolitical conditions and their impact on world trade, the price of oil and the exchange rates themselves. Other policies Monetary stimulus is not in itself enough to strengthen the signs of the recovery. The overall stance of fiscal policies in the euro-area countries was still restrictive in , basically neutral in , and is expected to remain the same in despite the unfavourable economic climate. When the crisis was at its height, the budgetary adjustments introduced in a number of countries bolstered confidence among the member states and reassured the markets. Political and financial tensions can still affect market stability in the area, but the risks of contagion are fewer than in the recent past. The investment plan announced by the President of the European Commission at the end of last year marks the first attempt to organize a coordinated response at European level. The plan can be implemented rapidly, overcoming any difficulties in establishing new institutions and procedures and using all the sources of funding available. The Italian Government, while confirming its commitment to continue to adjust the public finances, has adapted the pace to the economic outlook. The structural reform programme undertaken in recent years must proceed, in particular as regards implementing decisions already taken. All in all, the measures introduced so far go in the right direction. The enabling law establishes that they shall be accompanied by an appropriate revision of active labour market policies. Measures have recently been adopted to promote public employee mobility. A draft enabling law for broader reform, centred on increased transparency and simplification, is being discussed in Parliament. The success of the reform will depend on how the good principles underpinning the law are implemented in practice. By developing the right skills and capabilities through better education and training, the country could find its way back to a higher growth path. Corruption and the infiltration of the economy and society by organized crime remain unacceptably widespread. Guaranteeing observance of the law, partly through more effective administration of justice, enables the productive economy to function properly, encourages entrepreneurship, and attracts human and financial resources to the country. Credit and banks Improvements in credit market conditions fostered by the new monetary policy measures must accompany a revival of investment. Although the trend in business lending is improving it is still negative, above all owing to weak demand but also because of residual supply-side strains. In the flow of new bad debts decreased steadily from the peaks of mid but it remains nonetheless high; according to the latest figures, in the third quarter the annual bad debt rate was around 2. The new monetary policy measures, which reduce macroeconomic risk, should also have beneficial effects on credit risk. At the end of September bad debts accounted for The still high proportion of the latter is partly due to the absence of a secondary market for these assets in Italy, as well as to the slow process of credit recovery. To date, transfers of these assets have been possible in just a few cases and at very low prices, incorporating not only normal management costs and the risks of the underlying assets, but also the uncertain economic outlook for the country. Banks must liquidate their non-performing loans in order to raise funds to finance the real economy. Direct state intervention - within a framework whereby, in accordance with European rules on competition, banks participate fully in the costs of the operation and public support is suitably remunerated - could be used not to remedy excessive risk taking by single banks, but to respond to the deterioration in loan quality caused by the severity and length of the recession and to the need to ensure an adequate flow of financing to the economy. Appropriate tax relief or state guarantees on assets backed by bad debts would smooth the way for the creation of a private market in non-performing loans. With the conclusion of the comprehensive assessment of the balance sheets of the largest euro-area banks, regular supervisory activity under the single supervisory mechanism has commenced. All the significant banks supervised directly by the ECB, with the assistance of the national authorities, have been notified of capital adequacy targets based on an analysis of their respective risk profiles. This practice, which is specifically envisaged under the rules of the second pillar of the Basel capital accord, is similar to the one that the Bank of Italy followed before the single supervisory mechanism and that it continues to use for the institutions it supervises directly. The banks for which the assessment identified capital shortfalls have been assigned targets that are largely in line with the plans they presented following the exercise. Additional requirements for capital increases must be carefully calibrated so as not to undermine the signs of economic recovery. More generally, in the new context of Banking Union, a clear and stable supervisory review process in the spirit of Basel rules will make it easier for banks to draw up long-term plans, improve market transparency, and limit the potential pro-cyclical effects. Lighter cost structures and business models that can adapt promptly to new technology will help banks cope with change more effectively. A review of production and distribution processes will lead to efficiency gains and cost savings. Profit levels could be raised through greater diversification of revenues, which could include helping firms to access markets directly. There is scope for mergers and acquisitions designed to rationalize corporate structures and modernize production and distribution processes. The reform would require the biggest cooperative banks to approve their transformation into joint stock companies, an ownership structure that gives them increased access to capital markets. Broader participation by shareholders in general meetings would reduce the risk of power becoming concentrated in the hands of organized minority shareholder groups. There would be a greater incentive to monitor the conduct of management. The cooperative bank model could still be used by small and medium-sized intermediaries, thereby preserving the cooperative spirit of those local communities to which it is well-suited. For these intermediaries too, the reform aims to strengthen several aspects of governance and to increase the incentives to invest in their capital. Weaknesses stem from their at times extremely small scale, with implications for costs and innovation, and from excessive concentration of credit risks. Greater consolidation, favouring the creation of groups, can improve operational efficiency and recourse to the market for aligning capital to risks. These objectives can be achieved without sacrificing the mutualistic traits typical of the cooperative model. The launch of the single supervisory mechanism was accompanied by that of the single mechanism for resolving bank crises. European legislation in this area has already been drawn up. The deadline for its adoption was the end of , but Parliament has yet to approve the enabling law and establish the national resolution authority. This progress must not be put at risk but rather reinforced by laying the institutional foundations needed to shelter the stability of monetary union once and for all from turbulence originating at local level and to guarantee lasting prospects for growth. To strengthen monetary union permanently further steps must be taken towards political union, but the road ahead will be neither short nor smooth. In the immediate future, mechanisms can be identified to fill the gaps of an incomplete Union by bringing to a satisfactory conclusion the reforms already launched and exploiting fully the instruments to hand. Banking Union can be, as originally intended, an important factor of stability for the euro area so long as we succeed in striking the right balance between the need to safeguard the stability of banks and that of enabling them to support the economy.

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2: Monetary Policy - ITALY

Monetary Policy in Pre-ECB Italy In , Italy entered into the Exchange Rate Mechanism (ERM) as a founding member of the European Monetary System. After that date, the country's monetary policy was geared toward the maintenance of exchange rate stability against its ERM partners, despite a number of exchange parity realignments and with the.

Its economic structure relies mainly on services and manufacturing. Within the service sector, the most important contributors are the wholesale, retail sales and transportation sectors. Manufacturing is the most important sub-sector within the industry sector. Most of them are family-owned enterprises. Agriculture contributes the remaining share of total GDP and it employs around 4. As a result, unemployment in the north is lower and per capita income in higher compared to the south. Italy suffers from political instability, economic stagnation and lack of structural reforms. Prior to the financial crisis, the country was already idling in low gear. In fact, Italy grew an average of 1. The global crisis had a deteriorating effect on the already fragile Italian economy. In , the economy suffered a hefty 5. Since then, Italy has shown no clear trend of recovery. In fact, in and the economy recorded contractions of 2. Going forward, the Italian economy faces a number of important challenges, one of which is unemployment. The unemployment rate has increased constantly in the last seven years. In , it reached The stubbornly high unemployment rate highlights the weaknesses of the Italian labor market and growing global competition. In , Italy was the second biggest debtor in the Eurozone and the fifth largest worldwide. It transformed itself from an agricultural country to one of the most industrialized economies in the world. The force behind the post-war economic miracle was the development of small- and medium-sized companies in export-related industries. In the following decades, the economy has had both ups and downs. Being a country with very few natural resources, Italy is strongly dependent on oil imports. The economy was hit hard by the two oil crises during the s. As a result, it experienced a stage of stagflationâ€”weak economic growth combined with high unemployment and a high inflation rate. The economy began to recover in the early s due to the implementation of a recovery plan. Restrictive monetary policies brought inflation down, while fiscal- and growth-oriented policies reduced public spending and tightened the budget deficit. Before the s, most of the Italian state-owned companies were a key drivers of growth. However, in the mids, the state sector started to create distortion in the economy. The mismanagement of public spending led to a deterioration of public finances and triggered excessive corruption. A round of privatization was carried out at the end of the s and beginning of the s. The diminishing role of the state in the economy created more space for private investment. The Euro was officially introduced into the economy on 1 January Italy was hit by the financial crisis in Since then, the economy has underperformed. In a bid to face the recession, the government has passed two major austerity packages. The incumbent government of Matteo Renzi is focusing on mitigating the effects of the financial crisis. His administration has introduced economic and structural reforms; the most important are the senate reform, labor reform and electoral law. Following the financial crisis in , Italy, like the other periphery countries, experienced a sudden stop in private capital inflows as the level of government debt became unsustainable. Since Italy is part of the Eurozone, it cannot rebalance its current account by adjusting the exchange rate. TARGET2 replaced the private capital flows with public capital flows and allowed the troubled countries to run current account deficits and avoid balance of payments crises. This gave Italy the opportunity to gradually adjust its current account balance. The current account deficit shrank from a 3. This adjustment mainly reflects a fall in imports while exports performed quite steadily. In addition, private capital flows have increased lately, as confidence in Italian sovereign bonds has improved. However, a positive balance was not seen until , when the country incurred a current account surplus of 1. The main contributor to the surplus was the trade balance. In fact, in , trade balance incurred a surplus three times larger than in the previous year. One of the most important pillars of the economy is the production of high-quality products such as in the machinery, textiles, industrial designs, alimentary and furniture sectors. However, as a country poor in national resources, its energy and manufacturing sectors are highly dependent on imports. The county recorded trade deficits from until However, in the last two years, falling imports have helped to turn the balance into positive figures.

Other important export destinations are the United States, with a share of 6. In fact, exports of clothing and footwear account for around Other important exports include electronic equipment 5. Since , the country has experienced anemic growth in merchandise exports of 1. In nominal terms, merchandise exports have gradually outsized imports, which caused the last two years and to close with a trade balance surplus. Other imports include machinery Since the financial crisis, merchandise imports have expended at a slower rate on average than merchandise exports. In fact, in the last six years merchandise imports have grown a meager 0. Two main austerity packages have been introduced since the crisis started in Regarding structural reforms, few changes have been made over the years. The government has sought to reform public administration and public education in an attempt to improve the competitiveness of its human capital. However, the investment climate remains poor mainly due to its rigid labor laws, high labor cost, inefficient public service and the judicial system. In a bid to boost growth, he proposed a cut in the income tax with a cost to the government of around EUR 10 billion. The PM also pledged changes in the judiciary system, public administration and electoral law. Italy has to keep its deficit below the threshold ceiling of 3. The figure followed an average deficit of 4. However, the primary balance has registered only one deficit since , and that was in In , the country reached a primary surplus of 2. The high positive balance was key to improving public confidence. In , government debt stood at Sovereign debt risk premium surged to record high levels in November More recently, the European Union has urged the Italian government to advance with economic and structural reforms due to the excessive macroeconomic imbalances of the country. More decisive monetary policies that were conducted in the s brought the inflation rate down further. In , the rate fell to 1. The Central Bank of Italy is completely separated from the influences of the government and has to comply with the rules dictated by the ECB, which are the same for all the member countries of the union. The main aim of these rules is to protect the common currency. The Bank of Italy, as part of the Eurosystem, helps to draft the monetary policy for the Euro area. The primary objective of the Eurosystem is price stability. To achieve price stability, the European Central Bank controls short-term interest rates. Changes in interest rates accommodate the financial needs of the banking system. Lately, in June , the ECB reduced the official interest rate and introduced a negative deposit rate. The impact of these monetary-policy decisions in the Italian economy is expected to be observed in the short term. However, in , Italy had to devalue the Italian lira by 7. The Bank conducts foreign exchange operations to keep its foreign currency reserves under control. In order to balance inflows and outflows of foreign currency without changing the composition of foreign currency reserves, the Bank of Italy buys or sells foreign currency with market counterparties. Sample Report Get a sample report showing all the data and analysis covered in our Regional, Country and Commodities reports.

3: Rules-Based Fiscal Policy in France, Germany, Italy, and Spain -- IMF Occasional Paper No.

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Structure of the General Government in 3. Characteristics of Unemployment Spending I. Overview In recent decades, France, Germany, Italy, and Spainâ€"along with most industrial countriesâ€"witnessed a sharp rise in the size of government and a large accumulation of public debt. While the latter trend began to reverse under the constraints imposed by the Maastricht Treaty and the Stability and Growth Pact, public expenditure and debt remain high by international standards. These are well-recognized sources of concern to policymakers, especially as the rapid aging of the population increases spending on pensions and health care while reducing the labor force and therefore economic growth and the tax base. In practice, reducing public spending and government debt is politically difficult because the process inevitably leaves some groups worse off. Critics highlight that rules may constrain the ability of governments to run countercyclical fiscal policy and express skepticism on the effectiveness of rules, because of the scope left for creative accounting. This paper studies the design of fiscal rules and frameworks, with particular reference to France, Germany, Italy, and Spain. In different ways, these countries face substantial public finance challenges over the next decade: This study argues that the four countries should place more emphasis on spending rules within the boundaries set by the Stability and Growth Pact. At present, fiscal frameworks are geared to achieving medium-term balances around zero. This paper suggests that countries should maintain medium-term targets for the budget balanceâ€"or alternatively, the stock of public debtâ€"geared to long-term policy objectives. But it points out that rigid adherence to annual deficit targets can impart a procyclical bias to fiscal policy through contractionary measures to buttress revenues in a downswing and a temptation to spend windfall tax receipts in an upswing. A binding spending rule consistent with the medium-term deficit or debt target and with tax policy objectives would allow cyclical revenue fluctuations to be reflected in annual outcomes for the budget balance. But it would not sacrificeâ€"and perhaps it would even enhanceâ€"policy credibility. Nonetheless, a number of issues arise in designing effective spending rules. Should rules be imposed on "real" or nominal spending? How comprehensive should the definition of spending be? What safeguards can be put in place to ensure that the rules are credible? How can they be made to work in a decentralized system, where regions and states enjoy considerable autonomy? This study reviews the implementation issues and provides some practical answers to these and other questions. While other countries have experienced similar difficulties in controlling fiscal expansion and face similar future challenges, this paper focuses on four countries onlyâ€"France, Germany, Italy, and Spainâ€"mainly for reasons of tractability. Examining the design of fiscal rules from both a theoretical and a practical perspective requires a review of the specific institutional setting of each country as well as recent experience with fiscal policymaking, an unwieldy task if carried out for a large set of countries. In addition, these four countries share a number of common characteristics: The paper is structured as follows. Section II reviews how fiscal policy was conducted in the four countries in recent years, the challenges ahead, and the institutional context in which fiscal policy is formulated and implemented. Section III discusses the rationale for fiscal rules, the costs and benefits of alternative rules, enforcement and compliance issues, and how to ensure fiscal discipline in federal systems. Section IV briefly analyzes how the rules may alter the response of the economy to a fiscal shock. Section V summarizes the conclusions. Most countries adopting rules in recent years have experienced substantial fiscal consolidation against a background of favorable economic conditions. Whether these rules can survive a downturn remains largely untested. Appendix II reviews selected country experiences.

4: â€œMonetary policy and the euro area problemâ€•

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Monetary www.enganchecubano.comry Policy And Liquidity Management Operations The Bank of Italy helps to draft monetary policy for the Euro area as the Governor is a member of the Governing Council of the European Central Bank (ECB).

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