

# ECONOMIC PULSE

## ITALY: POLITICAL RISK ARISES AGAIN

Italy is one of the rare European countries whose propagation of the epidemic is still under control at the end of January, although the situation is still very delicate. On top of these health uncertainties, political risk is also on the rise again. Following the departure of Matteo Renzi – and several members of the Italia Viva party – from the coalition Government, Prime Minister Giuseppe Conte resigned with the hopes of securing a more solid majority. At the time of writing these lines, negotiations were still ongoing. Political instability could affect the elaboration of the economic stimulus plan that Rome must submit to Brussels in the coming weeks.

According to our barometer, economic activity continues to be driven primarily by industry, while activity in the services sector remains extremely depressed. Through the end of last year, Italian industry benefited greatly from the rebound in demand in Europe. In November, goods exports had nearly climbed back to their level reached at the end of 2019, driven mainly by demand within the European Union. On a three-month average basis, the trade balance hit a record surplus in

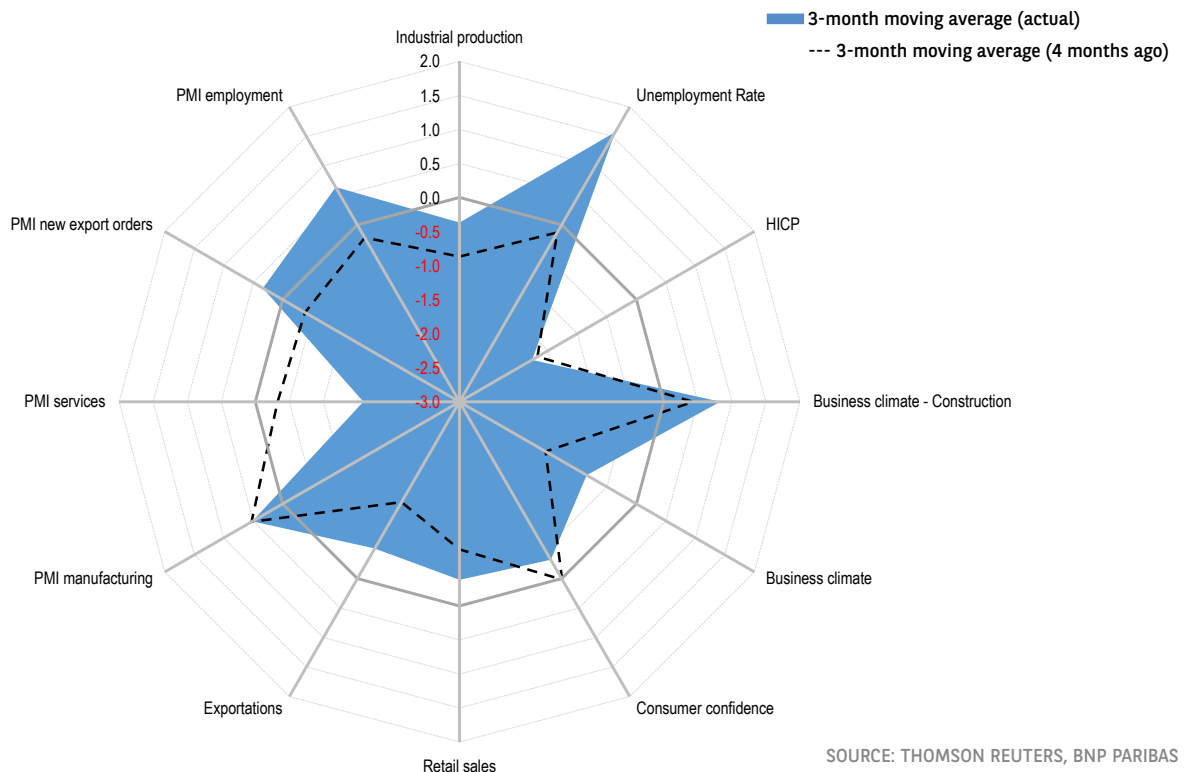
last November. The rebound in external demand could also be seen in industrial orders, which have also rebounded significantly during the autumn. The resurgence of the pandemic in Europe this winter is likely to halt or at least sharply slow this positive trend in exports.

The IMF's latest growth forecast for 2021 is also somewhat pessimistic. The Washington-based institution significantly lowered its estimate for real GDP growth to 3.0% in 2021, compared with an initial forecast of 5.2%. Growth is expected to accelerate slightly thereafter, to 3.6% in 2022. If these figures are confirmed, that would mean that the recovery in activity would be only partial at the start of 2023.

On the labour market front, the latest Istat figures show a sharp decline in the unemployment rate in November (down 6 percentage points to 8.9%). Yet this decline is largely due to another drop-off in the active population, which remains still far below its pre-Covid level.

**Guillaume Derrien**

### QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

