MOODY'S ANALYTICS

News

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MOODY'S ANALYTICS ITALY OUTLOOK 2014

DEFLATION THREAT INTENSIFIES

LONDON, 21 March 2014 – Moody's Analytics, a leading independent provider of economic forecasting, has released its latest Outlook for Italy. According to the report, both monetary and fiscal expansions are needed to get the Italian economy on a suitable growth path, as unemployment and potential deflation threaten its moderate recovery.

Tomas Holinka, economist at Moody's Analytics, says "The moderate recovery underway in the Italian economy will continue in the coming quarters, driven by improving manufacturing. However, this will be vulnerable to shocks as long as the contribution of household demand is small."

Besides rising unemployment, the threat of deflation due to the strengthening euro is curbing domestic demand. Annual inflation hovered slightly above 3% between October 2011 and September 2012, but has been steadily declining ever since due to the strengthening euro. The euro has been trending up since August 2012 and is now about 10% higher. This means Italy's importers pay less for foreign currency, which pushes down the price of imported goods and adds to concerns of a deflationary environment.

Moody's Analytics expects Italy's annual headline inflation to fall to 1% this year from 1.2% in 2013, before picking up to 1.4% in 2015, but notes that a brief period of mild deflation cannot be excluded.

Mr Holinka adds, "With the second-highest public debt in the euro zone, Italy's falling inflation has made servicing and rolling over its debt more burdensome. The country will find it harder to pay off existing debt, increasing the pressure for restructuring or fiscal austerity."

According to Moody's Analytics, the European Central Bank should adopt a more relaxed monetary policy to ease market fragmentation, improve bank lending, and increase inflation through weakening the euro. Another Long-Term Refinancing Operation would be most effective.

Moody's Analytics also notes that the government's planned tax cuts and a potential labour market reform could help improve competitiveness and long-term growth potential. However, the measures would take time to boost employment and household spending.

For more information, visit Moody's Analytics Dismal Scientist.

About Moody's Analytics

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $3.0 billion in 2013, employs approximately 8,400 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com.

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