

A BETTER RECOVERY IN A MORE COMPLEX WORLD

In contrast to the previous recessions, the Italian economy has already recovered what it lost in 2020. The carry over for 2022 is 2.6%. In Q1 2022, real GDP rose by 0.1%, with an annual growth rate above 6%. Value added for construction continued to increase, while manufacturing declined and services stagnated. The economic recovery mainly reflects the robust evolution of investment, while private consumption declined, as Italian households remained extremely cautious. Imports rose strongly, bringing the current account balance into negative territory. The economic recovery in 2021 was less intense in the Southern regions than in the Centre-North, thereby widening the gap between the two areas.

In Q1 2022, real GDP rose by 0.1% q/q, with an annual growth rate above 6%. In contrast to the previous recessions, the Italian economy has already recovered what it lost in 2020. The carry over for 2022 is 2.6%. At the beginning of 2022, the services sector was affected by the worsening of the pandemic. Value added stagnated, with turnover of accommodation and food service activities declining. Despite an increase, receipts relating to international travel remained well below the pre-crisis level. Supply-side bottlenecks and the sharp increase in commodity prices continued to penalise industrial activity. In Q1 2022, manufacturing value added declined by almost 1%, while that of construction rose further.

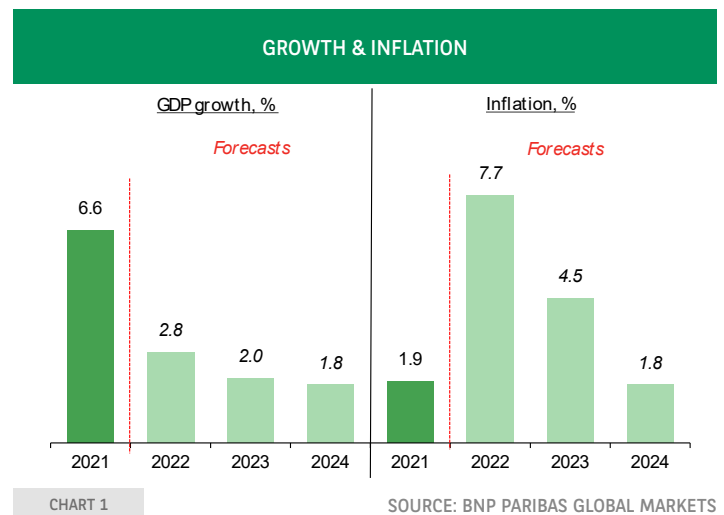
In Italy, the economic recovery mainly reflects the robust evolution of investment, which increased by more than 3% on average on a quarterly basis from the beginning of 2021, benefiting from fiscal incentives and still favourable financial conditions. In Q1 2022, gross fixed capital formation was around 15% higher than in Q4 2019. The propensity to invest for the overall economy rose above 21%, but remained below the levels for both Germany and France.

In Q1 2022, consumption declined by 0.8%, after stagnating in Q4 2019. At the beginning of 2022, consumer confidence weakened, reflecting the resurgence of the pandemic and the worsening of the global scenario. Households remained extremely cautious, further increasing the liquidity buffer, with the stock of bank deposits amounting to almost EUR 1,180 billion, and EUR 15 billion more than in December 2019. With still moderate wage growth, increasing inflation further dented purchasing power, with low-income households suffering higher food and energy prices.

In Q2 2022, the contribution of net exports was negative (-0.3%). The value of energy imports rose to EUR 27 billion, from EUR 10 billion in Q1 2021, and that of intermediate goods to EUR 56 billion. The current account recorded a deficit of EUR 8.6 billion, from a EUR 7.5 surplus in the same quarter of 2021. The balance of goods went from a EUR 13 billion surplus to a EUR 3.7 billion deficit, while the services deficit was unchanged.

THE NORTH-SOUTH GAP

In Italy, the current situation reflects highly divergent trends between the different geographical areas. In the decade preceding the outbreak of the pandemic, the gap between Centre-North and Southern regions widened. The greater dependence of the Southern economy on domestic demand and public spending contributed to the varying performance of the two areas. In 2019, the Southern regions' real GDP was still 10 p.p. below the 2007 level, while that of the Central and Northern regions was just 2 p.p. below. The pandemic affected the regions of the Centre-North and the South in a similar way. According to the latest available estimates, however, the 2021 recovery was less intense in the Southern regions. In fact, the divergence between the two areas is particularly evident when we consider the labour market: in 2020



(the last year for which comparison is possible) the male employment rate in the North was 74.1%, and in the Centre 70.4%, while in the South it was around 56%. Among women, the equivalent values were 59%, 55.2% and 32.5%. In the South, inactivity reached an astonishingly high level of 60% for women. Over the past decade, the business system in the Southern regions also weakened: firms' average size is far lower than in the Centre North (2.9 employees against 4.3 on average). Southern firms also show a delay in the adoption of digital technologies.

Efficient use of the resources provided under the PNRR (the Italian Plan to implement the Next Generation of EU funds) could help reduce the gap between the North and South of Italy. The resources of the Plan, together with those of the Complementary Fund, the Structural Funds and the Development and Cohesion Fund, constitute around €200 billion available to the Southern regions up to 2030.

Paolo Ciocca

Simona Costagli

paolo.ciocca@bnlmail.com simona.costagli@bnlmail.com

