Italy

At war with the virus

The outbreak of Covid-19 hit Italy while the economy was already contracting. The exceptional growth of infected people has brought the Italian Government to take harsh measures, that include stopping all economic activities, excluding those considered as necessary, and imposing a quarantine for the entire population. The combination of an induced supply and demand shocks is going to cause a recession, which is expected to be deep and to last at least until June. In 2020 as a whole, despite the strong support coming from fiscal and monetary policy, the Italian economy should decline by some percentage points.

An already contracting economy

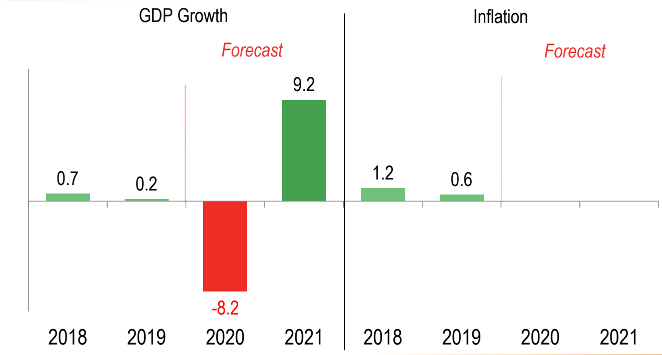
The outbreak of Covid-19 hit Italy while the economy was already contracting. In Q4 2019, real GDP declined by 0.3% q/q, with the annual growth rate falling to 0.1%. Domestic demand was disappointing. Private consumption slightly fell, as Italian households suffered from a still moderate evolution of income. Labour market conditions were mixed. The number of hours worked declined, remaining well below the 2008 level. Investment has further stagnated, as firms continued to be extremely cautious. The contribution of net exports was positive, as imports strongly fell, while destocking subtracted 0.7 percentage points from the overall growth. The carry-over for 2020, assuming no quarterly GDP increase, is -0.2%.

The crisis from a regional and sector perspective

In Italy, since the first Covid-19 case appeared, the number of infected people has significantly and rapidly increased. In response to this health crisis, the Italian Government has taken several measures, culminating in the quarantining of the entire Italian population. People are forbidden to leave their homes except for emergencies or essential work-related purposes. In the first stage of the quarantine, bars, restaurants, schools, museums and all retailers, other than pharmacies and food and beverages shops, were closed. A second set of measures implemented the shutdown of all productive activities, excluding those considered as necessary, such as food and pharmaceuticals industries and activity in some segments of metal products, machinery and equipment sectors. These measures have had a strong economic impact. Services, which have sustained the Italian economy over the last few years, enabling to recovering terms of value added what had been lost during the last recession and partly offsetting the decline in manufacturing, are now suffering from a substantial standstill of activity. This is particularly true of tourism, owing to the banning of all non-essential trips and public gatherings and the fact that similar measures were adopted in other countries. Since the end of the global financial crisis, the tourism sector had been growing, with expenditure by foreign travellers rising by almost a half and reaching EUR 42 bn, 7% of total exports of goods and services. The total number of nights spent in Italy had reached 430 million, the historical highest value.

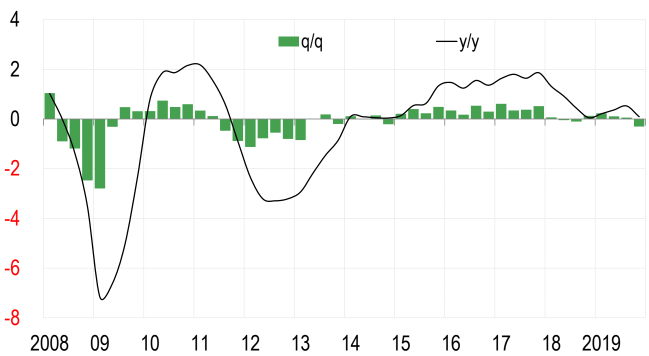
The crisis has also negatively impacted hotels and restaurants, a sector that had previously showed strong dynamics, becoming extremely important for the economy.

1- GDP Growth and inflation
(Y/Y, %)



Source: BNP Paribas Global Markets

2- Real GDP
% change



Source: BNL, calculations on Istat data

In the last ten years, Italian households have deeply changed their consumption habits, spending much in restaurants and less in food and beverages shops. Private spending in hotels and restaurants rose well above EUR 110 bn, about 10% of total yearly consumption. With respect to the 2008 values, employment in this sector has risen by almost one third, against only a moderate evolution in the economy as a whole, reaching 1.7 million of the working population with EUR 65 bn of value added.

The effect of the restrictive measures on the retail and wholesale trade seems to be mixed, with some sectors, such as the food industry, benefiting from an increasing demand, while others, such as the clothing sector suffering from a total stop of activity. In Italy, the retail and wholesale trade sector as a whole employs more than

3.7 million people, about 15% of total employment, and contributes to almost 12% of value added.

The manufacturing sector in Italy was experiencing a decline before the outbreak of the virus. In the last two years, value added has decreased by almost 2%, declining by more than 10 percentage points below 2008 level. Manufacturing accounts for about 17% of total economy. The decision to stop non-essential activities has impacted the metal products sector, which has the highest share on manufacturing as a whole, with more than EUR 40 billion of value added, and the machinery and transport sectors. The pharmaceuticals sector, which is playing an important role in this period, with less than EUR 10 bn of value added, covers only 0.6% of the total economy, also showing a significant dependence on imports. A strengthening of demand seems also to be involving the food and beverages sector, which in 2019 recorded EUR 30 bn of value added with a workforce of almost 500 thousand people.

From a geographical perspective, the regions most affected by the Covid-19 outbreak are the wealthiest and most industrialized in Northern Italy. In 2019, Lombardia, Veneto and Emilia Romagna together accounted for more than half of total exports, with a turnover of almost EUR 260 bn made abroad. These three regions are strongly embedded into European supply chain, providing vital components to German factories.

A difficult fiscal manoeuvre to counter the crisis

The Italian Government has approved the "CuraItalia" decree, trying to counter the worsening of overall conditions. Total measures amount to EUR 25 bn, about 1.5% of GDP, with 3.5 billion to strengthen the health system, also financing the hiring of about 20 thousand people.

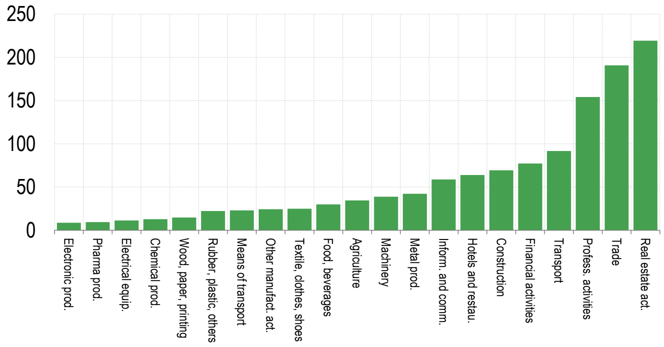
The SME guarantee fund will benefit from about EUR 1.2 billion in new financing, to provide public guarantee to bank loans to SME. The Fund will cover loans up to EUR 5 million, while easier procedures will be applied to guarantees below EUR 3,000. To sustain Italian exports, the Ministry of Economy will provide SACE (the Italian exports credit agency) with a guarantee aimed at supporting the sectors most hit by the crisis.

For SMEs, payments for mortgages and loans are suspended. Revocable (overdraft) credit facilities cannot be revoked until September 30th, non-instalment loans with contractual expiration are extended until September 30th, and payment of any instalment is suspended until that date.

To support the labour market (employment and workers) the legislative decree provides the extension of unemployment benefits to all enterprises, included one-person enterprises, for a total public finances cost of up to EUR 5 billion.

A personal income support has been introduced, with a one-time payment of 600 euros provided in March to workers, freelance professionals, workers with a non-fixed term contract and seasonal workers, who are employed in tourism or agriculture sectors (with at least a 50 working days record in 2019). In total, eligible workers are almost 5 million and the measure will amount to a cost of EUR 2.8 bn.

3- Value added by sector
€ million, 2019



Source: BNL, calculations Istat data

To support enterprises and households that have been particularly affected by the crisis, the deferral of the deadline of taxes and social contributions is made possible.

Given the persisting uncertainty about the duration of the health crisis, the economic impact of the Covid-19 epidemic will be significant, although difficult to assess at this stage. The combination of induced supply and demand shocks is going to cause a recession that is expected to be deep and to last at least until June. In 2020 as a whole, despite the strong support coming from fiscal and monetary policy, the Italian economy is expected to decline by some percentage points. Should the mitigation measures be effective, economic activity could come back to a sort of normality through the second half of the year. The strength of the recovery would also depend on the strength of the external demand.

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