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In this blog we examine the economic impact of Covid-19 on the Italian economy, through an analysis of economic data relating to the lockdown period from February to May 2020, an assessment of the impact of the Italian government’s measures, and a view on what the future might look like for the Italian economy.

How Has Covid-19 Impacted the Italian Economy?

The Covid-19 virus outbreak led many European countries to lockdown significant parts of their economies, with the aim of containing the virus outbreak. These lockdown measures have had a marked negative impact on the Italian economy.

The whole country was in lockdown from March 9, 2020 until the end of May, 2020, with dramatic consequences: in the first quarter of 2020, Italian GDP fell by 5.4% and in the second quarter by 12.4%.
GDP contraction was mainly related to a decrease in domestic demand and a slump in investment.

During the second quarter, the national industrial production index decreased by 17.5%, with production falling to an all-time low.

ISTAT, the Italian National Institute of Statistics, estimated that in March 2020 retail sales decreased, compared to February 2020, by 20.5% in value and 21.3% in volume; compared to March 2019, the value of retail sales decreased by 9.3% for large scale distributors and 28.2% for small retailers.

Overall, lockdown measures led to the suspension of activities for approximately 2.1 million enterprises in Italy, employing 7.1 million people.

**Which Sectors Have Been Hardest Hit or Seen an Uptick in Profitably?**

Covid-19 has had a very diverse impact on different sectors of the Italian economy.

According to a study published by leading Italian merchant bank, Mediobanca, during the lockdown period, the most impacted sectors were airline manufacturing (-22.1%), energy (-15.9%), fashion (-14.1%) and automotive (-9.1%).

The tourism sector, which by certain estimates, represents 13% of Italian GDP, was also badly hit.

Pursuant to the latest analysis of ENIT, the Italian national tourism agency, since February 2020 international tourists have decreased by 58%, and domestic travellers by 31%, with an estimated economic loss of Euro 24.6 billion.

Moreover, the catering sector has suffered badly during the lockdown period.

According to analysis carried out by ISTAT, the catering sector has lost approximately Euro 13 billion during the second quarter of 2020, and in the whole of 2020 it will ultimately suffer a loss of more than Euro 22 billion.

Based on analysis published by ISTAT, Covid-19 has had a severe impact also on the manufacturing sector (-15%), as well as mechanical (-18.8%) and domestic appliances (-22.1%).

On the other hand, Covid-19 has had a positive impact for certain on other sectors.

Analysis conducted by Mediobanca suggests that companies operating in the web and in software services have been those who benefitted most (+17.4% compared to the first semester of 2019), followed by major distribution groups (+9.1%), pharmaceuticals (+6.1%), online payment system providers (+4.7%), electronics (+4.5%) and food (+3.4%).

Pursuant to a study published by Cerved, a leading Italian information provider, consistent growth is expected in the next two years for companies active in the sectors of pharmaceutical specialties (+13.5%) and food distribution channels.
Have Government Measures Helped?

During the spread of the Covid-19 pandemic, the Italian government enacted a series of emergency regulations aimed at safeguarding the Italian economy.

The government implemented a range of measures, covering such matters as taxation exemptions and extensions, the company liquidity crisis and insolvency issues, as well as measures aimed at maintaining employment levels, through the implementation of a furlough scheme and a ban on firing employees for economic reasons.

Based on analysis carried out by the Italian Ministry of Economics and Finance, the government provisions that had the most relevant impact on companies, are:

1. Exemptions for enterprises with revenue up to Euro 250 million in the fiscal year 2019, from IRAP (a regional tax on productive activity) payments;
2. Non-repayable loans provided for companies that meet certain requirements;
3. Tax credits for enterprises meeting certain requirements, of 60% of the amount of rent on leases of non-residential buildings.

The main beneficiaries of the cancellation of IRAP payments are corporations (joint stock companies and limited liability companies), for whom the Italian Ministry of Economy and Finance estimated savings of approximately Euro 3 billion.

Overall, the main beneficiaries of the three measures have been manufacturing companies, which obtained benefits for over Euro 2.5 billion, retail and wholesale, with benefits amounting to Euro 2.5 billion, and providers of accommodation and catering services, with benefits amounting to Euro 1.7 billion.

Has There Been, or Is There Expected to be, An Increase in Insolvencies?

Insolvency measures were implemented mainly by a law decree of April 2020, which has provided for, *inter alia*:

1. dismissal of all applications related to bankruptcy and insolvency proceedings, with some exceptions, filed in the period between March 9, 2020 and June 30, 2020;
2. extension by six months of all deadlines of arrangements with creditors and restructuring agreements due in the period after February 23, 2020;
3. repayment of shareholder loans provided to companies during the period until December 31, 2020 are no longer subordinated to the satisfaction of other creditors of the company;
4. during the period up to December 31, 2020, companies that suffer a reduction...
of more than one third to, or lose their corporate capital need not necessarily proceed with dissolution or a mandatory recapitalization.

Notwithstanding the positive impact of these government measures, projections concerning insolvency proceedings in Italy are not optimistic.

The FMI in its surveillance note of July 18, 2020 has stated that small enterprises will likely be the most affected, and their bankruptcy rate may triplicate from an average of 4% before the pandemic to 12% in 2020, in case of lack of a significant political support. Among the 17 countries which were the object of analysis by the IMF (inter alia Belgium, Czech Republic, Finland, France, Greece, Hungary, Italy, Poland, Portugal, Romania, and Spain) the biggest increase in bankruptcies would occur in Italy, due to the sharp drop in aggregate demand and the high share of production in contact-intensive industries.

According to the same report, the most impacted sector would be the services sectors, with average default rates increasing by more than 20% in administrative services, the arts, entertainment and education, whereas essential activities, such as agriculture, water and waste services would register only small increases in bankruptcy rates.

**Have Businesses Managed To Weather The Storm?**

The government’s help has been fundamental for Italian companies in order to assist in attempting to manage the first wave of the Covid-19 impact.

The non-repayable loans, but also support measures protecting employees from redundancy, such as the furlough scheme introduced in March, have helped support the Italian economy.

Based on analysis carried out by Confindustria, the main industry association representing manufacturing and service companies in Italy, companies have mainly introduced strategies of reduction of fixed costs (23.5%) and expansion of market targets (17.9%) in order to overcome economic difficulties brought on by Covid-19.

Smart working has been a fundamental strategy, which seems to be still implemented in companies with a relatively high number of employees. According to data published by Confindustria relating to the end of July 2020, the sectors with the highest number of employees in smart working are those of the information and communication services sectors (70.3%), travel agencies and business support services (62.6%), which far exceed the national average.

On the contrary, employees in many other sectors including the water supply or sewerage sector (73.9%), manufacturing activities (72.7%) and other activities and services (72.4%) have generally returned to their companies’ premises.

**What Does The Future Hold?**

In recent months the Italian economy has shown timid signs of recovery.

An ISTAT analysis dated August 2020 suggests that there is more optimism
throughout companies, probably due to the re-opening process, the increase in production, and an increase in export sales (+ 14.4% in June, on a quarterly basis) and imports (+16.1% on a quarterly basis).

Nevertheless, the situation of the Italian economy is, and will most likely remain, for some time, seriously negative.

Italian GDP for 2020 is forecast to contract by 11.2%, according to latest data published by the European Commission, based on analysis of the Directorate-General for Economic and Financial Affairs.

According to the same source, in 2021 Italian GDP will have a recovery of approximately 6%, remaining however still below pre-pandemic levels.

Furthermore, another negative element to consider is the Italian public debt. At the end of 2019, Italian public debt amounted to 135% of GDP. In 2020, Italian public debt is forecast to amount to approximately 160% of Italian GDP. This element will seriously impact Italy’s chances of economic recovery.

A final element that comes into play with regards to a return to Italian economic growth is the recovery fund allocated by the European Union.

Italy will be granted an overall amount of Euro 209 billion, divided into grants (Euro 63.7 billion), loans (Euro 127.6 billion) and other types of contribution (Euro 17.6 billion).

Pursuant to recent statements of the Italian Minister for Economic and Finance, the areas that will likely most benefit from contributions are infrastructure, healthcare, environmental sustainability and digitalization.

Future odds are not positive, but with a great effort and the support of the European Union, the Italian economy should slowly recover.

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