



The Italian economy: will the headwinds or the tailwinds prevail?

Macroeconomic Research

Macroeconomic Analysis, Research Department – Intesa Sanpaolo

8 September 2023

Agenda

1 Headwind #1: less generous fiscal bonuses

2 Headwind #2: tighter financial conditions

3 Tailwind #1: recovery in hhs' purchasing power

4 Tailwind #2: significant boost from the NRRP

5 Fiscal policy: headwind or tailwind?

6 Conclusions

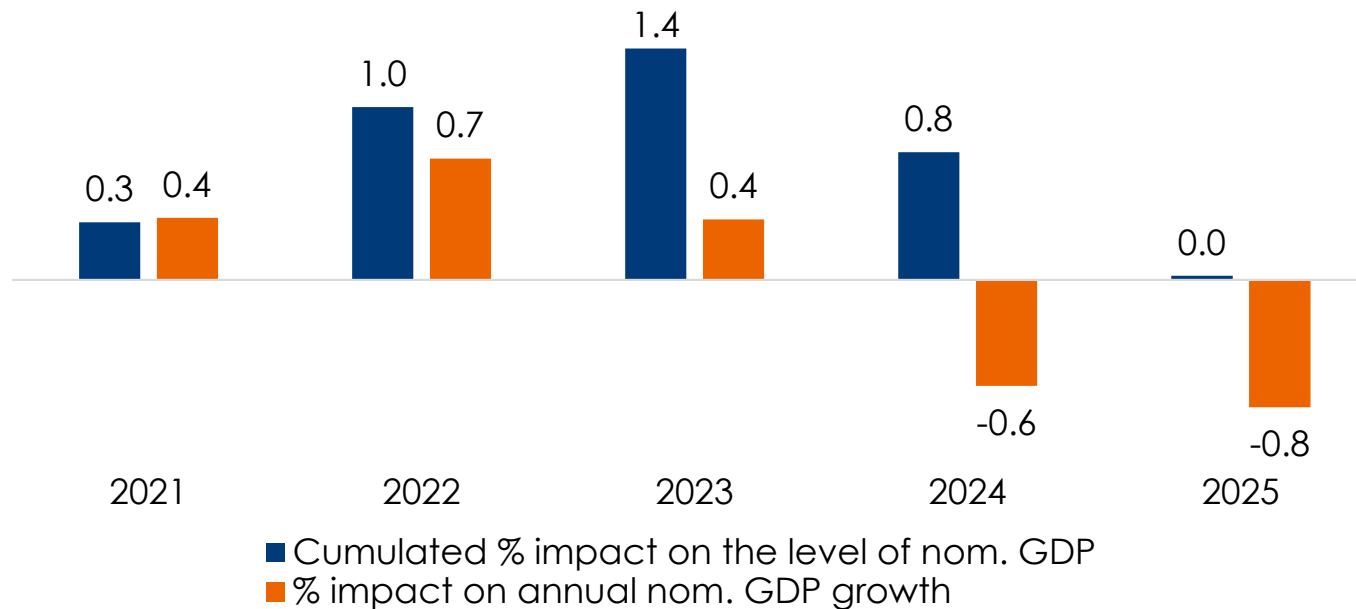
Impact of the 110% Superbonus

- Crystallising the situation at the end of August, under the (very pessimistic) assumption that no more new work would be eligible for deduction in the months from August to December, and assuming that all works will be completed by year-end, **the impact on nominal GDP growth rate would be +0.4% in 2023, after +0.7% in 2022 and +0.4% in 2021**. However, the impact on *real* growth was much smaller, because the Superbonus had an upward distorting effect on prices.
- Assuming, as the Govt does, that new investments eligible for the bonus drop by 40% in 2024 and result almost negligible in 2025, **the impact, still on nominal GDP growth, would be -0.6% in 2024 and -0.8% in 2025**. Yet, the impact on real growth would be smaller, and the assumptions look overly pessimistic.
- Estimates are obtained by considering that around **half* of the new spending is additional** (it would not have been implemented without the incentives), and with a **1.1 multiplier** resulting from input-output tables.
- Available estimates vary depending on the kind of bonuses considered (just 110% Superbonus, Superbonus+Bonus Facciate, all building bonuses).

* Bank of Italy estimate

Impact of the 110% Superbonus

EUR Bn	2020	2021	2022	2023	2024	2025
Superbonus (work completed)		11.2	35.4	49.6	28.4	0.9
Additional expenditure (50%)		5.6	17.7	24.8	14.2	0.5
With multiplier effect (1.1)		6.1	19.5	27.3	15.6	0.5
Nominal GDP	0.0	1787.7	1909.2	1999.9	2062.6	2127.3
Nominal GDP growth (%)		7.6	6.8	4.8	3.1	3.1
Nominal GDP without Superbonus	0.0	1781.5	1889.7	1972.7	2046.9	2126.7
Nominal GDP growth without Superbonus (%)		7.3	6.1	4.4	3.8	3.9
Superbonus effect on nominal GDP growth (%)		0.4	0.7	0.4	-0.6	-0.8



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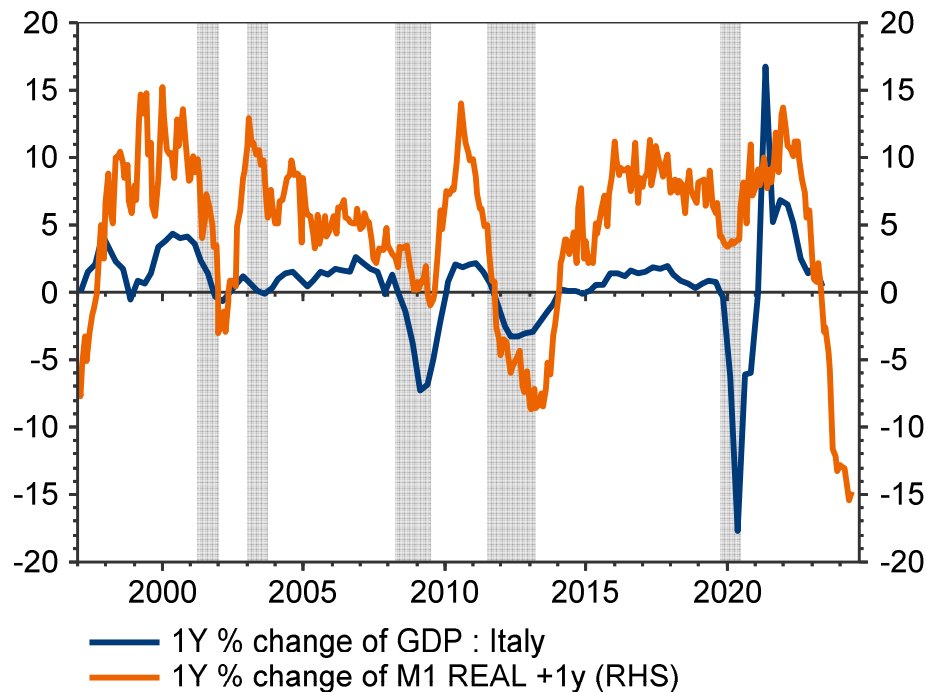
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Monetary tightening is starting to bite

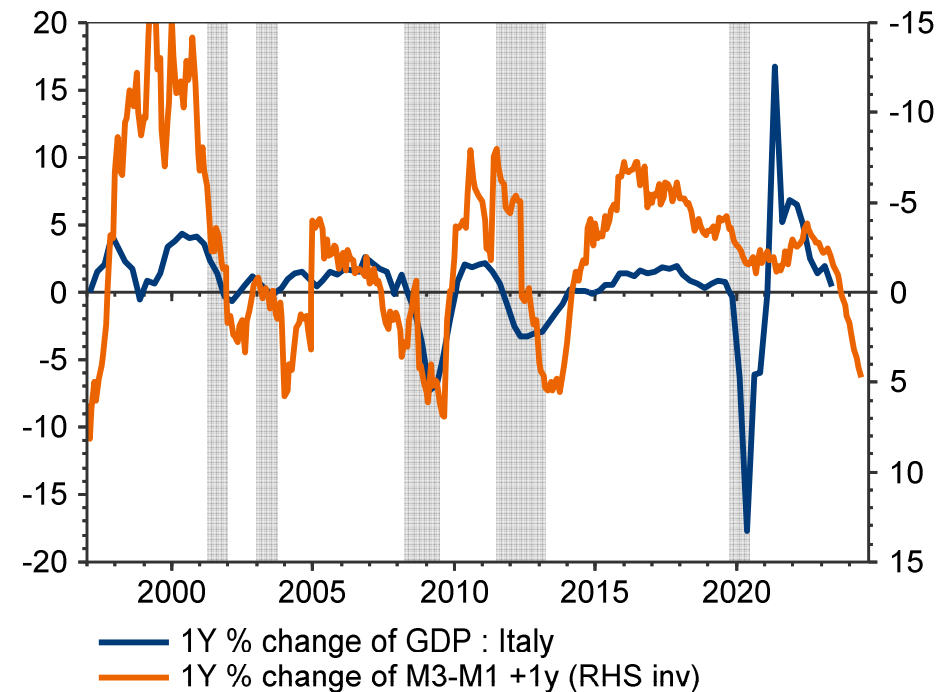
The slump in monetary base is being reflected into not just the narrowest monetary aggregates (M1) but also to the less liquid ones (M3), which does not bode well for the outlook in the coming months.

“Real” M1 in negative territory has always come together with a recession



Source: Intesa Sanpaolo elaborations on Istat and ECB data

The fall affects even the broadest monetary aggregates

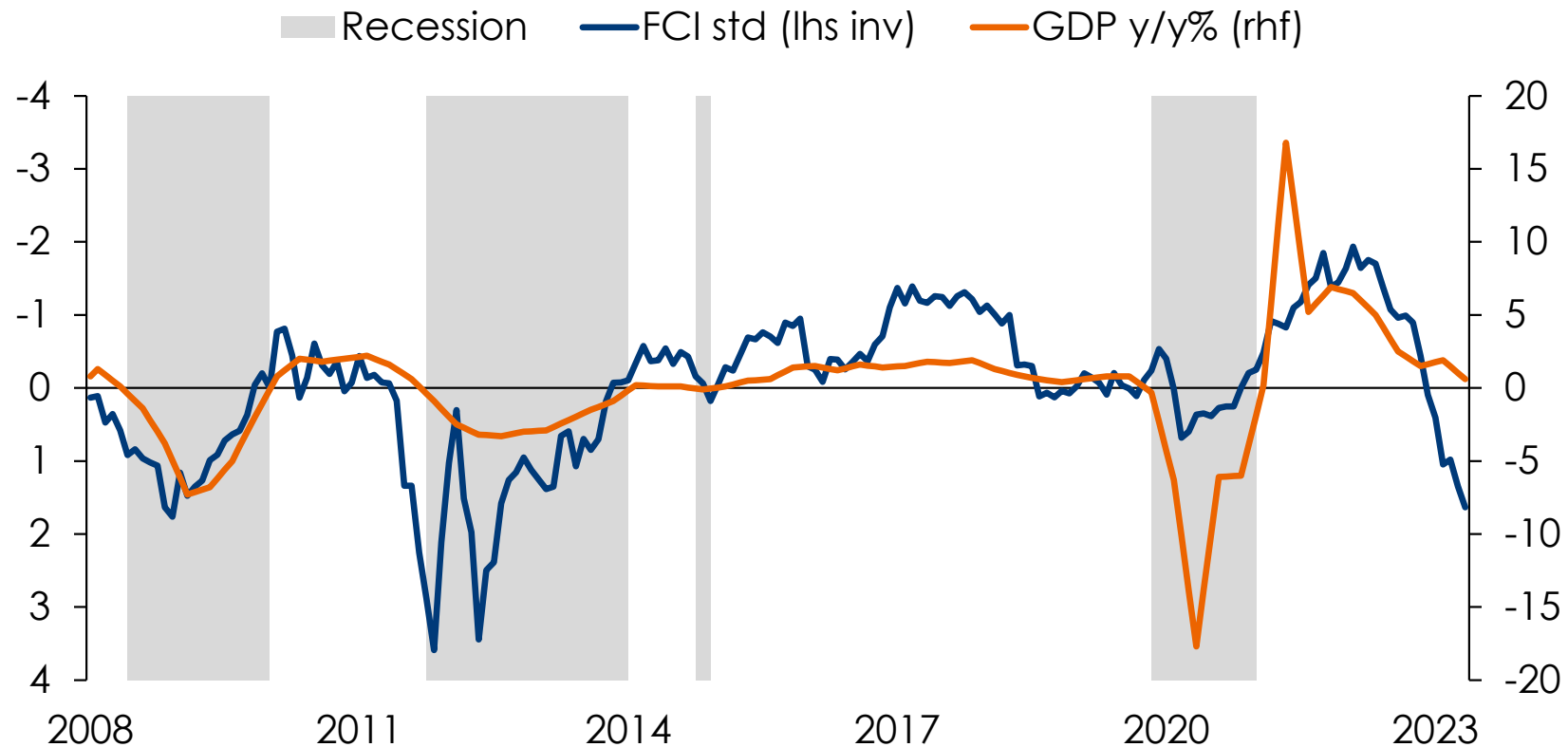


Source: Intesa Sanpaolo elaborations on Istat and ECB data

ISP index of financial conditions for Italy

We are developing an index of «broad» financial conditions for Italy, which aggregates not just indices of “market stress” but also indicators of the cost and availability of credit.

In the past, a FCI in restrictive territory has always been followed by a recession

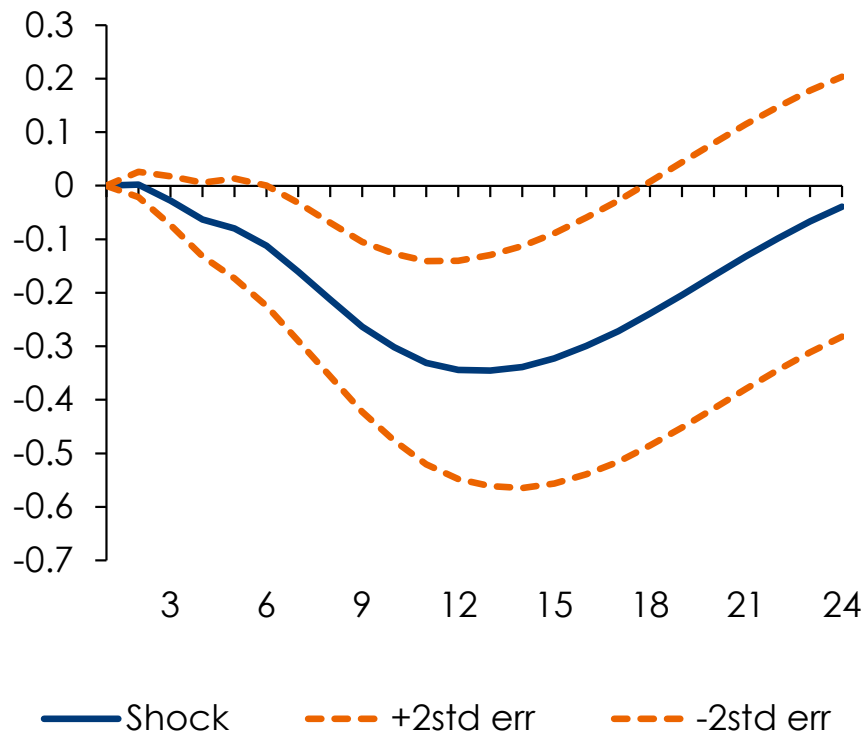


Source: ISP elaborations on a wide set of indicators (sources: Istat, ECB, Bank of Italy, Refinitiv-Datastream)

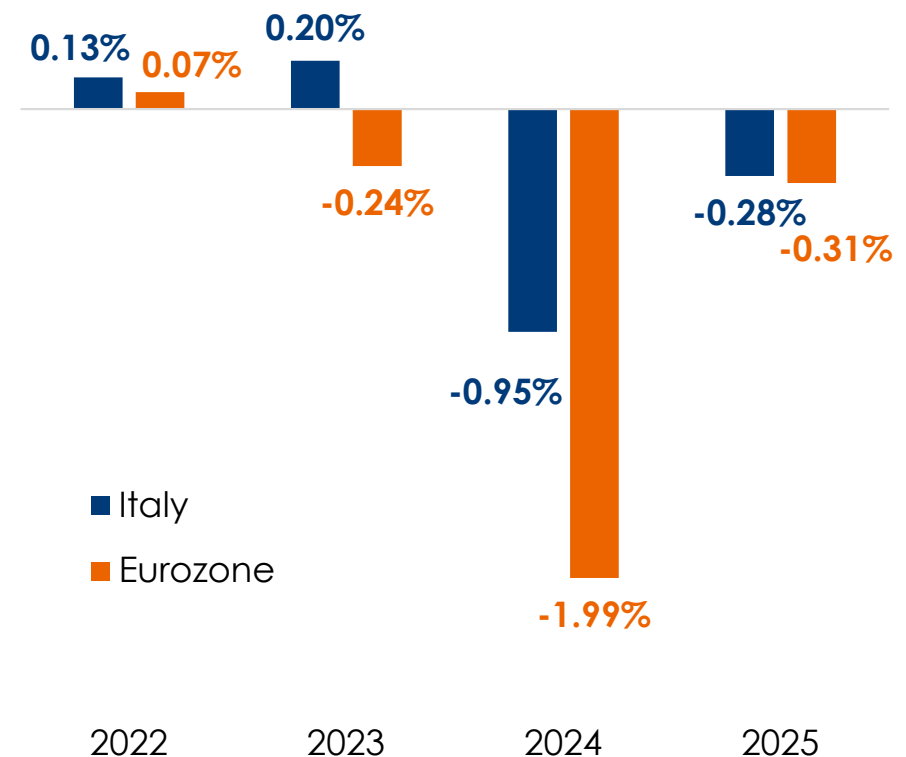
The peak in the impact could be seen in H1 2024

The effect on y/y % GDP growth persists even one year after the financial conditions shock, with peaks recorded 5-6 quarters later. This result is consistent with the literature and is in line with a recent Bank of Italy study which points out that the transmission lag of a change in reference rates on growth is between 4 and 8 quarters.

Impact on y/y % GDP growth of a shock equal to 1 std dev of ISP FCI (vs neutral scenario)



Impact on GDP growth of the deterioration in the ISP FCI seen since the beginning of 2022



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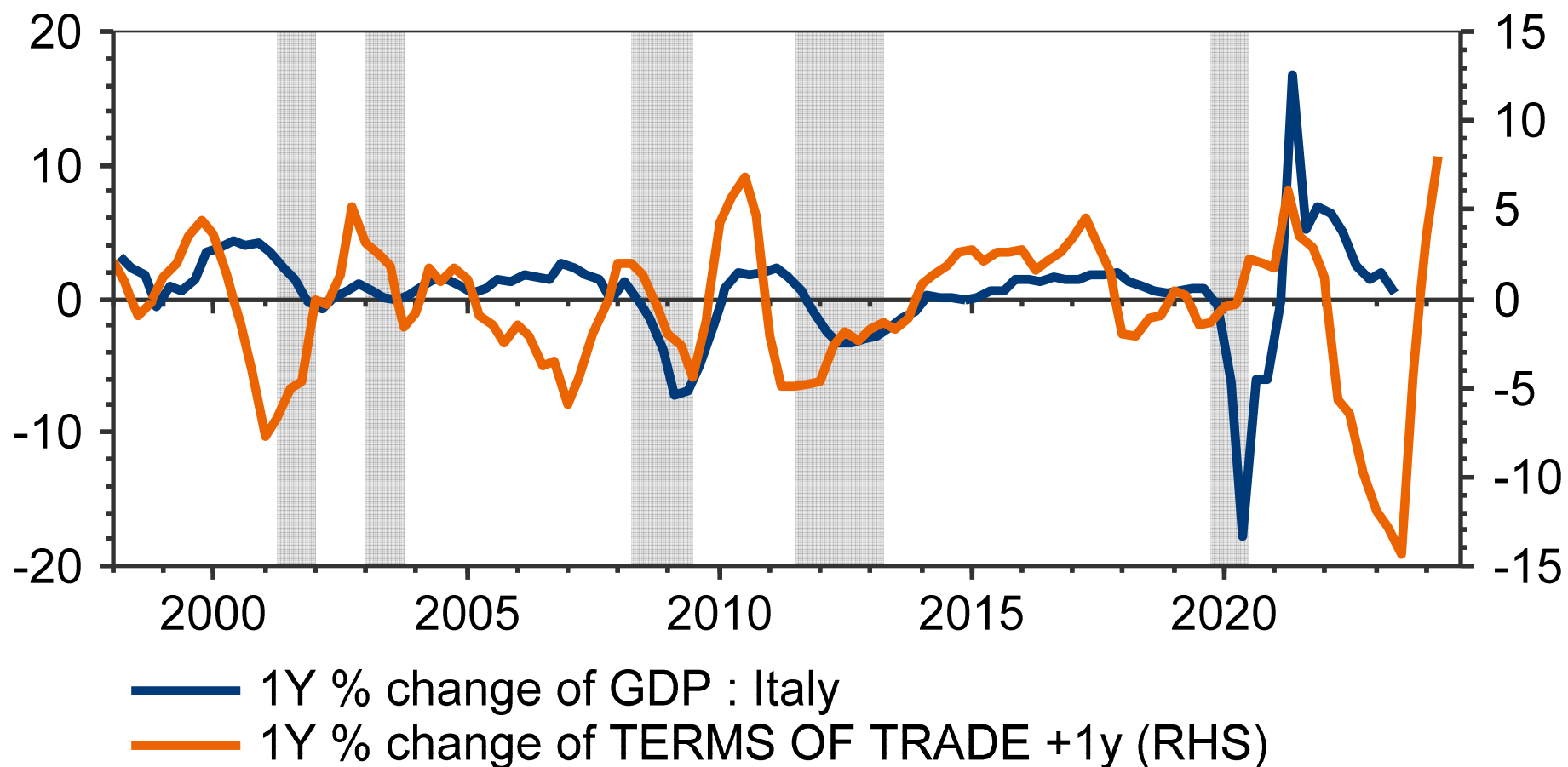
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The shock in the terms of trade is being reabsorbed

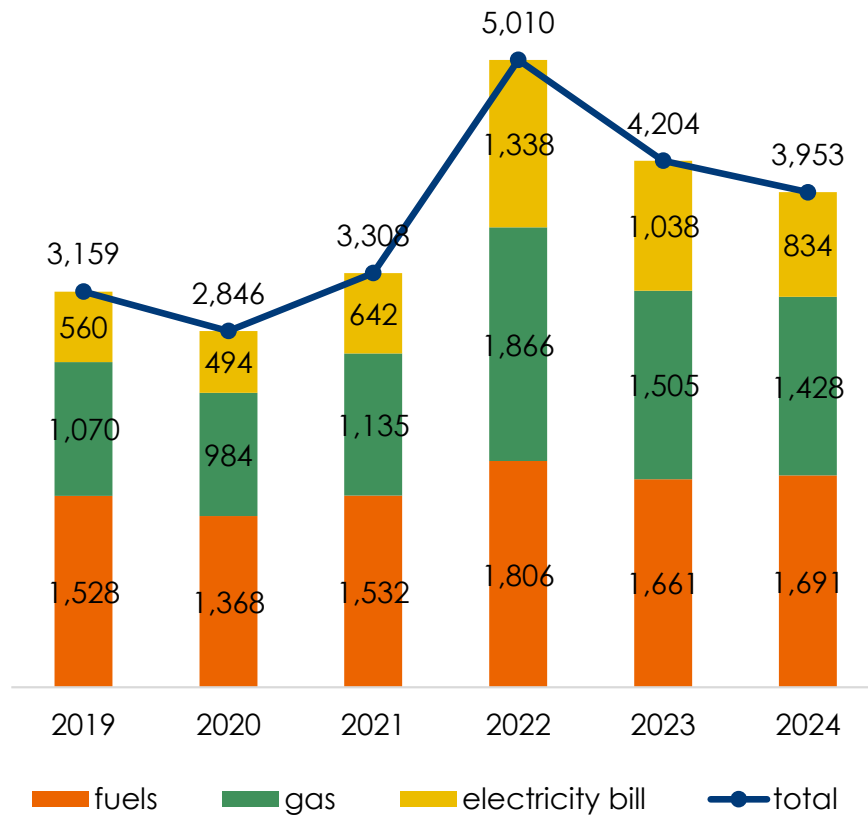
GDP vs TERMS OF TRADE
(Export deflator y/y – Import deflator y/y)



Source: ISP elaborations on Istat data

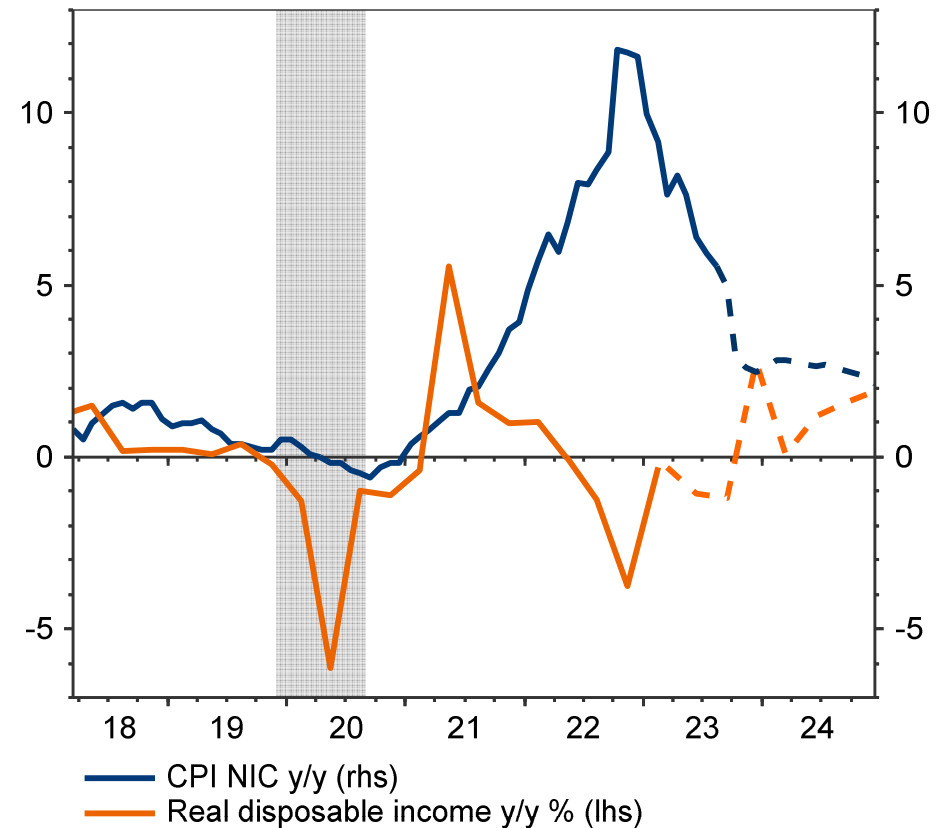
Households will spend less on energy than last year

Cost of energy spending for the typical household (EUR)



Note: the simulation assumes no change in volumes.
Source: Intesa Sanpaolo elaborations and forecasts on Istat data, ARERA

Households' purchasing power should return to growth on a y/y basis starting from Q4 2023



Source: Intesa Sanpaolo elaborations and forecasts on Istat data

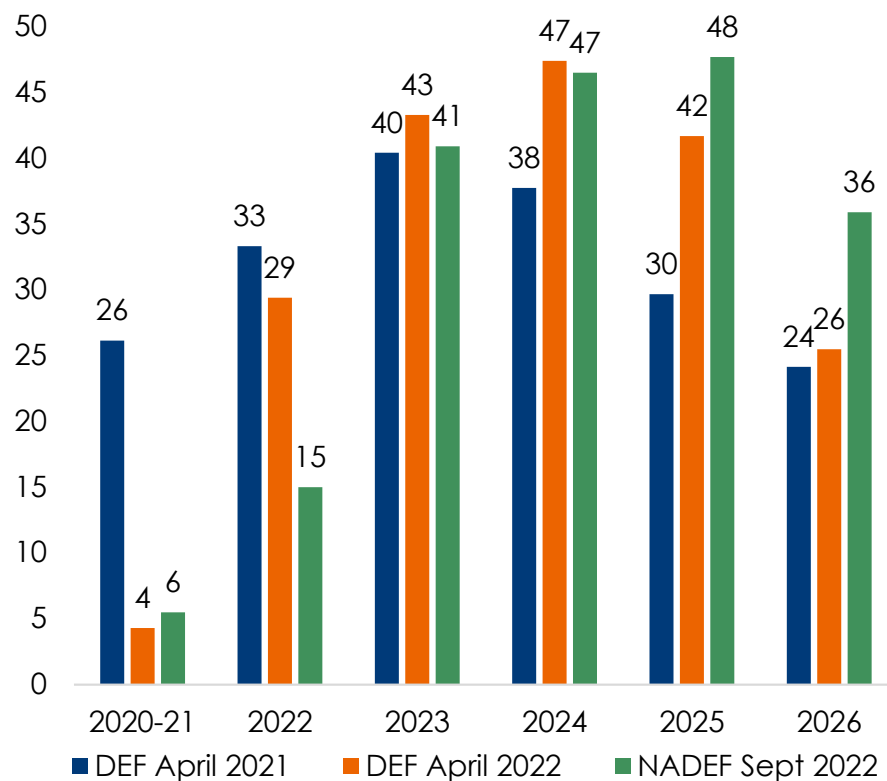
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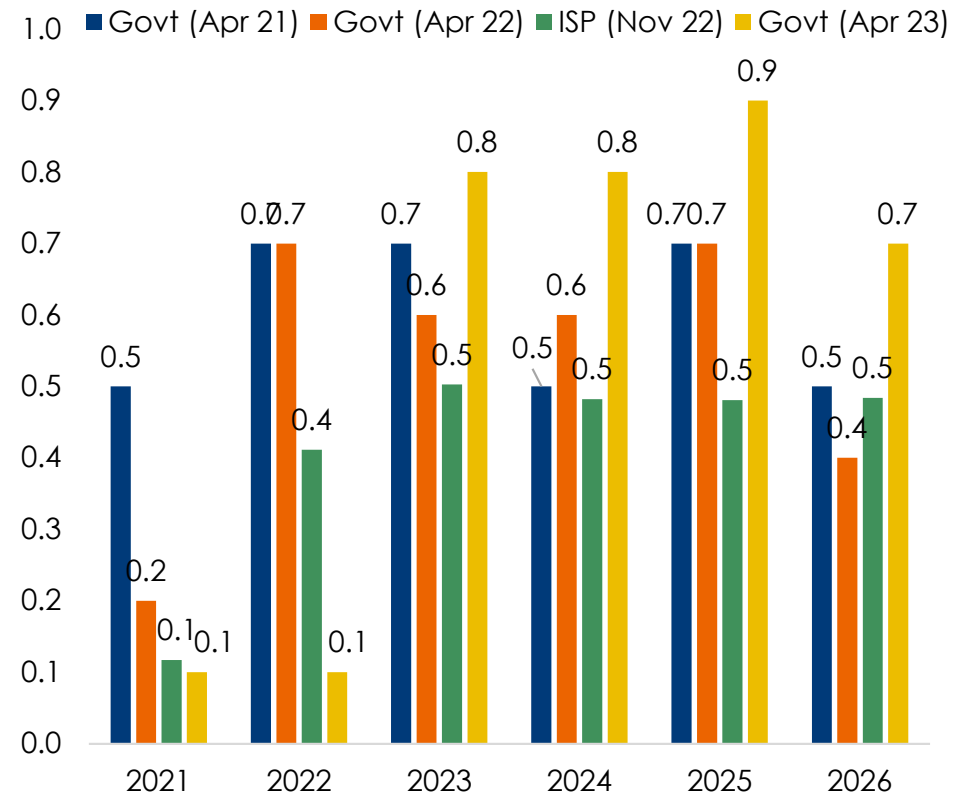
Even in case of uncomplete implementation, the boost from NRRP could be significant in 2024-25

The time schedule of RRF-financed spending has been revised several times. In 2021-22 spending was lower than anticipated. The most recent update is as of April, but most of expenditure expected in 2023 could be postponed to 2024-26.

RRF resources allocated (billions of euros), **DEF vs. NADEF comparison** (April Fiscal Plan vs. September Update)



GDP impact estimates (deviations from the baseline scenario in terms of *annual GDP growth rate*)

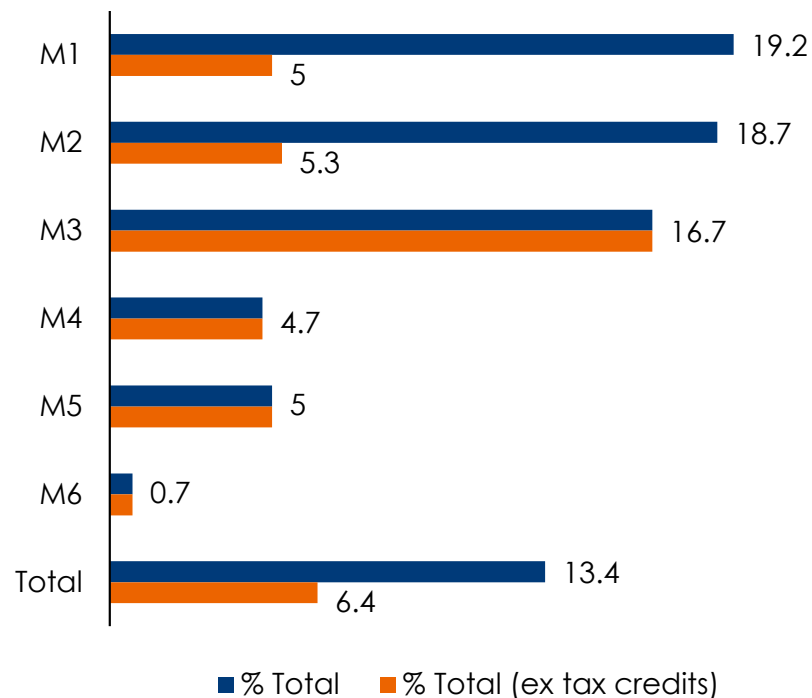


Source: Italian Government, ISP elaborations

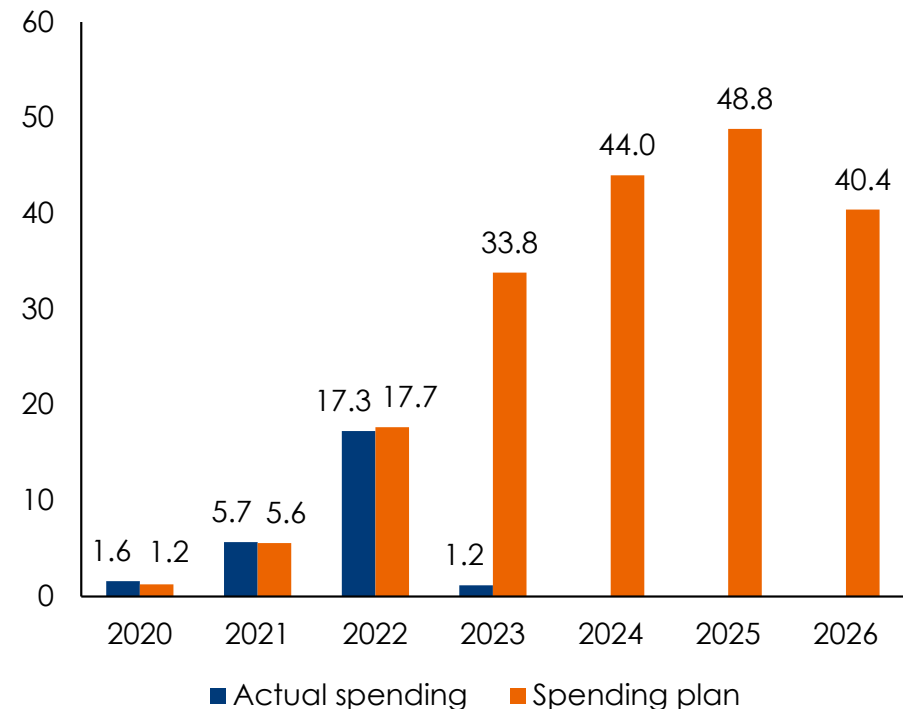
Total spending as of February 2023 was 25.7 EUR Bn

The last update on effective spending is as of February 2023 (just 1 Bn was spent in the first 2 months of the year). Most of the implementation has regarded tax credits. As 2023 could result disappointing, a significant acceleration is needed in 2024.

Excluding tax credits, total spending is 10.5 Bn (6.4% of the Plan)



Actual and planned spending (EUR Bn)



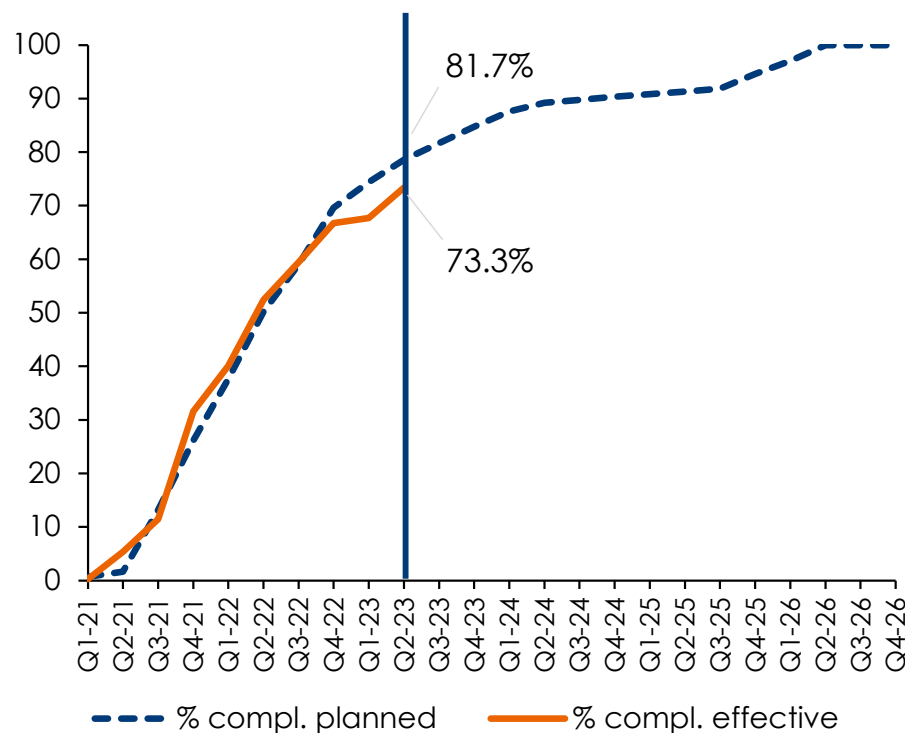
Note: Mission 1 = Digitalisation, Innovation, Competitiveness and Culture, Mission 2 = Green Revolution and Ecological Transition, Mission 3 = Infrastructure for Sustainable Mobility, Mission 4 = Education and Research, Mission 5 = Inclusion and Cohesion, Mission 6 = Health. Source: Intesa Sanpaolo calculations on Corte dei Conti data

Source: Intesa Sanpaolo calculations on Corte dei Conti data

Compared to what has been planned to date, there are more delays in investments than in reforms

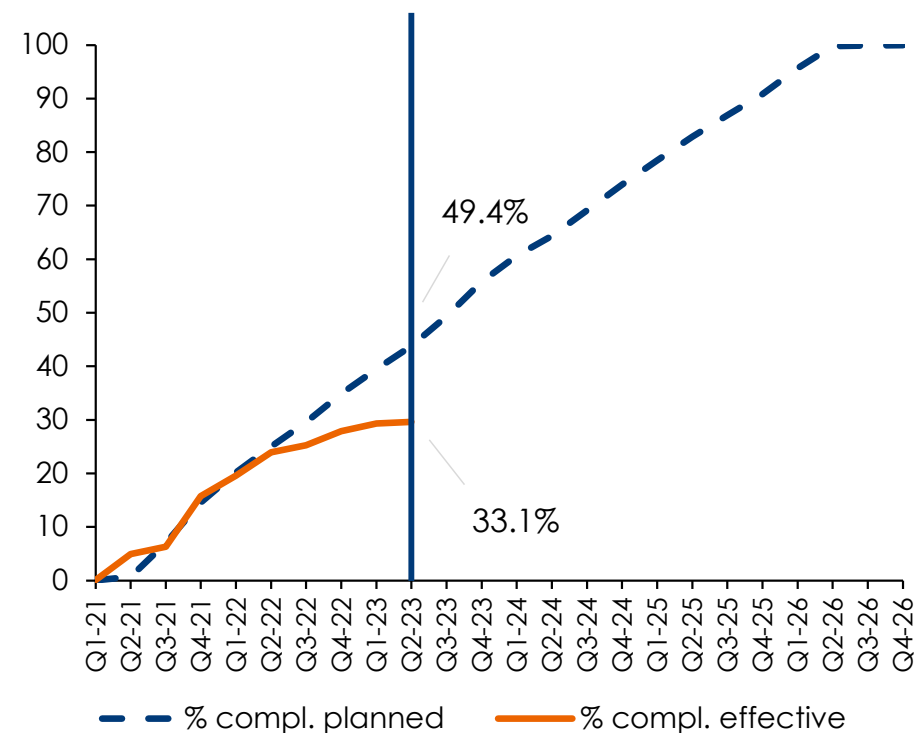
The updated census of the Regis platform counts to date more than **178k projects** (45% concentrated in northern Italy) **already launched or in the start-up phase**, for a total of **EUR 117.5 billion (61% of RRF funds)** of eligible costs.

Percentage of completion of measures in regulatory reforms of the NRRP



Source: Intesa Sanpaolo elaborations on Openpolis

Percentage of completion of NRRP investment measures



Source: Intesa Sanpaolo elaborations on Openpolis

NRRP: 3rd and 4th instalment payments due by the end of the year

- At the end of July, the **European Commission** gave a **positive preliminary assessment on the payment of the third instalment of the NRRP**. From the originally planned EUR 19bn, EUR **519.5M** will be **reduced as a result of the shift of the target of new student housing** from the 2nd half of 2022 to the 1st half of 2023. The **third instalment of 18.5bn** will be disbursed after the opinion of the Economic and Financial Committee of the Council (within four weeks after the Commission's green light).
- On 28 July 2023, the Commission gave a **positive verdict on the request to amend 10 of the 27 measures with a deadline by the end of the first half of 2023**. Following the modifications proposed by the Italian government, the European executive concluded that the plan still complies with the criteria set out in the Recovery Regulation and the overall ambition is not affected by the modifications. The proposal will also have to be approved by the European Council and the objectives of the **fourth tranche** will include the construction of 7,500 new student beds in university housing. The amount of the payment to Italy will therefore rise to **EUR 16.5bn**.

The revision of the Italian NRRP

The revision of the National Plans is provided for in **Regulation (EU) 2021/241**, which in Article 21 contemplates the possibility of amending or drafting a new Plan for «**objective circumstances**». The request for amendment of the Italian Plan is also in the preparation of the chapter dedicated to the achievement of the **REPower EU** objectives, with a deadline of 31 August 2023. On the whole, the **Italian government has submitted amendment proposals for 144 investments and reforms**, divided into three categories:

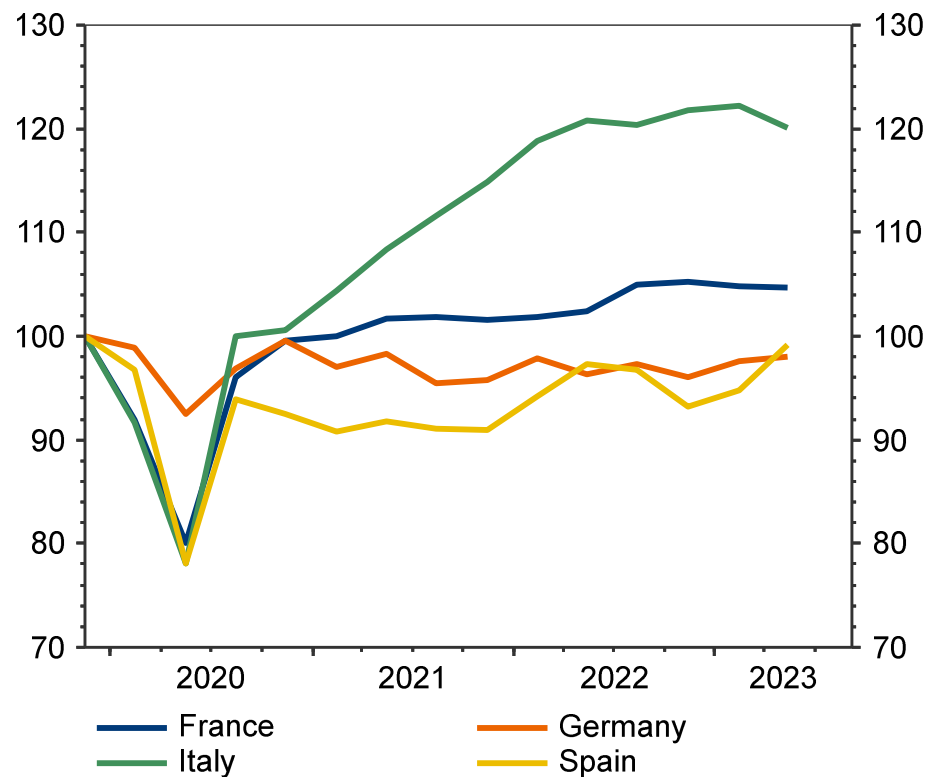
- **formal changes regarding the description of measures and verification mechanisms** (in some cases reduction of quantitative targets or shifting of implementation timeframes associated with individual objectives);
- **reallocation of resources between measures within the same sector** due to the impossibility or high criticality of achieving certain targets (especially physical targets such as high-speed interventions);
- **exclusion and consequent defunding of entire measures** (9 in total, amounting to **EUR 15.9bn**) with the transfer of their coverage to other funding sources.

The proposed amendment also provides for the reinforcement (with increased funds of **EUR 900M**) of the **crèche** measure, which has been penalised by rising raw material costs.

The impact from NRRP should extend the “boom” in investments seen in recent years

The increase in investments financed by the NRRP means higher capital stock, which should have an impact on Italy’s potential GDP. Also, investment growth has been very sustained already in recent years (little affected by NRRP).

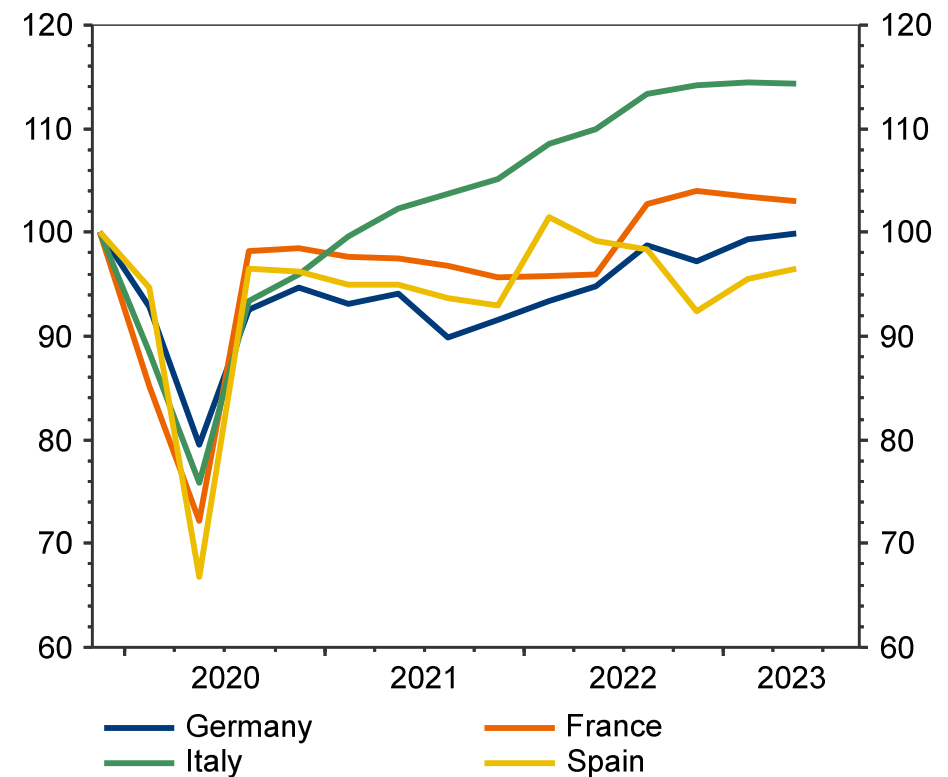
The capex recovery in Italy was more pronounced than in EZ peers...



Note: Q4 2019=100.

Source: Eurostat, Intesa Sanpaolo calculations

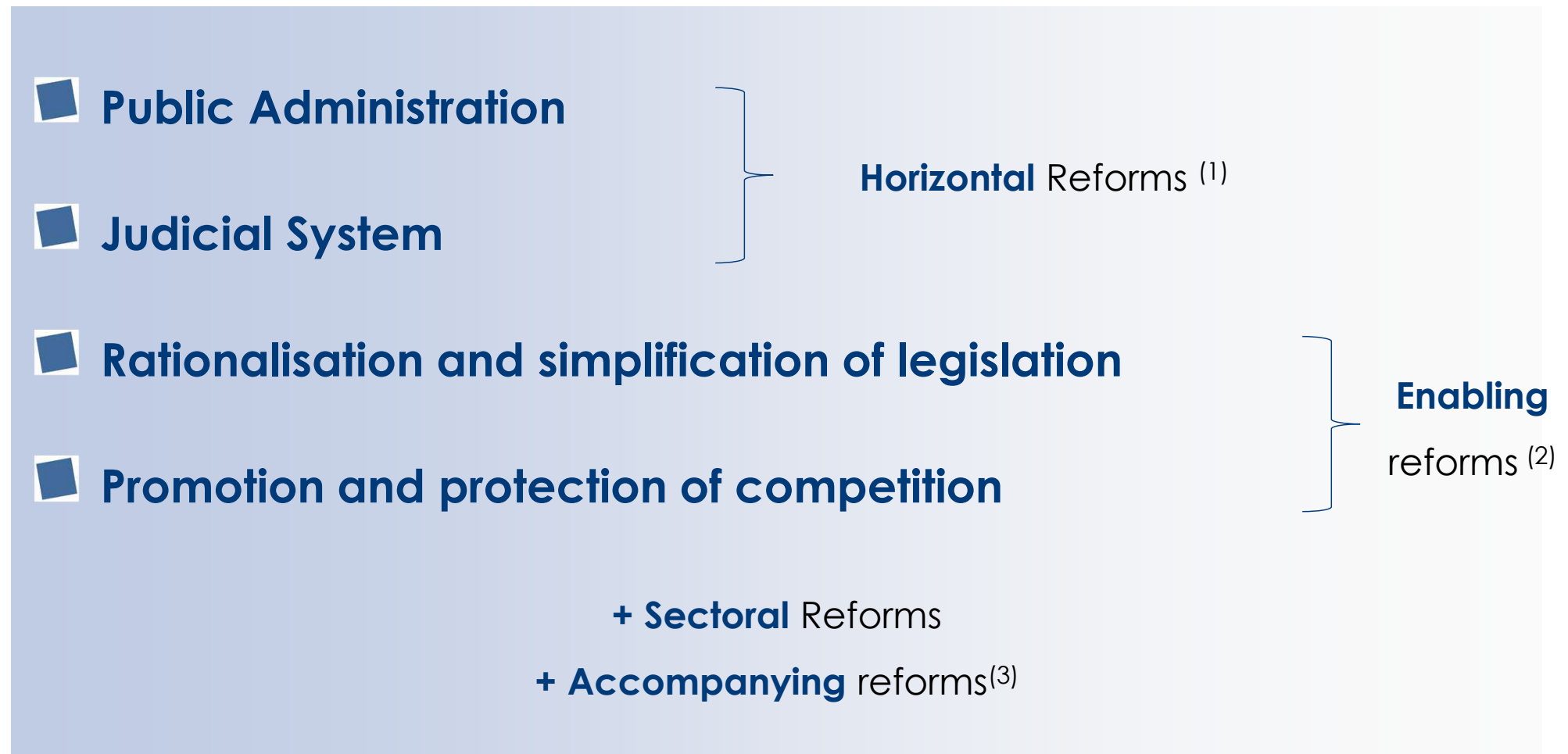
...which remains true also considering just investments in machinery and equipment



Note: Q4 2019=100.

Source: Eurostat, Intesa Sanpaolo calculations

The Italian NRRP envisages 4 structural reforms



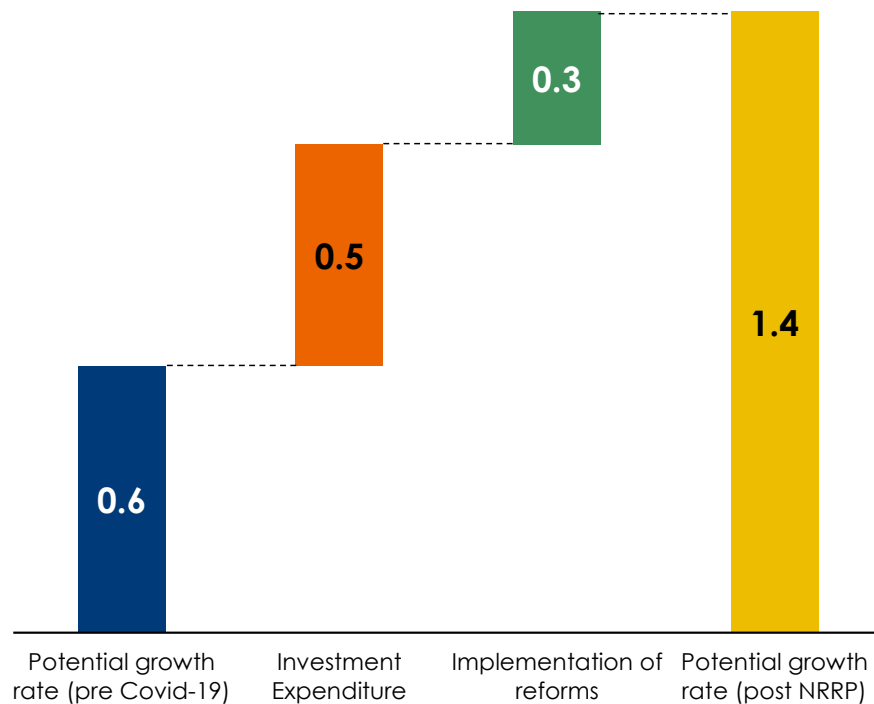
(1) of transversal interest to all the Missions of the Plan, consisting in structural innovations of the system, suitable for improving equity, efficiency and competitiveness and, with them, the economic climate of the country;

(2) functional interventions to ensure the implementation of the Plan and, in general, to remove administrative, regulatory and procedural obstacles that condition economic activities and the quality of the services provided;

(3) although not included in the scope of the actions envisaged in the Plan, they are intended to accompany its implementation, contributing to achieving the objectives of social equity and improving the competitiveness of the production system (tax reform, reform of social safety nets/labour market)

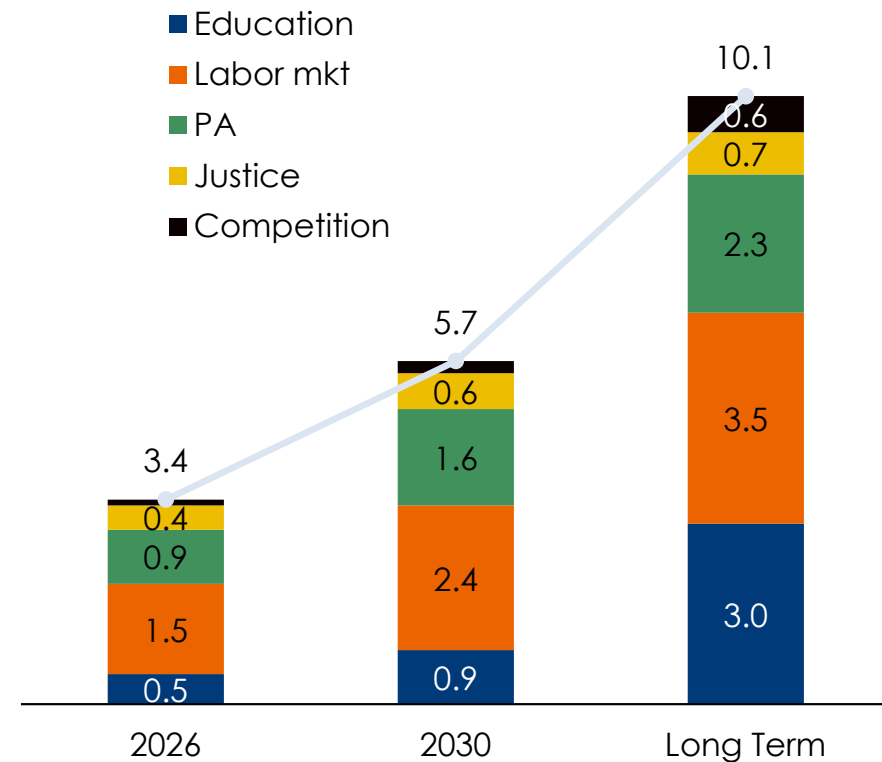
The impact of the NRRP reforms on Italian GDP

In the government's initial estimates, the potential growth rate in 2026 should rise by 0.3% due to the full implementation of reforms



Source: Intesa Sanpaolo elaborations on MEF data

Overall potential impact of NRRP reforms on GDP
(percentage deviations from baseline GDP in levels)



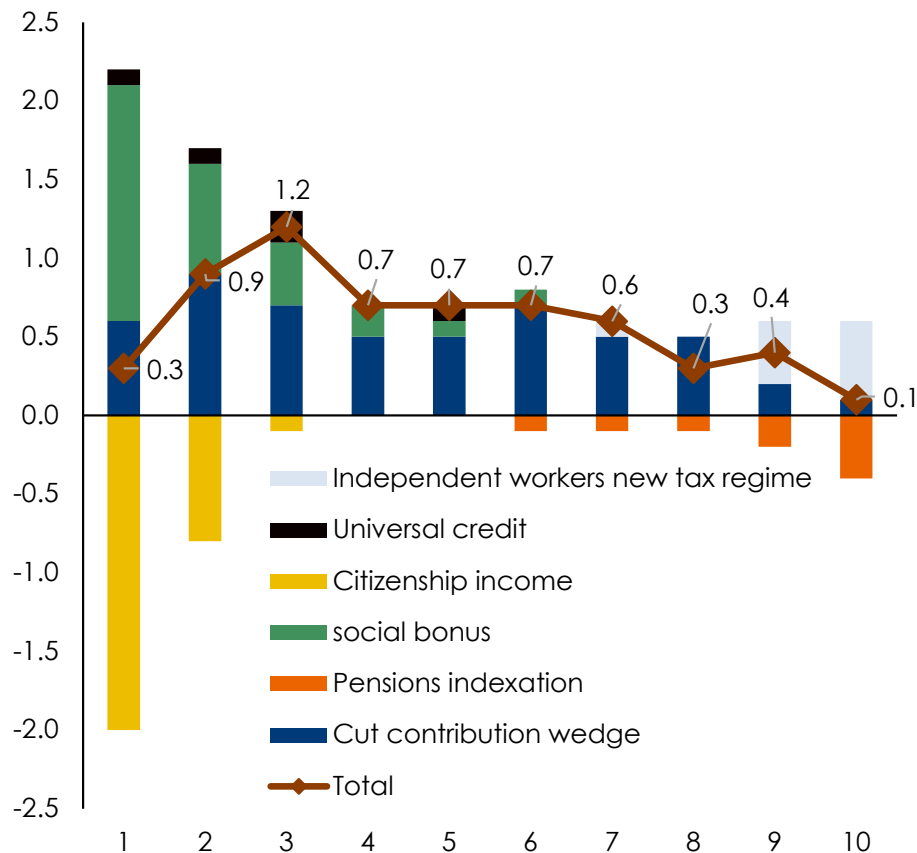
Note: estimates made using the QUEST-III R&D simulation model. Source: Intesa Sanpaolo elaborations on Italian government data

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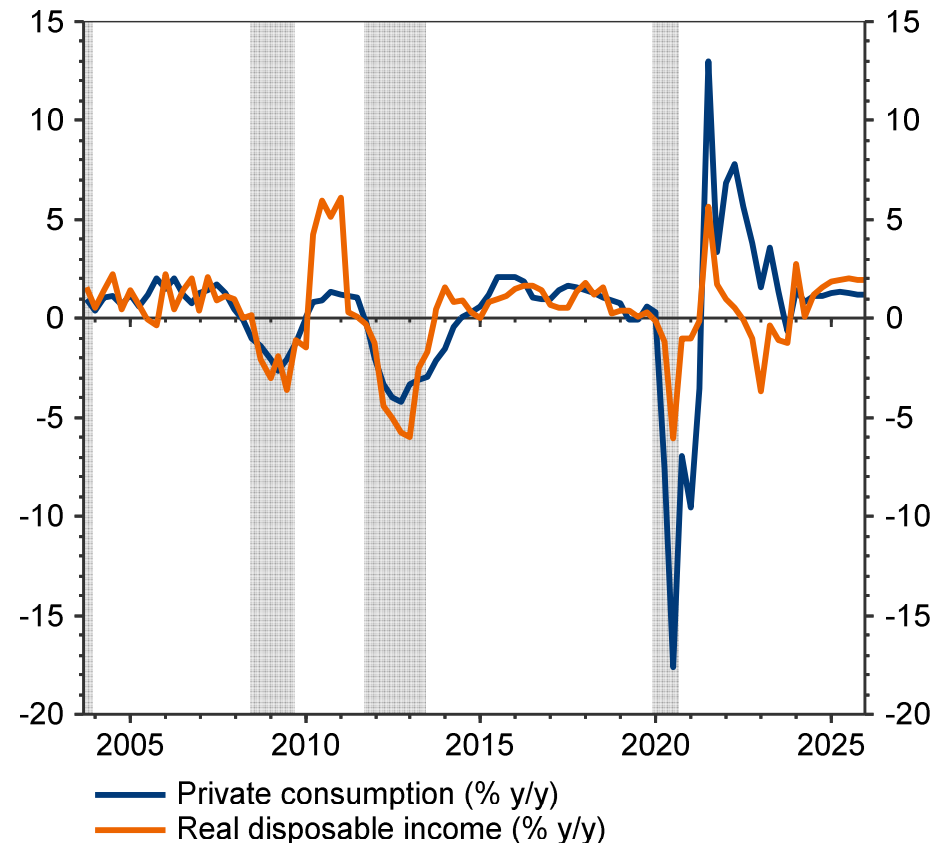
Fiscal policy still supportive...

Impact of 2023 Budget bill measures on disposable income deciles (%)



Source: Bank of Italy

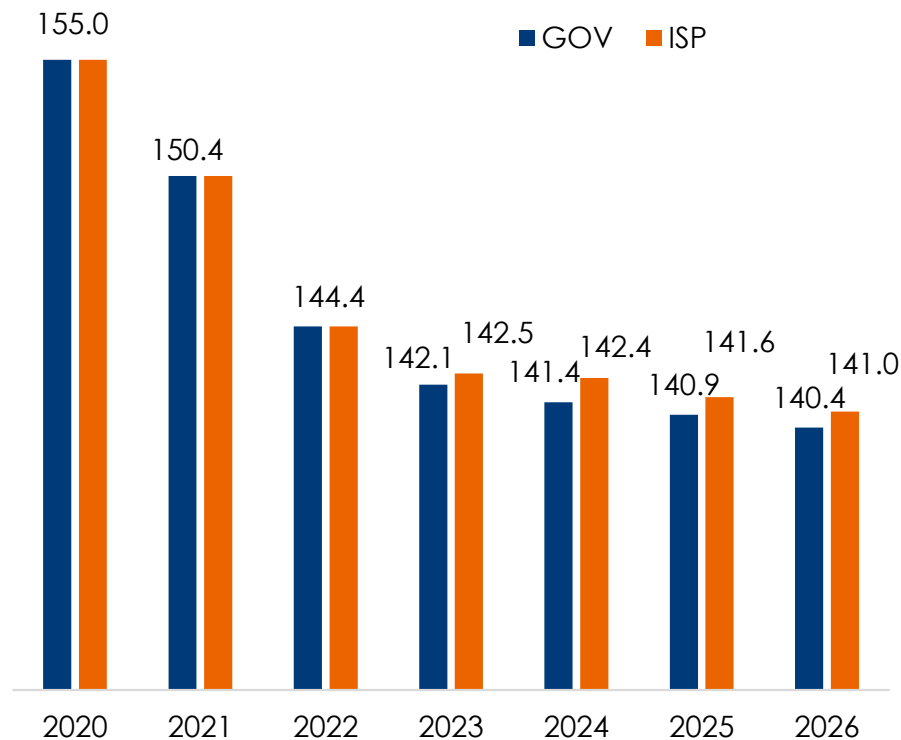
From H2 the cut in the contribution wedge will provide additional support



Source: Intesa Sanpaolo forecasts, Istat data

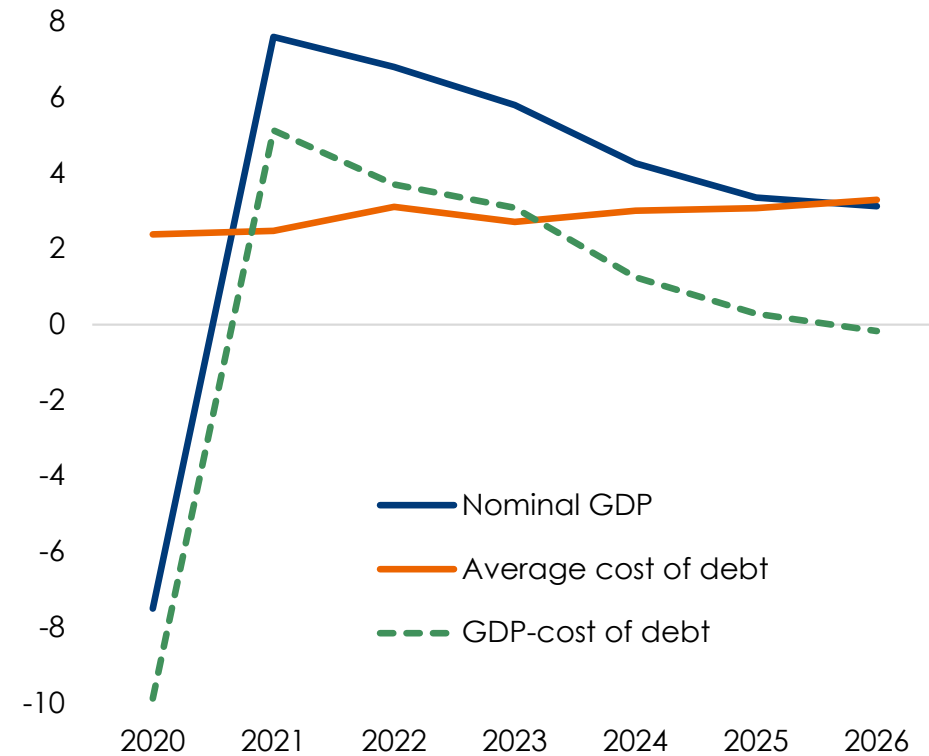
...but the debt ratio should egde down further

The debt-to-GDP ratio should continue to fall, albeit slowly



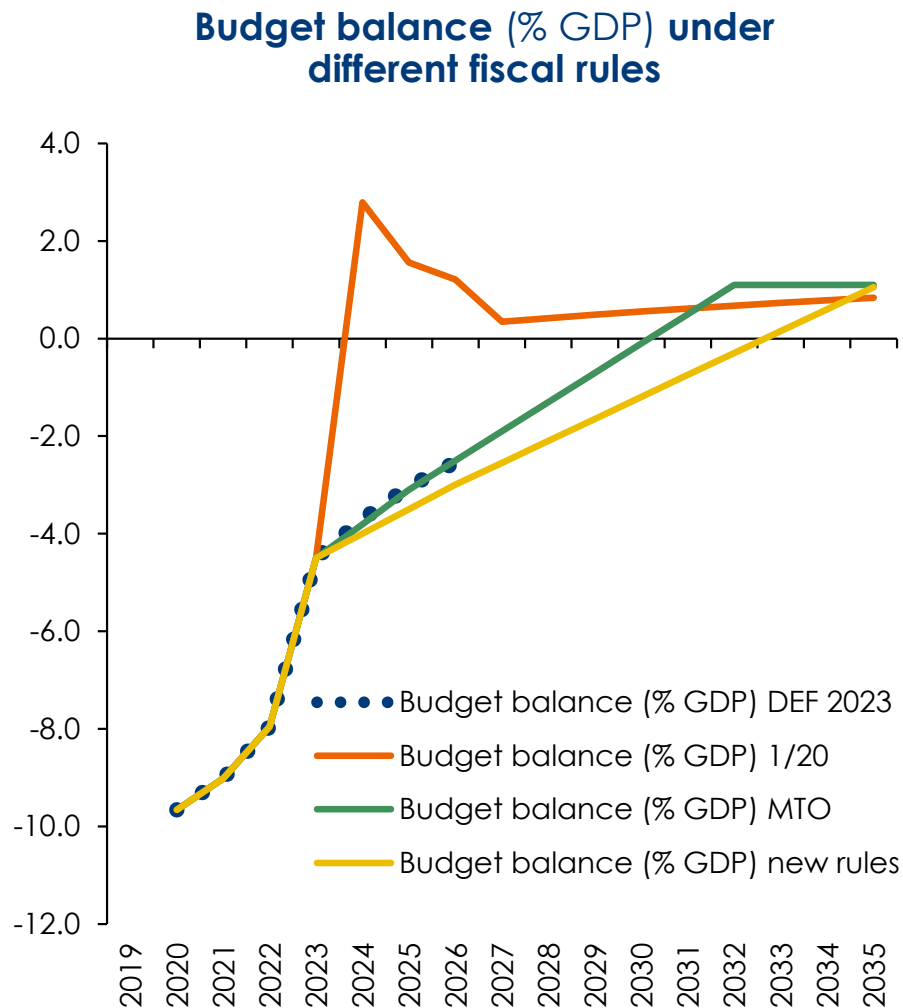
Source: Intesa Sanpaolo forecasts, Italian Government policy framework (DEF 2023)

G-i dynamics still favourable in 2024-25



Source: DEF 2023

The outlook will also depend on the reform of EU fiscal governance...

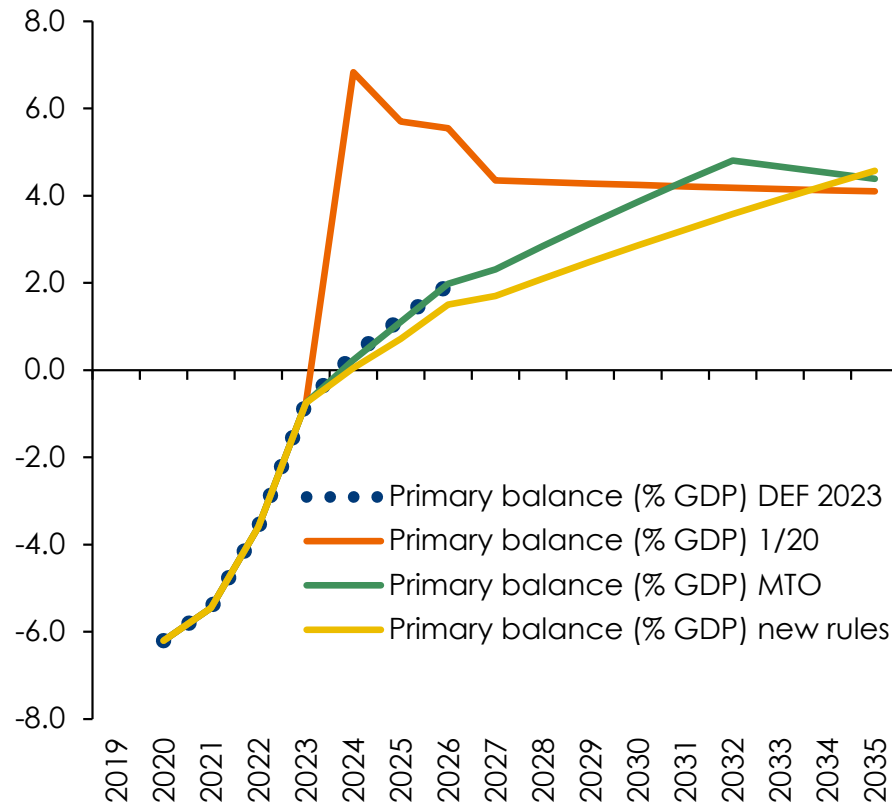


Source: Intesa Sanpaolo

- **Targets** on debt and public deficit confirmed **at 60% and 3%**.
- **Country-specific approach: multi-year plans** based on **net primary expenditure**.
- Medium term targets set on the basis of **Debt Sustainability Analysis**.
- **Anti backloading** and **minimum adjustment clauses** for countries with high debt/deficit.
- The policy framework presented by the Italian government in the **2023 DEF would be consistent with the new rules**.
- The required fiscal adjustment would be **moderately less restrictive than the MTO**.

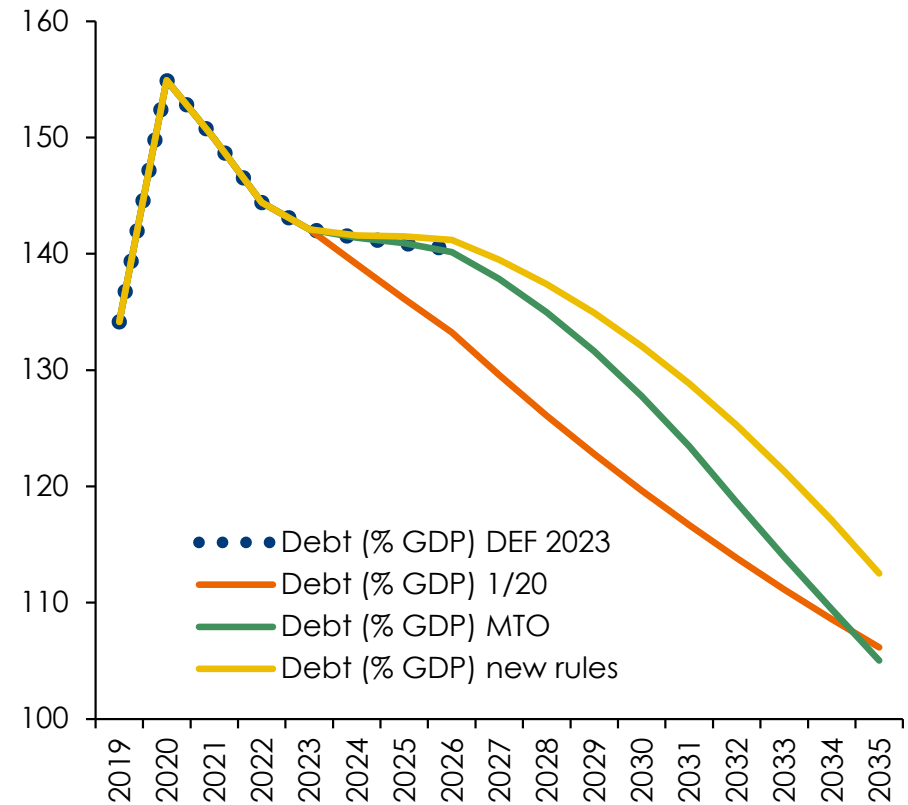
...which could mean more «flexibility» for Italy

**Primary balance (% GDP)
under different fiscal rules**



Source: Intesa Sanpaolo

**Public debt (% GDP)
under different fiscal rules**



Source: Intesa Sanpaolo

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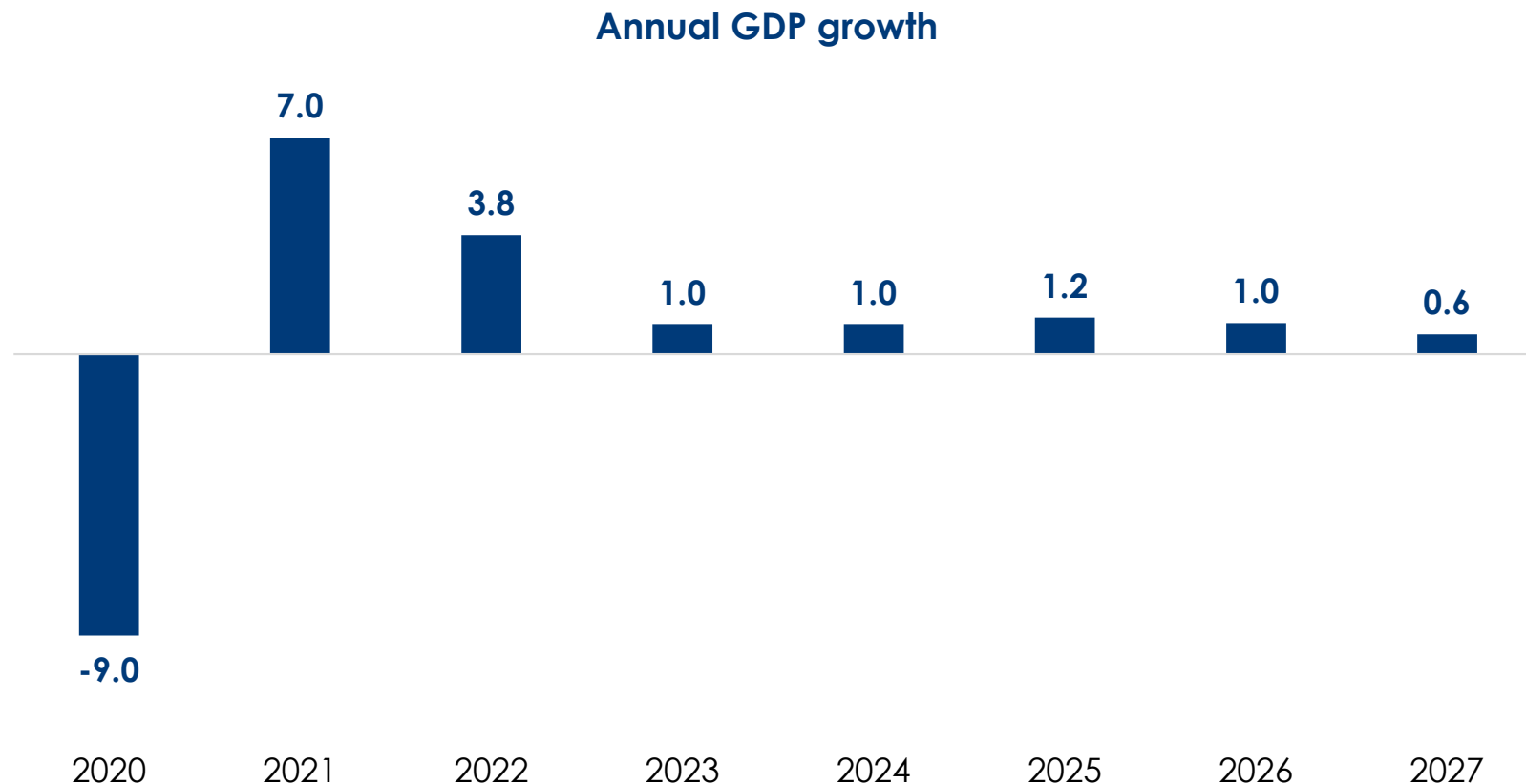
Our macro projections for the Italian economy

- We have recently revised our estimates for Italian GDP in the biennium 2023-24, to 1% on average, with downward risks.
- Uncertainty about the outlook for the cycle in 2024 is very high because there are forces acting in opposite directions: in H1, the impact of monetary tightening should prevail; in H2, support will come from the rebound in households' purchasing power (in a scenario of recovery for nominal incomes and falling inflation), and from the acceleration in NRRP-funded spending.
- One of the supporting factors is the resilience of the labour market: despite the recent slowdown in the cycle, unemployment has reached a new low since 2009, at 7.4%; looking ahead, we believe the labour market can remain robust.

	2022	2023f	2024f	2022	2022	2023	2023	2023	2023	2024	2024	2024	2024
				3	4	1	2	3	4	1	2	3	4
GDP (constant prices)	3.8	1.0	1.0	2.5	1.5	2.0	0.4	0.6	0.9	0.5	1.2	1.0	1.2
- q/q change				0.3	-0.2	0.6	-0.4	0.5	0.1	0.2	0.2	0.3	0.4
Personal consumer spending	4.6	1.4	1.1	2.3	-1.8	0.8	0.0	0.3	0.2	0.3	0.3	0.4	0.3
Government consumption	0.0	0.1	-0.1	-0.3	0.4	1.3	-1.6	0.2	0.1	0.0	0.0	0.2	0.1
Fixed Investments	9.7	0.5	1.2	-0.3	1.2	0.4	-1.8	0.6	0.4	0.4	0.4	0.5	0.6
Imports	12.5	-0.5	2.4	2.9	-2.6	-0.3	-0.4	0.2	0.8	0.8	0.7	0.6	0.6
Exports	10.2	1.0	2.5	-0.3	2.1	-1.0	-0.4	0.5	0.7	0.7	0.7	0.8	0.8
Net exports (% of GDP)	-0.5	0.5	0.1	-1.0	1.6	-0.2	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Final Domestic Demand (% of GDP)	4.7	1.0	0.9	1.2	-0.7	0.8	-0.7	0.4	0.2	0.2	0.3	0.4	0.3
CPI (y/y)	8.2	6.0	2.6	8.4	11.7	8.9	7.4	5.5	2.7	2.7	2.7	2.6	2.3
Unemployment (%)	8.1	7.8	8.0	8.0	7.9	7.9	7.6	7.7	7.9	7.9	8.0	8.1	8.1
Real Disposable Income (y/y)	-1.1	0.0	1.2										
Saving rate (%)	8.1	7.3	7.4										
Current Account (% GDP)	-1.3	1.3	0.8										

For the I/t, we expect a “soft landing” towards 0.5-0.6%

Our projections do not include, cautiously, an impact on GDP from the reforms of the NRRP, but just from the increase in the capital stock financed by EU funds.



Source: Intesa Sanpaolo forecasts

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