Italy

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IN A NUTSHELL

- → GDP rose by 6.6% in 2021.
- → In early 2022, the increase in the pandemic, supply chain problems and the rise in energy prices adversely affected the economy.
- → House sales increase and the residential mortgage market continued to grow.
- → New non-performing loan rates remain low.
- → The fiscal bonus for house renovations has been extended.

MACROECONOMIC OVERVIEW

GDP rose by 6.6%, making up two thirds of the 2020 contraction. According to the Bank of Italy's annual report, economic activity was particularly vigorous in Q2 and Q3, driven by an easing of restrictions after the vaccination roll-out, while it slowed in the fourth quarter, reflecting difficulties in procuring intermediate goods, the resurgence of the pandemic and the sharp increase in commodity prices, particularly energy.

The recovery was strongest in industry (+11.9%) - in particular construction which, supported by tax incentives grew by 21.3% - while growth was lower in the services sector (+4.5%), affected hardest by the pandemic due to restrictions and consumer behaviour.

Consumption rose rapidly (+5.2%) but spending in the tourism and recreation sector remains considerably below pre-pandemic levels.

Household disposable income increased by 3.8%. The financial conditions of households and firms remained solid. Total private debt (households and firms) is still considerably lower than the European average and that of other advanced economies.
The economic recovery led to a significant improvement in the public accounts: the ratio of general government net borrowing to GDP decreased from 9.6% to 7.2% thanks to a lower primary deficit and the debt-to-GDP ratio fell to 150.8% (-4.4%).
Employment increased by 0.6%, while the number of hours worked by 8%.
In 2021, exports grew faster than the other major countries of the euro area. Exports of goods rose sharply (+13.1%), despite bottlenecks in global supply chains, recovering the contraction of the previous year (in 2020, they decreased of more than 9%). In particular, mechanics, the fashion supply chain and the sectors of rubber, plastic, metals and non-minerals significantly contributed to the recovery of exports of goods.
Exports of services, while expanding significantly (+14.3%) thanks to the recovery in tourism receipts, are still below pre-pandemic levels.
Inflation rose to 1.9 % on average for the year. This was driven, mainly in the second half of the year, by higher energy prices.
The flow of new non-performing loans in proportion to total performing loans remains low.

LOOKING AHEAD

At the beginning of 2022, a resurgence of the pandemic, difficulties in procuring intermediate goods and the rise in energy prices, affected economic activity. Since the end of February, the effects of the conflict in Ukraine have caused further spikes in energy and commodity prices.

GDP fell by 0.2% in the first quarter of 2022.

According to the 2022 Bank of Italy annual report, high-frequency data indicate that a modest recovery in economic activity is under way in the second quarter of 2022, although there is uncertainty due to the extreme volatility of the macroeconomic situation. In April, inflation rose to 6.3%. The inflation expectations of firms, households and analysts are also rising significantly.

HOUSING MARKETS

Residential housing market transactions grew, continuing the growth since 2014 which was only interrupted in 2020 when transactions fell 7.7%.
House sales were circa 748,500, 34% more than in 2020 and 24% more than 2019.
The most significant increase in the volume of transactions was in the South (+35.8%), Centre (+35.3%) and the Islands (+35.1%), which together are about 46% of the market.
The increase was more significant in smaller cities (+36.5%) - with peaks of more than 38% in the Center, in the South and in the Islands - than in provincial capitals (+28.7%).
There was also a recovery in the main eight major cities of 28% compared with 2020 and 11% compared to 2019. The best performance was in Genova (+32% on an annual basis) and Rome (+31.4%)
According to preliminary estimates of the Italian National Institute of Statistics (ISTAT), on average, in 2021, the Housing Price Index increased by 2.5% y-o-y. This increase was due both to the prices of new dwellings, which grew by 3.8% and existing dwellings which increased by 2.3%.
The analysis of the quotations' performance in the main eight cities of Italy shows that Milano also in 2021 continued to register an increase of the quotations EUR/m2, with 2.5% y-o-y (this is the fifth consecutive increase since 2017), followed by Napoli (+1.3%) and Bologna (+0.8%)..

MORTGAGE MARKETS

MARKET DYNAMICS

The residential mortgage market continued to grow: outstanding loans reached EUR 408.8 bn in 2021 (+4.7%) and new loans (EUR 79 bn by the end of the year) expanded further (+3.6%).
Mortgages for young people's first home increased, also thanks to the extension and the reinforcement of the First Home Loan Guarantee Fund.
Housing transactions with a mortgage amounted to about 366,000 units (+34% with respect to 2020 and +27.6% with respect to 2019). Considering house

purchased with mortgages by individual, they were about 51.2% of the total, a slight increase on the previous year.
The average mortgage amount increased to about EUR 136,000 (up EUR 4,300 on the year and more than EUR 8,000 compared with 2019): the largest average amount was in the Central area, with an average of EUR 151,000 (almost EUR 173,000 in the major cities).
The average maturity increased slightly to 23.9 years (from 23.5 years in 2020) and is similar in all areas.
Interest rates on short term loans and those with a maturity over 1 year rose, after falling for several years. In December 2021, rates on short term loans (with maturity <1 year) increased to 1.32% (1.29% at the end of 2020) while rates on loans with a maturity over 1 year increased to 1.41% (1.24% at the end of 2020). The average rate on new business for house purchasing increased to 1.40% (1.25% at the end of 2019). Borrowers increasingly preferred fixed-rate mortgages.

NON-MARKET LED INITIATIVES

The Law Decree n. 73/2021 introduced emergency measures to support businesses and families affected by the pandemic.
In particular, the First Home Loan Guarantee Fund has been revised.
The Fund supports credit access for all the consumers buying their first house. Upon request of the consumer, if all criteria are met and the adhering bank decides to underwrite the mortgage, the public guarantee –according to the general requirements- covers 50% of the total amount of the financing (regardless of the family composition or the age).

At the date of the loan application for the purchase of the first home, the beneficiary shall not be the owner of other residential properties (except if the house is purchased by succession due to death and transferred free of charge to parents or siblings).

The consumer applies for a mortgage from a participating bank that must be adherent to the initiative and for the public guarantee, via the bank. The applicant must declare that the property is a "first house" and is not classified as a luxury house. Additionally, the amount of the loan requested should be lower than EUR 250,000.
Banks are always independent in their decision to finance applicants, relying on creditworthiness assessment.
With the new measures introduced by the Law Decree n. 73/2021, the amount guaranteed increased from 50% to 80% in favour to specific categories of beneficiaries -including for example people under the age of 36 - with a Household Composition and Financial Situation (ISEE) (an index used to compare the financial situation of families), not exceeding EUR 40,000 yearly and a mortgage exceeding 80% of property's purchase price, including ancillary charges.

The guarantee has remained at 50% for the other people with ISEE more than EUR 40,000 yearly.

The Budget Law 2022 extended the measure to 31 December of 2022.

ANY FURTHER IMPORTANT EVOLUTION

The Italian banking sector has been strongly committed to ensuring that Italian Institutions measures to support families and companies affected by the pandemic are correctly and quickly applied.
In particular, important changes have been introduced to "the Mortgage Solidarity Fund for first-time buyer" (also known as the "Gasparrini" Fund) active from April 2013.

The Fund - aimed to suspend payments for 18 months, in case of death, serious injury, loss of job, suspension of work for at least 30 days, reduction of working hours for at least 30 days for loans up to EUR 250,000, whose holder had an ISEE not exceeding EUR 30,000- has been extended until 31 December 2022 to: (I) self-employed workers, professionals and individual companies who self-certify a decrease, in the quarter after 21st February 2020 and before the suspension request, in turnover of more than 33% compared with the last quarter of 2019, as a result of the pandemic, (II) those who exceed the annual income of EUR 30,000 (III) loans up to EUR 400,000 and (IV) loans guaranteed by the First Home Loan Guarantee Fund. Furthermore, the Fund has been extended for a period of 24 months as of 9th April 2020 to mortgage loans that have been originated for less than a year.

According to the data at 31 of December 2021, it has been estimated that the existing outstanding debt moratoriums to households and NFCs amounted approximately to EUR 44 bn, compared to the total moratoriums granted since March 2020 which was approximately EUR 280 bn.

Italian banks have also launched individual voluntary measures to support families and companies damaged by the pandemic, such as new financing programmes to cover SMEs and self-employed cash needs, and simplify the procedures related to signatures of financing agreements.

MORTGAGE FUNDING

Total funding (resident customers deposits and bonds) grew about 5.6% y-o-y (+8.0% in 2020). Deposits (current accounts, certificates of deposit, repurchase agreements) increased by 6.9% (+10.5% in 2020), while funding by bonds decreased by 4.4% (-8.3% in 2020). A total of approximately EUR 23.5 bn of Italian covered bonds were issued. The total level of outstanding was approximately EUR 171.6 bn. Approximately EUR 4.5 bn of securitisations were issued.

GREEN FUNDING

The fiscal bonus related to house renovation may have had a positive impact on purchasing decisions.
In 2020, new fiscal measures were introduced to deal with the pandemic with incentives for certain types of work, including improving energy efficiency, installing photovoltaic cells and electric vehicle charging columns and for seismic risk reduction.
In particular, the benefit consists of a deduction rate equal to 110%, if the expenses are incurred from 1° July 2020 and if specific technical requirements are met.
The 2022 Budget Law extended the "Superbonus", providing different deadlines in relation to the beneficiaries:

- December 2025 for condominiums and individuals, outside of business activities, in the following sizes: 110% for expenses incurred up to 31 December of 2023; 70%, for expenses incurred in 2024; 65% for expenses incurred in 2025;
- December 2022 (with a 110% deduction), for interventions carried out by individuals on single-family buildings, if work has been realised for at least 30% of the total by 30 June 2022

The tax deduction can be converted into an invoice discount or a tax credit that may be transferred to banks and financial intermediaries. Other important fiscal measures to encourage the renovation and improvement of buildings exist. For example, at the end of 2019, the Italian Institutions introduced a measure for building external wall ("Building External Wall Bonus"). This consists of a tax credit equal to 90% of the expenses incurred in 2020 and 2021, without a maximum. The work can be carried out on the structures visible from street level. This incentive is applicable on existing buildings in certain zones.

The deduction is divided into 10 equal annual instalments. The 2022 Budget Law extended the measure to the expenses incurred in 2022, but in this case reducing the tax credit to 60%.

Another measure is the "Restructuring Bonus": which provides a deduction of 50% for restructuring and renovation expenses carried out on private properties and on the commonly owned parts of condominiums. In detail, those who renovate their property can take advantage of a 50% personal income tax deduction up to a maximum of EUR 96,000 per property unit. The deduction is divided into 10 equal annual instalments, starting in the year in which the expenditure was started.

The latest Budget Law extended the measure to 2024.

For both initiatives, the tax deduction can be converted into an invoice discount or a tax credit that may be transferred to banks or financial intermediaries

The Italian banking sector is strongly committed to support families and companies in the realisation and financing of investments which can be eligible for these measures. Italian banks have set up internal units and teams dedicated to these operations.

	ITALY 2020	ITALY 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-9.0	6.6	5.4
Unemployment Rate (LSF), annual average (%) (1)	9.2	9.5	7.0
HICP inflation (%) (1)	-0.1	1.9	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	75.1	73.7	70.0
Gross Fixed Investment in Housing (annual change)(1)	-7.4	25.9	6.6
Building Permits (2015=100) (2)	114.4	142.7	134.0
House Price Index – country (2015=100) (2)	100.4	103.0	145.2*
House Price Index – capital (2015=100) (2)	86.1	85.7	146.1*
Nominal house price growth (%) (2)	1.9	2.6	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	391,515	409,868	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	7,798	8,216	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	33.9	34.2	62.8*
Gross residential lending, annual growth (%) (2)	6.6	3.6	12.2
Typical mortgage rate, annual average (%) (2)	1.2	1.4	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

ITALY FACT TABLE

Which entities can issue mortgage loans in your country?	Banks and financial intermediaries.
What is the market share of new mortgage issuances between these entities?	Banks cover a very high percentage of the market.
Which entities hold what proportion of outstanding mortgage loans in your country?	Data no available.
What is the typical LTV ratio on residential mortgage loans in your country?	Data no available.
How is the distinction made between loans for residential and non-residential purposes in your country?	Residential loans are loans granted for house purchase and renovation.
What is/are the most common mortgage product(s) in your country?	Fixed interest rate mortgage loans to purchase residential real estate.
What is the typical/ average maturity for a mortgage in your country?	20-25 years.
What is/are the most common ways to fund mortgage lending in your country?	Given Italy's universal banking model, there is not a specific funding source for mortgage lending. That said, the most common funding technique is represented by unsecured bank bonds which, in turn, represents also the most common way for funding mortgage lending. For major Italian banking groups, covered bonds are an important funding source for mortgage lending.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	Data not available. In addition to costs relating to taxation on transfer, the main costs are related to real estate brokerage agency (if existing), and notary costs. The real estate taxation in Italy affects both direct (on income and capital) and indirect (on transfers and contracts) taxes and depend on the players involved (individuals or companies) and on the nature of the properties (land, buildings, commercial or residential).
What is the level (if any) of government subsidies for house purchases in your country?	Regarding tax benefits, homeowners can benefit some fiscal advantages for the "first home" purchase, which consist of smaller indirect taxes than the ordinary value. With reference to public guarantees on residential loans for house purchase, in 2014 the "First Home Loan Guarantee Fund" entered into force. The Fund supports credit access for all the consumers buying their first house. The public guarantee covers 50% of the total amount of the financing (in some cases up to 80%).