

Italy

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IN A NUTSHELL

- The economy grew by 0.9%, a deceleration compared with the previous year.
- Housing market activity slowed for the first non-Covid year since 2014.
- Mortgages outstanding remained essentially stable, with a slight slowdown y-o-y.
- An ABI Memorandum discussed options mitigate floating rate payment shocks.
- NPLs of residential loans continues to decrease.

MACROECONOMIC OVERVIEW

The economy grew by 0.9%, after a 4.0% rise in 2022 due to lower recoveries in the pandemic affected sectors, weak global demand and tighter monetary conditions.

Growth came mainly from national demand (excluding changes in inventories) and gross fixed capital formation. Household consumption grew, although lesser than in 2022, notably, for services, such as accommodation and food, hardest hit during the pandemic and for durable goods. Export was unchanged, due to the weakness in global trade (the rise of exports of services was eroded by the fall of exports of goods).

Inflation eroded the purchasing power of households significantly, especially for the least well-off. Inflation fell to 5.9% from 8.7% of 2022, mainly due to lower energy price growth, from the beginning of the year and increasing in October, when it was below 2.0%.

Household disposable income increased by less than in 2022, helped by continued employment growth and the moderate growth of wages. However, purchasing power in real terms declined.

According to the Bank of Italy estimated, household wealth in real assets (mainly houses) increased by 1.1% in nominal terms (2.1% in 2022). Unemployment declined again, to one of the lowest levels in the last twenty years. The savings rate, reaching 6.3%, the lowest level since at least the 1960s.

General government net borrowing to GDP decreased to 7.4% (from 8.6% of the previous year) and the public debt-to-GDP ratio fell by 3.2% to 137.3%.

HOUSING MARKETS

The housing market slowed due to lower demand, negatively affected by high interest rates. According to the annual report of Real Estate Market Observatory of the Revenue Agency, just over 710,000 homes were sold, a decrease of -10%,

reversing the growth trend since 2014 (interrupted only by the pandemic induced 7.7% slowdown in 2020).

The decrease was greatest in the Centre (-13.1%) and North-East (-11.7%) but occurred in all regions, Friuli Venezia Giulia recorded the greatest decrease y-o-y (-16.9%) with over 9,600 transactions, followed by Valle d'Aosta (-14.3%) and Toscana (-13.9%). Lombardia and Lazio are the Regions with the highest number of transactions (more than 150,000 in Lombardia and about 68,000 in Lazio).

The eight largest cities similarly declined, Bologna, Rome and Milan had the largest falls (respectively -16.1%, -14.4% and -13.2%). Rome and Milan have together more than 55% of the national total (Rome over 34,000, 32, and Milan over 24,800, 23.1%).

According to preliminary estimates of the Italian National Institute of Statistics (ISTAT), the Housing Price Index increased by 1.3%, due to both new dwellings (5.6%) and existing ones (0.4%).

The price per square metre of properties in Milan increased most (+8.3% y-o-y, growing since 2017), followed by Palermo (+3.9%) and Turin (+2.7%). In Genoa, it decreased by 0.5% y-o-y.

According to the latest (2022) report of ENEA, around 1,3 mn EPC were issued,¹ in line with 2021.

For residential buildings (948,000 certificates), the share of the most energy-efficient ratings (from A4 to B) increased by 5.1% y-o-y but most EPCs regard F or G (54.2%), followed by C and D classes (25.8%).

According to recent research of the Bank of Italy based on data of *Immobiliare.it*, on average, the most energy-efficient houses sell at a 25% premium over the least efficient ones nationally, (although varying regionally).

MORTGAGE MARKETS

The mortgage market remained essentially stable with a slight slowdown in outstanding loans (EUR 424.6 bn at year-end, -0.5% y-o-y) and gross lending decreasing by 1.3% (-12% in 2022), reflecting higher interest rates, declining consumer confidence and the weak outlook of the real estate market.

Housing transactions with a mortgage decreased significantly to about 270,000 units (-26% y-o-y), affected by interest rates. The decrease was greatest in central (-30%), and in provincial capital cities (-28.2%) compared to smaller cities (-24.9%).

House purchases with mortgages by individuals continued to slow to about 40% of the total (48.4% in 2022 and 51,1% in 2021).

The average mortgage was about EUR 130,000 (EUR 138,000 in 2022): the largest were in the Central area, (EUR 140,000 and almost EUR 160,000 in the major

¹ The data is acquired from the Regions, Autonomous Provinces and from SIAPE (Sistema Informativo sugli Attestati di Prestazione Energetica).

cities). The average maturity increased slightly to 25.5 years (from 24,8 years) and is similar in all areas of Italy, exception for the Centre (26.3 years).

Fixed-rates mortgages returned to dominance: the share of variable rate mortgages has decreased from about 66% of new loans in the second half of 2022 to about 33% at the end of 2023.

The increase in interest rates from 2022 continues to impact the cost of new loans. In particular, at year end, interest rates on short term fixings averaged approximately 5% (from 2.7% at the end of 2022) and those with a fixing over 1 year at 4.03% (from 3.54% on annual basis).

“Green mortgages” are a growing part of the total mortgage market: according to the Italian association of consumer credit and mortgage lending – ASSOFIN, Crif and Prometeia, in 2023, “green mortgages loans” represent 12% of total mortgages for house purchase (9% in 2021) and 16% of the total for the renovation and/or construction of a residential property (13% in 2021).

The growth of “green mortgages” is also favoured by their conditions which, in general, are more favourable than traditional forms of credit.

Analysis by the Bank of Italy of data collected by MutuiOnline shows that between September 2022 and June 2023 interest rates on “green mortgages” were on average, 7 bps lower than other mortgages, with the same characteristics in terms of contract and borrower.

Finally, the NPL ratio of residential loans continued to decrease.

NON-MARKET LED INITIATIVES

Due to higher interest rates, in July the Italian Banking Association (ABI) published a memorandum pointing out possibilities for borrowers with variable rate loans to mitigate the higher rates.

This promoted measures such as: (i) the extension repayments; (ii) the reduction of requirements to allow beneficiaries to access to public renegotiation of mortgage loan contracts, introduced by the Italian Budget Law 2023; (iii) awareness of the “Solidarity Fund for mortgages for the first home purchase” (the Gasparrini which allows borrowers to request a payment moratorium on their first home for up to 18 months, if specific events occurred (e.g., suspension/reduction/termination of employment). According to year end data, the Fund has allowed the suspension of over 188,000 mortgages for a total of EUR 18.5 bn.

Also to support first time buyers, the “First Home Loan Guarantee Fund” continues. It issues public guarantees of 50% of the total loan, up to EUR 250,000 (regardless of the family composition or the age).

The application must be submitted directly to the banks which are always independent in their decision to finance, relying on creditworthiness assessment.

The Budget Law of 2024 extended to year end 2024 the increase of the guarantee to 80% for specific categories -including for example people under the age of 36 - if specific conditions are met (e.g. if LTV > 80%) and 90% of mortgages for “large families” (borrowers with more than three children under the age of 21). According to data as of 31 December 2023, the Fund guaranteed more than 476,000 mortgages for a total financed amount of EUR 55.8 bn.

Rate rises influenced the affordability index, which estimates the ability of a family to purchase an average priced house with a mortgage. The index is based on interest

rates, house prices and disposable income: a positive affordability index means that the average family was able to purchase a house at the market average price.

Despite the growth in disposable income, in 2023 the index worsened, especially during the first half of the year, at the end of 2023 it was 11.6%, a decrease of about -2% over the year.

Despite this, conditions for home purchase access continue to be positive in historical comparison (for example, at the end of 2023 the index was approximately 7.5 pps higher than the minimum level recorded in 2008).

In the first three months of 2024, falling interest rates, has reversed the decline in affordability.

MORTGAGE FUNDING

Deposits (current accounts, certificates of deposit, repurchase agreements) decreased by -3.8%, while funding by bonds increased by 19.1%.

Covered bonds represent an important source of funding; in 2023, Italy has completed the transposition of the new European covered bond legislation, effective from 31 March and banks started the first issuances under the new regulation. According to preliminary estimates, a total of approximately EUR 16.8 bn were issued, and total outstandings were approximately EUR 159.6 bn.

Regarding the securitisations, according to the AFME report of 2023, approximately EUR 6.6 bn were issued in Italy.

GREEN FUNDING

In recent years, several fiscal bonus measures have been introduced to support home renovation, which allow an income tax deduction as a percentage of the expenses and subject to a cap which can change based on specific characteristics of the works/ beneficiaries.

Measures concerning energy efficiency are, mainly:

- the “Ecobonus”, for energy efficiency works (e.g., redevelopment of the building, solar collectors, windows), extended until the end of 2024.
- the “Superbonus”, for works improving energy efficiency and seismic security of the houses (including installing photovoltaic cells and electric vehicle charging columns), introduced in 2020 during the pandemic and extended to 2024 and 2025 with some changes, in particular providing a different value of the tax deduction.

Other important fiscal measures to encourage renovation and improvement are:

- the “Restructuring Bonus”, for expenses carried out on private properties and commonly owned parts of condominiums in relation to extraordinary maintenance, renovation, restoration, conservative rehabilitation of the buildings, in force until 2024.
- the “Seismic bonus”, for properties in seismic zones, for the expenses incurred until 2024 for seismic risk reduction, improving the seismic class of the property.
- the “Furniture bonus”, on purchases of furniture and large household appliances in the context of the renovation of the house, in force until 2024.

According to the initial rules, the tax deduction was allowed to be converted into an invoice discount or a tax credit, which could be transferred to banks or financial intermediaries. According to the new rules in force from the 17 February 2023, in general terms, this is not allowed the works started from then but continues to be allowed as an annual deduction.

	ITALY 2022	ITALY 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.0	0.9	0.4
Unemployment Rate (LSF), annual average (%) (1)	8.1	7.7	6.1
HICP inflation (%) (1)	8.7	5.9	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	74.3	75.2	69.2
Gross Fixed Investment in Housing (annual change) (1)	13.9	3.7	-3.1
Building Permits (2015=100) (2)	140.7	129.3	94.0
House Price Index - country (2015=100) (2)	106.9	108.3	170.2*
House Price Index - capital (2015=100) (2)	87.0	87.7	165.1*
Nominal house price growth (%) (2)	3.8	1.3	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	426,953	424,651	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	7,233	7,198	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	33.3	31.6	71.3
Gross residential lending, annual growth (%) (2)	-12.1	-1.3	-26.6
Typical mortgage rate, annual average (%) (2)	3.0	4.4	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, 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? More than 95% of new mortgage loans are issued by banks.

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 recently started to play an increasing role as a 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 and the Solidary Fund for mortgages are in force; they support credit access for the first house purchase.