SUMMARY AND MAIN CONCLUSIONS

Stefano Manzocchi
Chief Economist of Confindustria
Never before in the history of the Italian Republic have we been faced with a health, social and economic crisis of such magnitude. Our thoughts are with the sick and their families, and with the heroes toiling daily, at enormous risk to themselves, to care for people the length and breadth of the country and especially in the regions hardest hit. Health is our most precious asset, and everything possible must be done to minimise the consequences of the pandemic.

Social and economic relations have been upturned in ways that were unthinkable a few weeks ago. Normal behaviour patterns, both individual and collective, technology’s role in linking factors of production and output, established means of transmission of public policy, and international trade relations have all changed and some have broken down completely. This is not the time to try to predict the future but instead to take action to ensure that our country and our society can cope in this desperate moment and re-emerge when the health crisis fades.

We must protect the country’s productive and social context, its workers, businesses and families, by resorting to unconventional tools and strategies and not holding back resources in order to guarantee our future wellbeing. We must act now, without hesitation and without limitation: other countries are already taking steps in this direction. No one yet knows how extensive such measures will need to be, as they will depend on how the health crisis develops and what happens to the economy. It is clear to all, however, that we can only prevent the present economic recession from evolving into a lengthy depression by protecting our population and our businesses.

**A body blow to the Italian economy** A wholly unpredictable shock hit the Italian economy in February 2020, as Covid-19 began to spread nationwide. It is a combined supply and demand shock: many business activities around the country have been brought to a halt for an indeterminate period in order to limit the spread of the virus, while demand for goods and services collapsed at home and abroad.

During this crisis the outlook for our economy has dramatically worsened. And it is unclear when it might improve, even on the supply side. In our present

---

**Chart A**

**An enormous loss of GDP in the first half of 2020**

(Italy, quarterly data, billion euros, constant prices, seasonally adjusted)

Note: quarterly GDP at the end of 2019 was equal to 430 billion euros, therefore the cumulated drop in the first two quarters of 2020 is around -10%.

Source: CSC calculations and estimates based on ISTAT data.
forecasts we hypothesise that the following percentages of manufacturing firms will be operational in the coming months, assuming that the peak of the epidemic passes before the end of the second quarter: April: 40% at the beginning of the month, 60% at the end of the month; May: 70% at the beginning, 90% at the end; June: 90% at the beginning, 100% at the end. With this path, quarterly GDP (worth 430 billion euros) will drop by 10% in the first two quarters in 2020 (Chart A). Moreover, the recovery in the second half of the year will be held back by weak demand for goods and services.

Whether these assumptions are realistic or over-optimistic only the coming months will tell. If the health situation does not improve compatibly with this supply scenario, then our economic projections will have to be revised downwards. Inevitably, GDP will fall sharply in 2020: by -6.0% according to our forecasts, assuming, that is, that the epidemic peaks by May. This is a larger drop than in 2009 and it could not have been predicted at the beginning of the year (Table A). Estimates indicate that, as things stand, for every additional week of lockdown on business activity GDP could fall by at least 0.75% or thereabout.

During this initial phase, prompt and effective economic policy measures should aim to preserve the country’s productive context and prevent these months of deep recession from destroying part of our productive potential and triggering a prolonged depression. As soon as we can, we must mobilise substantial resources to set a plan of economic and social recovery in motion. Ideally, during both phases, joint or at least coordinated action should be undertaken at European level; failing this, our national economic policy response will need to be both swift and effective. This is not a typical recession; it does not stem from within Italy’s economic system or from the international economy. It has not been caused by a defect in some financial market mechanism or by a need to ‘correct’ a surplus. The shock has come from outside, crashing into the economy like a meteorite.

### Table A

**Forecasts for Italy: baseline scenario**  
(% changes)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross domestic product</strong></td>
<td>0.3</td>
<td>-6.0</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Household consumption</strong></td>
<td>0.4</td>
<td>-6.8</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Gross fixed investment</strong></td>
<td>1.4</td>
<td>-10.6</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>Exports of goods and services</strong></td>
<td>1.2</td>
<td>-5.1</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Total employment (ULA)</strong></td>
<td>0.3</td>
<td>-2.5</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>General government borrowing</strong></td>
<td>1.6</td>
<td>5.0</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Note: yearly estimates assuming the peak of the health crisis passes at the end of May 2020 and business activity slowly returns to normal from mid-April.

1 Per cent of GDP.

For 2021 does not include the introduction of increases to VAT rates and duties on fuel.

ULA = full-time work units.

Source: CSC calculations and estimates based on ISTAT data.

In the first half of 2020 household consumption will reflect the inability to buy goods outside the home, except for food and medicines. Total private-sector expenditure will therefore be substantially lower than last year (-6.8%). Within that total, the basket of goods will change composition, shifting away from items such as clothing, transport, leisure and culture, hospitality and catering.

Business investment is the component of GDP worst hit in 2020 (-10.6%). Lower demand, increased uncertainty, reduced lending, forced closures: in
this situation, undertaking new production projects is out of the question for businesses and even carrying on existing activities becomes difficult or impossible, as the sharp drop in industrial production illustrates. Private-sector investment will therefore collapse in the first half of this year.

Italian exports have not escaped the generalised decline in economic activity (-5.1% in 2020). The drop will be due to the projected contraction in global trade, and especially in value chains in the European countries, caused by the virtually worldwide pandemic. Because economic activity will contract most sharply in Italy’s main markets and our exporters will be more severely hampered by production and logistical difficulties, exports are expected to fall in excess of the global average. There are substantial downside risks here as well, because a longer and more widespread international lockdown on activity could cause world trade to collapse on a similar pace as in 2009. Moreover, foreign competitors might take advantage of the present difficulties of Italian manufacturers to poach market shares.

**Business at risk means Italy at risk** All these elements put the resilience of our production system under unprecedented pressure. The prospects for a recovery once the health crisis is over will depend on the ability to withstand that pressure.

About a third of all workers in Italy depend directly or indirectly on industry, which is responsible for about half of all R&D expenditure and the investment needed to increase the economy’s growth potential.

It is imperative that we prevent the blocking of supply and collapse of demand from triggering a dramatic cash-flow crisis among businesses. Faced with impending outlays (including for wages, taxes and social security contributions) and debt repayments, the absence of revenue caused by the drop in gross sales could well jeopardise the very survival of entire chains of production. We need to stop a cash-flow crisis developing into a solvency problem even for businesses whose balance sheet and prospects were sound before the crisis.

Although the situation is not the same in all branches and there are some differences between small, medium and large firms, the problem of how Italy’s productive context will hold up during the crisis is paramount for all businesses. The firms and the people forming part of that environment are Italy’s true wealth. Only by safeguarding them, and thus protecting employment, throughout this precarious phase will Italy be able to return to growth in the future.

**We need to take action now** What we need, therefore, is immediate, extraordinary economic policy action at national and European level: to help the economy remain resilient and activity to resume by the second half of 2020 and in the course of 2021.

In Europe, after the usual, and now especially regrettable, dithering some decisions of major importance have been taken in recent weeks. They include massive intervention by the ECB, which for the time being has halted the surge in Italy’s sovereign spread; suspension of some clauses of the Stability and Growth Pact relating to public finance; and temporary measures concerning State aid.

This intervention should nevertheless be accompanied by a further, crucial step: the introduction of European debt securities, a measure long overdue. Europe is called on to take extraordinary action to safeguard its citizens from a crisis that threatens to have extremely heavy consequences and a lasting impact on our economic and social model.

In Italy, a number of measures would help, covering various areas. Some of them have already been incorporated in the recently enacted ‘Cura Italia’ de-
cree, introducing the first intervention to bolster the economy. Openly, it is only a first step towards safeguarding the economic and social system. Despite for some inaccuracies, the intention is commendable but the scope falls dramatically short of what is needed, not least given the resources deployed by other countries within Europe and beyond. The Government has announced another package for April, of similar magnitude to the March intervention (approximately 25 billion euros), although details of the single measures are not yet available.

The CSC estimates that if the forthcoming measures are similar to the first package and are financed entirely with European funds – other conditions remaining unchanged and in the scenario for the resumption of productive activity outlined above – in 2020 Italy’s GDP will decline by 0.5 percentage points less than in the baseline scenario, with no impact on the public deficit (Table B).

<table>
<thead>
<tr>
<th>Table B</th>
<th>What will be the impact of the measures scheduled for April?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%) difference with respect to the baseline scenario, cumulative</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>+0.5</td>
</tr>
<tr>
<td>General government borrowing(^1)</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

Note: assuming new measures using EU funds, with no impact on Italy’s budget.

\(^1\) Per cent of GDP.

Source: CSC estimates based on the econometric model.

Whilst we acknowledge that the Government is making a huge effort, there can be no doubt that the bulwark protecting our economy needs to be reinforced, including with innovative instruments. A framework must be set out now for the forthcoming measures that are needed to restore confidence among businesses and households as to the path taken to safeguard the productive system from such a calamitous event.

Our country needs to take action now, with a massive injection of funds that will have positive effects on all Italian businesses. Releasing a flow of cash will help to spread over the long term the impact of the crisis on business, without overburdening the public debt.

Confindustria has drawn up a set of concrete proposals to ensure that Italy’s economy remains resilient. Only if the economy’s engine continues to run efficiently – despite being close to stalled at present – will it be possible to restart it immediately once the emergency is over. These measures should include an extraordinary anti-cyclical plan financed by Europe; urgent financial support for all businesses, small, medium and large; deferment and suspension of tax and financial deadlines; and prompt action to simplify administrative requirements and ensure the economic policy measures become effective immediately.

Moving from the problem of resilience to that of recovery, which should be planned now so that activity can resume as soon as possible, even this year, the CSC has carried out two simulations using its econometric model. The resulting estimates indicate that if national and European resources are used to finance measures to support business cash-flow, transfer payments to households, additional public- and private-sector investment in health, technology and the environment, then the country will be able to set off again on a sustainable medium-term path.

Confindustria, together with the German and French associations, has proposed an extraordinary European plan worth 3.000 billion euros in public investments. Considering a first step worth 500 billion euros over a three-year
period, initially including support for business cash-flows and transfer payments and later mainly consisting in investment in health, infrastructure and digitalisation, this could raise the growth rate in Italy and the Eurozone by 2.5 and 1.9 percentage points respectively over the forecasting horizon (Table C).

| Geo-economic factors | The global economic crisis triggered by Covid-19 therefore requires exceptional and immediate economic policy measures, which are the focus of the on-going public debate. At the same time, however, as in the previous crises of 2008 and 2011 but more so, it requires a complete re-assessment of existing policy instruments from a supranational and medium-to-long-term perspective. The current crisis is doubly global: global in the spread of the health emergency and global in its channels of transmission to production and finance. It has lifted the lid on all the outstanding problems of multilateral economic policy management, which need to be coordinated at European and world level.

The CSC Report examines four critical geo-economic factors, corresponding to four transversal themes: climate change, European rules, USA-Europe financial links and multilateral trade governance.

Combating climate change The health crisis is connected to the broader issue of the sustainability of global growth. It has shown that economic equilibrium is inevitably also a matter of environmental and social equilibrium. Europe, especially, urgently needs a broad plan of investment to achieve ‘green transition’ and to help bring about a macroeconomic recovery after the Covid-19 crisis.

European rules The 2011 sovereign debt crisis had already revealed the cracks in the architecture of the common European home. The limitations of the structure of European governance have once again been brought to the fore by the present health crisis. The plan put forward to date by the EU Commission is inadequate and, as usual, puts individual countries in charge of managing the crisis. Suspending the Stability and Growth Pact is an emergency measure; it is essential but it does not go far enough. This is a last call to the European institutions to prove that they can rise to the occasion.

USA-Europe financial links The financial markets were the source of the 2008 crisis and the first channel of transmission from the US to Europe and the rest of the world. Subsequent far-reaching regulatory and prudential measures have made them considerably more robust to negative shocks. Will they be able to withstand the impact of the Covid-19 crisis?

Governance of world trade The debate on protectionism, which the pandemic has momentarily overshadowed, has been the main source of global economic tensions over the last two years. Even now, the blockage of trade is playing a major role by aggravating the impact of interruptions along international supply chains. Can we expect debate to centre once again on trade tensions after the emergency is over?

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Germany</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Italy</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0.6</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: CSC estimates based on IHS-Markit GLM data and model.

Table C
Extraordinary European plan to stimulate growth
(% difference in GDP with respect to the baseline scenario, cumulative)