



[PREVISIONI]

Forecasts for Southern and Central-Northern Italy for 2021-2022

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SVIMEZ

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Forecasts for Southern and Central-Northern Italy for 2021-2022

Economic forecasts are preceded by a short presentation of the public finance framework adopted in this analysis. As it can be understood, this aspect is crucial in the current economic situation.

1. The public finance framework

Since the approval of the 2021 Budget Law, the government has moved along two paths. On the one hand, it has stepped in to overcome the health consequences of the current health emergency and to mitigate the socio-economic consequences of the new measures to contain the epidemic. The two Support Decree-Laws (the so-called *Sostegni* Decree-Laws), namely Decree no. 41 of 22 March (converted into Law no. 69/2021), and Decree no. 73 of 25 May, respond to this need. On the other hand, based on a medium and long-term perspective, the government has defined the country's economic and social relaunching programme, following the European strategy for the post-pandemic recovery. This programme is included within the National Recovery and Resilience Plan (NRRP), a necessary condition to access the resources gathered by the Next Generation EU (NGEU).

With the National Recovery and Resilience Plan (NRRP), the government has set the ambitious goal of providing a solution to the structural critical sides of the Italian economy, that is vulnerability on climate change, social and local imbalance, and low productivity. Furthermore, it has been determined to correct the three historic "delays" that trouble the country, that is generational, gender and local gaps. This requires a coherent allocation of the total resources (at least 40% of the NRRP resources should be allocated to the South), and the implementation of intervention instruments, chosen according to their impact on gap rebalancing (for example, encouraging the employment of women and young people).

The NRRP, that requires the development of a complex system of governance needed to implement single interventions and their coordination, monitoring and control, shall gather a total of 235.6 billion euros. Of this amount, 205 billion euros are from European sources and 40.2%, equal to over 82 billion, are from subsidies or funds such as grants, which are not to be paid back (an undeniable advantage for public spending). The remaining part of the total amount of the NRRP (30.6 billion euros) are from national resources, which flow into the so-called Complementary Fund, backing further strategic interventions, in order to increase the impact of the NRRP. Tab.1 shows the amount of the resources mobilized by

the NRRP, both the “European” ones and those from the Complementary Fund, which are included in our yearly forecast, depending on whether they are used to finance the measures adopted to reduce revenues or increase expenditures (including greater investments which, in our hypothesis, would derive from the implementation of the NRRP (values included in Tab. 2).

Tab. 1 – NGEU resources and Complementary Fund resources used in the forecast.
Millions of euro

	2021	2022	2023	2024
Decreased revenues	1,895	2,901	967	781
- direct taxes	0	0	967	781
- social funds	1,730	2,736	0	0
- further current revenues	165	165	0	0
Further costs	7,169	17,546	22,002	21,190
- public consumption	1,605	105	0	0
- social benefits	500	0	0	0
- investments	2,807	12,240	16,191	17,612
- investment grants	2,257	5,201	5,812	3,578
Total amount	9,064	20,447	22,970	21,971

Source: SVIMEZ calculations

Tab. 2 shows the variation of public finance balances as a result of the measures considered here (Budget Law 2021, Law 178/2020, the two Support Decree-Laws and Decree-Law 59/2020), including the greater investments which, according to our hypothesis, derive from the implementation of the NRRP. A higher net debt, which is the benchmark of the government budget balance for the Stability and Growth Path (together with the debt), amounts to over 99 billion euro in 2021, 32.5 in 2022, and 23.1 in 2023. About 95% of a higher deficit is attributable to a higher expenditure in 2021. An increase of net revenues is expected in 2022-2023, because of the European subsidies placed to protect the NRRP interventions, in order to cover higher investments assumed in our forecasts.

Tab. 2 – Variation of revenue, outflow, debt of the PA following the considered measures. *Millions of euro*

	2021	2022	2023
Deficit (*)	-99,274	-32,523	-23,132
- net revenue	-8,548	9,878	10,278
- net outflow	90,726	42,401	33,410
- current amount	43,422	14,589	11,863
- in capital account	47,305	27,812	21,547

(*) *negative sign means an increase of the PA deficit.*

Source: SVIMEZ calculations based on data from the Technical Reports on Considered Provisions

2. Forecasts for Central and Northern Italy and the South

In addition to the public finance framework just outlined, the forecasts here reported are based on the following hypothesis. (i) In 2021 it is expected a rebound in the world demand and in our exports, almost equal to the loss in 2020. This is, for example, what happened in 2009; actually, in that case, the rebound was bigger. On the contrary, it is believed that the aftermaths of the pandemic would impede a stronger rebound. In 2022 the world demand is expected to grow at a significant rate, that is however equal to half the rate of the previous year. The underlying idea is that the setback in the fragmentation process of the world production observed after 2009 will continue in the immediate future, albeit remaining at high levels. (ii) On the price side, the sharp rise in raw material prices should determine an acceleration of inflation, which is expected, at least in Italy, during the two-year forecast, to be below 2%.

In 2021 the Italian GDP should rise by 4.7%, in a more accentuated way in Central and Northern Italy, where the 5-point percentage threshold would be exceeded, albeit slightly (5.1%), while in the South an increase slightly over 3-point in the economic activity level (3.3%) is projected. In the current year, such increase is generally driven by exports and investments; both variables exert a propulsive effect that is stronger in Central and Northern regions. Investments, which also before 2020 were reported to expand moderately, especially in the South, in 2021 should almost zero the loss registered in the previous year in both the macro-areas (2021, Central and North +8.4%; South +7.0%) (see Tab. 3). This is one of the effects of the policy mix adopted. Specifically, in Central and Northern Italy the most

dynamic component is the one related to the machinery, while in Southern regions the most dynamic one is the expense in constructions, which includes public works.

Tab. 3 - Forecasts for some macroeconomics variables, macroareas and Italy, var. % s.d.i.

Macroeconomics variables	South			CN			ITA		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
GDP	-8.2	3.3	3.2	-9.1	5.1	4.3	-8.9	4.7	4.0
Total consumptions	-7.4	2.4	2.9	-9.0	2.9	3.9	-8.6	2.7	3.6
Household consumptions	-	-	-	-	-	-	-	-	-
Public administrations expenses	11.1	2.8	3.8	11.9	3.3	4.8	11.7	3.2	4.5
Exportations (a)	1.4	1.3	0.7	1.1	1.4	0.8	1.2	1.3	0.8
Total investments	-6.1	8.3	7.7	-9.1	11.2	7.7	-8.9	10.9	7.7
- Investments in machinery, equipment, means of transport	-8.5	7.0	10.4	-9.2	8.4	12.0	-9.1	8.1	11.6
- Investments in constructions	-	-	-	-	-	-	-	-	-
Total employment (accounting employment)	12.6	2.6	7.1	11.0	10.1	14.3	11.4	8.6	12.8
	-5.3	9.9	12.4	-6.6	6.5	9.3	-6.3	7.4	10.1
	-2.1	1.6	2.8	-2.1	1.7	3.0	-2.1	1.7	2.9

(a) Net of oil products, at current prices.

Source: NMODS model.

In 2022, the GDP expansion is expected to be less accentuated, although remaining on high levels: +4.0% on average at a national level. Generally, 2022 results are affected by a small increase of the exports and by an economic policy that is relatively less expansive. As already explained in the previous section, the programmatic deficit is approximately one third of that of 2021, with a significative decrease in net spending. On a local scale, Central and North Italy should be able to move forward by 4.3% and South Italy by 3.2%. Compared to the previous year, increase differential between the two macro-areas should get narrowed; it is supposed that such economic trend will be supported by two main components of the internal demand: investments and private consumptions, both increasing compared to the previous year. The internal demand, especially regarding household and the PA spending, has a greater capacity of activation in the South, other conditions being equal. As far as investments are concerned, they would be positively influenced by a continued expansionary cyclical phase and by the fact that the decrease of the programmatic debt should not involve the measures supporting the accumulation process, that are supposed to increase with the

gradual implementation of the NRRP. Household spending would benefit from a desirable comeback to a “normal” situation in terms of health, which is fundamental especially for the tourist component, and the recovery of the disposable income¹. In terms of average annual expenses in 2022, the household spending is supposed to grow by 4.8% in Central and Northern Italy, and by one point less in the South. Just to clarify, in 2022, the forecasts adopted here hypothesize a (further) partial loosening of fiscal policy caused by the reform process started in 2021 with the introduction of the single allowance, a measure that has mainly redistributive effects. It seems like an unavoidable reform in order to stimulate a component that weighs almost 60% on the GDP and that, since the beginning of the millennium, also during the most favorable years, has never increased more than 2%. This is particularly true for Southern regions, where, as already said, household spending is characterized by a comparatively greater stimulus.

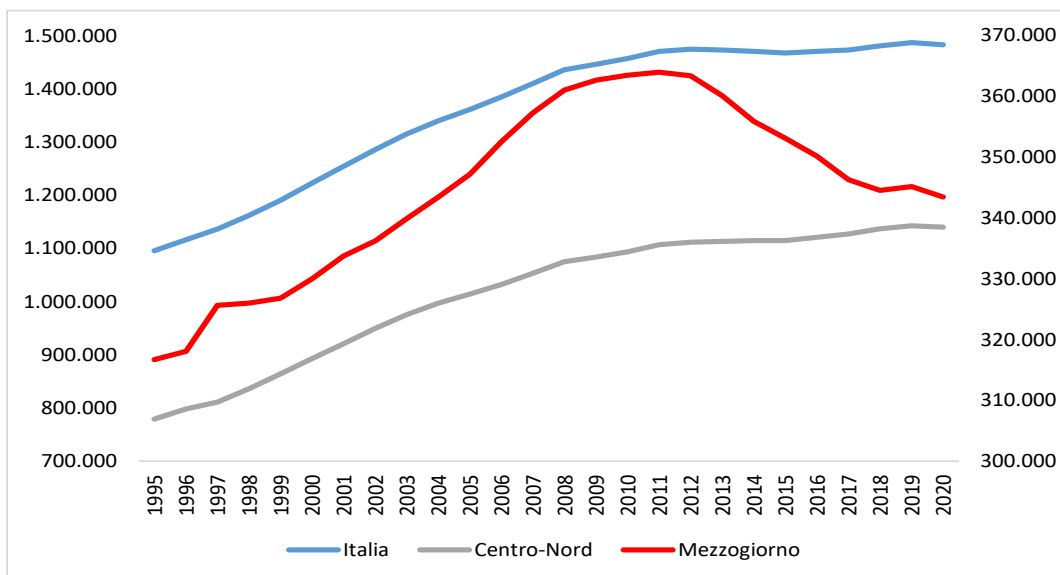
According to the SVIMEZ forecasts, while Central and Northern Italy will entirely regain the GDP lost in 2020 with the 2021-2022 recovery, the South will have to recover about 1.7% GDP points by the end of 2022, that will be added to the 10 points lost during the 2008-13 crisis and not recovered yet. This depends essentially on the quantitative and qualitative shrinkage of the aggregate supply in the South.

This point, that is considered crucially important to influence the increase during the two-year period of this forecast (and thereafter), is well summarized in Fig.1 and 2, shown below, where there is an estimate, consistent with the ISTAT national figures, of the real gross capital stock in the industry in the strict sense and in the marketable services (net to the real estate) in the two macro-areas since 1995. From 2009 to 2020 the gross capital stock related to the two main sectors of the market economy – industry and marketable service (net to the real estate) – increased by 5.1% in Central-Northern Italy (from 3,111 to 3,270 billion at 2015 prices) and decreased of 22.7% in the South (from 572 to 442 billion at 2015 prices).

¹ In the various consumption functions present in the model, the cumulative change in disposable income counts a great deal: both that in year t and that in the previous year ($t-1$), sometimes with even longer delays ($t-2$, $t-3$, etc.). Consequently, consumer spending in 2022 benefits both from the increase in income expected in the same year, but also from the increase in income in the previous year in a context, however, characterized by a more prudent approach.

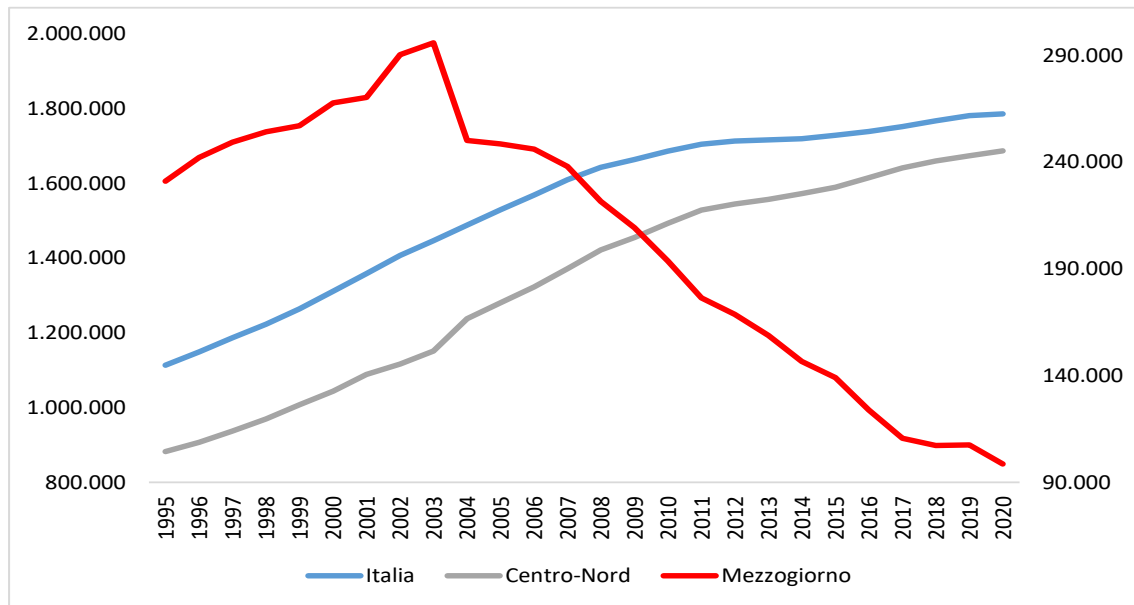
The restriction in the absolute size of the market economy weighs on the medium-term performance of the South, and also, inevitably, on the forecasts presented here. During the “long crisis” (2008-2014), for example, the products produced in South Italy decreased by 11% against 6.5% occurred elsewhere in the country. But it is in the subsequent four-year period of weak recovery (2015-2019) that the consequences of the phenomena above described are most evident: whenever the growth accelerates, as in the two-year period 2016-2017, the growth rate of the South shows a significant gap with that of Central-Northern Italy, amounting to over one percentage point. During the post “long crisis” period, and in the pandemic period, the South witnessed a weaker growth compared to Central-Northern Italy, amounting to over four percentage points. Ultimately, the reduction in the production base together with a structural dynamic that on average is not very strong have reduced the elasticity of Southern supply to the upward phases of the cycle.

Fig. 1 – Gross capital stock in the industry in the strict sense, per division (South right scale), millions at 2015 constant prices.



Source: SVIMEZ calculations based on data from the ISTAT and the SVIMEZ

Fig. 2 – Gross capital stock in sales services net to the real estate, per division (South right scale), millions at 2015 constant prices.



Source: SVIMEZ calculations based on data from the ISTAT and the SVIMEZ

What we have just observed impacts also on the dynamic of labour as an input. Our forecasts predict a dynamic, during the whole two-year period, similar in the two allocations, although having decidedly different variations in output. This is due to the fact that in the South the elasticity of employment is characterized by high values, historically slightly lower than the unit, unlike what happens in Central and Northern regions. This is the counterpart of an economic system, the Southern one, where the development process is essentially “blocked”, if there is no regression; a phenomenon that is accompanied by a stationary productivity.

3. The impact of the policy in the two-year period 2021-2022

This analysis reports the results of an exercise aimed at evaluating the contribution given by the measures put in place to counter the pandemic, both at a national level and in the two macro-areas, to the GDP growth. Due to a number of statistical discrepancies that do not allow for a complete transition between how the public resources under evaluation are considered in the State Budget and how they are classified in the National Accounts, the

absolute values of public finance used in the evaluation are not identical to those summarized in Tab. 2, but are slightly lower. For example, regarding the most important aggregate, the net expenses, the various components – i.e., investments, social benefits, expenses on final consumption by the PA, etc. – evaluated are, in total, equal to 91% of the total reported in Tab. 2, both in 2021 and 2022 (which determines, in 2021 only, approximately 82 billion more in debt instead of 90).

It is estimated that all the measures to counter the pandemic considered here will contribute to the cumulative growth of the GDP in the two-year period respectively for 4.1% in the South and 3.7 % in Central-Northern Italy (3.8 % at a national level). This support is worth around 63% of the overall growth expected in Southern regions in the two years considered; this percentage drops to 39% in those of Central-Northern Italy (44% at a national level).

The findings show how the measures adopted, in their various forms, have played a crucial role firstly in preserving a significative part of the national supply, and secondly in offering a stimulus to restart. This is particularly true for the weakest area of the country, where the limited size of the productive base is an obstacle to a more robust recovery.

4. Regional forecasts²

This section presents the results of a forecasting exercise carried out with a new quantitative tool created by the SVIMEZ (NMODS-REGIO) aimed at making projections and

² The forecast analysis was conducted by implementing two Bayesian autoregressive vector panel models (P-VAR). These are estimated for two blocks of regions grouped into South (Abruzzo, Basilicata, Calabria, Campania, Molise, Apulia, Sicily and Sardinia) and Central-North (Emilia-Romagna, Friuli Venezia-Giulia, Lazio, Liguria, Lombardy, The Marches, Piedmont, Trentino Alto-Adige, Tuscany, Umbria, Aosta Valley and Veneto). Estimation was conducted using regional time series from the period between 1995 and 2020 with annual frequency. The model includes an endogenous component, represented by macroeconomic variables aggregated at the regional level, and an exogenous component, represented instead by the main bi-regional macroeconomic aggregates, obtained from the NMODS structural model. Exploiting the forecasts obtained from the latter, the exogenous component allows to enhance the regional predictions obtained from the P-VAR through the characterizations of the macro area which each region belongs to. Thus, from the estimation of the two PVAR models – South and Central-North – it is possible to obtain the unconditioned forecasts of the following regional variables: GDP, employment, exports (net of oil products) and household final consumption expenses. For model estimation, variables are expressed in real terms taken from logarithms. Forecasts, on the other hand, are reported in terms of annual rates of change.

impact assessments starting from the bi-regional model (NMODS), whose results have been presented in the previous two sections.

Tab. 4 – 2021-2022 regional forecasts for some aggregates

	GDP			Employment (1)			Export (2)			Household spending		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Piedmont	-9.1	4.6	4.0	-2.7	1.5	3.2	-13.8	9.3	4.6	-11.6	2.9	4.8
Aosta Valley	-9.6	4.2	3.6	-1.1	2.0	2.8	-22.2	8.8	6.2	-12.2	3.2	4.2
Lombardy	-8.8	5.8	5.0	-1.9	1.8	3.7	-11.4	12.1	7.4	-12.8	3.4	5.4
Trentino A.A.	-9.9	4.9	4.2	-2.2	1.8	2.6	-8.6	9.9	5.9	-11.2	4.2	5.2
Veneto	-9.8	6.3	4.8	-2.1	2.2	3.2	-10.3	12.0	9.5	-14.6	3.9	5.0
Friuli V.G.	-7.9	5.3	4.7	0.4	1.7	2.9	-8.4	12.0	8.7	-14.1	2.9	4.7
Liguria	-9.6	5.2	4.1	-2.3	1.9	2.6	2.0	9.0	4.4	-10.7	3.1	4.8
Emilia-Romagna	-9.2	6.7	5.3	-2.3	2.1	3.4	-8.9	13.8	8.1	-12.1	3.6	5.2
Tuscany	-10.1	5.1	4.1	-1.6	1.7	3.2	-6.4	11.2	5.7	-12.9	3.4	4.7
Umbria	-8.5	4.0	3.8	-1.4	1.4	2.5	-14.0	10.0	6.1	-11.6	3.6	4.3
The Marches	-11.2	4.4	3.8	-2.9	1.2	2.6	-12.2	9.1	6.2	-11.3	2.5	4.3
Lazio	-7.8	4.6	3.9	-2.4	1.5	3.0	-9.3	7.5	5.1	-12.8	3.3	5.2
Abruzzo	-8.6	4.6	3.9	-2.3	2.3	2.9	-6.8	10.7	8.5	-10.5	3.4	4.6
Molise	-8.2	2.8	3.4	-3.3	1.2	1.9	22.8	6.4	5.6	-9.7	2.5	3.4
Campania	-8.4	4.2	3.6	-2.0	2.0	3.5	-6.7	8.6	7.0	-11.6	3.3	4.5
Apulia	-8.2	3.5	3.0	-1.1	1.7	3.0	-10.5	9.2	6.6	-10.9	2.9	4.4
Basilicata	-9.0	2.8	2.4	-2.1	1.7	2.3	-4.6	6.7	7.3	-12.0	2.9	3.2
Calabria	-9.6	2.1	3.0	-4.1	1.2	2.9	-18.1	5.8	5.3	-13.3	2.0	2.9
Sicily	-6.5	2.8	3.0	-1.3	1.6	3.0	-4.7	6.2	5.9	-11.5	2.6	3.9
Sardinia	-9.7	3.2	3.3	-4.3	1.4	2.9	-5.1	6.8	5.3	-14.4	2.9	3.5
South (3)	-8.2	3.3	3.2	-2.6	1.6	2.8	-4.2	7.6	6.4	-11.7	2.8	3.8
Central-North (3)	-9.1	5.1	4.3	-1.9	1.7	3.0	-10.3	10.4	6.5	-12.3	3.3	4.8
- North-West	-9.0	5.5	4.7	-2.1	1.7	3.4	-10.6	11.3	6.6	-11.6	3.2	5.2
- North-East	-9.4	6.2	5.0	-1.9	2.0	3.2	-8.1	12.6	8.6	-12.4	3.7	5.1
- Centre	-8.9	4.7	3.9	-2.1	1.5	3.0	-7.8	9.7	5.6	-11.8	3.3	4.8
Italy (3)	-8.9	4.7	4.0	-2.2	1.7	2.9	-7.9	10.2	6.5	-12.1	3.2	4.6

(1) total accounting employees - (2) net of oil products and at current prices - (3) Source: NMODS model (bi-regional only)

Source: 2020 SVIMEZ; 2021-2022 NMODS-REGIO model

First of all, it is easy to verify how the three regions of Central-Northern Italy – Emilia-Romagna, Lombardy and Veneto – which since the beginning of the millennium have progressively detached themselves from the others, as they are more dynamic, should also be affected in the two-year period 2021-2022 by a GDP growth systematically higher than that of the reference macro-area (Central-Northern) as a whole, and consequently also of the country as a whole. These are the territories where the competitive adjustments introduced in previous years were most widespread, and which are more able to take advantage of the cyclical recovery of the economy, as witnessed by the strong evolution that should affect the exports to these regions in 2021 (third column of Tab. 4). As far as the other regions of Central-Northern Italy are concerned, the “Centre” is confirmed as having dynamics that are on average lower than the rest of the macro-area. Only Tuscany presents GDP growth rates, over the two-year period, that are slightly lower than the average for the entire macro-area; the same cannot be said for The Marches and, above all, Umbria, which tend to break away from the reference group (Lazio is in a class by itself, given the high weight of PA services). In the two-year period considered, the recovery of Central-Northern Italy is overall strong in such a way to regain, in the aggregate form, what was lost in 2021; however, some regions from the Centre and, in part, Piedmont itself, do not follow this trend, given their distance from the small leading group (Lombardy, Emilia-Romagna, Veneto) increase.

In Southern Italy, the regions whose GDP is expected to increase at a comparatively greater rate are Abruzzo and Campania, followed by Apulia. Even with reference to the first two regions, with the best relative performance, they would not, however, be able to make up for what was lost in 2020, even if only slightly. The remaining regions, although within a positive framework, are rather distant from the reference macro-area (South) and, above all, from the rest of the country (Central-North) increase. From this point of view, it is interesting to note that four Southern regions – Calabria, Molise, Sardinia, Sicily – in 2022 should be affected by an expansion of GDP greater than that recorded the previous year, while other Southern territories, and practically all those of Central-Northern Italy, are moving in the opposite direction, that is, with a growth in 2022 less intense than that of 2021. If the latter figure follows from the assumptions that are implicit in the forecasting scenario adopted (see par. 2), the comparison just mentioned shows how a significant part of the

Southern economy, at least in terms of population, is increasingly disconnected from cyclical trends.

In general terms, the regional projections reported here show how the recovery is extending, with different intensity, to all areas. The point is that this different strength is closely related to a number of factors, not least the different productive capacity that has been accumulating or contracting in the various areas (see Fig. 1 and 2, limited to just Central-Northern and Southern Italy). The fragmentation of regional development paths, which does not only involve the South, is a structural aspect that has been consolidated over the last twenty years; this appears to be a trend that must be modified through the impressive resources available at this time, and especially in the immediate future.