

Italy

By Marco Marino, Italian Banking Association – ABI

IN A NUTSHELL

- GDP rose by 3.7%; the recovery was strongest in tourism, leisure, transport services and construction.
- Inflation and the increase in key interest rates have negatively affected mortgage and housing demand.
- The First Home Loan Guarantee Fund to support credit access for the first house purchase has been reinforced.
- Several fiscal bonus measures continue to be in force for people who want to renovate their home.
- EPCs increased about 20% in 2021 (last data available) compared to the previous year.

MACROECONOMIC OVERVIEW

After the big recovery in 2021, GDP rose by 3.7%, despite slowing in the second half of the year due to global tensions: the uncertainty stemming from the conflict in Ukraine, the increases in energy commodities prices and monetary policy.

According to the Bank of Italy's annual report, GDP growth was driven, in particular, by the lifting of Covid-19 measures. In particular, the recovery was strong in tourism, leisure, transport services, and construction sector which was supported by tax incentives to upgrade the building stock (see below). The economic recovery has reflected positively in the exports of services. Household consumption increased, boosted by consumer credit and by savings accumulated during the pandemic. Manufacturing stagnated and stayed, on average, at 2019 levels.

Household disposable income increased, but its real value was eroded by high inflation which increased by 8.7% (and exceeded 12% in the last quarter) driven by the increase in energy prices.

Bank loans to resident customers rose by 2%, in line with the previous year. After an increase in the first part of the year, the growth rate decreased in the second half in line with the increase in interest rates decided by the ECB which was reflected in a weakening of demand. Employment grew strongly returning to the pre-pandemic levels (the number of employees increased by 1.7% on average and hours worked per employee by 2.2%). The unemployment rate fell to 8.1% (the lowest in the last ten years).

The ratio of general government net borrowing to GDP decreased to 8% (from 9%) and the debt-to-GDP ratio fell to 144.4% (more than -5% y-o-y).

LOOKING AHEAD

Forecasts suggest an increase of GDP of around 1% in 2023¹. High inflation and the increase in key interest rates have negatively influenced the mortgage and housing demand in 2022. According to the Italian Housing Market Survey of the Bank of Italy (conducted between 3 April and 4 May 2023), the expected trend in consumer price inflation over the next twelve months – for the vast majority of agents – will continue to negatively affect housing demand.

HOUSING MARKETS

The housing market grew, but the trend was less pronounced compared to the previous year.

It recorded more than 784,000² transactions (+4.7% y-o-y) and about EUR 123 bn in terms of estimated value, continuing the positive trend since 2014, interrupted only by 2020 (-7.7%) due to the pandemic. According to the Bank of Italy estimated, household wealth in terms of real assets (mainly houses) increased by 1.6% in nominal terms.

The increase in the volume of house sales was greater in the South (+7%) and on the Islands, around +9%. Lombardy is the region with the highest number of transactions (more than 165,000), Umbria had the greatest rise y-o-y (+14.2%) with over 11,000 transactions, followed by Basilicata (+12.6%) and Molise (+10.7%).

The increase was more significant in provincial capital cities (+5.5%) than in smaller cities (+4.3%). In the eight major cities, Palermo had the highest growth in house sales (11.3%), followed by Milan (+6.1%) and Turin (+5.9%). Rome and Milan have the highest number of transactions (Rome over 40,000, 33% of the annual total, and Milan over 28,500, 23.6%).

According to preliminary estimates of the Italian National Institute of Statistics (ISTAT), the Housing Price Index increased by 3.8% y-o-y. This increase was due to both, the prices of new dwellings, which grew by 6.1% and existing dwellings which increased by 3.4%.

In the eight largest cities, prices in Milan (per m²) increased most (+8.3%, the sixth consecutive increase since 2017), followed by Turin (+2.9%) and Rome (+1.5%). In Naples, prices decreased by 1.3% y-o-y.

MORTGAGE MARKETS

MARKET DYNAMICS

The mortgage market slowed, due to weaker demand affected by the increase in key interest rates and the decline in consumer confidence. Outstanding loans reached EUR 426.9 bn at the end of 2022 (+4.1%³) while new loans (EUR 69 bn) decreased y-o-y (-12%).

¹ Banca d'Italia, Rapporto annuale, 31 maggio 2023.

² Agenzia delle Entrate, Rapporto immobiliare 2023.

³ The variation is calculated on the basis of raw balance sheet data, therefore it's not adjusted to take account of securitizations.

Loans for house purchase continue to represent the most important liability for Italian households (over 60%). At the end of the year, in general, household financial debts amounted to 62.5% of disposable income, around -2% with respect to the previous year and more than 30 pps lower than in the Euro area. Housing transactions with mortgages remained stable at about 364,000 units (-0.6% with respect to 2021). Considering house purchased with mortgages, they slowed to about 48.4% of the total, with respect to the previous year (51.1%). In 2022, mortgages for young people's first home reached almost 40% of new loans, the highest share since 2007; this category can benefit from the public guarantee for the purchase of their first home (see non-market initiatives)

The average mortgage amount increased to about EUR 138,000 (up EUR 2,800 y-o-y): the largest average amount was in the Central area, with an average of EUR 151,000 (almost EUR 171,000 in the major cities). The average maturity increased slightly to 24.8 years (from 23.9 years in 2021) and is similar in all areas. After falling for several years, the cost of new loans to households for house purchase increased, reflecting higher interest rates on both variable-rate and fixed-rate mortgages. In particular, at the end of the year, interest rates on short term loans were 2.8% (from 1.3% last year) and those with a maturity over 1 year at 3.6% (from 1.4%).

In the second half of the year, the increase in interest rates prompted households to prefer mortgages at variable rate. In the first quarter of 2023, considering the decreasing of the differential cost between the two types of contracts, fixed-rate mortgages started to increase again.

Considering the factors which influence the possibility of house purchase (e.g., disposable income, house price, interest mortgage rates), in the last months of 2022 and in the first months' of 2023 affordability slightly decreased.

NON-MARKET LED INITIATIVES

Some special measures introduced during the pandemic to help first home buyers have been extended by the Italian Budget Law 2023, in particular the Solidarity Fund for mortgages for the purchase of the first house, the First Home Loan Guarantee Fund, and special tax benefits.

The Solidarity Fund allows borrowers to request suspension of payments on the mortgage on their first home for a total of 18 months, if specific events occurred (e.g., suspension/reduction/termination of employment). The new law extended until 31 December 2023, including some extraordinary provisions concerning the operation and the eligibility criteria.

The First Home Loan Guarantee Fund supports credit access for the first house purchase. The public guarantee covers 50% of the total amount of the financing (regardless of family composition or age). Banks are independent in their decision to finance applicants, relying on creditworthiness assessment. The Budget Law extended the increase of the amount guaranteed by the Fund from 50% to 80% from 31 December 2022 until 31 March 2023 for specific categories of beneficiaries – including for example people under the age of 36 – if specific conditions are met. Recently, this measure has been extended again until 30 June 2023.

The same law introduced a measure relating to the mortgages renegotiation, allowing borrowers to switch from a variable to a specific fixed rate, if certain

conditions are met (among these, a variable rate mortgage of less than EUR 200,000, an ISEE⁴ not exceeding EUR 35,000 and no delay in payment).

Moreover, people under 36 can benefit until 31 December 2023 from specific tax relief for their first homes, in order to promote housing autonomy. These consist of an exemption from registration, mortgage and land registry taxes for houses purchases not subject to VAT; for the others subject to VAT, it is provided in addition a tax credit equal to the VAT paid to the seller.

ANY FURTHER IMPORTANT EVOLUTION

The improvement of the energy performance of buildings is of increasing importance in the EU, to meet the climate targets and the zero-emission building stock by 2050. In Italy, the analysis of the energy performance certificates of buildings shows that, overall, in 2021 (last data available) more than 1,2 million of EPCs were issued⁵, an increase of around 20% compared to the previous year.

For residential buildings (more than 947,000 issuances) the highest share of EPC is in the F and G classes (59.7%), followed by C and D classes (26.1%).

However, the comparison between 2020 and 2021 shows a reduction of the share of residential properties in the F class by about 1%, especially in favor of those A4-B.

MORTGAGE FUNDING

The banking sector's overall funding contracted.

Resident customers' deposits and bonds contracted by 0.4% (from +5.6% in 2021). Deposits (current accounts, certificates of deposit, repurchase agreements) decreased by 0.5% (+6.9% in 2021), while funding by bonds remained stable (-4.4% in 2021). A total of approximately EUR 20.7 bn of covered bonds were issued. The total level of outstanding was approximately EUR 165.9 bn. Approximately EUR 1.6 bn of securitisations were placed (4.5 bn in 2021). Liabilities vis-à-vis the Eurosystem decreased in conjunction with the repayments of TLTRO-III funds.

GREEN FUNDING

Several fiscal bonuses help people renovate their home; in particular concerning the improvements in the energy efficiency of buildings are the following:

- the "Ecobonus" which provides for a deduction of 50% or 65% of the expenses incurred for specific energy efficiency works (e.g., redevelopment of the building, solar collectors, windows) with a cap which differs based on the type works. If the work covers common areas in condominiums, the deduction varies from 70% to 75% depending on specific characteristics. The measure has been extended until the end of 2024;
- the "Superbonus" consists of an income tax deduction for works improving energy efficiency and seismic security of the houses (including installing photovoltaic cells and electric vehicle charging columns), if specific requirements are met. The measure was introduced in 2020 during the Covid-19 pandemic providing a tax deduction equal originally to 110% for the expenses incurred from 1 July 2020 to 31 December 2021. Subsequent laws have extended the measure until 2024 and 2025 with some changes, in particular providing a different value of tax credit (from 110% to 65%) in relation to the year where the expense is occurred, the kind of works and beneficiaries.

⁴ The indicator of equivalent economic situation for accessing specific measures.

⁵ ENEA, "Certificazione energetica degli edifici, Rapporto 2022". The data is acquired from the Regions, Autonomous Provinces and from SIAPE (Sistema Informativo sugli Attestati di Prestazione Energetica).

⁶ Low decree n. 11/2023 (art. 2, paragraph 1)

Moreover, the Italian budget law 2023 provides for a deduction of 50% on VAT for purchases of energy efficient homes (Class A and B).

Other important fiscal measures to encourage, in general terms, the renovation and improvement of buildings are in force, in particular:

- the “Restructuring Bonus” which consists of an income tax deduction of 50% for expenses carried out on private properties and on the commonly owned parts of condominiums in relation to extraordinary maintenance, renovation, restoration, conservative rehabilitation of the buildings up to a maximum of EUR 96,000 per property unit. It is in force until 2024;
- the “Seismic bonus” for residential and productive properties, located in seismic zones: which consists of a tax deduction of the expenses incurred until 2024 to carry out seismic risk reduction work, improving the seismic class of the property. The amount of the deduction is different in relation to certain parameters and the type of works (from 50% to 85%), up to a cap amount of, generally, equal to EUR 96,000;
- the “Furniture bonus” for property renovations: which consists of a 50% deduction until 2024 on purchases of furniture and large household appliances in the context of the renovation of the house up to a maximum of EUR 8,000 in 2023 and EUR 5,000 in 2024;
- the “Green bonus”: which provides a deduction of 36% of the expenses incurred, with a cap of EUR 5,000 for greening interventions of private uncovered areas of existing buildings, real estate units, irrigation systems and construction of wells, realization of green roofs and hanging gardens.

According to the previous rules, the tax deduction could be converted into an invoice discount or a tax credit that could be transferred to banks or financial intermediaries. According to the new rules in force from the 17 February 2023, in general terms, this possibility does not allow works started from the mentioned date; it continues to be used in the form of an annual deduction.

	ITALY 2021	ITALY 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	7.0	3.7	3.5
Unemployment Rate (LSF), annual average (%) (1)	9.5	8.1	6.2
HICP inflation (%) (1)	1.9	8.7	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	73.7	74.3	69.1
Gross Fixed Investment in Housing (annual change)(1)	25.9	10.3	1.5
Building Permits (2015=100) (2)	139.4	140.7	125.8
House Price Index – country (2015=100) (2)	103.0	106.9	164.6*
House Price Index – capital (2015=100) (2)	85.7	87.0	163.8*
Nominal house price growth (%) (2)	2.6	3.8	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	409,868	426,959	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	8,216	8,572	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	34.2	33.5	71.5
Gross residential lending, annual growth (%) (2)	3.6	-12.1	-6.5
Typical mortgage rate, annual average (%) (2)	1.4	3.0	3.1

* Please note that this value is a simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2023, 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.