LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

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The Covid-19 in Europe: a focus on the case of Italy

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ABSTRACT

In the early months of 2020, the international economic cycle, which had already been decelerating since the previous year, was hit hard by the negative effects by the Covid-19 pandemic. The health emergency and the related containment measures generated a global recession that differs from previous historical episodes mainly in two respects: the epidemiological origin, completely external to the typical sources of financial and economic imbalance, and the transmission channels that simultaneously involved supply and demand with exceptional speed and intensity.

The aim of this study is to review the emerging and rapidly growing literature on the economic consequences of COVID-19 in Europe, with a specific focus on the Italian case, and on how the European Union and the Italian government are handling the emergency, summarizing and trying to give a more personal view on insights and future prospects.

This study is divided into three chapters. In the first one, the European economic situation in 2019, the year before the pandemic spread, illustrates how an already weak background did not support the arrival of the virus. It also presents the Italian economy in that year, in terms of its relationship with the European Union.

The second chapter focuses on the impact of Covid-19 on the European economy, thus drawing a comprehensive picture of the evolution of the main economic indices over the year. It also reports which countries were most affected by the epidemic in terms of deaths and economic damage. Finally, the last section of the chapter presents the strategy that the European Union has decided to implement to tackle the crisis. After mentioning the tragic consequences in terms of human lives and economic damage, I describe the intervention plans proposed by the European Community. In the first part I will discuss the health plan and the vaccination strategy adopted in Europe, while in the second part I will focus on explaining the economic interventions to respond to the most serious crisis ever recorded since the birth of the European Union. The purpose of this paragraph is to describe the salient steps that have transformed one of the most serious global tragedies, in an opportunity to redesign the future of Europe and consolidate the spirit of solidarity and union among member states.

The last chapter is focused on the case of Italy. Describing first how the virus impacted our country from an economical point of view, I discuss then the measures taken by Italy in the application of the Next GenerationEU (NGEU) and I present and report on the highlights of the National Plan for Recovery and Resilience (PNRR).

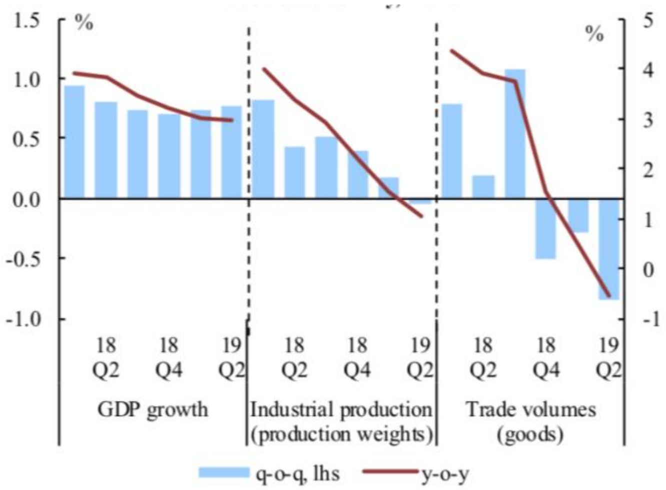
The analysis proceeds with some considerations on the current situation and future prospects.

CHAPTER 1: EU AND EURO AREA ECONOMIC OUTLOOK PRE COVID-19

1.1 INTRODUCTION

European economy, at the end of the 2019, was facing a not so prosperous period. This was caused by a weaker period in global activities and trade and by a more moderate economic expansion in Europe. In the first half of the year, economic growth in the Euro Area had already lost points and in the second quarter it even fell below its normal average. The general causes of this negative trend could be attributed to various factors, either transitory or persistent, such as stagnant international trade, the slowdown in global growth, tariff threats, growing geopolitical tensions, Brexit, the continuing vulnerability of the manufacturing.
These factors contributed to a general slowdown in growth and main economic indicators at an international level since 2018 (Figure 1). Weak global growth and high global economic uncertainty have also affected the Euro Area economy.

Figure 1: Indicators of global economic activity in the world

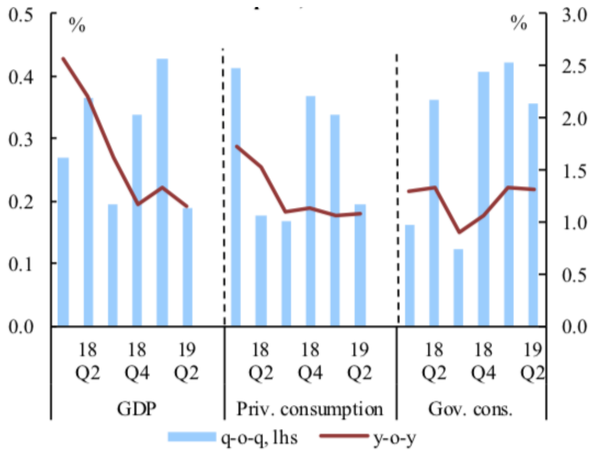


Source: OECD, IMF and national sources for GDP growth

In the second quarter of 2019, the economic growth fell back to 0.2%[1] in both Europe and the Euro Area. Nevertheless, private consumption and government consumption (Figure 2) continued to give positive contributions to the economic growth thanks to positive conditions of the labor market: employment continued to grow and the unemployment rate had further decreased, approached pre-crisis levels[2].

[1] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*
[2] Reference is made to the 2008 financial crisis.

Figure 2: GDP and consumption in the euro area



Source: OECD, IMF and national sources for GDP growth

Furthermore, based on past wage settlements, labor income increased further and pressures on labor costs strengthened, leading to higher unit labor costs. However, the transition to core inflation remained incomplete as companies did not instantly adapt their prices and core inflation continued to be rather low. The modest rise in core inflation was favorable to households' purchasing power and therefore led to substantial growth in private consumption. For what concerns investments, the situation was different. In the Euro Area, moderate expansion took place in the second quarter since much of the investments were linked to trade and, how it was said before, global trade had been very weak. Moreover, the global economic policy uncertainty negatively affected the Euro Area's growth as well. This trend of subdued growth didn't change in the third quarter: the Euro Area registered relatively weak sectoral data, with a subdued performance of industrial production and a slight weakening of construction. Also retail trade registered a slowdown but remained into positive territory.

Due to the general picture just exposed, during the year the major central banks worldwide moved to more accommodative policies as well as in the case of the Euro Area, where the European Central Bank took measures to stimulate the economy in order to increase inflation towards its target, after having registered further declines in the primary inflation rate during the previous months.

1.1.1 KEY FACTORS BEHIND THE SLOWDOWN

To better understand the causes of the slowdown just exposed, it is appropriate to analyze individually the various elements that contributed to cause it, which have consequences also for the Outlook and efficacy of monetary, fiscal and other policy measures. The first factor that caused the slowdown in the European economy in 2019 has been the economic slowdown at the global level, which translated into a weaker demand for European goods and services and therefore lower European exports. The main causes behind this global slowdown were related to cyclical factors, such as the slowdown in the US economy after a very long period of expansion or the diminishing demand of the Asian tech cycle. But there were also other factors, such as trade barriers, the elevated level of global economic policy uncertainty, country-specific growth impediments in several emerging market economies and more structural changes in the global economy (e.g. those induced by technological changes in the car sector).

This slowdown reflected also global trade tensions, especially between US and China, following the introduction of more inward-oriented trade policies in the two countries, such as new and higher tariff rates on imports. This policy was just one of the many actions undertaken by both countries, such as labeling some foreign companies as threats to national security, invitation for home companies to leave the foreign country or to refrain from buying from foreign companies.

These behaviors obviously had bad repercussions on third countries, especially those that were highly integrated in global value chains, bringing also trade tensions to other regions and creating obstacles to global growth. The dimension of the negative impacts depended on different elements, such as the countries' international exposure, reliance on cars exports, trade relationships with the heavily affected economies , which explains why some countries were more affected than others.

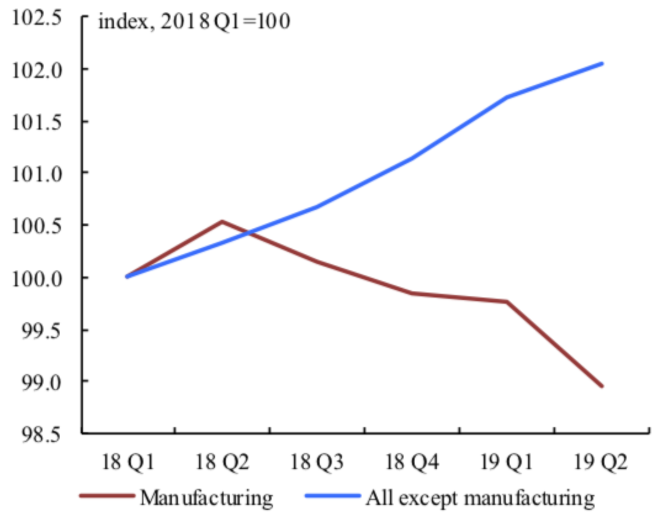
The economic policy measures undertaken led to an increase in costs and uncertainty associated with future tariffs and the viability of global supply chains. The worst impact in the short term was associated with the uncertainty related to the extent, duration and scope of trade and broader economic tensions, causing a reduction in investments, manufacturing activity and global trade flows, which led to the loss of world output growth of approximately half a percentage point during the year, with the result that also medium and long-term global growth were affected.

In addition to the negative impact on the short-term, high uncertainty also affects the medium-term growth prospects. With the entry into force of tariffs and other restrictive economic measures, the supply crisis is bound to drive adjustments in companies' business and investment decisions and inevitably leads to a less efficient allocation of resources at the world level. The impacts extend well outside the United States and China, since other economies are influenced by the consequent roll-back of trade integration and the outlook of growing global economic fragmentation.

One of the other key elements that contributed to the global economic slowdown was the slump in manufacturing, amplified and carried forward by trade tensions, trade policy uncertainties and slump in capital spending. The weakness of this sector also brought consequences in the service sector but, while the index for manufacturing temporarily fell into negative territory, the services index continued to signal expansion. What both sectors had in common was the weakness of new export orders, which highlights the correlation between weak trade momentum and the slump in manufacturing.

The Euro Area was also affected by the decline in this sector but other sectors more oriented to the domestic economy continued to expand, causing a divergence which positively balanced the negative impacts on the total economic growth (Figure 3). This divergence obviously had different impacts on Member States, affecting more those with a higher percentage of manufacturing value added and a high level of industrial goods export exposure. As a result, the greatest impact on manufacturing gross value added was in Germany, while the other major Member States registered stable data.

Figure 3: Manufacturing versus rest of the economy in the euro area



Source: ec.europa.eu

1.1.2 EUROPEAN FINANCIAL MARKETS

European financial markets during 2019 showed high volatility, due to the economic slowdown, global commercial tensions and the forecast of below-average interest and inflation rates. The longer-term yields on the Euro Area's sovereign debt declined during the summer, while those that had the highest rating performed very well in countries with negative rates. In August, European equity markets underwent a considerable price adjustment, but at the beginning of September they turned around abruptly based on the predictions that the ECB would have presented a substantial and high-impact policy mix at the September's Governing Council meeting.

In September, the ECB deemed it necessary to integrate with other monetary stimuli, due to the constant downward pressure on the inflation outlook. These measures consisted of a cut of the deposit rate by 10 basis points to -0.50% and a restart of asset purchases at a net rate of 20 billion euros per month[3]. In addition, the ECB also strengthened its guidelines for official rates, in order to the deposit rate cut and the restart of asset purchases to have a greater impact on the economy.

For what concerns the monetary policy easing package, the modalities of the new series of Targeted Longer-Term Refinancing Operations (TLTROs), announced in June 2019, were also simplified, allowing banks to access longer-term loans at lower rates with a longer maturity. In order to safeguard the transmission of banking policies, the ECB also heralded a two-step system for the remuneration of euro area banks' reserves with the Eurosystem. Under this new system, part of the bank's liquidity surpluses was exempted from the negative rate on deposits, in order to reduce the effect of negative monetary policy rates on the performance of Euro Area banks. In the meantime, other EU central banks have maintained their monetary policies unaltered, opting for a "wait-and-see" position in a context of continuing uncertainties linked to protectionist policies and geopolitical factors.

The euro was rather volatile, showing greater volatility especially against some currencies, such as the pound, probably due to the persistent uncertainty about a Brexit deal. Moreover, the euro weakened mainly against the Japanese yen and the US dollar in a context of greater political risks. But the weakness of the euro against safe haven currencies was largely compensated by the appreciation against other currencies within the EU and of some emerging economies.

In the government bond markets instead, the 10-year Bund yields turned negative in May and set an all-time low of -0.7% in mid-August, before rising to -0.40% at the end of October, when investor demand for safe assets was somewhat lower than in the summer[4]. During those months, the spread of Italian sovereign debt against the German Bund has narrowed, while

[3] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

[4] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019*

political uncertainty in Italy has eased. In October, Italy issued sovereign bonds denominated in US dollars for the first time in 10 years, reflecting the global quest for returns. Spreads in peripheral countries also narrowed considerably thanks to the global search for returns. Spreads on Euro Area corporate bonds have fluctuated in recent months, following investors' risk perceptions. In general, investors seemed to continue to assess credit and interest rate risks at low levels, despite lower economic growth and global trade tensions.

EU equity markets came under significant downtrend pressure in August, but picked up again in September, when feeling improved thanks to increased monetary easing by major central banks and when signs of improvement in US-China trade negotiations started to appear. Nevertheless, the banks' sub-index has continued to underperform considerably, and it was in fact the sector with the worst performance in the last 12 months. Because investor perceptions of trade and manufacturing deteriorated, the equity indices of export-oriented economies, such as Germany, have been under-performing.

Banks' lending activity has continued to expand, with an annual growth rate of lending to the private sector in the range of 3-4% since early 2018 (3.8% in August 2019, after 3.7% in July). Among the debtor sectors, the annual growth rate of loans to households reached 3.4% in August, which is unchanged from July, whereas the growth rate of loans to enterprises rose to 4.3% in August, compared to 4.0% in July. Nevertheless, credit trends were rather divergent across Member States, with business lending growth exceeding 5% per year in France and Germany, while it has declined by about 1% in Italy and Spain, where banks were still constraining their leverage. Banks continued to make progress in the consolidation of their balance sheets, with the share of non-performing loans that felt, driven by asset disposals.

During the third quarter of 2019 the ECB made his Bank Lending Survey, from which it emerged that Euro Area banks had reported that credit standards had declined modestly for corporate and household loans for home acquisition. They were driven by competition, although the contribution of risk perception to the economic outlook continued to intensify. Credit standards remained tighter for consumer credit, and demand for loans remained stable for businesses, while housing loans and consumer credit continued to increase.

1.1.3 GROWTH

In the first half of 2019, GDP grew in the same way as in the second half of 2018. In the second quarter, driven by net exports, GDP slowed to 0.2% from 0.4% at the beginning of the year. The internal demand has shown to be favorable and has withstood external counterwinds. In contrast to the same quarter of the year before, GDP growth was down to 1.2% in the Euro Area, in marked contrast to the post-crisis peak of 3.0% in the fourth quarter of 2017[5].

A series of momentary factors had sustained activity in the first quarter and contributed to the rise in half-yearly rates, which stood at 0.7%, just above the 0.5% growth of the second half of 2018. Although growth lost momentum in most Member States in the second quarter, it highlighted relative performance differences among countries and sectors. In both quarters, only Germany and Italy recorded output changes below the Euro Area average, while France and Spain performed more strongly. At industry level, the Euro Area has advanced at two distinct speeds. First, a continuing strong service sector, sustained by domestic demand; secondary, a substantial slowdown in the manufacturing sector. GDP in the Euro Area manufacturing fell at the quickest speed since the end of 2012, where Germany was at the center of the cycle.

Part of the constant slowdown in the manufacturing sector was attributable to the continuing instability of the future state of the global economy and the global trade rules, geopolitical preoccupations, decreasing demand for capital goods, changes in the automotive sector, and deterioration in the performance of the electronic components sector (particularly in Asia)[6]. Due to trade and capital intensity of the manufacturing sector, countries with a broader industrial base and increased dependence on exports have been hit hardest so far.

The previous vantages therefore turned into weaknesses. German producers have been more affected than others by a slowdown in global demand as a result of their export oriented approach and the significance of the manufacturing sector. Car production, with a significant economic impact, has been negatively hit by falling demand from China, as a result of increased taxes and stricter financial conditions, plus market saturation, the launch of new European emission tests and the switch from diesel to petrol and other alternative fuels.

Even the real monetary aggregate M1, which exhibited cutting-edge characteristics with respect to domestic demand in the Euro Area, suggested a slowdown in growth. The Euro

[5] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

[6] Exports for Asia count more than 10% of global trade. Lane, P. (2019). '*Reflections on monetary policy'.*

Area's industrial output rose slightly in August, recovering from a similar decline in July (+0.4%, after -0.4%), but was unable to recover after the sharp decline in June (-1.4%), opening the way to a decline in the quarter. In addition to the contraction, construction output in the Euro Area fell in August for the third consecutive month (-0.4%, after -1.1% in July and -0.7% in June). Sales volumes in the retail trade, although up in August (+0.3%, after -0.5% in July), continued to show a slowdown in terms of sales growth versus the previous quarter. On the upward trend, new car registrations in the third quarter kept recovering, while growing at a much more modest rate (from +2.7% q-o-q to +0.7%)[7], remaining close to the level of a year earlier. As a result, it appeared that growth was expected to remain contained over the second half of the year.

Figure 4: Composition of growth in the euro area

(Real annual percentage change)	2018		2014	2015	2016	2017	2018	Autumn 2019 forecast 2019	2020	2021
	bn Euro Curr. prices	% GDP	Real percentage change							
Private consumption	6036.9	53.9	0.9	1.9	2.0	1.7	1.4	**1.1**	**1.2**	**1.2**
Public consumption	2296.7	20.5	0.8	1.3	1.9	1.3	1.1	**1.6**	**1.5**	**1.3**
Gross fixed capital formation	2304.3	20.6	1.4	4.8	4.0	3.5	2.3	**4.3**	**2.0**	**1.9**
Change in stocks as % of GDP	68.1	0.6	0.5	0.5	0.5	0.6	0.7	**0.3**	**0.3**	**0.3**
Exports of goods and services	5297.9	47.3	4.8	6.6	2.9	5.5	3.3	**2.4**	**2.1**	**2.3**
Final demand	16003.9	142.9	2.4	3.7	2.6	3.3	2.2	**1.8**	**1.6**	**1.7**
Imports of goods and services	4804.5	42.9	4.9	7.6	4.1	5.0	2.7	**3.2**	**2.6**	**2.7**
GDP	11200.9	100.0	1.4	2.1	1.9	2.5	1.9	**1.1**	**1.2**	**1.2**
GNI	11263.2	100.6	1.2	1.8	2.1	2.7	2.0	**1.0**	**1.2**	**1.2**
p.m. GDP EU	15898.2	141.9	1.7	2.3	2.0	2.6	2.0	**1.4**	**1.4**	**1.4**
			Contribution to change in GDP							
Private consumption			0.5	1.0	1.1	0.9	0.7	**0.6**	**0.6**	**0.6**
Public consumption			0.2	0.3	0.4	0.3	0.2	**0.3**	**0.3**	**0.3**
Investment			0.3	0.9	0.8	0.7	0.5	**0.9**	**0.4**	**0.4**
Inventories			0.4	0.0	0.0	0.2	0.0	**-0.4**	**0.0**	**0.0**
Exports			2.1	3.0	1.3	2.5	1.6	**1.1**	**1.0**	**1.1**
Final demand			3.4	5.2	3.6	4.6	3.1	**2.6**	**2.4**	**2.4**
Imports			-2.0	-3.1	-1.7	-2.1	-1.2	**-1.4**	**-1.2**	**-1.2**
Net exports			0.1	-0.2	-0.4	0.5	0.4	**-0.3**	**-0.1**	**-0.1**

Source: ec.europa.eu

Private consumption grew by 0.2% during the second quarter, from a slight decline to 0.3%[8] in the first quarter. Private households expenditure growth continued to keep pace with the conditions in the labor market and decelerated in response to a weaker pace of job creation during the quarter. Based on the distribution of private consumption for the second quarter, consumption of durable goods in the Euro Area was nearly stable, while semi-durable and non-durable goods and services expanded at around half of their prior level. However, it is important to note that durable goods and services consumption has been slowing down for

[7] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*
[8] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

some time. The growth in private consumption continued to be in line and depended on the evolution of family income and wealth. Until that moment, 2019 nominal disposable income increased at an average rate of 3.5% compared to 3.1% in the two previous quarters, with direct taxes, social security contributions and net transfers contributing to this recovery.
In most Euro Area countries, domestic savings had increased, with the Euro Area savings rate going from 11.9% in the first quarter of 2018 to 13.3% in the 2nd quarter of that year. Meanwhile, consumers tend to be less positive about the labor market, with expectations of higher unemployment. A protracted uncertainty about income outlook has driven precautions savings upwards and was affecting consumers' willingness to take big spending decisions, like buying property and durable goods. Moreover, there was considerable proof that changes in the economic cycle influence workers in an unequal manner. Low-wage workers and younger groups tend to be more exposed to downsizing, resulting in periodic fluctuations in precautionary saving intentions.
During the first half of this year, public consumption contributed positively to growth. It increased by 0.8%, a positive comparison with the 0.5% increase in both quarters of 2018.
In the second quarter, euro area investment expanded more rapidly than GDP, increasing by 5.6% after dropping in the first quarter (0.5% q-o-q). As regards its distribution, investment in the construction sector was stable. Non-building investment, on the other hand, grew by around 10.9% after a decline in the previous quarter (-0.6%).

Exports came to a standstill in the second quarter of the year, after growing by almost 1% in the previous two trimesters. The general situation hided significant divergences between goods and services, and also between the various countries. Exports of goods decreased, although only marginally -0.3%[9] from the first quarter of 2018.
World trade data showed that exports of goods, both inside and outside the Euro Area, were still underperforming during the first half of the year. While the first recorded a modest growth at 0.2%, the second was substantially unchanged and roughly at the same level compared to the first half of 2018.
Both the Euro Area's geographical orientation of international trade and the specialization of its goods seemed to have been an handicap. Although Eurozone export markets experienced a contraction of around 2.3% in the second quarter of the year, total global import demand, not including the Euro Area, dropped by only 0.8%. Nevertheless, the two were approaching levels at the end of 2017, a clear sign that positive trade developments have not been able to

[9] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

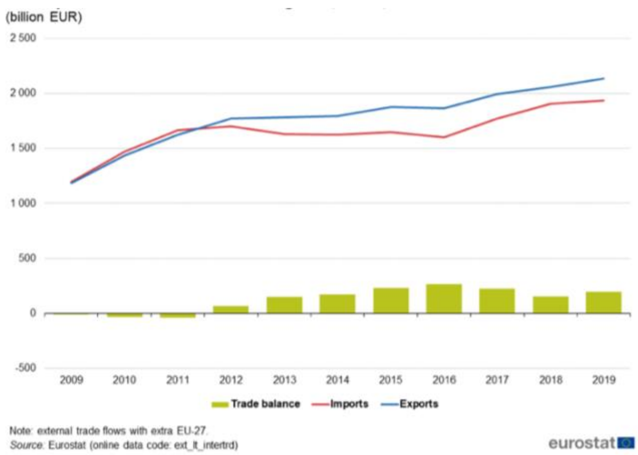
make a positive impact on growth. Export growth in the Euro Area was expected to remain affected by the weakness of global activity, in particular the fading impact of the fiscal stimulus in the US and the slow pace of world trade, against a background of lower growth elasticity of trade than in previous years. Increased trade policy uncertainty and geopolitical tensions create further problems and restrict a possible recovery in demand for trade-intensive capital goods.

As export growth weakens below import growth, net trade is predicted to operate as a brake on growth this year (-0.3 p.p.) and to fall again over the next two years (-0.1 p.p.), with export growth not reaching import growth.

1.1.4 INTERNATIONAL TRADE IN GOODS

The EU represents about 15%[10] of worldwide trade in goods. International trade in goods is considerably higher in value than trade in services, that is about three times higher, which reflects the more difficult nature of some services to trade across borders. In 2019, total international trade in goods with the rest of the world, the sum of non-EU exports and imports, was estimated at EUR 4 067 billion (see Figure 5). Imports and exports were respectively greater than in 2018, with imports (EUR 27 billion) increasing less than exports (EUR 73 billion). Consequently, the EU-27 trade surplus of EUR 152 billion in 2018 has risen to EUR 197 billion in 2019.

Figure 5: Development of international trade in goods, EU-27, 2009-2019

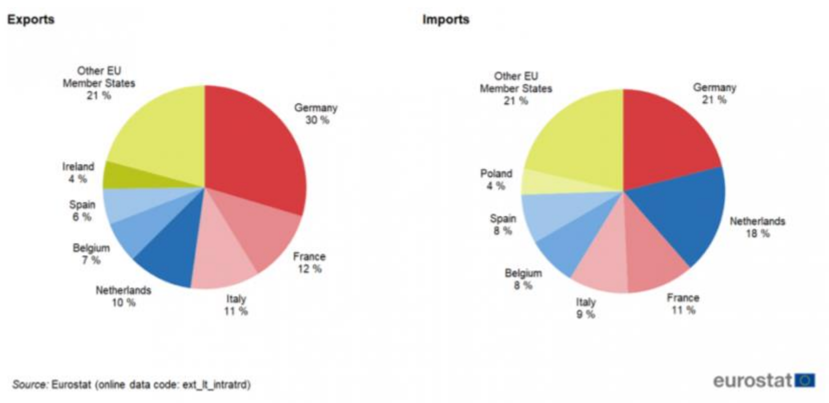


Source: Eurostat

[10] Eurostat (2020)-*International trade in goods- a statistical picture:* https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods

Out of all EU Member States, Germany held the highest share of extra-EU-27 trade by far in 2019, providing 29.6% of EU-27 goods exports to non-EU countries and representing over a fifth (21.0%) of EU-27 imports (see Figure 6). The following three major exporters, France (11.6 %), Italy (11.0 %) and the Netherlands (10.3 %) were the only other EU Member States to account for a double-digit share of EU-27 exports. For what concerns the imports, The Netherlands (17.5 %), France (10.7 %) and Italy (9.5 %) came after Germany as the largest importers of goods from non-European countries in 2019. The reason for the high relative share of the Netherlands can be attributed, at least in part, to the significant volume of goods flowing into the EU via Rotterdam, the largest seaport in the EU.

Figure 6: % share of EU-27 export/imports



Source: Eurostat

The exchange of goods between EU Member States (intra-EU trade) was estimated - in measured terms of exports - at EUR 3 061 billion in 2019. This amount was 44% larger than the level reported for exports out of the EU27 to non-EU countries which amounted to EUR 2 132 billion (extra-EU trade).

1.1.5 CURRENT ACCCOUNT

The Euro Area current account surplus settled at a historically elevated level of 3.8% of GDP in 2017 and 2018, although it was estimated to narrow to 3.3% in 2019 and even further to 3.2% in 2020 and 3.1%[11] in 2021, the worst since 2014. This decline mainly reflected the drop in the goods trade surplus (from 3.0% in 2018 to 2.7% in 2021), as well as a smaller surplus in trade in services and a more adverse combined balance of both primary income

[11] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

and transfers. The reduction in the trade surplus in goods and services looked to be mostly a consequence of a prolonged downturn in the overall manufacturing and trade sector that began in 2018, continued until 2019 and is destined to continue to hold back euro-area exports over the forecast period. Euro Area was severely affected especially in 2018 and 2019, not only because of its high degree of opening up and intensive involvement in world value chains, but also due to its product specialization and the geographical focus of its exportations.

1.1.6 LABOR MARKET

Both the EU and Euro Area labor markets in the past, have so far demonstrated resilience to the deceleration in economic expansion, and the majority of labor market performance has continued to increase in the last two months of 2019. But, changes in the labor market conditions are usually lagging behind the performance of economic activities, so the possibility for additional increases in employment needs to be assessed. The employment situation in the Euro Area continued to progress in terms of both the number of people employed and the number of hours worked. The latest data demonstrate a continued 0.2% increase in the number of workers in the second quarter of 2019, against the first quarter of 2019. As regards the number of hours worked, however, the actual level roughly equaled the levels registered before the crisis. During the period 2008-2013, sectoral changes in the structure of employment and the rise in the proportion of part-time workers in total employment brought about a more pronounced reduction in the number of hours worked in relation to overall employment. The Euro Area and EU unemployment rate has been steadily decreasing from 2013. The latest available data for August indicated an unemployment rate of 7.4% in the Euro Area, compared to 8.0% in the same area one year earlier, and almost the very low point of 7.3%[12] achieved at the beginning of 2008 in the Euro Area.

The slowdown in the labor market, in combination with the significant job vacancy rate and the continuing decrease in unemployment rates, were proof of a narrower labor market. All this was seen in the recent rise in salaries, increasing more rapidly than inflation (+2.0% forecast this year for the euro area, +2.8% in the EU) although there have been no productivity developments in the Euro Area (+0.4% in the EU). Nevertheless, the situation differed considerably from country to country and from sector to sector.

[12] European Commission’s Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

The weakness of the economy has begun to influence labor markets. For the moment, the only signs of a stop in employment growth stem from the manufacturing sector. Employment in the area of services continued to expand and is much more important in total employment. It represented 73% of the Euro Area economy, as opposed to 25% of the manufacturing sector. Although the productivity and relevance of the manufacturing sector differs from country to country, in general the service sector is the most important factor shaping the labor market.

Over the first half of 2019, the rate of job creation was in alignment with GDP growth. In addition to the decline in assumptions driven by reduced economic growth, variations in the degree of labor market weakening across countries and different developments in sectors can also affect employment performance on the supply side. There are still gaps in unemployment rates between EU Member States (Figure 7), since EU countries are picking up at different paces since 2008 and there are structural inequalities. However, these discrepancies in unemployment rates have gradually reduced in recent years and are predicted to decrease more in the future.

Figure 7: Labour market outlook, euro area and Eu

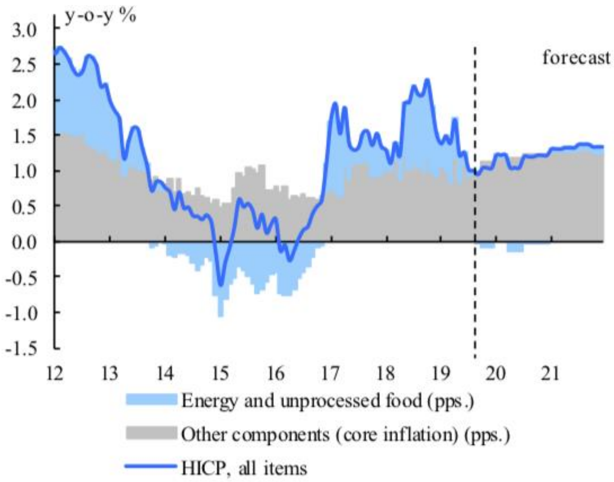
(Annual percentage change)	Euro area			
	Autumn 2019 forecast			
	2018	2019	2020	2021
Population of working age (15-64)	0.2	**0.2**	**0.2**	**0.2**
Labour force	0.6	**0.4**	**0.3**	**0.3**
Employment	1.5	**1.1**	**0.5**	**0.5**
Employment (change in million)	2.3	**1.7**	**0.8**	**0.7**
Unemployment (levels in millions)	13.4	**12.4**	**12.2**	**12.0**
Unemployment rate (% of labour force)	8.2	**7.6**	**7.4**	**7.3**
Labour productivity, whole economy	0.4	**0.0**	**0.7**	**0.8**
Employment rate (a)	62.0	**62.6**	**62.7**	**62.9**

Source: ec.europa.eu

1.1.7 INFLATION

Inflation in the Euro Area did not recover during the third quarter and has so far been down in 2019, mainly due to lower energy prices than in the previous year. Solid salary growth, strong employment levels and sharp rises in house prices did not translate into internal inflation pressures. During the year, significant movements were recorded within the main sub-components of inflation but, in the third quarter, all of them were under long-term averages since the 2000s, indicating low inflationary pressure. Global inflation measured by the Harmonised Index of Consumer Prices (HICP) in the Euro Area amounted to 1.0% on average in the third quarter of 2019, lower than 1.4% in the second. This rapid reduction was mainly attributable to energy inflation, which became sharply negative in that quarter. The significant reduction in global inflation, which fell to 0.8% in September, reflected in part the large and negative core effects of energy inflation, but also indicated a marked drop in non-processed food prices.[13]

Figure 8: Inflation Breakdown in the euro area



Source: ec.europa.eu

By contrast, core inflation, capturing all categories except energy and unprocessed food, persisted in the third quarter at around 1.1%, just below the 1.2% average recorded in 2018. The differential between low core inflation and strong salary growth persisted. As concerns the principal element of core inflation, inflation in services started to rise again in September, reaching 1,5%, although the level in the third quarter (1,3%) was below that of the previous quarter (1,5%). Nevertheless, services inflation stayed fluctuating in 2019 mostly due to the seasonality of package holidays, which account for just under 10% of the overall basket of services. In the services sector, the inflation of rents (accounting for around 15% in the basket of services) has significantly increased since 2018, mainly in the summer. It stood at 1.5% on average in the third quarter, compared with an average of 1.2% in 2017 and 2018. The rise in house rents was accompanied by a significant upward trend in house prices in the euro area. Since mid-2016, house prices have climbed by more than 4% per annum in each quarter, and this was in part due to lower household financing costs, as well as asset price developments when interest rates were low. Similarly, changes in house prices reflect the evolution of asset prices during a period of low interest rates. Increases in house prices

[13] European Commission's Directorate-General for Economic and Financial Affairs (2019), *European Economic Forecast Autumn 2019.*

encourage a move in demand towards rent as a result of decreasing accessibility, with owners seeking to transfer some of this increase to renters by pushing up rental prices with the aim of preserving an appealing rental performance. Declared house price growth seems to have an effect on this inflation component, albeit with a relatively long lag. Although these two components usually move together, the acceleration in the price of houses could not automatically bring about an increase in rent inflation for a variety of other factors.

Nevertheless, inflation in non-energy industrial goods and processed food products remained fairly static and shifted within a tight interval over the first three quarters of 2019. The fragile manufacturing sector and contained oil prices contained the increasing inflation pressure for non-energy industrial goods, where annual non-energy industrial goods inflation averaged 0.3% in the third quarter. Output industrial price inflation in the manufacturing sector dropped 0.8% in August, significantly pushed down by the price of energy, whereas the global ratio, excluding energy, was only 0.5% up on the same month last year. Just non-durable consumer goods inflation rates exhibited some positive tendencies during the year, compared to capital goods and durable goods - amounting to 1.5% and 1.4% in August respectively - which both remained relatively stable above the August rate during the year and exceeded the 2018 average. Inflation of intermediate goods and most of all energy producers fell sharply in the course of the year and reached negative levels in the third quarter. Similarly, the prices in the commercial goods sector reflect a generally slowdown in prices along global supply chains, particularly in Asia and China, which saw production costs fall by 1.2% in September. Across Europe, industrial import prices in the euro area have decreased more markedly than domestic industrial output prices since the summer, to -2.5% in August. This was once again pushed by strong reductions in energy prices and intermediate imports, although it also showed a widespread fall in import prices in all sectors, in spite of the depreciation of the nominal effective exchange rate of the euro in 2019.

In addition, aggregate HICP inflation rates persist in hiding considerable disparities among the Member States of the euro area.

1.1.8 PUBLIC FINANCES

Since 2018, the aggregate government deficits of the European Union and the Euro Area were at their lowest values since 2000.

The aggregate deficits of the EU and the Euro Area were, however, predicted to increase marginally in 2019 from 2010 for the first time. Projections for 2020, were reflecting the measures reported in their draft budgetary plans for Member States, showed a slight additional increase in the aggregate deficit. In addition, also the aggregate debt-to-GDP ratios of both areas are planned to persistently decrease over the forecast period.

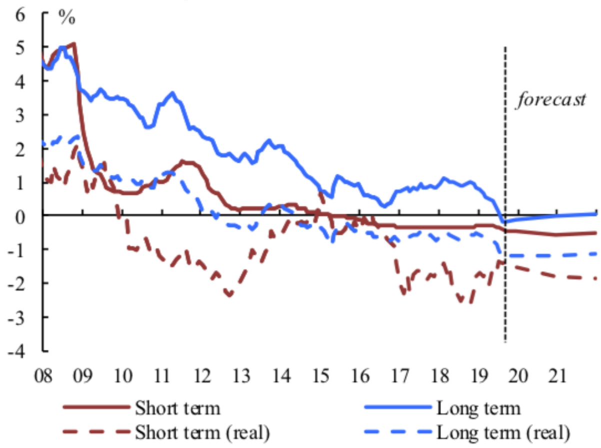
1.2 MACROECONOMICS POLICIES IN THE EURO AREA

For the Euro Area, the policy mix showed the interaction between financing conditions and fiscal policy. Monetary policy mix in the Euro Area remained generally accommodating. On the basis of usual technical assumptions, the short-term monetary market rates were expected to decrease marginally over the forecast horizon and were projected to stay generally very favorable either in nominal or real terms. Given that, nominal long-term rates were assumed to rise slowly, and longer-term inflation forecasts were higher than present inflation, real long-term financing costs in the long term were likely to persist clearly in unfavorable territory. In addition, the constant depreciation of the euro since mid-2018 had an additional dampening impact. For fiscal policy orientation, expressed as the variation in the structural budget balance, it was estimated to remain substantially unchanged over the forecast horizon assuming unchanged policies.

1.2.1 MONETARY POLICY

Given a downturn in the Euro Area, a low inflation forecast and recent ECB decisions, such as the prolongation of monthly asset purchases, the increasing pressure on nominal rates was projected to be very moderate during the forecast horizon. Thus, with currently record low interest rates, funding conditions in the Euro Area were expected to remain very loose compared to historical standards. Since the beginning of the year, nominal long-term money market rates, which have fallen sharply since the slowdown in economic growth and higher macroeconomic expectations for additional monetary incentives on the part of the ECB, were only supposed to recover little within the forecast horizon and still stay under the levels achieved in July of that year. The recovery in net asset purchases under the ECB's Asset Purchase Programme, combined with further reinvestment of maturing securities over a prolonged period of time after the end of net purchases, should have helped to keep nominal long-term rates very low. With the ECB's long-term guide, the rising and high volume of surplus reserves should have maintained short-term money market interest rates very low and additionally sustain favorable lending policies. The short-term rates had continually increased in real terms from spring onwards. With floating rates linked to the weakening headline inflation (see Figure 9), they reached their highest level since the end of 2016 in September. However, they remained in negative territory. Conversely, real long-term interest rates, which were moderately unfavorable since mid-2014, have fallen further since the beginning of the year. The decrease was somewhat smaller than the nominal rate, due to weaker long-term inflation projections, which in part compensated for the substantial decline in nominal long-term interest rates.

Figure 9: Euro area interest rates



Source: ec.europa.eu

On the basis of the changes made by the Governing Council of the ECB to the guidelines for the future, this was a sign that market actors didn't assume a strong convergence of inflation towards the ECB's medium-term target within the forecast horizon. Since inflation was predicted to rise very modestly, this was likely to bring about a constant decline in real short-term interest rates. Simultaneously, future rates indicated a small but progressive increase in nominal long-term interest rates. With economies forecasting an increase in long-term inflation at a bit lower speed, that should have also brought slightly higher, yet still obviously negative, real long-term interest rates. The decline in nominal long-term rates since the beginning of the year had also led to lower financial charges for non-financial companies and households, which both dropped to new historical minimums in August following a period of fluttering but without a definite orientation since the end of 2016. The reported decrease in corporate financing costs primarily mirrored reduced rates on long-term loans and reduced returns on corporate bonds, while the decrease in interest on housing loans was the main motivation for households.

1.2.2 FISCAL POLICY

Fiscal policy in the Euro Area was expected to maintain broadly neutral in 2019, on the basis of the variation in the structural balance. As regards 2020, taking into account the fiscal policies communicated by euro-area Member States in their draft budgetary plans, euro-area fiscal policy was expected to remain broadly neutral in 2020, based on the change in the structural balance by approximately 0.2% of GDP

1.3 ITALIAN OUTLOOK IN 2019 IN RELATION TO EUROPEAN UNION

In Italy, economic activity remained sluggish, although the labor market was gradually improving. Real GDP grew by 0,8 % in 2018, followed by 0,2 % in 2019 and was expected to grow by 0,3 % and 0,6 %[14] in 2020 and 2021. Domestic demand continued to be moderate, since real disposable income was still lower than pre-crisis levels and the level of saving has picked up. However, household spending was likely to be supported by the new citizenship income scheme, introduced in 2019, and the significant fall in interest rates. Although there have been signs of a rebound in 2019, public investment was remaining below its pre-crisis levels.

The main aspects to underline, however, regarding the relationship of Italy in relation to the European union are the following:

- The Italian public debt continued to be a major cause of weakness for the economy. Italy's debt-to-GDP ratio reached 134.8[15] % in 2019. The analysis of debt sustainability prepared by the Commission showed that there was a high medium- to long-term risk stemming from the high level of debt and the costs of population ageing. Moreover, the recent pension reform will have added costs until 2028 and, if prolonged after the trial period, could potentially worsen potential growth and debt sustainability. As regards short-term sustainability risks, they seemed limited, partly thanks to historically low sovereign bond yield levels since September 2019. But the necessity to renew large quantities of debt, amounting to almost 20 % of GDP per

[14] European Commission (2020) *'Country Report Italy 2020'*
Accompanying the document '2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011'
[15] European Commission (2020) *REPORT FROM THE COMMISSION-Italy*

year, still made the country's public finances vulnerable to unexpected increases in financial market risk aversion.

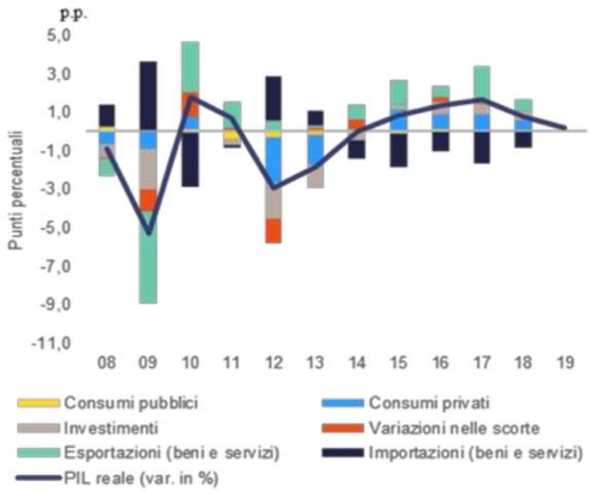
- Productivity growth has been modest in spite of support measures. This was due to decreasing labor productivity in the regions of the South and in the services sector, and weaker productivity growth in manufacturing relative to the euro area average. New measures to increase productivity growth, such as incentives for investment and innovation, have been restricted in their effectiveness by implementation delays, policy uncertainties and the absence of a coherent strategy. In general, obstacles to investment reduce productivity and consequently growth prospects, thereby holding back the reduction of the debt ratio.
- The unemployment rate continues to be high. Youth unemployment continues to be very high, the high percentage of people who work in involuntary part-time, plus the discouraged workers, shows that labor market situations remained weak.
- The banking sector has become more resilient, but for some aspects it still remained vulnerable. Italian banks have continued to achieve progress in the reduction of impaired loans, although the overall volume is still considerable compared to similar euro area countries. With the recent decline in sovereign bond yields, the pressure on Italian banks' capital and funding has eased.

1.3.1 REAL GDP

The Italian economy showed little sign of recovery from the downturn in 2018, when average annual GDP growth was positive only because of a fairly robust carry-over from the previous year. At the same time, economic activity decelerated again in 2019, in particular in the manufacturing sector.

In 2018, due to an economy bordering on stagnation, household consumption suffered a setback. Stalling real disposable income dampened consumer spending, which remained modest in 2019 . Moreover, on the back of weakening consumer confidence, households have increased precautionary saving. In addition, the pronounced decline in interest rates since September 2019 could have also unlocked household resources through lower mortgage and consumer loan servicing costs, thereby increasing private consumption.

Figure 10: Real GDP growth and components



Source: Eurostat

Low productivity growth, although uneven across all sectors, was an obstacle to economic expansion. Overall, the productivity gap between Italy and the rest of the EU remained sizeable and widening. Labor productivity in Italy increased on average by 0,5 % annually between 2010 and 2018, compared to an EU average of 1,3 %[16].

1.3.2 LABOUR MARKET

Employment increased in the first 9 months of 2019 despite the economic situation being close to stagnation. The number of employed people grew by 0.6%. The employment rate, which has been on the rise since the end of 2013, reached 63.6 % in the third quarter of 2019, and unemployment dropped to 9.8 % although there was a slight reduction in the labor force. Unemployment duration on average increased to 27 months and the quota of long-term unemployed reached 59 % of the total, which is significantly higher than the EU average (43,5 %). The unemployment of young people has been decreasing progressively (28.3 % in Q3 2019) but continues to be among the highest in the EU, as well as the share of young people who are neither employed nor in education or training (19.2 % in 2018). Most of the

[16] European Commission (2020) *'Country Report Italy 2020'*
Accompanying the document '2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011'

151 200 new hires that were recorded in 2019, occurred in the service sector and in northern regions.

1.3.3 FINANCIAL SECTOR

State bond yields have decreased drastically, driven by the fall in sovereign risk premia, and were currently significantly below the levels seen at their peak in 2018. The level of political uncertainty has been progressively reduced, financial tensions have been alleviated and market conditions have become better. These developments were sustained by the ECB's return to a more expansionary monetary policy and the decision of the Italian government to adjust its budgetary targets.
However, the steep decline in long-term interest rates supported equity and corporate bond prices. Against a backdrop of high volatility in global equity markets, the prices of Italian equities increased significantly in 2019.
Loans to households were growing at a moderate rate, while loans to enterprises are declining. The growth of the former has decelerated slightly in 2019, but remains solid for home purchases and consumer credit. The latter continue to decline on average year-on-year, although with important variations between different risk classes.
However, financial circumstances remain vulnerable to economic downturns. Companies' profitability was declining, although their ability to repay debts was still good because of low interest rates and stronger balance sheet structures compared to the past.

1.3.4 EXTERNAL POSITION

In 2019, the Italian current account surplus increased thanks to a higher goods balance. Contrary to the world trade downturn, export activity has remained stable and companies have mostly preserved their market shares. Imports, on the other hand, contracted significantly due to the negative inventory cycle. As a consequence, the current account registered a surplus of 2.9%[17]. Sector-specific savings and investment decisions lead to fluctuations in the current account: the traditionally indebted corporate sector has become a net creditor of the economy since 2009, with its net lending position reaching 0.8 % of GDP

[17] European Commission (2020) *'Country Report Italy 2020'*
Accompanying the document '2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011'

in 2018. Households, on the contrary, have decreased their net lending by 2.3 % to 1.3 % of GDP in 2018. There has been a cyclically-adjusted current account surplus of around 2.7 % of GDP in 2019, this has been sufficient to keep Italy's net international investment position (NIIP) at a stable level and close to the level suggested by the fundamentals.
Italy's NIIP is nearly balanced. After the minimum recorded at the beginning of 2014, the country's NIIP registered an improvement of EUR 351 billion, which led to a decrease in the volume of net external liabilities to EUR 55.3 billion (or 3.1 % of GDP 2018).
The TARGET2 balance improved in 2019. In December 2019, the net debt position of the Bank of Italy in the European payment system TARGET2 amounted to EUR 439 billion, decreasing from EUR 493 billion recorded in August 2018.

1.3.5 PUBLIC DEFICIT AND DEBT

The debt-to-GDP ratio was projected to continue rising until 2021. The National Institute of Statistics (ISTAT) and the Bank of Italy have published in September 2019 a review of Italy's public debt data, which involved an upward correction of the debt level in the past years. According to this adjustment, the debt-to-GDP ratio reached a maximum of 135.4 % in 2014, before falling to 134.1 % in 2017 and returning to 134.8 % in 2018. This last increase was caused by very low real GDP growth and a significant stock-flow correction (0,7 % of GDP), linked mostly to fluctuations in Treasury cash reserves and adverse financial market developments.

1.3.6 EXISTING CONSTRAINS AND SAFEGUARD CLAUSES

The EU Member States belonging to the euro area must, every year, send the European Commission their "annual budgetary plans", i.e. their macroeconomic forecasts for the following year. This is because, while monetary policy for countries whose currency is the euro is the exclusive competence of the Union (Art. 3 TFEU), economic policies are still coordinated by the Member States, since they are identified by the Treaties as "a matter of common interest". Fiscal policies, on the other hand, remain within the competence of the states. The purpose of this procedure is for Brussels to check these forecasts, with the aim of ensuring coordination between the various national policies and compliance with European economic rules. The European Commission expresses an opinion on these plans, taking into

account certain criteria and, before making a formal judgement, may ask the States for justifications or further details.
The European constraints to be respected in the provision of macroeconomic measures are part of the continuous line of monitoring of those indices, the so-called "Maastricht criteria", which must be respected by each individual country in order to enter the Economic and Monetary Union of the European Union. They concern, in particular, the budget, which must be balanced or in surplus, the public debt, which can be a maximum of 60% of GDP, and the public deficit (government budget deficit), which must not exceed 3% of GDP[18].
Italy sent the 2019 DPB to Brussels on 16 October. First of all, the maneuver aimed to achieve a net borrowing of the PA of 2.4%[19] in 2019, 2.1% in 2020 and 1.8% in 2021. Among the main measures envisaged by the Budget Law were the deactivation of the full VAT safeguard clauses for 2019 and partial deactivation for 2020 and 2021, the introduction of the flat tax for small businesses and self-employed workers, a revision of the pension system and the establishment of the Citizens' Income. The debt-to-GDP ratio was expected to fall by 0.9 per cent in 2019, from 131.2 per cent in 2017 to 126.7 per cent in 2021.
On 18 October, the Commission sent a letter to the Italian government. The text included all the reasons why the plan envisaged by the Italian Government was considered to represent a "serious and manifest violation of the recommendations adopted by the Council under the Stability and Growth Pact". Recommendations which, had been unanimously approved by the European Council on 28 June 2018 and adopted by the EU Council of Ministers on 13 July 2018. Among the values for which the maneuver was criticized was the nominal growth rate of net public primary expenditure of 2.7% above the maximum recommended increase of 0.1%. The structural deterioration amounted to 0.8% of GDP, a significant deviation from the 0.6% recommended by the Council in July. The letter recalled the size of Italy's public debt, amounting to 130 per cent of GDP, which would not have guaranteed compliance with the debt reduction rule agreed by the Member States, in particular the reduction towards the 60 per cent of GDP threshold established by the Treaties. The letter stated that Italy had repeatedly violated the debt reduction rule in the past, but the fact of respecting the preventive arm of the Stability and Growth Pact had always been considered a fundamental factor. This could not have been the case this time, given the significant deviation planned by Italy.

[18] European Central Bank - *Convergence criteria:*
https://www.ecb.europa.eu/ecb/orga/escb/html/convergence-criteria.en.html
[19] Ministero dell'Economia e della Finanze (2019) -*Italy's draft budgetary plan 2019*

Concerning the safeguard clauses, the mechanism adopted by Italy, which is unique in Europe, provides for an automatic increase in VAT if the funds are not found to keep public finances in order.
Safeguard clauses are rules designed to protect public finances. Technically, they provide for higher revenues for the State through tax increases or expenditure cuts. However, these increases and cuts do not take effect immediately but in subsequent years. In other words, they are introduced by a law in a given year, but are linked to a programmatic commitment for the years to come. They are usually spread over three years because they follow the three-year structure of the budget law. If governments recover the expected revenue in other ways, e.g. through privatization, investment in financial markets or other means, the clauses are not triggered. The advantages of their introduction would be mainly twofold: the first is that through these rules the country shows formal interest in respecting European commitments, in particular the balanced budget. The second is that these clauses ensure that time is taken to find resources.
Italy is threatened by a possible increase in VAT, the value added tax paid on products and services. The activation of the 2020 safeguard clauses would raise the intermediate rate from the current 22% to 25.2% and the reduced rate from 10% to 13%. To avert this scenario, considered concrete in the latest note from the Parliamentary Budget Office, the government is forced to find € 23.1 billion by 2020. To avoid a VAT hike in 2019, Italy would have had to allocate 12.5 billion for 2019, 19.2 billion for 2020 and 19.6 billion for 2021. The government thus finds itself having to recover a total of €51.9 billion over the two-year period 2020-2021, because in addition to the €23.1 billion next year, it will have to find another €28.9 billion by 2021 to avoid a further increase in the intermediate VAT rate from 25.2 to 26.5%.

CHAPTER 2: THE COVID-19 IN EUROPE

2.1 INTRODUCTION

In November 2019, the new coronavirus Sars-CoV-2 began to circulate in China, particularly in Wuhan, the most populated city in the east, a hub for trade and commerce. Initially, it was not known that this was a new virus: what began to be recorded was a certain number of abnormal pneumonias, the causes of which could not be ascribed to other pathogens. The first official date on which the story of the new coronavirus begins is 31 December 2019. By early January 2020, the city had found dozens of cases and hundreds of people were under observation. Initial investigations had revealed that those infected were frequent visitors to the Huanan Seafood Wholesale Market in Wuhan, which has been closed since 1 January 2020. The first confirmed death was on 9 January 2020.

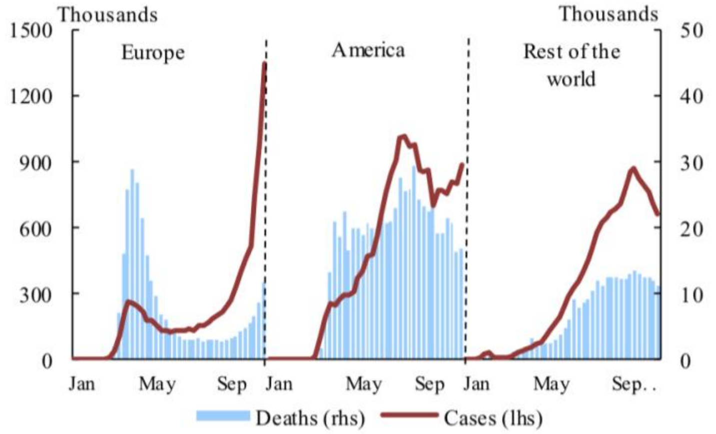
Since 23 January 2020, Wuhan has been under quarantine, suspending all public transport in and out of the city, a measure that was extended to neighbouring cities the following day. By the end of January, the risk of the epidemic spread from moderate to high, and on the evening of 30 January, the WHO declared a 'public health emergency of international concern'. On 11 February, the name of the new disease caused by the coronavirus arrived. The name, chosen by the WHO, was Covid-19: Co and vi to indicate the family of coronaviruses, d to indicate the disease and finally 19 to emphasize that it was discovered in 2019. This is for the disease, while the virus has changed its name from 2019-nCoV to Sars-CoV-2 because the pathogen is related to the coronavirus responsible for Sars.

On 11 March 2020 Tedros Adhanom Ghebreyesus, director-general of the WHO, announced in the briefing from Geneva on the coronavirus epidemic that Covid-19 'can be characterized as a pandemic situation', declaring it a pandemic.

2.1.1 COVID IN EUROPE

The evolution of the pandemic in Europe can be split into three different phases. The first is the initial outbreak at the very beginning of 2020, which triggered the adoption of policy actions to safeguard the health and reduce the economic impact; the second is the release of restrictions and a period of low-intensity interruptions in the summer; and the third is the pandemic's reemergence, the second wave, with additional measures adopted to control the virus. In fact we can see how Europe managed in a good way to reduce the number of infections and deaths in comparison to countries in North and South America.

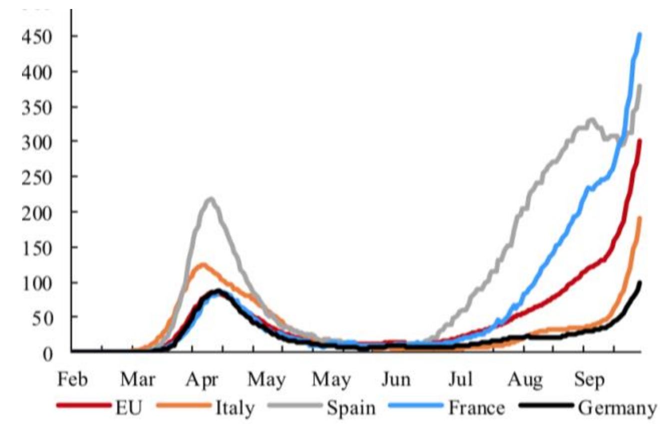
Figure 11: Covid-19 cases and deaths in Europe, America and rest of the world



Source: WHO Coronavirus Disease

During the second wave, the numbers of daily infections were higher than in spring, but this is due also to the fact that the testing rate, which means the number of tests per 100,000 people, almost tripled during this period. However, during the autumn season, EU member States experienced different developments following the return of high infection numbers. Within the larger Member States, the second wave has affected Spain, France and the Netherlands more than Italy and Germany and many Member States that reported low infection rates during the spring, are now among the hardest hit.

Figure 12: Covid-19 infections, selected Member States

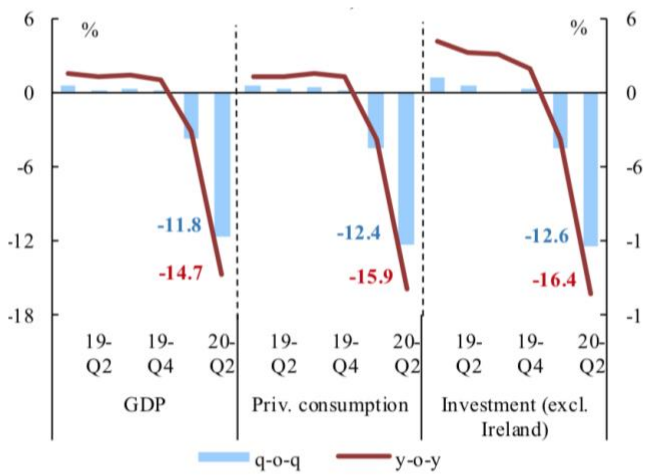


Source: ECDC

During the spring of this year, the epidemic of COVID-19 hit the European economy with huge intensity. As a result, governments had no choice but to adopt drastic measures to limit the diffusion of the virus, which caused more than 1.2 million[20] deaths worldwide. The first half of the year showed that real GDP dropped at a rate of double digits in both the euro area and the EU - a record low. Also employment decreased more sharply than ever, but not more than might have been predicted, reflecting substantial policy support from Member States and the EU. In some countries, GDP was affected much more severely than in others, falling over 3 times more in the most impacted countries than in the least affected. As anticipated in the intermediary summer forecast, the gradual lifting of restrictions on social life and economic activity during May paved the way for a vigorous recovery in economic activities. Once a period of cautious normalcy was restored in Europe during the summer, infection rates began to rise again, requiring the reintroduction of measures to control the virus. At the beginning, governments had focused on localized and specific restrictions, but after the subsequent increase in the number of infections and hospital recoveries, it required these to be increased. These are supposed to take their toll on economic activity in the short term, impacting on consumer spending and investment, albeit to a lower level than in the spring, since the strategy so far has been more focused.

The impact of the pandemic outbreak and subsequent containment measures on the EU economy during the first half of the year was significant and without precedent, but with an inhomogeneous degree of contraction across countries. These variations were linked to differences in country specific containment measures and in political support, but also to differences in structural characteristics, like for example the role of tourism.

Figure 13: GDP, consumption and investment in the euro area.



Source: ec.europa.eu

[20] World Health Organization - https://covid19.who.int/

The European economy, like the world economy, experienced a strong contraction especially between March and May, resulting in a technical recession in the first part of the year. GDP fell by 3.7%[21] in the first quarter and by 11.8% in the second. The level reached in the second half of the year is four times higher than the hardest one-quarter recession during the 2008-2009 crisis. Most member states' contractions averaged around 10%-15% of GDP, with Spain (around 22%), France (18 3⁄4%) and Italy (17 3⁄4%) experiencing larger declines than Germany (11 1⁄2%), the Netherlands (9 3⁄4%) and Poland (91⁄4%).

The slowdown in the Euro Area's real GDP observed during the first half of 2020 was mainly pushed by the fall both in private consumption and investment, and also by the negative impact of net exports . It also had negative consequences in the service sector, especially in the second quarter, and a reduction in the proportion of household consumption devoted to services.

Figure 14: Exports, imports and growth contribution of net exports in the euro area

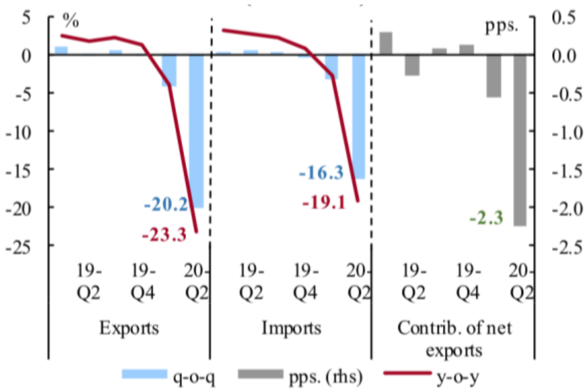
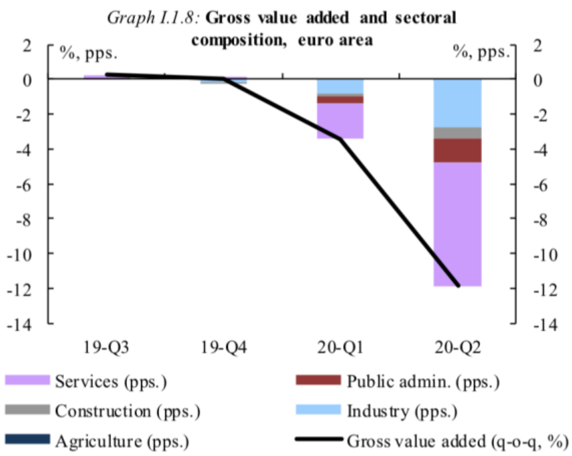


Figure 15: Gross value added and sectoral composition in the euro area



Source: ec.europa.eu

[21] European Commission’s Directorate-General for Economic and Financial Affairs (2020)- *European Economic Forecast Autumn 2020.*

The sharp economic recession also affected the labor market. Employment fell to its highest quarterly rate in the second quarter of the year, after having already declined slightly in the first quarter. The unemployment rate, however, has only increased moderately in comparison with the fall in economic activities, due partly to the effectiveness of existing government support programmers.
Regarding the economic policy measures taken, governments have applied a combination of instruments to ensure an appropriate and broad-based fiscal stimulus, while the ECB has maintained its very accommodative policies with a view to maintaining easy financing conditions.

The recovery of the economy will depend above all, on the resumption of family consumption. During standard downturn and recovery, household spending is the most stable component of GDP, especially if compared to capital spending and international trade. In general, consumption decreases less than the other components during recessions and rises less during recoveries. This crisis has completely altered the role of private consumption in generating economic growth. In each of the first two quarters of the year, private consumption decreased more than GDP, establishing new all-time records. Many categories of goods and services were not easily accessible to consumers during the lock-outs, especially those non-essential goods and services whose consumption or production necessitated proximity. This has been seen in the changes that have been on consumptions behavior, with an increase in the quota of non-durable goods and a decrease in that of services and durables. The reduction in durable goods (-22,5 %)[22] was similar to that in services (-20,5 %), but much greater than the reduction in expenditure for non-durable goods (-3,5 %), that are more essential to daily life. Differences between countries depend on the containment measures used, dependence on tourism and contact-intensive services such as hotels, restaurants. In general, however, the fall in expenditure ranged from 25 1⁄4% in Spain, around 17 1⁄2% in Italy, 17% in France and 13 1⁄4% in Germany in the first half of the year.
The reduction in consumption led to increased savings especially in the first half of the year. Containment measures and growing uncertainty in the labor market have increased household savings, which can therefore be considered both involuntary and voluntary, in the form of precautions. Whereas the strong rise in savings behavior after February supports the first motivation, at the same time its extremely moderate decline until August may be proof

[22] European Commission's Directorate-General for Economic and Financial Affairs (2020)- *European Economic Forecast Autumn 2020.*

of the second. The saving rate has increased to a historically elevated level of 24.6% in the euro area in the second quarter of 2020. Following the easing of restraint measures from May, household consumption recovered somewhat and their incomes were also supported by various policy measures. For some consumer goods there was space for pent-up demand, which helped push EU retail trade temporarily above pre-pandemic levels. Consumer spending in 2021 and 2022 will mostly be influenced by the impact of Coronavirus on the labor market and by tax policy assistance. Many consumption categories are destined to remain unavailable or unappealing such as international holiday and various forms of entertainment. In addition, a voluntary social distancing decision could also continue to be a brake on consumption, especially for tourism, transport and hospitality. The decision of households to spend or save, and consequently the complete recovery of private consumption, will be dependent on consumer trust and then on the labor market. A worsening labor market scenario could increase the appetite for preventive saving, which would further reduce the decline in the household saving rate from its historically high level in the first half of the year.

Continuing the analysis of how Covid has influenced the European economic scenario, it should be added that restrictions and declining economic activity have also been translated into greater solvency problems for firms. Clearly, a number of emergency measures have been adopted to keep companies solvent and to help protect jobs and incomes in the short term. These have involved credit guarantees and direct equity infusions, as well as support from central banks, which have provided convenient financing conditions, in order to allow companies to set up cash reserves.

Covid has had and still has a strong impact on the labor market. European Member States started the crisis with a relatively positive labor market situation since in January 2020, the registered EU unemployment index was at its lowest level since January 2000. Although the COVID-19 crisis caused the labor market situation to deteriorate, the impact on employment was much lower than the decline in GDP thanks to the extensive use of job retention programmers.

The pandemic's distributional effects are related to the heterogeneous effects between sectors and types of work. In some sectors, such as tourism, a significant number of workers are hit, while in others, as public administration or essential services, they are not. The crisis is creating economic pressure on workers in the most severely impacted sectors who are losing part of their salaries or becoming unemployed. What past epidemics have shown, however, is that the categories of workers most affected by these types of events are those with basic education, while those with advanced degrees are not particularly affected. This means that the rate of decline in job prospects is greater for certain groups of workers, the low-skilled.

However, the reason why there has been little response of the labor market to the crisis, has to be found in addition to the supportive policy measures. In the initial period of the pandemic, many sectors continued to work normally, where possible, since they had enough orders from the past, thus shifting the impact on the labor market to a later period, when there was a drop in new orders. Many companies have also tried to adapt to the situation by reconsidering their business models, including a re-evaluation of the way they manage their labor force. This means that these changes have and will have impacts in the near future.

In addition to the delayed market response to the crisis as outlined above, there are other reasons to expect an increase in unemployment in the near future:

- The hesitancy of companies to consider new hires given the high uncertainty of the period;
- As the pandemic has had exorbitant effects on some sectors, the service sector in particular, it will face a reduction in customers also in the long term;
- The gradual phasing out of subsidies that have been introduced, as support for firms, is likely to lead to a reduction in jobs;

The above information refers to employees, but the same can be applied to the self-employed, who have also been severely affected by the crisis.

In the pre-crisis period, there was a strong discrepancy between the strongly expanding service sector and the stagnating or declining manufacturing sector. The arrival of the pandemic completely changed the picture, as services dependent on contacts became unavailable or contracted significantly. The greatest declines were recorded in the service sectors. As has already been mentioned, the sector that has suffered among the most profound repercussions is tourism. It experienced a slight improvement in the summer but then suffered again in the autumn with the second wave. This means that countries with a high dependence on tourism are the hardest hit and might need more time to reach a complete recovery.

2.1.2 EUROPEAN STATES MOST ADVERSELY AFFECTED BY COVID

The health and economic impact of COVID-19 differed from country to country. To clarify these differences, I first looked at the mortality rates of COVID-19 reported to the World Health Organization in different countries. As for the economic consequences, I referred to the European Commission's forecasts for growth in 2020 published at the beginning of May. Based on these values, member states can be divided into four groups.

1. Countries with a high economic impact and a low mortality rate

This first group includes Greece, Croatia and Lithuania. Greece, in particular, is among the countries with the lowest mortality rate thanks to restrictive isolation measures that came into force very quickly. However, according to the European Commission, it should also be the member state that suffers the greatest economic consequences: not only as a direct consequence of the lockdown, but also because of the foreseeable impact of the epidemic on tourism, which is essential to the Greek as well as the Croatian economy. Moreover, Greece has already been the country most affected by the euro crisis.

2. Countries with a low economic impact and high mortality rate

Only three European countries fall into this group: the Netherlands, Sweden and Belgium. Beyond Europe, the United States also falls into this category. The Netherlands and Sweden have chosen to implement isolation measures only partially: they have recorded relatively high mortality rates, close to those of France, but are expected to suffer a lower economic impact than the average European country.

As a densely populated country, Belgium also has the highest mortality rate (and the one that counts COVID-19 victims most comprehensively), but its economic impact is on the margins of this second group, with a recession that is expected to be in the EU average.

3. Countries with a low mortality rate and low economic impact

This group includes 16 countries, the majority of the Union. It includes, first of all, the Central and Eastern European Member States except Lithuania and Croatia, the Nordic countries except Sweden, and Germany, Austria and Luxembourg. In addition, Portugal, Spain's neighbor, managed to limit both the health and economic impact of the crisis.

Central and Eastern Europe was touched by the crisis later and took drastic measures very quickly. Its resistance during this crisis is likely to have long-term consequences for the Union. The future of the Union will depend, to a considerable extent, on the ability of the countries in this group, and in particular Germany, to show great solidarity with the most affected countries.

4. Countries with a high mortality rate and a strong economic impact

This group includes Italy, Spain, Ireland, France and the UK, which is no longer part of the EU. Each of these countries has a different history with respect to the pandemic. Italy and Spain were the first to be affected in Europe and failed to react in time, before the crisis worsened.

However, this is not the case for France and the United Kingdom, which were hit later. The high number of victims of COVID-19 in these countries is due to the delayed reaction of their governments, which underestimated the seriousness of the situation elsewhere. These countries are suffering the severe economic consequences of a severe and prolonged lockdown.

But why has Covid hit different European Union economies so differently?

The main reasons for this difference were the number of deaths per million inhabitants, the fall in the real GDP, the intensity of the blockade measures, the structure of the economy and the government's ability to counteract the drop in economic activity.

2.2 HOW THE EUROPEAN UNION DECIDED TO RESPOND

In this paragraph, I will illustrate the actions taken by the European Union to deal with the COVID-19 pandemic. After mentioning the tragic consequences in terms of human lives and economic damage, I describe the intervention plans proposed by the European Community.

In the first part I will discuss the health plan and the vaccination strategy adopted in Europe, while in the second part I will focus on explaining the economic interventions to respond to the most serious crisis ever recorded since the birth of the European Union.

The purpose of this paragraph is to describe the salient steps that have transformed one of the most serious global tragedies, in an opportunity to redesign the future of Europe and consolidate the spirit of solidarity and union among member states.

February 19, 2020 is the day when Europe woke up to a reality never the same as before. On this date the first hospitalization for Covid-19 infection is officially declared[23]. It is a 38 year old Italian boy, but as we will understand later, he was only one of the many infected, unaware that the virus was already circulating for at least a month. From that day on, Italy, England, France and then more than 180 countries around the world, will see their realities changed radically, marked by daily bulletins on the number of hospitalized and deaths.

[23] Article dated 22 February 2020. M.Bocci, V. Varesi –*Coronavirus, il paziente zero della Cina senza sintomi né virus*: https://www.repubblica.it/cronaca/2020/02/22/news/il_paziente_zero-249206470/

The European reaction was initially unprepared, facing the greatest challenge ever since the post-war period. The need to limit the contagion, without yet fully knowing the conditions favorable to its spread, on one hand has not allowed adequate border controls and on the other, it has triggered an effect of "fear of the neighbor".
The effects of this crisis are still unpredictable today, since by its nature it is profoundly changeable and capable of generating unexpected effects and divisions. Even if the global pandemic shares the same virus, the same cannot be said of its effects. Around the world, as well as in Europe, it has been observed that countries whose economies are most dependent on direct contact with customers are the most affected. Moreover, even the closures of activities in the various Community areas have been managed according to the means and economic availability of the various countries, accentuating the disparities and triggering the risk of an unbalanced recovery.
Almost a year after the first official case, as shown in Figure 1 and 2, Europe is one of the most affected areas, with 5 countries of the European continent among those with more infections in the world and countries such as Italy, France and Germany at the top of the health reports for number of infections.

Figure 16: Most affected countries by Covid-19 until 21/01/2021

Name	Cases - cumulative total	Cases - newly reported in last 24 hours	Deaths - cumulative total
Global	96.012.792	653.081	2.075.870
United States of Ame...	24.225.155	187.919	402.803
India	10.625.428	14.545	153.032
Brazil	8.638.249	64.385	212.831
Russian Federation	3.655.839	21.887	67.832
The United Kingdom	3.505.758	38.905	93.290
France	2.916.577	26.565	71.261
Italy	2.414.166	13.568	83.681
Spain	2.412.318	18.500	54.637
Germany	2.088.400	20.398	49.783
Colombia	1.956.979	17.908	49.792
Argentina	1.831.681	12.112	46.216

Source: WHO

At an historical moment in which the integrity of the European Union has been undermined by Brexit, the rise of sovereigntist movements, and where health and economic adversity (already equated to a world war), gave momentum in marking the way to turn this challenge into an epochal turning point.

In this unprecedented scenario, Europe had to give a response that would convey a sense of unity, ability to intervene and react, allowing member states to take all necessary initiatives to contain, prevent and treat Covid-19, supporting through state aid the labor market and the survival of small and medium-sized enterprises.

If, on one hand, the reported data highlight an adverse scenario, on the other, the plan of interventions introduced by the European Union, to face this crisis, has no equal in its history and have been marked by the principles of solidarity, cohesion and convergence.

Recalling the motto "united in diversity and united in adversity"[24], the President of the European Commission, wanted to illustrate the response plan in 5 points.

Figure 17: European response plan in five points

Source: European Commission website

- define an European strategy for the vaccination plan;
- coordinate national measures, emergency resources and travel restrictions;
- offer help to countries bordering the European Union and our global partners;
- help people to stay safe through appropriate recommendations regarding testing and quarantine plans from possible infections;
- mitigate the adverse effects of the pandemic and support policies to safeguard employment.

The response plan is divided into the following areas:

- health and emergency response ;
- economic response;
- planning a pathway to recovery.

[24] President Ursula von der Leyen's speech of 13 May 2020 to the European Parliament on the new MFF, own resources and the recovery plan- https://ec.europa.eu/commission/presscorner/detail/it/speech_20_877.

2.2.1 HEALTH POLICY

The European Commission has launched a strategic plan for the preparation, production and dissemination of a vaccine against Covid-19, in order to coordinate and accelerate the plan of action among different states. Timing is essential, every month, week and day gained in the vaccination campaign, the greater the results will be in terms of lives saved and in easing the pressure on national health systems. A European Health System has been implemented in order of procuring and/or supplying the needs for medical care and equipment for the member states, thus also being able to lower the cost of purchasing them or increase their quality levels.

In order to allow a better preparation for the fight against the virus, it has been ensured that all medical professionals have the necessary equipment to ensure their safety and that of their patients. In addition, it was given the possibility to increase the use of the Community budget to allow individual countries to make the necessary purchases to guarantee medical supplies. It should be remembered that the collapse of the macroeconomic values of the various countries, due to the slowdown or blockage of many activities, has forced the States to have to act under significant budget deviations, but which would have been impossible anyway without the support and backing of the European Union.

Finally, a team of researchers has been created for the European vaccination plan and a team of epidemiological and virologic experts to arrange the most appropriate prevention and containment measures.

The Global Response, joined by the European Commission, for universal access to the vaccine at affordable prices, took its first step with fundraising on May 4, 2020, and then on June 27 with "Global Pledging."

On May 4, 2020, the President of the European Commission, Ursula von der Leyen, launched the first fundraising marathon, pooling €16 billion. Responding to the WHO call with the goal of raising significant funds for collaborative development and universal dissemination of diagnostics and treatments, such as Covid-19 vaccines.

Strategies for the European Vaccination Plan focus on 2 action plans:

Ensuring the production and supply of sufficient stocks of the vaccine for member countries, through advance purchase of many doses. This has made it possible to avoid an unnecessary race for supplies, with the consequent increase in prices, and to prevent the most needy countries from seeing their purchasing capacity limited. In fact, agreements have been made with manufacturers for the advance purchase of hundreds of millions of doses and for the financing of the initial costs incurred for the research of the vaccine; and it has been adopted a more flexible and responsive health regulatory framework, due to the sudden changes in scenarios.

The financial commitments to fund the research campaign and the purchase of vaccines have been significant, and it has met a number of strict parameters:

1. the soundness of the scientific approach
2. the soundness of the technology adopted
3. the speed of delivery on a large scale
4. the sharing of risk, responsibility and cost
5. the commitment and collaboration with European authorities
6. the means of supply through European products

In order to act also on timeliness, regulations have been introduced to protect health, but with greater flexibility, in order to reduce the time taken to authorize vaccines. An accelerated procedure has been set up for the labeling and packaging of vaccines, as well as time derogations for GMO trials, which are fundamental for the fight against COVID-19.
This pandemic has shown how crucial it is to take coordinated decisions among different countries and that a coordinated prevention, containment and vaccination policy would avoid unnecessary but huge costs in terms of human lives and health costs. For this reason, the European Commission is working towards the establishment of a European Health Union[25] with the aim of[26]:
1) Prevent cross-border threats
- declare a state of emergency at European level to ensure the introduction of EU measures
- take risk management decisions at EU level
- harmonize regional, national and EU preparation plans
- periodically review and test preparation plans
- monitor the supply of medicines and medical devices to limit shortages
2) Strengthen European medical and scientific agencies to provide the technical expertise necessary for an adequate regional response;

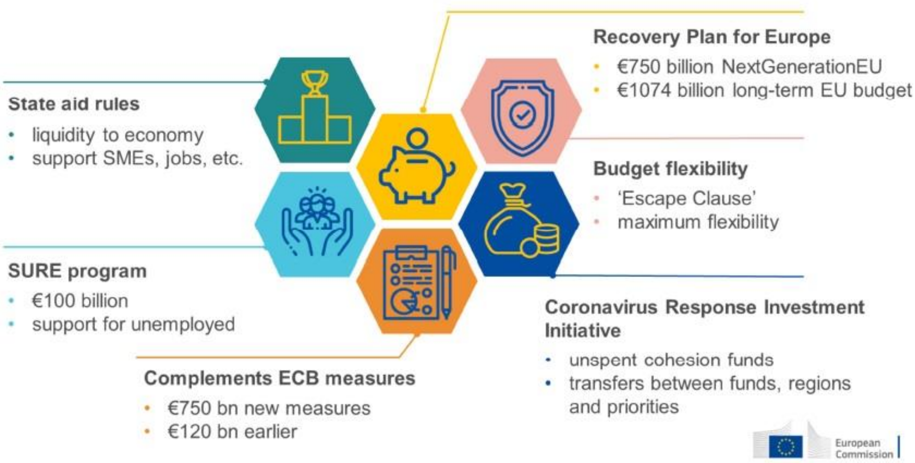
[25] With the task of protecting the health of Europeans and initiating a collective response to cross-border health crises.
[26] European Commission (November 2020) -*A European Health Union: tackling health crises together – Coronavirus impact and response.*

3) Establish the European Centre for Disease Prevention and Control (ECDC) to create a task force that can provide useful recommendations to all member countries, providing for the possibility that it may be available to the various requesting countries as needed.

2.2.2 ECONOMIC POLICIES

The effects of the pandemic have not been limited only to the sphere of health, but have had tremendous economic and social implications. According to official estimates by the International Monetary Fund, European GDP has plummeted to -7.6%[27] by 2020 and, as recorded by Eurostat, more than 10 million jobs have been burned in the last year alone.
In such a dramatic scenario, the consequences of which are still unclear, a rapid and long-term response is required.
The European Commission has therefore prepared an action plan structured in six areas:

Figure 18: Action plan against Covid-19



Source: European Commission website- The UE response to Coronavirus crisis

Recovery Plan for Europe

The European Commission has therefore proposed a recovery plan focused on the full use of the European budget, which now has greater capacity, in order to repair the economic damage and start the recovery by protecting and creating jobs.

[27] International Monetary Fund (October 2020)- *World economic outlook. 15 Indicators, 1980-2025* - https://www.imf.org/external/datamapper/profile/EU

To mobilize the necessary resources, the European Commission has presented a twofold proposal[28]:

a) The Next GenerationEU, a new financial instrument, with an endowment of €750[29] billion (Italy will be the main beneficiary with € 209 billion) that will boost the European budget. The funds will be raised on the financial market in the period from 2021 to 2024.

b) It was decided to increase and strengthen the long-term budget of the European Union for the period from 2021 to 2027 with a total amount of € 1074 billion.

Budget Flexibility

The EU Commission has adopted transitional fiscal measures to allow for greater flexibility in the budgets of member states and their deficits, so that state aid can be provided to give the necessary liquidity to citizens and businesses to face this period. The nucleus on which they have tried to give greater support has been and still is small and medium-sized companies and their employment fabric. At the same time, funds have also been created to support the operational maintenance of the production and supply of medical devices. In addition, the Commission has adopted the safeguard clause to guarantee exceptional fiscal support measures and allow member states to be able to support the healthcare system and businesses.

SURE Program

The SURE[30] is a Fund for Temporary Support to Mitigate the Risks of Unemployment in an Emergency (SURE) available for Member States that are in a position to mobilize significant financial resources to counter the economic and social consequences of the coronavirus pandemic on their territory. The Fund provides up to € 100 billion by covering part of the costs related to the creation or extension of national programs.

[28] Approved by the European Council on 21 July 2020

[29] European Commission (2020)- *Recovery plan for Europe*: https://ec.europa.eu/info/strategy/recovery-plan-europe_en

[30] European Commission (2020)- *SURE*: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_it

Coronavirus Response Investment Initiative

The Commission unveiled the Coronavirus Response Investment Initiative[31], an investment initiative to provide Member States with immediate liquidity to make purchases of all coronavirus medical and vaccine products.

Complements ECB measures

An emergency purchase plan for the purchase of private and public bonds worth €750 billion is envisaged, in addition to the previously allocated €120 billion.

The Recovery Plan for Europe[32] has the following objectives:

1. Support Member States to recover, help and sustain the economy. Since public investment plays a crucial role both as a multiplier effect for the economy and for a balanced and sustainable recovery, more than 80% of the Next GenerationEU will be used to support public investment and structural reforms, especially where the effects of the crisis have been greatest. To give impetus to the investment plan for the period from 2021 to 2027, on November 10, 2021, the Council of the European Parliament approved the allocation of € 1.8 trillion, the largest package ever financed in Europe for the support of the various plans before and outlined.

Recovery Plan Instruments

- For Green and digital development and transition, up to 672.5 billion euros have been allocated, of which 312.5 billion euros will be grants and 360 billion euros will be loans.
- To support the labor market, REACT - EU[33] has been set up. The Recovery Assistants for Commission and Territories of Europe is a plan to support employment, short-term work programs, youth employment programs and support for liquidity of small and medium-sized enterprises. For this plan have been provided €58 billion, and no co-financing is required from member states.

[31] European Commission (2020)- *Coronavirus Response Investment Initiative*: https://ec.europa.eu/regional_policy/en/information/publications/factsheets/2020/coronavirus-response-investment-initiative

[32] European Commission (2020)- *Recovery plan for Europe*: https://ec.europa.eu/info/strategy/recovery-plan-europe_en

[33] REACT-EU is a legislative proposal that aims to repair the social and economic damage caused by the COVID-19 pandemic and prepare for a green, digital and resilient recovery. REACT-EU seeks to mobilise an additional EUR 58 billion for structural funds over the period 2020-2022 and to increase flexibility in cohesion policy spending.

-10 billion has been added to the Next GenerationEU for the Green transition and an additional € 7.5 billion from the European Fund for Agriculture for the support of rural areas to start up Green and Digital 5 and 6 G transactions.

2. Jumpstart the economy by helping private investment to resume activity. The commission has identified investment in the green transition, and key sectors such as 5 and 6G, artificial intelligence, clean hydrogen and off shore renewables as areas where private investment should be supported. The committee estimates the need for €1.5 trillion for the period from 2020 to 2021.

The InvestEU[34] program has been launched, a platform for otherwise hard-to-fund investments to be dedicated in sustainable infrastructure, digitalization and social investments.
The Fund's strategy will develop new and independent value chains, supporting the implementation of the infrastructure and Green technologies required for the new transformation plan. In addition, it will have to strengthen the autonomy of the European single market.
The operating mechanism foresees that a guarantee from the EU budget will be given for the financing of investment projects through the EIB Group[35] and national promotional banks.

3. Learning the lessons of the crisis to address the EU's strategic crises. The Pandemic has highlighted the importance of European cooperation and the need to strengthen its capacity for future action.

To equip member countries with the right medical plans and equipment against future health threats, a new "EU4Health"[36] program has been created that will provide funding to EU countries, health organizations and NGOs. It will invest 9.4 billion euros, making it the largest health program ever. The scope of use is within EU health systems giving attention:
- to the necessary safety and response capacity; and

[34] News European Parliament (2019)- *InvestEU": MEPs support new programme to boost financing for jobs and growth:* https://www.europarl.europa.eu/news/en/press-room/20190109IPR23009/investeu-meps-support-new-programme-to-boost-financing-for-jobs-and-growth
[35] The European Investment Bank is the European Union's credit institution.
[36] EU4Health is the EU's response to COVID-19, which had a major impact on medical and health professionals, patients and health systems in Europe. Source: European Commission (2020)- *EU4Health 2021-2027 – a vision for a healthier European Union*

- to the long-term prevention and control of diseases.

The operating mechanism foresees that the appropriations are granted directly by the European Commission, which centrally manages the procurement.

Horizon Europe[37] will have a budget of € 75.9 billion plus another € 5 billion from Next GenerationEU for a total of almost € 81 billion. The entire amount will be used to support research and innovation related to health and climate.

It will strengthen the RescEU and the European Civil Protection system to respond to large-scale emergencies. The scope of this fund will focus on infrastructure and investments to respond to health emergencies such as storage facilities, transport systems for medicines, doctors and patients. With a total budget of €1.9 billion it will be centrally managed and will benefit all member states.

[37] European Commission (2020)- *Horizon Europe*: https://ec.europa.eu/info/horizon-europe_it

CHAPTER 3: THE CASE OF ITALY

3.1 THE COVID-19 IN ITALY

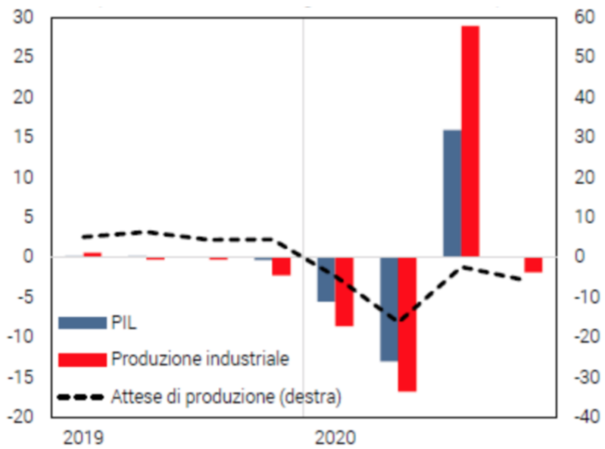
Italy was the first country in Europe to be affected by the COVID-19 epidemic. The first confirmation of the spread of the virus in Italy was on January 31 2020, when two Chinese tourists in Rome were found to be positive to the virus. Later, an Italian man who had been returned to Italy from Wuhan, was hospitalized and considered to be the third case in Italy. New cases were found in Lombardy and Veneto on February 21, and also the first deaths from the virus began on February 22. By early March, the virus was already in all regions of Italy. Since the appearance of the first cases at the end of January, flights to and from China were interrupted and a state of emergency was declared. The first containment measures put in place were to quarantine the municipalities considered to be the centers of spread of the virus. Subsequently, as the number of cases increased, the quarantine was extended to all of Lombardy and other provinces in northern Italy. On March 11, almost all commercial activities were forbidden, with the exception of supermarkets and pharmacies, and on March 21, the Italian government decided to suspend all non-essential businesses and industries and to limit the movement of people. After months of lockdown, many measures were eased in May and June, restoring freedom of movement between regions and European countries and the resumption of many economic activities. Since last September, infections have risen again globally, probably as a result of the increased freedom during the summer season. Italy and the rest of Europe has been faced with what has been called the second wave of the virus, with numbers of contagions again very high.

The Covid-19 pandemic and the measures taken to contain it caused a recession of exceptional magnitude and this recession is the most severe in peacetime contemporary Italian history. It is the most serious crisis after the one in 1929 (even if it risks surpassing it) and it simultaneously encompasses the causes of the three previous recessions: a demand crisis (like that of the 1930s), a supply crisis (like that of the 1970s, characterized by the quadrupling of oil prices) and a financial crisis (like that of 2008-2009), which has not yet exploded completely but has already shown signs of nervousness with sharp falls and fluctuations in the stock markets.

It is also different from other crises because it is not caused by economic and social factors but by non-economic factors. This, in turn, generates profound uncertainty about the timing of its exit.

In the first half of the year, GDP was 12[38] percent lower than the same period in 2019 and real output contracted by 18% in the first half of the year. The causes are obviously the blockage of domestic social and productive activities, but also the increased dependence of our economy on services. The sharp decline in economic activity during spring was followed by a strong, albeit partial, recovery in the summer months. The end of the lockdown at the beginning of May brought about a significant recovery in demand, which had essentially come to a standstill in many sectors, and boosted activity in industry with significant increases in the third quarter, although these did not make up for the losses of the first two quarters.
In services, however, the recovery was slower. In the summer months, while other activities recovered, the situation of the Italian economy was weighed down by the sharp drop in tourist flows, especially foreign ones.
In the third quarter, Italian GDP, like that of the main European countries, showed a marked recovery (+15.9% compared with the previous quarter), spread across all the main economic sectors. This was due to an improvement in production rates, which, however, did not enable recovery of pre-crisis levels.

Figure 19: expected drop in activity in the fourth quarter

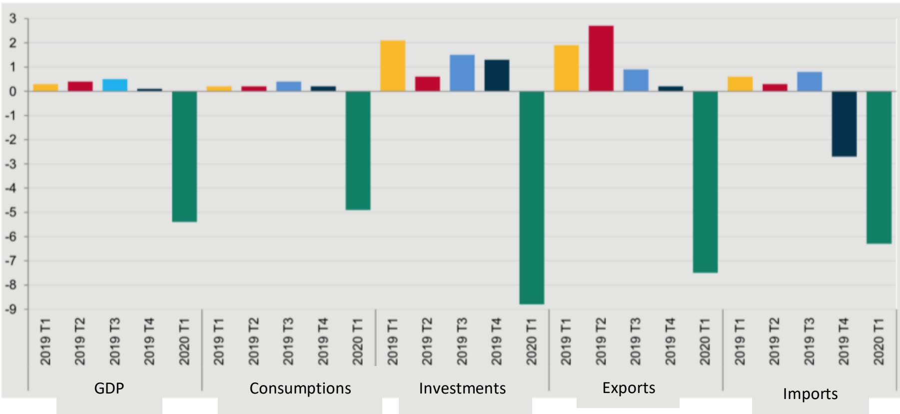


Source: Istat

[38] Banca D'Italia. D. Franco (2020)- *L'economia italiana e la pandemia*.

In the first quarter of 2020, the partial blockage of activities linked to the health crisis led, similar to the main European countries, to negative effects on the demand and supply side. GDP contracted by 5.3[39] per cent compared to the previous quarter, which falls in added value in all the main production sectors; in particular, it fell by 8.6 per cent in industry, 6.2 per cent in construction and 4.4 per cent in services, within which the drop of 9.3 per cent in trade, transport, accommodation and catering stands out.

Figure 20: GDP and its components in Italy



Source: Istat

Among the causes that contributed most to the fall in GDP was the fall in consumption by households and private social institutions, 4 percentage points. Gross fixed capital formation also subtracted 1.5, while general government expenditure fell very moderately, with a negative contribution of only 0.1 points.

Savings. What was initially a problem of reduced supply quickly became a problem of severe demand shortages. Falling incomes, constraints on mobility, and uncertainty squeeze consumption. Savings choices were initially influenced by the mechanical effect of barriers to purchases of goods and services resulting from the closure of nonessential activities. It then continued to remain high, and could remain so in the coming months, reflecting both precautionary reasons and the continuing risk of contagion, which may discourage or prevent certain types of consumption, especially those for travel, tourism and leisure activities.
In October-November, the household confidence survey suggests a renewed increase in savings as the epidemic worsens. This dampens consumption, after the recent rebound. This is confirmed by the fall in domestic orders from consumer goods producers in November.

[39] Istat (2020)- *Rapporto annuale 2020, La situazione del Paese*

Credit. The role of credit has been fundamental in supporting the liquidity needs of companies . The ability of banks to expand financing has benefited from the measures introduced by the Government, in particular moratoria and loan guarantees, the expansive monetary policy measures of the Euro system and the interventions of the supervisory authorities. Between March and September, the amount of loans to businesses increased by almost 58 billion lire and this increase would have largely satisfied the liquidity needs of businesses determined by the Covid-19 emergency. Furthermore, by stabilizing the financial conditions of households and businesses, the support measures have, at least temporarily, considerably slowed down new insolvencies.

Investments. The fall in production in all European countries led to a sharp drop in investment, albeit with different intensities between countries and between assets. In Italy, the strong growth recorded in Q3 by investments (+31.3%), driven by the marked recovery of investments in construction (+45.1%), did not, however, offset the losses incurred in previous months. Increased uncertainty and negative future expectations on production levels forced companies to revise their spending plans in the presence of a low level of plant utilization. Financing difficulties, although mitigated by government measures, constituted a further brake on investment decisions.

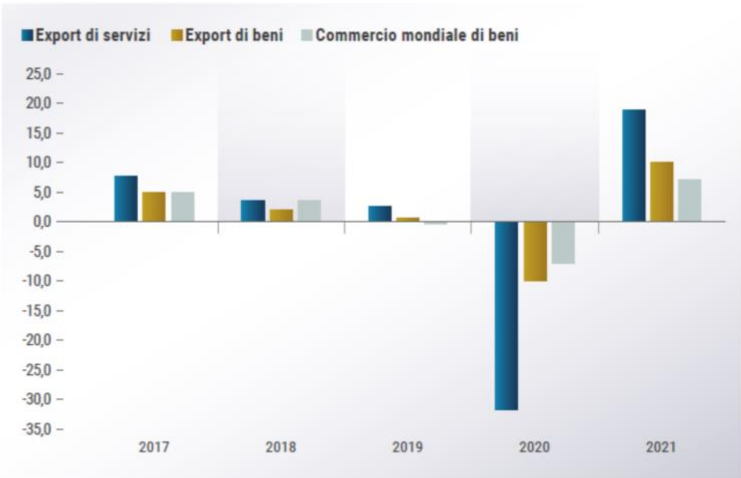
The labor market. The levels and composition of employment have also been affected by the crisis, despite measures to support companies and workers[40]. The balance between new job openings and closures registered marked contractions in March, April and May, when overall employment fell by around 500 thousand people. The decline significantly affected female employment , due to the poorer performance of sectors in which women represent a significant proportion of the workforce, such as tourism services, and young people between the ages of 15 and 24, who are more frequently employed on fixed-term contracts. The balance of employment showed signs of improvement as of the end of June, allowing for a recovery of almost 200 thousand employed during the summer months.

Import and export. The slump in world trade, the marked reduction in international tourist flows and the general downsizing of international economic activity led to a sharp decline in

[40] Banca d'Italia (2020), *Bollettino Economico*.

Italy's foreign trade in the first part of the year for both the goods and services sectors. In the first nine months of the year, exports in value as measured by the national accounts decreased overall by 16.5% compared to the same period in 2019, while imports fell by 14.2%.
The downsizing of Italy's trade affected to a marked extent both flows towards EU and non-EU markets; however, the drop in sales volume was more marked outside the Union while the drop in purchases from abroad was more substantial for goods of European origin.
Italian goods exports recorded their first drop in October (-1.3%)[41], after five months of recovery, returning to -4.6% since February, in line with German exports. The stop in Italian sales affected both the EU and non-EU markets, with strong heterogeneity: still recovering in Germany and China, down instead in France, Spain, UK, USA.

Figure 21: Export slump, especially in services in 2020



Source: Istat

3.2: RECOVERY FUND IN ITALY

In this section we discuss the measures taken by Italy in transposing the Next GenerationEU (NGEU) and present and report on the highlights of the National Plan for Recovery and Resilience (PNRR)[42] .

Since the introduction of the euro, Europe has suffered a series of crises in rapid succession that have undermined its resilience. Previous interventions have not been up to the task, mainly due to the European institutional set-up and ineffective intervention instruments. This immobility and slowdown has unfortunately transformed general discontent into political

[41] Confindustria (2020)- *La pandemia chiude male il 2020 e zavorra il 2021.Servizi di nuovo in rosso, regge a fatica l'industria.*
[42] The National Recovery and Resilience Plan (NRP) - *Interministerial Draft* updated 21/01/2021

movements devoted to sovereignist or secessionist ideals, culminating for example in England with the Brexit of 2016. In addition, the economic and social differences between the various territories have worsened.
The onset of an epoch-making event such as the conflict, which required unprecedented attention and capacity for action, has allowed the European Union to rethink its role, its future and the measures needed for recovery.
The turning point came with the approval of a €750 billion plan, called "Next GenerationEU" (NGEU)[43] to boost an economy hit by the pandemic and recession and to affirm the European Union's Strategic Autonomy.
Italy, the country that was the first in Europe to face the pandemic crisis, was in an economic situation already burdened by heavy public debt and a lack of structural reforms capable of sustaining the economy, has seen in this new European course, an unprecedented support that should allocate to our country resources amounting to 209 billion euro.
The instrument adopted in Italy to implement the Next GenerationEU is the "National Recovery and Resilience Plan" (PNRR), so named to highlight the different areas of intervention:
PNRR - Recovery Plan - to counter the economic and social effects generated by the pandemic crisis, seizing the opportunity to define a new future attentive to the Digital and Green challenges, increasing productivity and giving full potential to the economic capacities of the country.
PNRR - Resilience Plan - Health and climate emergencies have exposed our country to the occurrence of increasingly extreme events. For this reason, Italy must learn from recent crises in order to show itself ready to face the next ones at an institutional, entrepreneurial and inclusive level towards all the social and economic partners involved.
PNRR - Resilience Plan - since the introduction of new investments will have to be accompanied by a plan of suitable reforms in line with the European Commission's Recommendations to the Country (CSR) and the National Reform Plans (PNR) adopted by the Government.
With the adoption of the plan, it will be decided to adhere to the objectives proposed by the President of the European Commission, Ursula Von der Lyen, regarding:

- Green Transition, by reducing emissions, increasing employment in the "Green Economy", improving the efficiency of existing and future buildings, supporting the

[43] See Chapter 2 - Next GenerationEU

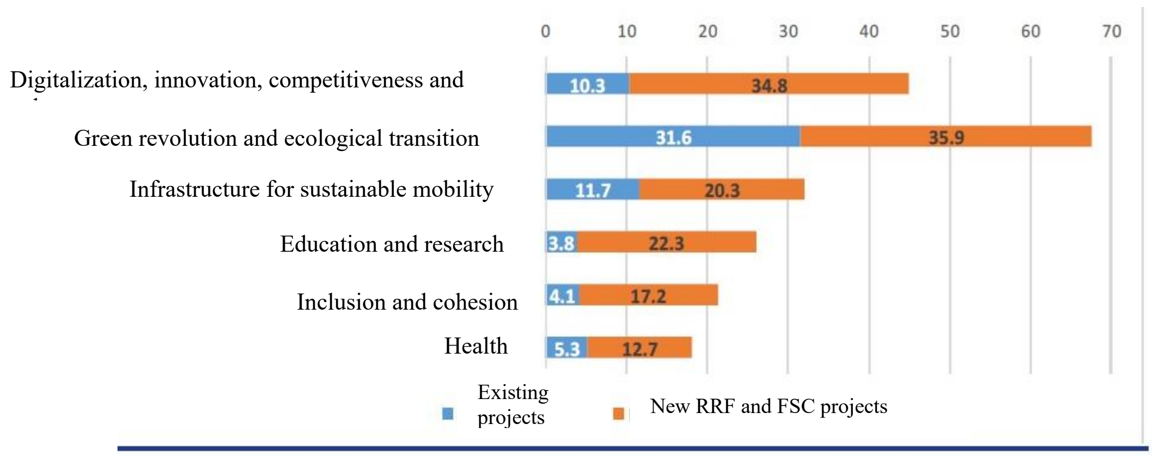
green transition in industrial processes. Particular attention will also be given to reducing mobility emissions.

- Digital Transition, as an enabler for reform and competitiveness, through the transformation of industrial supply chains, in redefining mobility and in managing crisis events.
- Reducing Inequalities, to make a country competitive and sustainable, a fundamental point is the elimination of obstacles capable of creating gender, generational and territorial discrimination.

3.2.1 THE "NATIONAL RECOVERY AND RESILIENCE PLAN" (NRP) - MISSIONS, COMPONENTS AND ACTION LINES

The NRP is divided into 6 missions consisting of 16 functional components to implement the 47 lines of action.

Figure 22: Distribution of resources by mission



Source: Recovery Fund, the new draft of the National Recovery and Resilience Plan (pdf)

Mission 1: Digitization, Innovation, Competitiveness and Culture.

To modernize the country through the Digital Transition, in a process aimed at involving the Public Administration (PA) and the national production system, through a process of reforms that will also concern justice and the sectors that identify Italy in the world: Culture and Tourism.

- Component 1: digitization and modernization of the public administration. The main interventions include the development of a National Cloud, the interoperability between PPAA databases and in parallel with the European project called GAIA - X[44] . Strengthening the PA in an organic and strategic manner across the different levels of government, so as to generate a capable, competent, simple and smart administration. In this way we can offer quality services to citizens and businesses and make the Italian system competitive.
- Component 2: Innovation and digitization (Transition 4.0)
  A series of projects will be launched to modernize businesses in the digital transition, to implement ultra-fast fiber optic networks, 5G, and investments in satellite monitoring will be planned. In addition, an ad hoc regulatory framework will have to be put in place.
  An important challenge is also the reform of the judiciary, in order to speed up processes, enhance digitization and increase staffing. The aim will be to speed up the process and ensure certain justice.
- Component 3: aims to help the attractiveness of the tourist and cultural system, which has been severely tested by health restrictions. Renewal processes of tangible and intangible infrastructures will be initiated to strengthen accommodation facilities. Municipalities will also be involved in enhancing and promoting their identity places and cities will be supported in preparing for major events, such as the next Jubilee in Rome. There will also be a project to integrate schools, universities and businesses with cultural sites, called 'Tourism and Culture 4.0'.

Mission 2: Green Revolution and Ecological Transition

- Component 1: Sustainable agriculture circular economy.
  The aim is to modernize the agri-food supply chain towards more sustainable and better optimized production and logistics processes. In addition, strategically, it is essential that Italy reduce its dependence on raw materials (mostly imported) and launch a reform plan to encourage the circular economy and thus better waste management. In particular, the South will be encouraged to modernize its "Waste Management" systems, providing incentives for the production of "secondary" raw materials, i.e. those derived from waste recycling.

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[44] data-infrastructure.eu/GAIAX/Navigation/EN/Home/home.html

- Component 2: Renewable Energy, Hydrogen and Sustainable Mobility

  The Green Transition process envisages the renewal and development of a renewable energy industrial chain[45].

  There will also be a strong incentive for industrial reconversion, such as the steel industry, rethinking the production of so-called green steel[46]. In addition, sustainable mobility projects will be encouraged, with particular attention to the development of rapid transport, cycle routes and the renewal of public transport fleets.
- Component 3: Energy Efficiency and Building Renewal.

  This is a plan that aims to make the energy consumption of both public and private buildings more efficient, with the simultaneous process of digitizing the land register. Priority will be given to schools and hospitals.
- Component 4: Protection of land and water resources.

  It is necessary to protect the territory from increasingly frequent hydrological disruptions, on the protection of forests and forestation. In this scenario characterized by the progressive shortage of natural resources, water resources will be protected more and urban Green infrastructure will be reconverted.

Mission 3: Infrastructure for Sustainable Mobility

- Component 1: "High-speed network and road maintenance 4.0".

  The aim is to make major lines of communication such as rail transport modern, advanced and sustainable. For the Mezzogiorno, additional funds[47] are foreseen for the securing and digital monitoring of road adducts and bridges.
- Component 2: Intermodality and integrated logistics. Particular importance will be given to the process of modernization and improvement of environmental impacts. This will make it possible to restore the centrality and competitiveness of the Italian port system as a hub between the Mediterranean and Europe.

Mission 4: Education and Research

This mission is particularly dedicated to future generations. It has two main objectives: Ensuring the skills needed for present and future challenges, intervening in teaching processes, supporting the right to study and providing incentives for families to invest in their children's education.

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[45] In particular, those Off-Shore.

[46] Hydrogen represents a prospective alternative to natural gas for the production of Direct Reduced Iron (DRI).

[47] Support from the Funds for Development and Cohesion (FSC)

- Component 1: Skills enhancement and right to study

  A series of interventions are envisaged aimed at strengthening pre-school school facilities, combating educational poverty, reducing territorial educational gaps[48], and interventions for integrated digital education and foreign languages.
- Component 2: From Research to Enterprise.

  The aim is to improve basic and applied research along the various stages of technological maturity and by leveraging long-term investment. Efforts will be made to create new research poles by attracting major investments and triggering public-private partnerships.

Mission 5: Inclusion and cohesion

This mission other components that are transversal to the whole NRP for combating gender discrimination, women's empowerment and increasing employment especially of young people and women.

- Component 1: Labor policies point

  Try to initiate a structural reform of the labor market, improving employment centers, school-to-work apprenticeship systems and universal civil service. Additional funds are foreseen from the REACT EU through measures to decontribute employment to young people and women.
- Component 2: Social infrastructure, family, community and third sector.

  Support situations of social and economic fragility by supporting families and parenthood. Improvement of infrastructures and care services for people with disabilities or who are not self-sufficient. Attention also to housing hardship through the financing of social housing projects.
- Component 3: Special territorial cohesion interventions.

  A series of investments are envisaged for the South 2030 Plan, with interventions on infrastructures and the development of the areas most marginalized from urban centers. Important funds have also been allocated for the reconstruction of areas and municipalities affected by earthquakes.

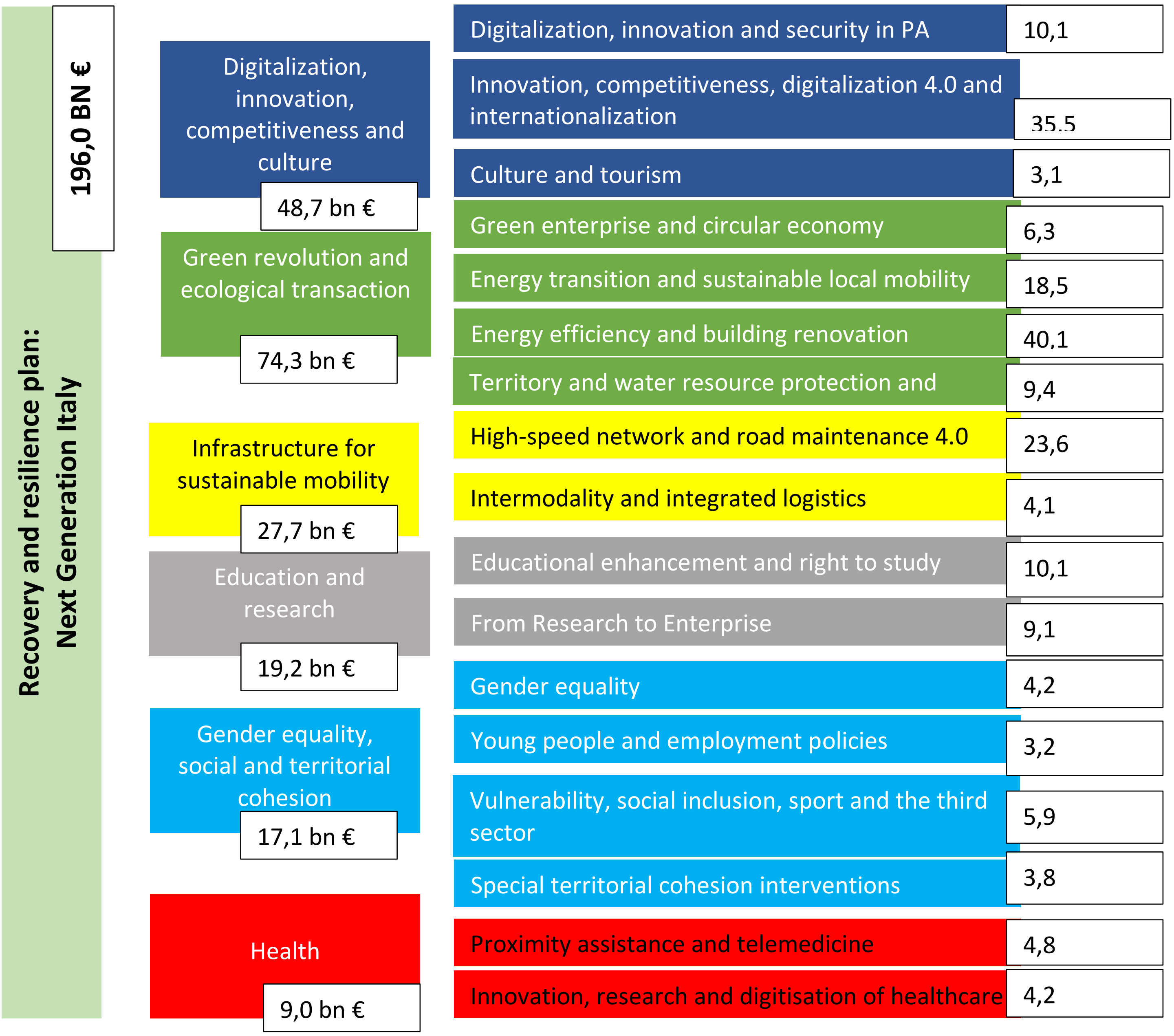
[48] Particularly in the South.

Mission 6: Health

This mission aims to change the paradigm in health and social care and to identify the home as the first place of care.

- Component 1: Proximity Care and Telemedicine Reforming the NHS towards a model focused on territories and the social and health care network. Reducing the territorial care gap between northern and southern regions.
- Component 2: Innovation in Healthcare
  Promoting telematic health care, implementation of electronic health records and modernization of equipment and hospitals.

Figure 23: Structure of the NRP: missions, components and financial balances



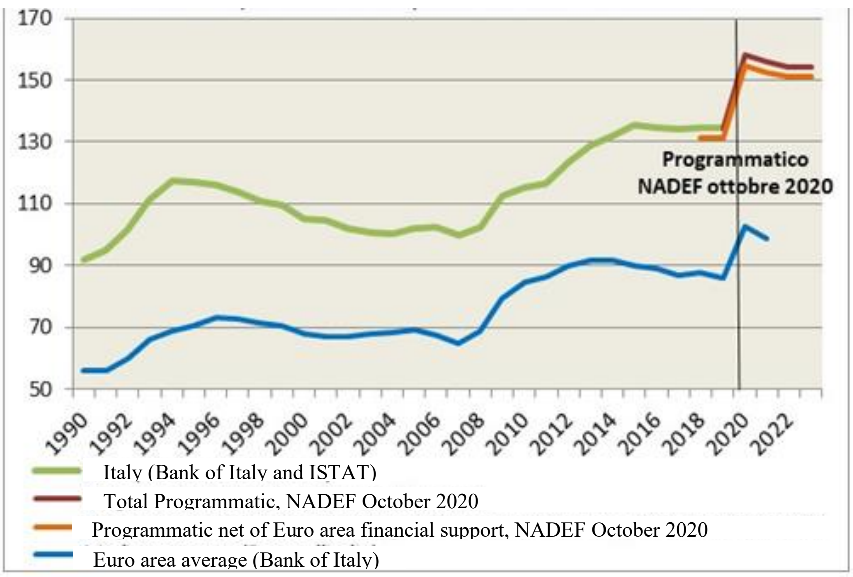
Source: Recovery Fund, the new draft of the National Recovery and Resilience Plan (pdf)

3.3: CONSIDERATIONS ON THE CURRENT SITUATION AND FUTURE PROSPECTS

The path to the approval and receipt of Recovery Plan funds is still long and tortuous. Italy faces a twofold challenge. One of a structural nature, more complex and articulated, and one of a political nature, certainly more insidious for the role in Europe that Italy will decide to play.

Before the COVID-19 hit, the Italian scenario was among the most difficult in Europe. From 2000 to 2018, the European economy grew at 7 times the rate of Italy's GDP[49]. Only Italy and Greece had not recovered their pre-2008 crisis economic levels by 2018. And even the high public debt, as shown in the graph (Figure 23), which to date amounts to €2,580 billion, or around 160% of GDP[50], has not allowed for significant investment.

Figure 24: Public debt and forecasts (October 2020)



Source: Presidency of the Council of Ministers - Department for Economic Policy Planning and Coordination

[49] Source CGIA 2018 - According to the study, in 18 years the Italian economy has grown by 4% against an EU average of almost 30%. With France +25.2, Germany +26.2% and Spain +34.7%. ilnordestquotidiano.it/2019/01/26/italia-dal-2000-crescita-del-pil-pari-a-zero

[50] DIPE elaboration on Banca D'Italia, Istat and NADEF October 2020 data and European Commission Spring 2020 forecasts.

The steadily declining birth rate, together with the progressive ageing of the population[51], the increase in the unemployment rate, now 9%[52], and the increase in fixed-term employment contracts, are causing some concern about the viability of the national pension system.
An economic structure characterized purely by small and medium-sized enterprises, accounting for 92% of the total, with 82% of the total number of workers employed[53] and where over 90% of companies have fewer than 10 employees, has not allowed development and autonomy capable of competing with foreign competitors.
Against this backdrop, Italy was faced with the COVID-19 pandemic. Moreover, the effects of the virus have further aggravated socio-economic conditions, due to the restrictions implemented. The greatest impacts were seen in terms of the cost of human lives, heavy pressure on the national health system and the stoppage of numerous activities. Despite the freeze on redundancies and the extensive use of social safety nets, job losses have not been halted, especially for fixed-term contracts and the self-employed. Some of these jobs are likely to be lost forever.

What are the main structural obstacles to restoring the Italian economy and competitiveness? The list could become inexhaustible, but the EU has identified some that are essential for the full functioning of the Recovery Plan:

Justice is currently an overly complex and slow system, which creates uncertainty in terms of timing and results, undermining the ability and interest of investors. Measures are therefore required to increase transparency and the predictability of time for civil and criminal trials. Procedural and legal reforms are also needed, as well as the improvement of technical and instrumental equipment in parallel with the increase of the employed workforce.

The tax system, which is currently among the largest in Europe in terms of tax burden[54] and evasion levels[55]. Interventions will be aimed at simplifying Irpef to regulate the tax burden

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[51] Italy has the highest median age of the population in Europe at 46.7 compared to the average of 43.7- Eurostat (2020) -*Struttura e invecchiamento della popolazione*: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Population_structure_and_ageing/it#In_Italia_l.27et.C3.A0_mediana_pi.C3.B9_elevata
[52] Istat (2020)- *Comunicato stampa 'Occupati e disoccupati (Dati provvisori*)': https://www.istat.it/it/archivio/253019
[53] Il Sole 24 Ore (2019)- *Pmi, quanto conta in Italia il 92% delle aziende attive sul territorio?* : https://www.infodata.ilsole24ore.com/2019/07/10/40229/
[54] According to the Fondazione Nazionale Commercialisti, in 2019 the real tax burden in Italy (net of the evaded part) increased to 48.2%.
[55] Equal to 12% Source: ISTAT

on personal taxation so as to help low and medium income earners, reduce the tax wedge on labor income to encourage hiring and the emergence of the underground economy. The digitalization of tax certificates, encouraging tax compliance and increasing digital payments will be tools to accompany the fight against tax evasion.

The labor market will have to be reformed to allow the country to reach its full economic potential. In particular, it will be necessary to remedy youth and female unemployment, which particularly affects the southern regions. Allow fair pay, in terms of quantity and quality of hours worked, and support employment policies for the digital and green transition.

The process leading to the approval of the Recovery Plan is more difficult than expected. In addition to proceeding with the preparation of a regulatory framework within which the full potential of the effects of the PNRR can be realized, in accordance with the indications of the European Commission, a serious political problem persists.
The government has been unable to hold out, losing its majority, because of the little substance of the NRP, together with a lack of involvement of parliament in setting priorities. The main criticisms, therefore, concern: the absence of concrete projects (hinted at only in outline), and the Governance that will manage the Recovery Plan funds. On the one hand, there is a preference for a technical nature, in order to avoid or prevent inefficiencies and clientelist phenomena; on the other hand, there is a call for a political direction, in order to prevent the measures introduced by the technicians during the pandemic and deemed insufficient, from being repeated in the PNRR.
At European level, too, fears are not diminishing. Italy, in fact, has a chronic inability to use Community funds[56]. The European fear is that Italy, at a time when greater political compactness would have been natural, has lost its grip, showing that it is not stable in the face of the market and the current crises. This situation is to Italy's complete disadvantage. Because if the new government is born from a reshuffle of the previous one, it is feared that the current problems will cyclically undermine the progress of the PNRR projects. On the other hand, if there were to be a return to the ballot, according to current projections[57], the Euro-sceptic and sovereigntist parties would see their weight increase in Parliament, if not even constitute a majority. This would undermine the launch and continuation of the

[56] According to the European Court of Auditors, for the 2014-2020 period, out of the 72 billion euro of funds available, Italy has used only 22 billion. Unprepared to use the remaining 50 billion euro. pagellapolitica.it/blog/show/839/perch%C3%A9-litalia-non-sa-spendere-i-fondi-europei
[57] According to voting intentions, at the end of January 2021 La Lega was the leading party with 23.9% of preferences: https://www.tpi.it/sondaggi/sondaggi-politici-elettorali-oggi-2-febbraio-2021-20210202736309/

approved NRP. The disbursement of the first tranche of €27 billion is expected by June 2021, but there are already fears that Italy will not be able to spend or manage it, so that it will not be able to proceed to the next steps. Time is running out and by mid-February 2021 the national plans will have to be delivered, which for Italy will coincide with the consultation phase for the installation of a new government.

The recovery plan will only be an opportunity for Italy if structural and political problems are quickly resolved.

CONCLUSION

The persistence of the pandemic means that the exit from the recession is uncertain in terms of timing and may be slow.
There is a real risk that the envisaged scenario could lead to strong "hysteresis" phenomena in the economic system, i.e. permanent negative impacts originating from temporary phenomena. The strong shock suffered by European Union and by the Italian economy in the first half of the year, added to the uncertainty on the evolution of the health emergency, which could last for a long time, might not be reabsorbed due to the changes induced on the structure of the Italian production system and on the behavior of the economic actors. In particular, the mechanism through which exogenous shocks determine permanent effects is generally that of the factors of production. In the absence of adequate economic policy interventions, there is a risk that the fall in demand in recent months will lead to a marked reduction in investments and thus to a reduction in production capacity, with permanent effects on growth potential. On the labor front, the consequences of the fall in demand could be reflected in growing unemployment, which will affect not only low-skilled workers, but also specific professions. It is therefore crucial to act quickly to prevent the transitory effects of the shock of the past months from becoming permanent.
In the short term, the response to the health emergency and the containment of economic and social suffering must be the priorities of national fiscal policies. In the euro area, thanks to the massive interventions of the European Central Bank (ECB), even countries with pre-existing abnormal public debt-to-GDP ratios, as is the case of Italy, can realize substantial increases in their public spending and support bank loans to manufacturing and service companies. Using the monetary transmission channel (various forms of 'quantitative easing'), the ECB is injecting and will inject into the EA economies and can refinance the European banking sector to the tune of about €1.5 trillion[58]. This creates room for expansive national fiscal policies that must pursue various objectives: strengthening current spending and infrastructure in the health sector and related research, protecting the incomes of workers (employed and unemployed), countering increases in absolute and relative poverty, ensuring the survival of previously profitable and efficient businesses that are now blocked and at risk of closure, ensuring the production flows essential for the functioning of our societies, temporarily relieving households and businesses of fiscal and administrative obligations that they would not be able to cope with. In the medium to long term, the above-mentioned

[58] European Central Bank (2020)- *Written interview with Harvard international Review. 'Interview with Christine Lagarde, President of the ECB'*

national fiscal policy choices will have the effect of creating significant imbalances in the public budgets of the AE countries. Such imbalances will weigh, above all, on situations, such as the Italian one, already at risk of sustainability.
The pandemic is pushing public debt to levels not seen since the early 1920s: the government expects debt to be 158[59] per cent of GDP this year (up 23 points on 2019). Low interest rates and bond purchases by the Euro system are helping us to manage it. In 2019, the average cost was 2.5 per cent. We now issue at much lower rates (the yield on the 10-year BTP is below 1 per cent), so that the average rate continues to fall. Economic growth and a good primary surplus of at least 1.5 per cent of GDP will be needed to bring down the debt, which is the average value in recent years.
The underlying assumption supporting this forecast scenario of a slow recovery in GDP is that the spread of COVID-19 will be effectively contained, thereby averting a further national lockdown, although there will be the possibility of local blockades of activity and restrictions on people's movements, as has already occurred in some areas of the country. The return to normality will be slow, from an economic point of view, both inside and outside Italy, so that even in the winter months of 2021 the recovery is expected to proceed moderately. The resumption of global trade will drive Italian exports, while the continued recovery of household and business confidence and better expectations for the Italian economy will provide an important stimulus for private demand. The recovery of GDP is expected to proceed gradually from the first quarter of next year, accelerating especially in the second half of the year.
Italian households' expenditure is expected to recover by 5.9%[60] in 2021, following the trend of real disposable income (-2.8% this year and +2.5% next). In 2021, household spending will be supported by an increase in real disposable income and a further improvement in consumer confidence (which has already shown a partial recovery between May and September of 2020).
In this scenario, Italian exports of goods and services should recover by 11.3% in 2021. The dynamics of exports of goods (which account for four-fifths of the total), in fact, are better than previous estimates, with a drop of 10.1% in 2020 and a full recovery in 2021 (+10%). Services exports, on the other hand, are expected to recover next year (+18.8%), but largely incomplete. This dynamic of Italian foreign trade in the two-year forecast period is consistent with the global effects of the COVID-19 crisis. World trade in goods has come to a halt with the closure of production activities in recent months. The fall in trade in some services,

[59] Banca D'Italia. D. Franco (2020)- *L'economia italiana e la pandemia.*
[60] Confindustria (2020)- *Un cambio di paradigma per l'economia italiana: gli scenari di politica economia.*

especially those linked to tourism and the movement of people in general, has been much stronger and more persistent.
In addition to managing the crisis as best we can, limiting the damage to citizens' health and the negative effects on the production system, it is important to look ahead to the country, to the economic system that we would like to have after the pandemic. In order to tackle a phase of reallocation of consumption and production, we need, first and foremost, dynamic companies that invest, innovate and adapt their products to what will be demanded in the post-Covid world. Public administrations are also needed that do not hinder but support this process, facilitating the mobility of labor and capital, increasing the training of human capital, and involving all areas of the country and sectors of the population. A great deal of planning capacity is needed, both in the public and private sectors. It is clear that restoring an adequate growth rate is crucial for the future of employment, welfare and public debt management. In this respect, the current recession tends to reduce the already low potential growth rate of the economy. There are several reasons for this: weak business investment, held back by lack of demand, uncertainty, reduced profits and higher indebtedness, slows down the growth of the capital stock and the adoption of new technologies; unemployment could rise persistently, increasing the risk of discouragement, if those ones losing their jobs do not have the right skills to find employment in growth sectors and firms; human capital formation could be reduced by the difficulties of the education system in providing normal education and by the increase in youth unemployment; support measures to businesses, although essential, could slow down natural turnover and keep companies with no prospects alive; changes in the composition of consumption (e.g. a decline in international tourism) and in the organization of work (e.g. a structural increase in work at home rather than in the company) could make redundant some of the investments made in the past. There is a risk that, as after the previous recession, losses in production capacity will become partly permanent. Even in the new scenario, Italy's economic policy priorities, dictated by the need to increase growth potential, therefore remain unchanged: improving the quality and quantity of education, increasing private and public investment, increasing spending on research and development and accelerating innovation, improving the regulatory framework and the actions of the PA, facilitating the increase in the size of businesses, and closing the gaps between the South and the rest of the country. However, there is a growing urgency to achieve concrete and significant progress in all respects. We must adapt quickly to a world economy in which digitalization and climate requirements are changing patterns of consumption, production, work and international trade. In conclusion, we must emerge from this recession as soon as

possible by becoming a more dynamic, innovative and inclusive country, especially for young people.

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SUMMARY: The Covid-19 in Europe: a focus on the case of Italy

INTRODUCTION

In the early months of 2020, the international economic cycle, which had already been decelerating since the previous year, was hit hard by the negative effects by the Covid-19 pandemic. The health emergency and the related containment measures generated a global recession that differs from previous historical episodes mainly in two respects: the epidemiological origin, completely external to the typical sources of financial and economic imbalance, and the transmission channels that simultaneously involved supply and demand with exceptional speed and intensity.

The aim of this study is to review the emerging and rapidly growing literature on the economic consequences of COVID-19 in Europe, with a specific focus on the Italian case, and on how the European Union and the Italian government are handling the emergency, summarizing and trying to give a more personal view on insights and future prospects.

The dissertation is structured in three chapters. In the first chapter the European economic situation in 2019, is presented to show how an already weak background did not support the arrival of the virus. In this chapter I also present the Italian economy in that year, in terms of its relationship with the European Union.

The second chapter is conceptually divided in two parts. One focuses on how Covid-19 impacted the European economy, thus drawing a comprehensive picture of the evolution of the main economic indices over the year. Another one concerns the strategy that the European Union has decided to implement to tackle the crisis, describing the intervention plans proposed by the European Community.

The last chapter is focused on the case of Italy. Describing first how the virus hit our country from an economical point of view, I discuss then the measures taken by Italy in the application of the Next GenerationEU (NGEU). The analysis ends with some considerations on the current situation and future prospects.

CHAPTER 1

European economy, at the end of the 2019, was facing a not so prosperous period. This was caused by a weaker period in global activities and trade and by a more moderate economic expansion in Europe. In the first half of the year, economic growth in the Euro Area had already lost points and in the second quarter it even fell below its normal average. The general causes of this negative trend could be attributed to various factors, either transitory or persistent, such as stagnant international trade, the slowdown in global growth, tariff threats, growing geopolitical tensions, Brexit, the continuing vulnerability of the manufacturing.

In the second quarter of 2019, the economic growth fell back to 0.2% in both Europe and the Euro Area. Nevertheless, private consumption and government consumption continued to give positive contributions to the economic growth thanks to positive conditions of the labor market: employment continued to grow and the unemployment rate had further decreased, approached pre-crisis levels. Furthermore, based on past wage settlements, labor income increased further and pressures on labor costs strengthened, leading to higher unit labor costs. However, the transition to core inflation remained incomplete as companies did not instantly adapt their prices and core inflation continued to be rather low. The modest rise in core inflation was favorable to households' purchasing power and therefore led to substantial growth in private consumption.

For what concerns investments, the situation was different. In the Euro Area, moderate expansion took place in the second quarter since much of the investments were linked to trade and, how it was said before, global trade had been very weak. Moreover, the global economic policy uncertainty negatively affected the Euro Area's growth as well.

Due to the general picture just exposed, during the year the major central banks worldwide moved to more accommodative policies as well as in the case of the Euro Area, where the European Central Bank took measures to stimulate the economy in order to increase inflation towards its target, after having registered further declines in the primary inflation rate during the previous months.

The chapter analysis proceeds with a more detailed analysis of the causes that contributed to the slowdown of the European economy in 2019, up to the point of outlining Italy's economic framework in the same year, especially in relation to our country's relationship with the European Union. The main aspects to underline, however, regarding the relationship of Italy in relation to the European union are the following:

-The Italian public debt continued to be a major cause of weakness for the economy. Italy's debt-to-GDP ratio reached 134.8 % in 2019. Moreover, the recent pension reform will have added costs until 2028 and, if prolonged after the trial period, could potentially worsen potential growth and debt sustainability. As regards short-term sustainability risks, they seemed limited, partly thanks to historically low sovereign bond yield levels since September 2019. But the necessity to renew large quantities of debt, amounting to almost 20 % of GDP per year, still made the country's public finances vulnerable to unexpected increases in financial market risk aversion.

-Productivity growth has been modest in spite of support measures. This was due to decreasing labor productivity in the regions of the South and in the services sector, and weaker productivity growth in manufacturing relative to the euro area average.
- The unemployment rate continues to be high. Youth unemployment continues to be very high, the high percentage of people who work in involuntary part-time, plus the discouraged workers, shows that labor market situations remained weak.
-The banking sector has become more resilient, but for some aspects it still remained vulnerable. Italian banks have continued to achieve progress in the reduction of impaired loans, although the overall volume is still considerable compared to similar euro area countries. With the recent decline in sovereign bond yields, the pressure on Italian banks' capital and funding has eased.

CHAPTER 2

In November 2019, the new coronavirus Sars-CoV-2 began to circulate in China. Initially, it was not known that this was a new virus: what began to be recorded was a certain number of abnormal pneumonias, the causes of which could not be ascribed to other pathogens. The first official date on which the story of the new coronavirus begins is 31 December 2019. The first confirmed death was on 9 January 2020.
By the end of January, the risk of the epidemic spreading from moderate to high, and on the evening of 30 January, the WHO declared a 'public health emergency of international concern'. On 11 February, the name of the new disease caused by the coronavirus arrived. The name, chosen by the WHO, is Covid-19. On 11 March 2020 Tedros Adhanom Ghebreyesus, director-general of the WHO, announced in the briefing from Geneva on the coronavirus epidemic that Covid-19 was a pandemic.
The evolution of the pandemic in Europe can be split into three different phases. The first is the initial outbreak at the very beginning of 2020, which triggered the adoption of policy actions to safeguard the health and reduce the economic impact; the second is the release of restrictions and a period of low-intensity interruptions in the summer; and the third is the pandemic's reemergence, the second wave, with additional measures adopted to control the virus.
During the spring of this year, the epidemic of COVID-19 hit the European economy with huge intensity. As a result, governments had no choice but to adopt drastic measures to limit the diffusion of the virus, which caused more than 1.2 million deaths worldwide. The first half of the year showed that real GDP dropped at a rate of double digits in both the euro area and the EU - a record low. Also employment decreased more sharply than ever. In some

countries GDP was affected much more severely than in others, falling over 3 times more in the most impacted countries than in the least affected. After the summer, the infection rates began to rise again, requiring the reintroduction of measures to control the virus. The impact of the pandemic outbreak and subsequent containment measures on the EU economy during the first half of the year was significant and without precedent, but with an inhomogeneous degree of contraction across countries. These variations were linked to differences in country specific containment measures and in political support, but also to differences in structural characteristics, like for example the role of tourism.

The European economy, like the world economy, experienced a strong contraction especially between March and May, resulting in a technical recession in the first part of the year. GDP fell by 3.7%.in the first quarter and by 11.8% in the second. The level reached in the second half of the year is four times higher than the hardest one-quarter recession during the 2008-2009 crisis. Most member states' contractions averaged around 10%-15% of GDP.

The slowdown in the euro area's real GDP observed during the first half of 2020 was mainly pushed by the fall both in private consumption and investment and also by the negative impact of net exports . It also had negative consequences in the service sector, especially in the second quarter, and a reduction in the proportion of household consumption devoted to services.

The sharp economic recession also affected the labor market. Employment fell to its highest quarterly rate in the second quarter of the year, after having already declined slightly in the first quarter. The unemployment rate, however, has only increased moderately in comparison with the fall in economic activities, due partly to the effectiveness of existing government support programmers.

Regarding the economic policy measures taken, governments have applied a combination of instruments to ensure an appropriate and broad-based fiscal stimulus, while the ECB has maintained its very accommodative policies with a view to maintaining easy financing conditions.

In second paragraph of this chapter, I will illustrate the actions taken by the European Union to deal with the COVID-19 pandemic. After mentioning the tragic consequences in terms of human lives and economic damage, I describe the intervention plans proposed by the European Community.

In the first part, I will discuss the health plan and the vaccination strategy adopted in Europe, while in the second part I will focus on explaining the economic interventions to respond to the most serious crisis ever recorded since the birth of the European Union. In this unprecedented scenario, Europe had to give a response that would convey a sense of unity, ability to intervene and react, allowing member states to take all necessary initiatives to contain, prevent and treat Covid-19, supporting through state aid the labor market and the survival of small and medium-sized enterprises.

If, on the one hand, the reported data highlight an adverse scenario, on the other, the plan of interventions introduced by the European Union, to face this crisis, has no equal in its history and have been marked by the principles of solidarity, cohesion and convergence.

The response plan introduced by the European Union can be split in 5 points:

-define an European strategy for the vaccination plan;

- coordinate national measures, emergency resources and travel restrictions;
- offer help to countries bordering the European Union and our global partners;
- help people to stay safe through appropriate recommendations regarding testing and quarantine plans from possible infections;
- mitigate the adverse effects of the pandemic and support policies to safeguard employment.

And it can be divided into the following areas:

- health and emergency response ;
- economic response;
- planning a pathway to recovery.

About the health response, the European Commission has launched a strategic plan for the preparation, production and dissemination of a vaccine against Covid-19. A European Health System has been implemented in order of procuring and/or supplying the needs for medical care and equipment for the member states, thus also being able to lower the cost of purchasing them or increase their quality levels. On May 4, 2020, the President of the European Commission, Ursula von der Leyen, launched the first fundraising marathon, pooling €16 billion.

For what concerns the economic response, the European Commission has prepared an action plan structured in six areas:

1) *Recovery Plan for Europe*

The European Commission has therefore proposed a recovery plan focused on the full use of the European budget, which now has greater capacity, in order to repair the economic damage and start the recovery by protecting and creating jobs.

To mobilize the necessary resources, the European Commission has presented a twofold proposal:

a) The Next GenerationEU that is a new financial instrument, with an endowment of €750 billion (Italy will be the main beneficiary with € 209 billion) that will boost the European budget. The funds will be raised on the financial market in the period from 2021 to 2024.

b) It was decided to increase and strengthen the long-term budget of the European Union for the period from 2021 to 2027 with a total amount of € 1074 billion.

2) *Budget Flexibility*

The EU Commission has adopted transitional fiscal measures to allow for greater flexibility in the budgets of member states and their deficits, so that state aid can be provided to provide the necessary liquidity to citizens and businesses to face this period.

3) *SURE Program*

The SURE, a Fund for Temporary Support to Mitigate the Risks of Unemployment in an Emergency (SURE) is available to Member States that are in a position to mobilize significant financial resources to counter the economic and social consequences of the coronavirus pandemic on their territory. The Fund provides up to € 100 billion by covering part of the costs related to the creation or extension of national programs.

4) *Coronavirus Response Investment Initiative*

The Commission unveiled the Coronavirus Response Investment Initiative, an investment initiative to provide Member States with immediate liquidity to make purchases of all coronavirus medical and vaccine products.

5)Complements ECB measures

An emergency purchase plan for the purchase of private and public bonds worth €750 billion is envisaged, in addition to the previously allocated €120 billion.

CHAPTER 3: THE CASE OF ITALY

Italy was the first country in Europe to be affected by the COVID-19 epidemic. The first confirmation of the spread of the virus in Italy was on January 31 2020, when two Chinese tourists in Rome were found to be positive to the virus. Since the appearance of the first cases at the end of January, flights to and from China were interrupted and a state of emergency was declared. The first containment measures put in place were to quarantine the municipalities considered to be the centers of spread of the virus. On March 11, almost all commercial activities were forbidden, with the exception of supermarkets and pharmacies and on March 21, the Italian government decided to suspend all non-essential businesses and industries and to limit the movement of people. After months of lockdown, many measures were eased in May and June, restoring freedom of movement between regions and European

countries and the resumption of many economic activities. Since last September, infections have risen again globally, probably as a result of the increased freedom during the summer season, Italy as well as all of Europe, in the fall has been faced with what has been called the second wave of the virus, with numbers of contagions again very high.
The Covid-19 pandemic and the measures taken to contain it caused a recession of exceptional magnitude and this recession is the most severe in peacetime contemporary Italian history. It is also different from other crises because it is not caused by economic and social factors but by non-economic factors. This, in turn, generates profound uncertainty about the timing of its exit.
In the first half of the year, GDP was 12 percent lower than the same period in 2019 and real output contracted by 18% in the first half of the year. The causes are obviously the blockage of domestic social and productive activities, but also the increased dependence of our economy on services. The sharp decline in economic activity in the spring was followed by a strong, albeit partial, recovery in the summer months. The end of the lockdown at the beginning of May brought about a significant recovery in demand, which had essentially come to a standstill in many sectors, and boosted activity in industry with significant increases in the third quarter, although these did not make up for the losses of the first two quarters.
In services, however, the recovery was slower. In the summer months, while other activities recovered, the situation of the Italian economy was weighed down by the sharp drop in tourist flows, especially foreign ones.
In the third quarter, Italian GDP, like that of the main European countries, showed a marked recovery (+15.9% compared with the previous quarter), spread across all the main economic sectors.
In this second section of the chapter, I discuss the measures taken by Italy in transposing the Next GenerationEU (NGEU) and present and report on the highlights of the National Plan for Recovery and Resilience (PNRR). Italy, the country that was the first in Europe to face the pandemic crisis, in an economic situation already burdened by heavy public debt and a lack of structural reforms capable of sustaining the economy, has seen in this new European course, an unprecedented support that should allocate to our country resources amounting to 209 billion euro.
The instrument adopted in Italy to implement the Next GenerationEU is the "National Recovery and Resilience Plan" (PNRR), so named to highlight the different areas of intervention:

PNRR - Recovery Plan - to counter the economic and social effects generated by the pandemic crisis, seizing the opportunity to define a new future attentive to the Digital and Green challenges, increasing productivity and giving full potential to the economic capacities of the country.

With the adoption of the plan, it will be decided to adhere to the objectives proposed by the President of the European Commission, regarding:

-Green Transition, by reducing emissions, increasing employment in the "Green Economy", improving the efficiency of existing and future buildings, supporting the green transition in industrial processes.

-Digital Transition, as an enabler for reform and competitiveness, through the transformation of industrial supply chains, in redefining mobility and in managing crisis events.

-Reducing Inequalities, to make a country competitive and sustainable, a fundamental point is the elimination of obstacles capable of creating gender, generational and territorial discrimination.

The NRP is divided into 6 missions consisting of 16 functional components to implement the 47 lines of action.

-Mission 1: Digitization, Innovation, Competitiveness and Culture.

- Mission 2: Green Revolution and Ecological Transition.

- Mission 3: Infrastructure for Sustainable Mobility.

- Mission 4: Education and Research

-Mission 5: Inclusion and cohesion

- Mission 6: Health

The path to the approval and receipt of Recovery Plan funds is still long and tortuous. Italy faces a twofold challenge. One of a structural nature, more complex and articulated, and one of a political nature, certainly more insidious for the role in Europe that Italy will decide to play.

But what are the main structural obstacles to restoring the Italian economy and competitiveness?

The list could become inexhaustible, but the EU has identified some that are essential for the full functioning of the Recovery Plan:

Justice is currently an overly complex and slow system, which creates uncertainty in terms of timing and results, undermining the ability and interest of investors. Measures are therefore required to increase transparency and the predictability of time for civil and criminal trials.

The tax system, which is currently among the largest in Europe in terms of tax burden and evasion levels.
The labor market will have to be reformed to allow the country to reach its full economic potential. In particular, it will be necessary to remedy youth and female unemployment, which particularly affects the southern regions.
The recovery plan will only be an opportunity for Italy if structural and political problems are quickly resolved.

The persistence of the pandemic means that the exit from the recession is uncertain in terms of timing and may be slow. In addition to managing the crisis as best we can, limiting the damage to citizens' health and the negative effects on the production system, it is important to look ahead to the country, to the economic system we would like to have after the pandemic. In order to tackle a phase of reallocation of consumption and production, we need, first and foremost, dynamic companies that invest, innovate and adapt their products to what will be demanded in the post-Covid world. Public administrations are also needed that do not hinder but support this process, facilitating the mobility of labor and capital, increasing the training of human capital, and involving all areas of the country and sectors of the population. A great deal of planning capacity is needed, both in the public and private sectors. It is clear that restoring an adequate growth rate is crucial for the future of employment, welfare and public debt management.
In conclusion, we must emerge from this recession as soon as possible by becoming a more dynamic, innovative and inclusive country, especially for young people.