



BANCA D'ITALIA
EUROSISTEMA

Questioni di Economia e Finanza

(Occasional Papers)

The distribution and use of Italian households' savings
after the pandemic

by Andrea Colabella, Elisa Guglielminetti and Concetta Rondinelli

October 2023

Number

797



BANCA D'ITALIA
EUROSISTEMA

Questioni di Economia e Finanza

(Occasional Papers)

The distribution and use of Italian households' savings
after the pandemic

by Andrea Colabella, Elisa Guglielminetti and Concetta Rondinelli

Number 797 – October 2023

The series Occasional Papers presents studies and documents on issues pertaining to the institutional tasks of the Bank of Italy and the Eurosystem. The Occasional Papers appear alongside the Working Papers series which are specifically aimed at providing original contributions to economic research.

The Occasional Papers include studies conducted within the Bank of Italy, sometimes in cooperation with the Eurosystem or other institutions. The views expressed in the studies are those of the authors and do not involve the responsibility of the institutions to which they belong.

The series is available online at www.bancaditalia.it.

THE DISTRIBUTION AND USE OF ITALIAN HOUSEHOLDS' SAVINGS AFTER THE PANDEMIC

by Andrea Colabella*, Elisa Guglielminetti* and Concetta Rondinelli*

Abstract

The COVID-19 pandemic brought about an unexpected and significant drop in Italian household consumption, leading to a sharp increase in the propensity to save and the accumulation of substantial financial resources. In this paper, we quantify the resources saved during the pandemic and investigate their distribution across households. At the beginning of 2023, the accrued financial assets exceeded €130 billion; while all households, including the less affluent ones, managed to accumulate excess savings, the majority of these assets (more than 60 per cent) are held by the highest-income quintile. Looking ahead, households' expectations point to an overall reduction in savings. Considering the distribution of financial assets and high-income households' lower propensity to consume, the accumulated savings drawdown is likely to contribute marginally to the recovery in consumption. At the same time, the hefty increase in leisure-related expenses and the strong recovery in consumer credit could support consumption.

JEL Classification: D12, D14, E21.

Keywords: consumption, Covid-19, financial assets, savings.

DOI: 10.32057/0.QEF.2023.0797

Contents

1. Introduction and main findings	5
2. Households' savings and financial assets in Italy	8
2.1 Assessing the distribution of excess savings when the propensity to save varies across income quintiles	13
3. Recent evolution and perspectives of households' savings.....	17
4. Discussion: savings and consumption	24
References	26
Appendix A: Estimation of excess financial assets.....	28
Appendix B: Recovering propensity to save by income quintile.....	29

* Bank of Italy, Directorate General Economics, Statistics and Research.

1 Introduction and main findings¹

The Covid-19 pandemic induced a significant increase in household savings worldwide: in the second quarter of 2020 – during the first wave of the pandemic – the saving rate more than doubled in Italy, to above 20% (Figure 1).² Despite a steady decline since then, the saving rate remained significantly above pre-pandemic levels until the summer of 2022;³ in the first quarter of 2023 it was back to 2019 values. Most of this movement is attributable to changes in the flow of savings (the numerator of the saving rate) rather than to changes in disposable income (the denominator), as shown by their relative contributions represented by the yellow and grey bars in Figure 1, respectively.⁴

The dramatic surge in savings observed during 2020 and 2021 led many scholars and institutions to speak about “excess savings”,⁵ broadly defined as the difference between observed savings and a counterfactual scenario where savings are assumed to evolve according to historical regularities. For the US, Aladangady et al. (2022) estimate that households accumulated about 2.3 trillion dollars in savings in 2020 through Summer 2021, above and beyond what they would have saved if income and spending components had grown at recent pre-pandemic trends. However, Abdelrahman and Oliveira (2023) gauge that these excess savings are likely to be depleted during the third quarter of 2023. In the euro area the accumulated stock of excess savings reached about 11% of trend (gross) disposable income in the fourth quarter of 2022 (Battistini, Di Nino, and Gareis, 2023). In a comparative study, de Soyres, Moore, and Ortiz (2023) estimate that accumulated excess savings have recently been unwound in the US, declined in other advanced economies, and slowed in the

¹The views expressed herein do not reflect those of the Bank of Italy. We would like to thank for their useful comments and suggestions A. De Vincenzo, S. Neri, F.M. Signoretti, R. Zizza, G. Zevi. Research assistance from Francesco Pipitone is kindly acknowledged.

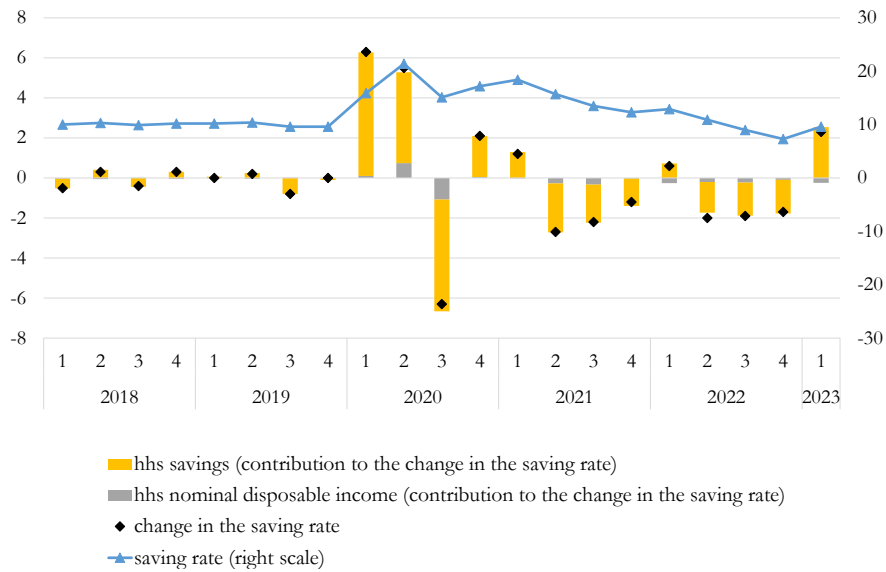
²For greater details on savings dynamics in Italy after the Covid-19 pandemic, see Ercolani, Guglielminetti, and Rondinelli (2021).

³In what follows we use interchangeably the definitions of propensity to save and saving rate.

⁴Despite the strong contraction in GDP in 2020 (-9.0%) households disposable income fell much less (only by 2.2%) thanks to a series of stimulus packages implemented by the Government since the outbreak of the pandemic.

⁵In the rest of the paper we refer to additional savings or excess savings indistinctly.

Figure 1: Household saving rate in Italy



Source: Our computations on Eurostat data. The saving rate refers to total households and non-profit institutions serving households.

emerging economies.

Though the stock of excess savings remains sizable, it is unclear whether and to what extent it could bolster consumption dynamics in the near future. Besides their amount, the excess savings distribution is key to drawing conclusions about the effective capacity of these resources to sustain spending in the current context of high inflation and weak economic growth. Aladangady et al. (2022) estimate that US households in the lower half of the income distribution were still holding about 350 billion dollars in excess savings as of mid-2022 – mostly stemming from the boost to income from fiscal stimuli in 2020 and 2021; these savings have continued to support spending and credit performance. The majority of US excess savings, however, was held by high-income households, with modest effect on aggregate spending in 2021 due to their lower marginal propensity to consume (MPC). In the euro area as well a large share of excess savings accumulated during the pandemic accrued to the

wealthiest households (Battistini, Di Nino, and Gareis, 2023).⁶ As underscored by Auclert, Rognlie, and Straub (2023), the poorest households spend down their excess savings the fastest, increasing other households’ incomes and their excess savings; even these prolonged effects, however, are likely to be short-lived if the amount of extra-liquidity accruing to the worse-off is limited.

As for Italy, Infante, Lilla, and Vercelli (2023) use a structural Bayesian VAR to determine the effects of the pandemic on household financial savings and other macroeconomic variables. They distinguish between a containment shock, a fear-of-infection shock, and an uncertainty shock. On the basis of a counterfactual exercise they find that between March and December 2020 the excess financial surplus was 43 billion euros.

This paper also focuses on Italy but uses a different approach from Infante, Lilla, and Vercelli (2023), as well as a longer time horizon, while focusing on the distributional aspects of additional saving accumulation. We exploit the relationship between the flow of savings and financial assets to estimate the evolution of excess savings up to the first quarter of 2023. By using the Survey of Income and Wealth (SHIW) by Banca d’Italia, we can further infer the savings distribution across income classes. Data from the ECB’s Consumer Expectations Survey are also employed to gauge a glimpse of the expected evolution of consumption and savings.

We find that between 2020-22 more than 130 billion euros (around 11% of annual household disposable income) were accumulated and allocated into financial assets. Around 60% of such savings were held by high-income households. At the same time, even low-income households were able to save part of their income. With the energy price upsurges of 2021 and 2022, the process came to a halt, but at the beginning of 2023 “excess assets” were still sizeable (around 2.5% of total assets).

Assessing the contribution of asset drawdown to aggregate spending relies on the interaction of the following factors: a) asset concentration, which we find is skewed towards wealthier families; b) portfolio composition, tilted towards less liquid investments for better-off families, too; c) MPC out of wealth lower than out of income –

⁶In Battistini, Di Nino, and Gareis (2023) excess household savings are defined as the difference between actual savings and their trend estimated between 2015 and 2019.

which is even lower for illiquid investment. Therefore, in the current juncture, asset drawdown by low-income households is likely to offer limited support to consumption expansion, in view of the modest amount of excess savings accumulated by these households during the pandemic. At the same time, heftier support is likely coming from affluent families, who are signaling their willingness to spend more, especially on leisure-related items (even though they historically have a lower MPC).

The rest of this note is structured as follows. Section 2 shows the evolution of household savings and financial assets in Italy, runs the counterfactual exercise and elaborates on financial assets and savings distributions. Section 3 looks at more recent and future trends; Section 4 provides a discussion and concludes.

2 Households' savings and financial assets in Italy

In each time period, household savings represent the income that remains available in that period after expenses are deducted. The savings can be employed in many ways, for example repaying existing debts, investing in real assets (mostly residential properties), or acquiring financial assets. Here we focus on the purchase of financial assets: indeed, data show that financial activities were extensively used by Italian households to employ the excess liquidity accumulated during the pandemic. Conversely, the first two options played a minor role in 2020 and 2021. Real wealth (mostly residential properties), though representing more than half of the stock of Italian households' assets,⁷ grows slowly and mostly because of the appreciation of dwellings already owned by households. Only a minor share of the excess liquidity accumulated during the pandemic could be channeled to the acquisition of new properties, as new construction could not respond in real time to such potential increase in demand.⁸ Also, in 2022 Italian households' indebtedness stood at pre-pandemic levels (62.5%), suggesting that excess savings were not massively used to repay ex-

⁷In 2019 real wealth was estimated at about 5,200 billion euros, while financial assets amounted to about 4,700 billion euros (4.4 and 4.0 times the annual household disposable income, respectively).

⁸Transactions of properties within the household sector do not change the household aggregate real wealth. For this reason we mention here only the acquisition of properties new to the household sector, which mainly involves new constructions.

isting debts; moreover, indebtedness in Italy is low compared to the average of the euro area,⁹ with the largest share represented by mortgages for residential properties, mostly characterized by very low and fixed interest rates.

Household savings flows show a high and rather stable correlation with total financial assets (around 0.6): in fact, this correlation holds irrespective of whether the pandemic period is considered or not (Table 1). Until 2019, savings also correlated fairly well with some components of financial flows, especially cash, debt securities and deposits. After 2019, the correlation with cash and deposits strengthened while that with debt securities weakened. Indeed, in 2020 and 2021, financial assets increased mainly through cash and deposit accumulation (Figure 2a).

Table 1: Correlations between households' savings and flows of financial activities

	Households' savings					
	2000-2019			2000-2022		
	<i>t-1</i>	<i>t</i>	<i>t+1</i>	<i>t-1</i>	<i>t</i>	<i>t+1</i>
Total financial activities	0.49	0.55	0.59	0.58	0.61	0.59
Cash	0.56	0.55	0.51	0.66	0.68	0.65
Deposits	0.35	0.40	0.49	0.53	0.60	0.66
Debt securities	0.44	0.48	0.51	0.28	0.28	0.28
Mutual funds and insurance products	-0.50	-0.51	-0.52	-0.20	-0.20	-0.24
Shares and other equity	0.18	0.12	0.07	-0.03	-0.02	-0.04

Source: our computations on data from Bank of Italy and Istat.

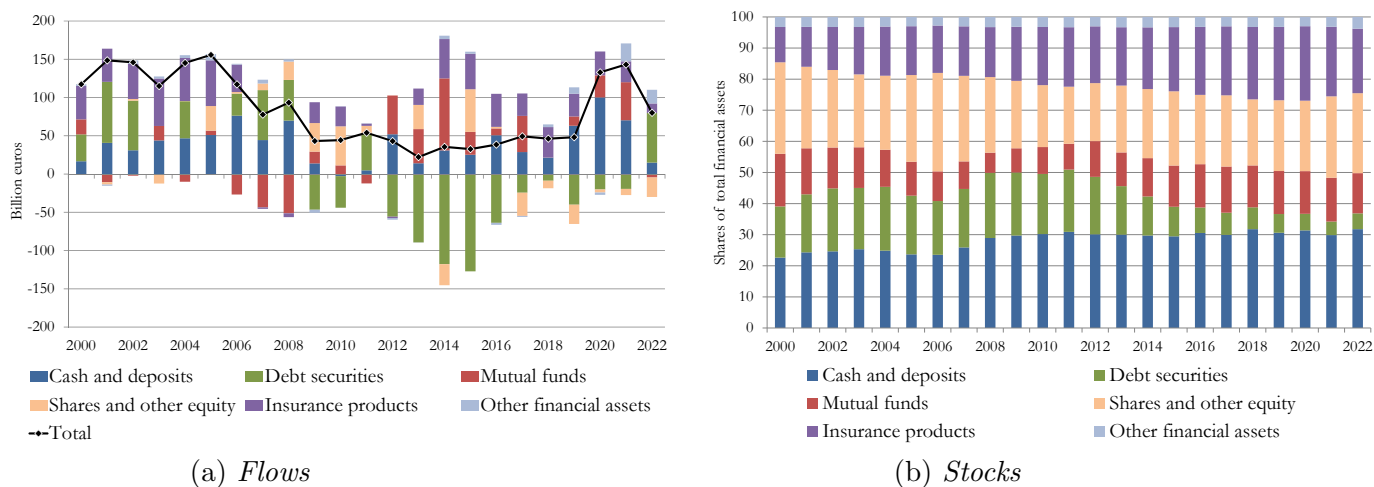
Note: Correlations are computed on raw quarterly data considered in moving averages of four terms.

Although the allocation of excess savings among different financial assets is an interesting subject *per se*, in the following analysis we focus on the relationship

⁹In 2022, euro area households' indebtedness stood at around 94.5% of their annual disposable income.

between savings and total financial assets. In this way we avoid tackling the issue of the savings allocation across different asset classes, which varies over time, depending on long-run trends and the relative convenience of different forms of investment at each point in time (as it is also visible from the time-varying shares in the stock of financial assets, in Figure 2b). Moreover, the correlation between savings and total financial assets is high and relatively stable throughout the pre- and post-pandemic periods, allowing us to exploit historical regularities to build a counterfactual scenario for 2020-2023Q1.

Figure 2: Italian households' financial activities



Source: Bank of Italy, Financial Accounts.

We define excess savings as the difference between the realized flow of savings and the counterfactual one. In the baseline counterfactual scenario, we assume that the saving rate remained stable at its average value in the five years preceding the outbreak of the pandemic (10.2%) keeping all other things equal (namely without

considering the general equilibrium effects that would have otherwise unfolded).¹⁰ The counterfactual flow of savings we obtain is slightly increasing over time, averaging 17 billion euros per quarter (Figure 3). Based on their historical relationship estimated in the pre-pandemic period (2000–2019) we thus forecast the flow of households’ total financial activities conditional on the counterfactual evolution of savings.¹¹ From the second quarter of 2020 until the Spring of 2022 the flow of households’ financial activities in each period is estimated to be considerably higher than in the counterfactual scenario, with a peak difference of more than 25 billion euros at the beginning of 2021 (Figure 4a). Summed up over the three years 2020–2022, the stock of excess savings accumulated in financial assets increased to 134 billion euros and was still above 130 billion in the first quarter of 2023 (Figure 4b). This amount is sizeable, corresponding to 11.1% of annual household disposable income and 2.5% of households’ stock of financial assets. In another counterfactual scenario, we assume that households with the aim of smoothing consumption, curtail it less than the decrease in income; as a consequence, they reduce the saving rate by 1.5 percentage points (to around 8.5%) compared to the pre-pandemic years.¹² In this case the counterfactual financial assets, driven by the lower saving rate, grow even less than in the baseline scenario, and excess assets rise to over 200 billion euros in the first quarter of 2023.

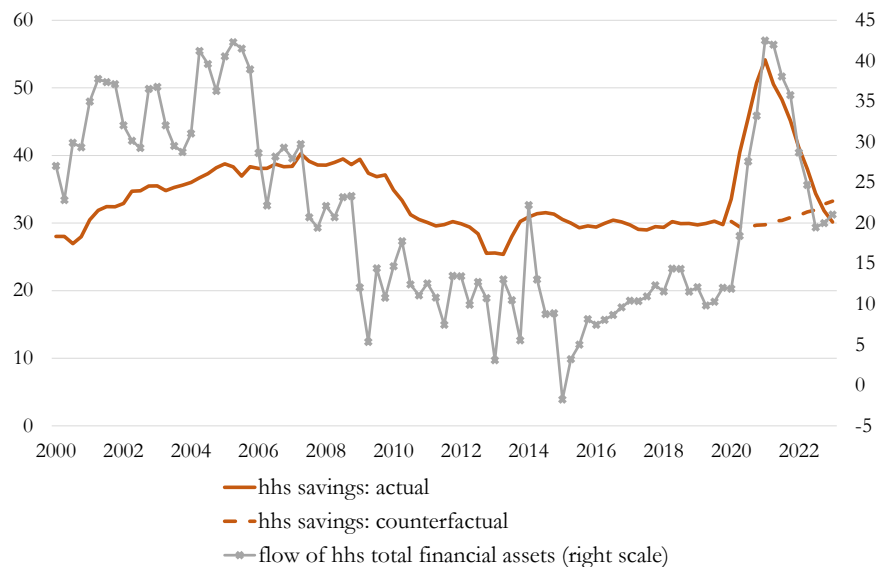
The total amount of additional financial activities accumulated during the pandemic might be distributed unevenly across the income distribution. To investigate such heterogeneity, we exploit data from SHIW on the distribution of financial assets by quintiles of net disposable income (Table 2). Such shares are rather stable over time; financial wealth is very concentrated, with almost 80% of the assets belonging to the upper 40% of the distribution, and around 60 to the top quintile. Hence, in view of the time-stability of financial asset shares we make the assumption that

¹⁰Had we taken into account general equilibrium effects in our exercise, the lower propensity to save would have mechanically implied higher private spending and stronger output dynamics; this could have been further magnified by the propagation mechanisms in the economy.

¹¹See Appendix A for greater details on the estimation procedure.

¹²This reduction is in line with that recorded during previous recessions, including the Great Financial and Sovereign Debt crises.

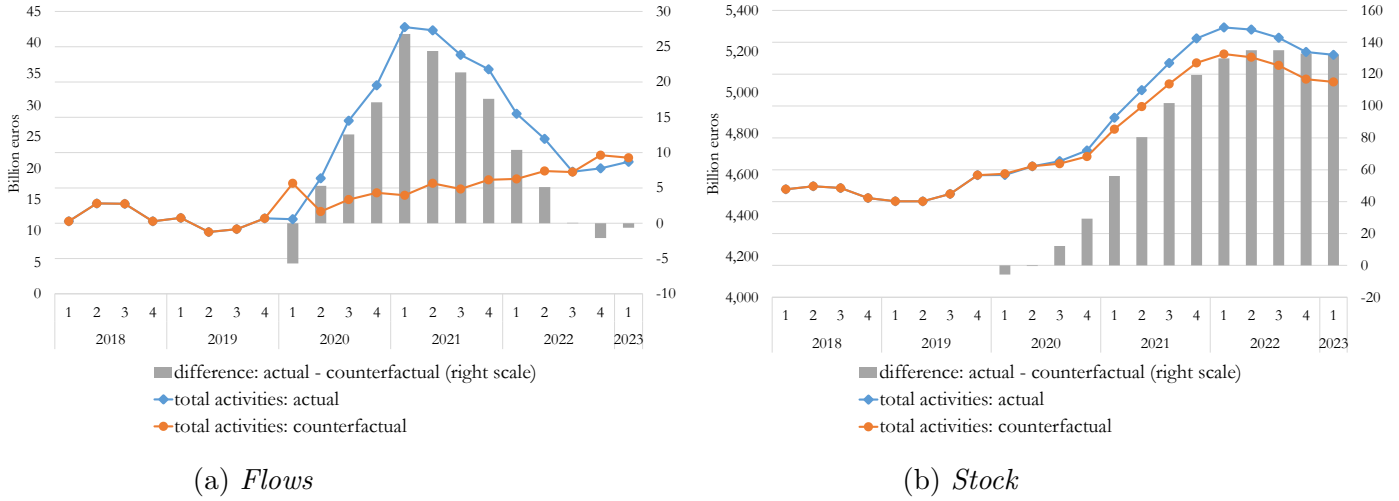
Figure 3: Italian households' savings and financial activities



Source: Data are from Bank of Italy and Eurostat.

between 2020 and 2023Q1 the distribution of financial assets among income quintiles did not vary. Therefore, we can calculate actual and counterfactual assets for each quintile by multiplying the total amounts by the respective shares in 2020; the difference between actual and counterfactual financial assets yields the additional assets in each quintile. As a result, at the beginning of 2023 only 4.2 billion euros out of 133 (3.2%) were held by households belonging to the first quintile of the income distribution, while the large majority (about 60%) was concentrated among high-income families (fifth quintile; Table 3).

Figure 4: Total financial activities of Italian households



Source: our computations on data from Bank of Italy and Eurostat. Raw quarterly data: moving averages of four terms.

Table 2: Households financial assets shares by quintiles of net disposable income

Income quintiles	2010	2012	2014	2016	2020
first	3.0	2.2	2.7	2.7	3.2
second	7.5	6.9	6.9	6.3	6.8
third	11.0	11.0	12.6	12.2	11.7
fourth	19.7	18.1	19.2	19.8	19.0
fifth	58.7	61.7	58.7	58.9	59.4
Total	100	100	100	100	100

Source: our calculation on SHIW data.

2.1 Assessing the distribution of excess savings when the propensity to save varies across income quintiles

So far we have gauged an aggregate estimate of excess savings accumulated during the period 2020–2023Q1 in Italy and, according to certain assumptions, how these additional resources have been split across the entire population in terms of financial

Table 3: Households assets by income quintiles in 2023Q1

Income quintiles	shares	billion euros		
	(1)	(2)	(3)	(4)
first	3.2	165.9	161.6	4.2
second	6.8	352.5	343.5	9.0
third	11.7	606.4	591.0	15.5
fourth	19.0	984.8	959.7	25.1
fifth	59.4	3,078.8	3,000.2	78.6
Total	100	5,183.2	5,050.9	132.3

Source: (1) shares are calculated from 2020 financial assets distribution in the SHIW; (2) actual assets; (3) counterfactual assets; (4) additional assets defined as (2) - (3).

assets. The above exercise relies on the hypothesis that the saving rate is the same across all Italian households, irrespective of their specific economic and demographic characteristics. In order to analyse more in-depth the distributional issues, we now take into account how the propensity to save varies between households with different net disposable income, using data from the SHIW (Table 4).¹³ To quantify the amount of the additional savings accumulated by each income class, we then perform a new counterfactual exercise by assuming that the adjusted propensity to save in each income class in 2020 remained that of 2016.

We exploit the distribution of the 2020 total household disposable income in net disposable income quintiles to: 1) calculate the actual amount of savings accrued to each quintile in 2020 as a product of disposable income in that quintile times the relative adjusted propensity to save;¹⁴ 2) estimate, in a similar way to 1), the counterfactual amount of savings for each of the above-mentioned quintiles. This

¹³See Appendix B for details.

¹⁴Adjusted propensity to save is a parameter calculated in Appendix A to reconcile ISTAT and SHIW's data.

Table 4: Households’ adjusted propensity to save by income quintiles

Income quintiles	Adjusted propensity to save				
	2010	2012	2014	2016	2020
first	0.0	-6.5	0.8	-0.3	0.3
second	5.8	3.1	5.8	5.4	9.9
third	9.3	6.8	8.8	8.4	15.1
fourth	13.0	10.3	12.8	11.9	20.7
fifth	16.9	14.9	16.3	16.2	24.9

Source: Our elaboration on data from SHIW and National Accounts.

is done by applying the 2016 adjusted propensity to save in each quintile to the 2020 income belonging to that quintile. Additional savings for each quintile are then determined as the difference between actual and counterfactual values.

Our analysis implies that at end-2020 aggregate excess savings amounted to nearly 88 billion euros (Table 5).¹⁵ Despite the different methodologies, this result appears fully consistent with the counterfactual exercise conducted at the aggregate level: over the same time horizon, we previously found that additional assets ranged between 29 and 55 billion euros (in the baseline and in the ‘consumption smoothing’ counterfactual scenarios, respectively). These figures ramp up to 81 and 119 billion euros by the end of the second quarter of 2021.

The lion’s share of the 88 billion euros of excess savings was concentrated in the upper quintile, which accounted for just less than 60% of the excess savings, while only around 6.5% belonged to the first 40% of the distribution. At the same time, all households but the upper income class have relatively bigger shares in excessive savings than in actual savings. On top of that, households belonging to the first class record positive, although limited, savings, which they would not have obtained

¹⁵Differently from the previous exercise, where the focus is on total financial assets accumulated through 2023Q1, here we limit our attention to additional savings up until end-2020. We do so since we ignore the evolution of saving rates by net disposable income quintiles after 2020 and we are not keen to impute them since they appear to be more volatile than the correspondent asset shares.

if their adjusted savings rate had been stuck at the 2016 value,¹⁶ and it partly matches other evidence (Graziano and Loschiavo, 2022). Nevertheless, in terms of income, the biggest increase in savings is recorded by the last two upper quintiles.

Table 5: Households' indicators in 2020 by income quintiles

	first	second	third	fourth	fifth	total
	<i>in million euros</i>					
income (1)	63,854	118,421	166,022	246,130	566,563	1,160,990
actual savings (2)	167	11,741	25,039	50,992	141,032	228,972
counterfactual savings (3)	-197	6,375	13,919	29,323	91,749	141,168
additional savings (4)	364	5,367	11,120	21,669	49,283	87,803
	<i>in percentage</i>					
income share (5)	5.5	10.2	14.3	21.2	48.8	100.0
savings share (6)	0.1	5.1	10.9	22.3	61.6	100.0
excess savings share (7)	0.4	6.1	12.7	24.7	56.1	100.0
excess saving shares wrt income (8)	0.6	4.5	6.7	8.8	8.7	-

Source: our elaboration on data from SHIW and National Accounts.

(1) 2020 income by net disposable income quintiles and households total income. Income belonging to each quintile is calculated by multiplying each quintile's income share in 2020 by households total income in 2020.

(2) 2020 actual savings by net disposable income quintiles and households total actual savings. Actual savings belonging to each quintile are calculated by multiplying income belonging to each quintile in 2020 by the 2020 adjusted propensity to save of the same quintile.

(3) 2020 counterfactual savings, by net disposable income quintiles, and households' total counterfactual savings. Counterfactual savings belonging to each quintile are calculated by multiplying the 2016 adjusted propensity to save for that quintile by 2020 total income.

(4) Additional savings calculated as (2) minus (3).

(5) 2020 income share by net disposable income quintiles.

(6) 2020 actual saving share by net disposable income quintiles.

(7) Share of additional savings by net disposable income quintiles.

(8) Ratio of additional savings to the 2020 income by net disposable income quintiles.

¹⁶While such families have 0.1 per cent of the 2020 actual savings distribution, they obtain 0.4 per cent in additional savings. This is also in line with (Rondinelli and Zanichelli, 2021b,a) who find that during the Covid-19 pandemic expectations of an increase in savings were widespread both among households that easily make ends meet and among those declaring greater economic difficulties.

3 Recent evolution and perspectives of households' savings

In this Section we complement the previous analysis using individual high-frequency data on households' savings and expenditures exploiting the Consumer Expectations Survey (CES), a monthly survey administered by the European Central Bank since April 2020.¹⁷ Respondents complete a background questionnaire upon entering the panel, providing one-time information such as age, gender, household size, and housing tenure. Expectations about several variables are asked at monthly frequency, while information about non-durable consumption and savings is provided at quarterly frequency (see Christelis et al., 2020; Georgarakos and Kenny, 2022, for more information about the survey).

Panel a) of Figure 5 reports the evolution of the savings households made in the 3 months preceding the interview. The panel shows the dynamics for different income classes. Overall, we notice a declining trend in the flows of savings starting from the summer of 2021 jointly with increases in energy prices. This path is particularly clear for the most affluent households, while those with greater economic difficulties already saved less before that date and continue to do so.¹⁸

As underlined in Figure 1, savings dynamics do not depend on income but rather on spending: in panel b) of Figure 5 the upward trend in the share of households in-

¹⁷The pilot phase of CES started in January 2020 (wave 1), but the data were made publicly available since April 2020 (wave 4). It is a representative household-level online survey with a panel dimension, carried out in 6 major European economies (Belgium, France, Germany, Italy, Spain, and the Netherlands) and sampling 10,000 survey participants every month. The sample contains approximately 2,000 participants from the four largest economies, and 1,000 from Belgium and the Netherlands. The large sample size allows the survey to be representative both at the euro area level and at the country level.

¹⁸These figures are compatible with those obtained from the SHIW and presented in Table 5. The CES and SHIW data differ however along many dimensions which could explain some differences. First, savings in SHIW are computed as the difference between disposable income and consumption; households surveyed in CES are asked directly about savings. Second, the data collection process is different: starting from the 2020 SHIW, data are exclusively collected through CAPI, using a tablet that automatically gathers metadata, such as the user's position (GPS) and interview duration; the CES is an online survey. Third, surveyed phenomena like income, consumption and wealth in SHIW are annual, while they are monthly or quarterly in CES.

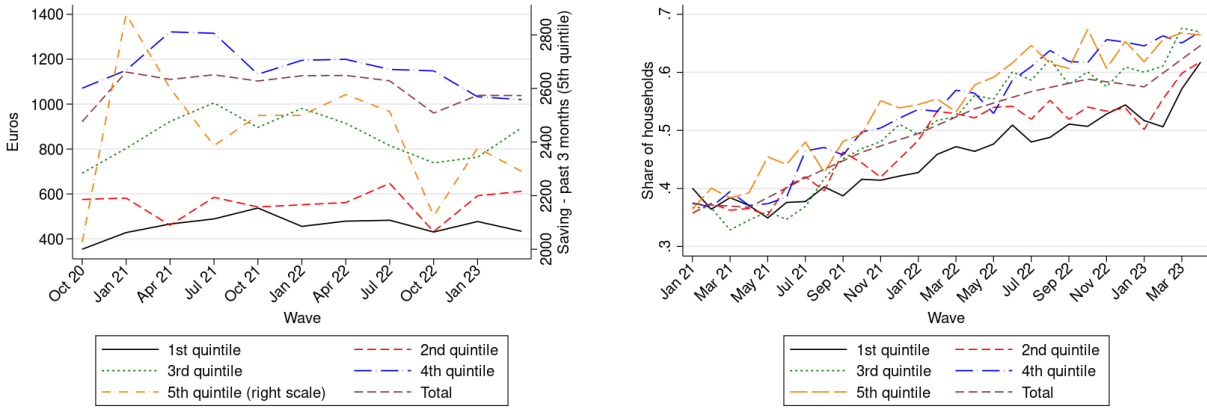
creasing their spending started in mid-2021, when prices began to soar. At the same time, the upsurge in energy prices induced a divergence between low and high-income household expenditure dynamics, with the former being helped by government measures (Curci et al., 2022). In spite of the lower inflation at the beginning of 2023, the share of households declaring an increase in their spending compared to the previous year is still rising, attaining slightly less than 60% and 70% for low- and high-income households, respectively – it was around 40% at the beginning of 2021 for both groups. This rise might still signal the persistence of pent-up demand for high-income households, related to their demand for leisure items, like travel, accommodation and recreation (see Figure 6). At the same time, high-income households are having more difficulty in finding good investment opportunities: up to the beginning of 2023 there was a growing consensus that the moment was a good one to save money in savings accounts (Panel c of Figure 7), signalling a precautionary attitude in an environment of heightened uncertainty.¹⁹

The share of households expecting not to save money in the following 12 months has been on an increasing path since the end of 2021, with an upsurge at the beginning of 2022. Low-income households increasingly have been declaring not to expect to save in the next year: this attitude seems stronger for households that had to augment spending (Figure 8), whose share peaked in October 2022 when Italian inflation was at record highs. Figure 9 corroborates the idea that households with economic difficulty expect not to be able to save, especially those that think that the government measures to tackle rising energy prices are insufficient. The t-test of difference in means between the group of households deeming the government measures to ease the burden of higher energy prices as insufficient against the group that consider them adequate is significant for the 1st, the 2nd and the 5th quintiles

¹⁹The share of households considering that it is a good moment to borrow from a bank has showed a decreasing path since Summer 2021 - when it was 50 and 25% for high- and low-income households, respectively. Such a share fell in all income classes to less than 10% at the end of the reference period (Panel a of Figure 7). By the same token, households do not value the current framework as ideal to invest in risky assets: indeed, the share of more affluent ones halved, at around 0.25 (Panel b of Figure 7). Conversely, in households' opinions, the moment of the interview was a good one to save money in savings accounts, especially for better-off households (Panel c of Figure 7).

of the income distribution. This also suggests that the ability to save, which is normally positively related to economic situation, is also affected by the increase in energy prices. At the same time, but to a lesser extent, affluent households are also signaling their expectation not to save in the next 12 months. However, this could be possibly due to their willingness to spend more on leisure-related items since the stock of additional savings accumulated during the pandemic is deemed as currently sufficient to satisfy their needs.

Figure 5: Past savings and spending of Italian households by income quintiles

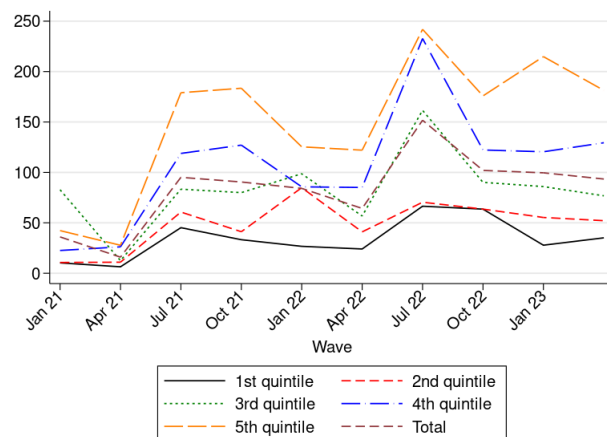


(a) Savings over the previous 3 months

(b) Increased spending compared to previous year

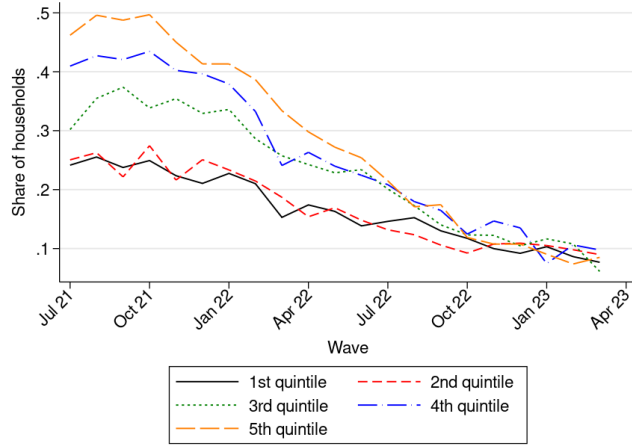
Source: our computations on CES data on Italian households. Quarterly data for panel a) are winsorized at the bottom and top 2%. “Households save in various ways (by depositing money in a bank account, or by buying financial assets, property, or other assets) and for different reasons. How much money (if any) has your household saved in the last 3 months?”. Panel b) represents the share of households who answered “My household spending increased a lot” or “My household spending increased a little” to the monthly question “Compared with 12 months ago, what do you think has happened to your household spending?”.

Figure 6: Average spending in travel and recreation activities by income quintiles

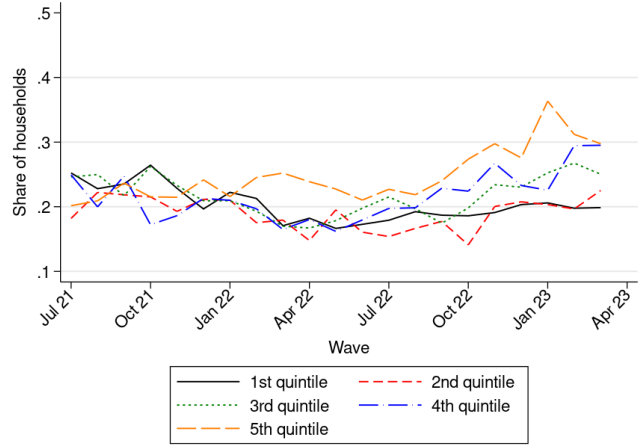


Source: our computations on CES data (quarterly module) on Italian households. The graphs represent the mean value to the question: “During the last month, how much did your household spend on travel, recreation, entertainment and culture (holidays, theatre/ movie tickets, club/ gym membership, newspapers, books, hobbies equipment)?”. Data are winsorized at the bottom and top 2%.

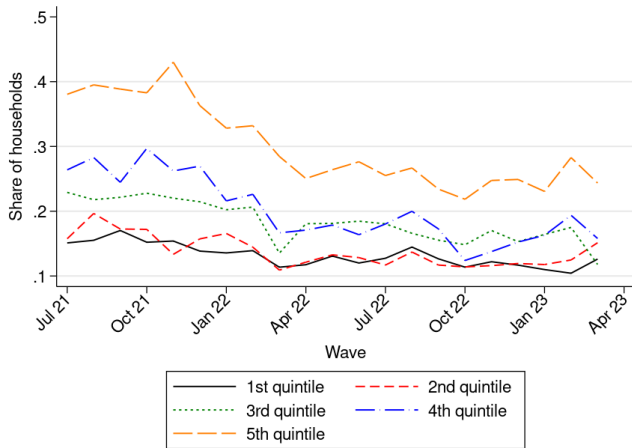
Figure 7: Share of Italian households considering it's a good time to...



(a) Borrow money from a bank



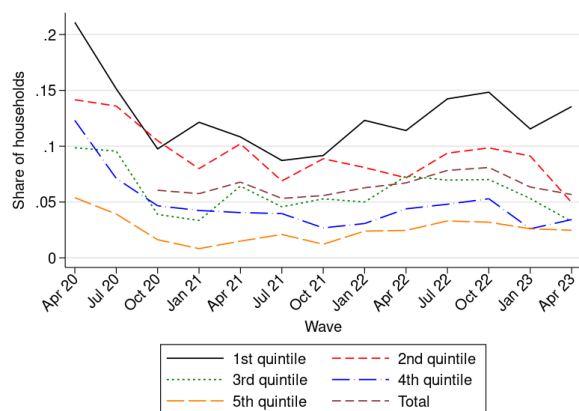
(b) Save money in savings accounts



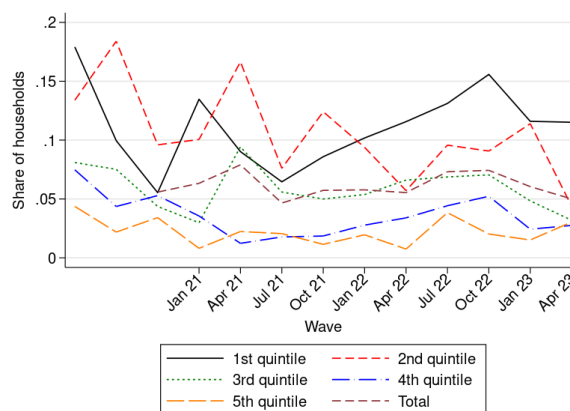
(c) Invest money in risky financial assets

Source: our computations on CES data (monthly module) on Italian households. The graphs represent the share of households who answered “good” or “very good” to the question: “Generally speaking, do you think now is a good time or a bad time to... ? ”(where the question should be completed as in the different panels).

Figure 8: Share of Italian households expecting not to save anything in the following 12 months by income quintiles



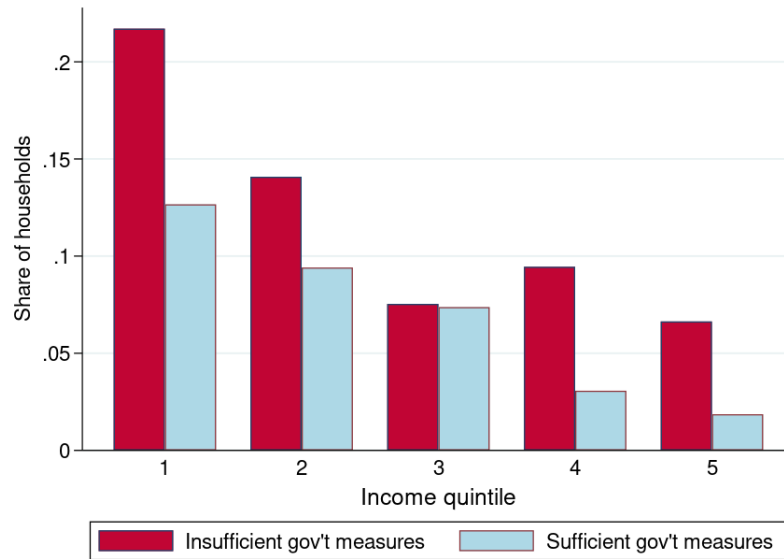
(a) Among all households



(b) Among households that increased spending

Source: our computations on CES data (quarterly module) on Italian households. The graphs represent the share of households who answered “Definitely not” to the question: “Does your household plan to save money in the next 12 months?”. In panel a) the share is computed over the total number of households participating to the questionnaire; in panel b) the share is computed over the number of households who answered “My household spending increased a lot” or “My household spending increased a little” to the monthly question “Compared with 12 months ago, what do you think has happened to your household spending?”, that on average represent 47% of the sample.

Figure 9: Share of Italian households expecting not to save anything in the following 12 months by income quintiles



Source: our computations on CES data on Italian households for the wave of October 2022. The graphs represent the share of households who answered “Definitely not” to the question: “Does your household plan to save money in the next 12 months?”. We compute separate shares depending on households’ responses to a quick poll conducted in the same wave, where the question was: “Many governments are currently taking measures to ease the burden of higher energy prices on households. To what extent do you think that the measures in your country will be sufficient to maintain your household’s usual spending on goods and services?”. Households could give a score from 0 (completely insufficient) to 10 (completely sufficient). Households giving a score below or equal to the median (3) are classified as deeming gov’t measures insufficient (and viceversa for those giving a score above the median).

4 Discussion: savings and consumption

As shown in Section 2, the excess savings accumulated during the pandemic were distributed unevenly across the income distribution, with the lion's share held by the most affluent households. Additionally, excess savings translated into less liquid financial assets for better-off households (Banca d'Italia, 2022).

Guiso, Paiella, and Visco (2006) show that in Italy income accounts for a large fraction of consumption dynamics, while the MPC out of wealth is smaller. On top of that, De Bonis et al. (2020) find that the MPC out of liquid financial assets – mainly deposits and debt securities – is positive and statistically significant (about 7.5%), and greater than that for illiquid assets (mainly unlisted shares and insurance and pension assets; about 3%); housing wealth has an even smaller, although significant, impact on consumption (in line with Bassanetti and Zollino, 2010).²⁰

The above evidence (i.e., that the MPC out of wealth is particularly low for less liquid assets and that in 2020-22 such assets have been accumulated by the most affluent households, who have a lower MPC) suggests that the direct contribution of accumulated assets to consumption is likely low. At the same time, leisure-related spending by better-off households appears to be propping-up expenditure. This divergent pattern is also confirmed by Istat (2022), where in real terms equalized expenditure decreased by 0.7% in 2021 for worse-off households, while for the wealthiest families it increased by 4.5%.²¹

More recent evidence based on CES data (Section 3) allows us to track the share of households expecting not to save in the following 12 months. Looking at these households is interesting because part of their spending – equal or higher than their income – may be financed by the liquidation of the assets accumulated over the

²⁰Neri, Rondinelli, and Scoccianti (2017) calculate that the MPC out of a transitory income shock is 0.75 for low cash-on-hand households in Italy; 0.42 for high cash-on-hand households - these figures are in line with those by Jappelli and Pistaferri (2014). The MPCs out of persistent shocks for cash-constrained households are 0.6, while they stand at 0.41 for households that hold sufficient liquidity.

²¹Households in the first fifth of the equivalent income distribution are also the only ones to record a real negative change in consumption, even in a year of strong, albeit still partial, recovery since the collapse of 2020. Data for 2022 will be available in October 2023.

previous years. The data show that this share has increased among the worse-off families, and, more recently, among better-off households. While both low-income households and, to a lesser extent, more affluent families expect not to save resources in the foreseeable future, this can be due to different reasons. In particular, the expectation not to save resources for the worse-off group owes likely to their inability to save; at the same time, affluent families are possibly deciding to spend more, in particular on leisure-related items, since the amount of savings already piled-up is considered to be enough (Section 3). All of the above confirms, on the one hand, that the impulse coming from the decumulation channel may already been exhausted given the limited amount of excess savings held by less affluent individuals. On the other hand, consumption is likely to be sustained by the increased expenditure by the wealthier households, as also witnessed by CES and National Accounts data. In addition, consumer credit is apparently weathering the storm induced by the kick-off of the monetary policy tightening cycle, and has returned to sustained growth rates comparable to those prevailing before the pandemic. Along with the decrease in the propensity to save recorded in recent months, all of the above will likely shore up consumption in the months to come.

References

- Abdelrahman, Hamza and Luiz E. Oliveira. 2023. “Excess No More? Dwindling Pandemic Savings.” Sf fed blog, San Francisco FED.
- Aladangady, Aditya, David Cho, Laura Feiveson, and Eugenio Pinto. 2022. “Excess Savings during the COVID-19 Pandemic.” Feds notes, FED Board. URL <https://www.federalreserve.gov/econres/notes/feds-notes/excess-savings-during-the-covid-19-pandemic-20221021.html>.
- Auclert, Adrien, Matthew Rognlie, and Ludwig Straub. 2023. “The Trickling Up of Excess Savings.” *AEA Papers and Proceedings* 113:70–75. URL <https://ideas.repec.org/a/aea/apandp/v113y2023p70-75.html>.
- Banca d’Italia. 2022. “Indagine sui bilanci delle famiglie nell’anno 2020.” Banca d’Italia statistical report June 2022, Banca d’Italia.
- Bartiloro, Laura and Cristiana Rampazzi. 2013. “Il risparmio e la ricchezza delle famiglie italiane durante la crisi.” Occasional paper 148, Banca d’Italia.
- Bassanetti, A. and F. Zollino. 2010. *Housing Markets in Europe*, chap. “The Effects of Housing and Financial Wealth on Personal Consumption: Aggregate Evidence for Italian Households”. Springer.
- Battistini, Niccolò, Virginia Di Nino, and Johannes Gareis. 2023. “1 The consumption impulse from pandemic savings – does the composition matter?” *Economic Bulletin Boxes* 4.
- Christelis, Dimitris, Dimitris Georgarakos, Tullio Jappelli, and Geoff Kenny. 2020. “The Covid-19 crisis and consumption: survey evidence from six EU countries.” Working Paper Series 2507, European Central Bank. URL <https://ideas.repec.org/p/ecb/ecbwps/20202507.html>.
- Curci, Nicola, Marco Savegnago, Giordano Zevi, and Roberta Zizza. 2022. “The redistributive effects of inflation: a microsimulation analysis for Italy.” *Questioni di Economia e Finanza (Occasional Papers)* 738, Bank of Italy, Economic Research and International Relations Area. URL https://ideas.repec.org/p/bdi/opques/qef_738_22.html.
- De Bonis, Riccardo, Danilo Liberati, John Muellbauer, and Concetta Rondinelli. 2020. “Consumption and wealth: new evidence from Italy.” *Temi di discussione (Economic working papers)* 1304, Bank of Italy, Economic Research and International Relations Area. URL https://ideas.repec.org/p/bdi/wptemi/td_1304_20.html.
- de Soyres, Francois, Dylan Moore, and Julio Ortiz. 2023. “Accumulated Savings During the Pandemic: An International Comparison with Historical Perspective.” Feds notes, FED Board.

- Ercolani, Valerio, Elisa Guglielminetti, and Concetta Rondinelli. 2021. “Fears of future: the saving dynamics after the Covid-19 outbreak.” Covid-19 note, Bank of Italy. URL https://www.bancaditalia.it/pubblicazioni/note-covid-19/2021/Note_saving_EGR_14giugno2021.pdf.
- Georgarakos, Dimitris and Geoff Kenny. 2022. “Household spending and fiscal support during the COVID-19 pandemic: insights from a new consumer survey.” Working Paper Series 2643, European Central Bank. URL <https://ideas.repec.org/p/ecb/ecbwps/20222643.html>.
- Graziano, Mariano and David Loschiavo. 2022. “Liquidity-poor households in the midst of the Covid-19 pandemic.” *Review of Income and Wealth* 68 (6):541–562.
- Guiso, L., M. Paiella, and I. Visco. 2006. “Do Capital Gains Affect Consumption? Estimates of Wealth Effects from Italian Households’ Behavior.” In *Long-run Growth and Short-run Stabilization*, Chapters, chap. 3. Edward Elgar Publishing.
- Infante, Luigi, Francesca Lilla, and Francesco Vercelli. 2023. “The effects of the pandemic on households’ financial savings: a Bayesian structural VAR analysis.” Temi di Discussione (Working Papers) 1421, Bank of Italy, Economic Research and International Relations Area.
- Istat. 2022. “Le spese per i consumi delle famiglie: anno 2021.” Istat report June 2022, Istat.
- Jappelli, Tullio and Luigi Pistaferri. 2014. “Fiscal Policy and MPC Heterogeneity.” *American Economic Journal: Macroeconomics* 6 (4):107–136. URL <https://ideas.repec.org/a/aea/aejmac/v6y2014i4p107-36.html>.
- Neri, A., C. Rondinelli, and F. Scoccianti. 2017. “Household spending out of a tax rebate: Italian “80 tax bonus”.” ECB Working Paper Series 2099, ECB.
- Rondinelli, Concetta and Francesca Zanichelli. 2021a. “Principali risultati della quinta edizione dell’indagine straordinaria sulle famiglie italiane.” Covid-19 note, Bank of Italy. URL https://www.bancaditalia.it/pubblicazioni/note-covid-19/2021/en-Nota_Covid_ISF5.pdf?language_id=1.
- . 2021b. “The main results of the fourth wave of the special survey of Italian households.” Covid-19 note, Bank of Italy. URL https://www.bancaditalia.it/pubblicazioni/note-covid-19/2021/en_Nota_Covid_ISF4_210521.pdf?language_id=1.

Appendix

A Estimation of excess financial assets

In this Section we provide details about the estimation procedure of the counterfactual evolution of financial assets described in Section 2.

We use raw quarterly data from National Accounts (including Financial Accounts) on household gross disposable income, saving rate and financial assets. To build the counterfactual evolution of savings, from 2020Q1 onward we assume that the saving rate in each quarter is equal to the average one in the corresponding quarter over the years 2015–2019 (the five years preceding the outbreak of the pandemic). To smooth the strong seasonality, we take four terms moving averages of the series of interest. We thus estimate the relationship between the flows of financial assets owned by households and their flow of savings based on the available pre-pandemic data (2000–2019). More specifically, we estimate the following regression:

$$assets_flows_t = \alpha + \beta_1 savings_t + \beta_2 savings_{t-1} + \varepsilon_t \quad (1)$$

In equation (1) we also include one lag of savings because it improves the fit of the regression.²² Using the coefficients of model (1) estimated over the pre-pandemic period, we produce a projection of the flows of households' financial assets for the years 2020–2022 conditional on the counterfactual evolution of savings. By comparing the counterfactual with the actual dynamic, we obtain the excess flows of financial assets represented in Figure 4a.

Building the counterfactual stock of excess financial assets requires an additional step. In any given period, the change in the value of the stock of financial assets corresponds to the flow of assets plus the appreciation/depreciation of the assets in the portfolio (price effect):

$$\begin{aligned} \Delta(assets_stock_t) &= p_t q_t - p_{t-1} q_{t-1} \\ &= p_t (q_{t-1} + assets_flows_t / p_t) - p_{t-1} q_{t-1} \\ &= assets_flows_t + (p_t - p_{t-1}) q_{t-1} \\ &= assets_flows_t + price_effect \end{aligned} \quad (2)$$

²²We obtain an adjusted R² of 0.32.

where q_t is the quantity of financial assets held by household at time t and p_t is their value. To recover the counterfactual evolution of the stock we plug into equation (2) the counterfactual flows and assume that the price effect is the same as the one observed over the projection horizon: this is not a strong assumption, given that the appreciation/depreciation of financial assets depends mostly on exogenous factors. Finally, by cumulating the counterfactual changes in the stock we obtain Figure 4b.

B Recovering propensity to save by income quintile

As we exploit individual data we use median values rather than (weighted) averages, since the former can give a better insight on the behaviour of households representative of a certain category (Bartiloro and Rampazzi, 2013). Table B.1 shows that the median propensity to save increases with income and varies substantially between different quintiles of the income distribution. Indeed, since 2010 households in the first quintile have been barely able to save a part of their revenues, while better-off families could save more than 30% of their income. The downward push generated by the effects of the global financial crisis and the sovereign debt crisis had a heftier bearing on low-income families, as reported by Bartiloro and Rampazzi (2013). Such effects do not seem to have petered off in the following years as the propensity to save of households in the lowest quintile has been hovering around null values ever since.

Table B.1: Households' propensity to save by income quintiles

Income quintiles	median propensity to save				
	2010	2012	2014	2016	2020
first	0.0	-12.9	1.9	-0.7	0.5
second	12.2	6.1	13.5	12.2	19.0
third	19.7	13.5	20.5	19.0	28.9
fourth	27.5	20.5	19.0	27.0	39.7
fifth	35.7	29.7	28.9	36.7	47.7

Source: our elaboration on data from SHIW.

Table B.2 compares the official saving rate from ISTAT with that based on SHIW data: the overall evolution is rather similar but their levels differ due to different calculation

Table B.2: ISTAT and SHIW savings rates, selected years

	2010	2012	2014	2016	2020
ISTAT	11.1	9.3	11.3	10.6	17.4
SHIW	23.4	18.6	26.4	24.0	33.4
Aggregate adjusting factor	47.5	50.1	42.7	44.1	46.7

Source: ISTAT and our calculations on data from SHIW.

Note: The adjusting factor is obtained by dividing propensity to save according to ISTAT by that calculated from the SHIW. The ISTAT saving rate is calculated as gross savings divided by gross income; the SHIW saving rate is the ratio between the weighted average of savings and the weighted average of net disposable income.

methods.²³ Bartiloro and Rampazzi (2013) underscore that savings in the SHIW are very likely overestimated with respect to the macroeconomic data. To reconcile the saving rates in the two data sources, we first obtain an aggregate adjusting factor for any available year²⁴ and then we multiply the SHIW propensity to save of each income quintile by the aggregate adjusting factor to obtain the adjusted propensity to save specific of that income quintile (Table 4).

²³ISTAT propensity to save is calculated as the ratio between gross savings and gross disposable income, where gross savings are the part of gross disposable income that is not consumed. The SHIW propensity to save is calculated as the ratio between savings and net disposable income; savings, in turn, are defined as the difference between disposable income and overall consumption.

²⁴The adjusting factor is calculated by dividing the ISTAT saving rate by the corresponding propensity to save from the SHIW (at the aggregate level).²⁵