BANCA D'ITALIA
EUROSISTEMA

Annual Report at a glance

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THE 2019 ANNUAL REPORT AT A GLANCE

Introduction

The COVID-19 pandemic has profoundly changed the economic outlook for this and the coming years compared with what might have been expected based on 2019 developments. According to the scenarios formulated by the International Monetary Fund, global GDP will record a sharp drop, instead of modest growth. For the Italian economy, which was practically stationary in 2019, notwithstanding the significant progress it had made in areas such as international competitiveness, corporate indebtedness, and the state of its banking system, the forecasts point to the strongest contraction since the end of the Second World War.

The speed of the economic recovery will depend on the time frame of the public health emergency and the continuity of the economic policy response, which has so far been on an extraordinary scale in every country. All the scenarios indicate that the consequences of the pandemic on the world economy will, in any case, be significant and will extend beyond the short term.

To provide an account of the economic impact of the COVID-19 epidemic, the individual chapters of this Report devote a sizeable portion of their content to an analysis of the early months of this year. The special focus chapter at the end of the Report traces the evolution of the pandemic, describes the transmission channels to the real economy and the policy stances adopted, and provides some early insights into the possible medium-term implications.

The international economy

[1] The rate of growth for the world economy decreased to 2.9 per cent in 2019, affected by persistent international trade tensions and concerns about the arrangements for the United Kingdom's withdrawal from the European Union (Brexit). World trade grew by less than 1 per cent.

According to the estimates formulated by the International Monetary Fund in January, growth was expected to strengthen this year, to 3.3 per cent, reflecting the reduction in uncertainty following the signing of the 'phase-one deal' trade agreement between the United States and China, and the agreement for the United Kingdom's withdrawal from the European Union. According to the IMF's forecasting scenarios formulated in April, global GDP is expected instead to contract by 3.0 per cent in 2020, with the fall mainly concentrated in the first half of the year; the developments in economic activity for the current year and for 2021 remain highly uncertain in the advanced economies, and even more so in the emerging ones.

With the spread of the COVID-19 epidemic at global level, many countries have adopted increasingly strict containment measures. This has led to a sharp drop in production, an increase of exceptional size in the number of unemployed workers, and a fall in demand. Oil prices have decreased markedly and suddenly, owing to the drop in demand and growing storage difficulties. Financial market conditions have worsened rapidly.

The economic policy response has been swift and of extraordinary breadth. Central banks have intervened to support market liquidity and credit by reducing the reference rates and launching sizeable programmes for the purchase of public and private sector securities. Governments have earmarked significant resources to fund healthcare spending as well as to support households' income and firms' liquidity. The G20 has decided to suspend the servicing of the bilateral debts of the poorest countries towards official creditors in order to free up resources to be directed towards increased healthcare spending. This decision adds to the initiatives taken by the international financial institutions to support economies in difficulty.

BOXES:

Central banks' response to the COVID-19 emergency

The fiscal policy response to the COVID-19 emergency

The euro-area economy

[2] In 2019, the euro area's GDP grew by 1.2 per cent, well below the forecasts formulated one year earlier; the slowdown occurred across all the major countries. The industrial sector weakened, especially in Germany, where economic activity registered an abrupt fall, particularly in the automotive sector. The main factor contributing to the slowdown in GDP was the performance of international trade. Since late February of this year, the COVID-19 epidemic has progressively spread to all the euro-area countries. The resulting decline in households' and firms' spending and the adoption, starting in March, by many governments of measures to contain contagion led to a sharp contraction in economic activity in the first quarter, at a time when a slowdown had already begun in late 2019. The available indicators point to a further, widespread drop in the spring months. Employment was also affected, and declined in all the major countries.

Consumer price inflation decreased to 1.2 per cent on average in 2019, owing to the sharp deceleration in energy prices; the core component remained stable at 1.0 per cent for the second consecutive year. Inflation has weakened further since March 2020, in connection with the marked drop in demand.

Individual countries have launched sizeable fiscal policy interventions to contain the effects of the pandemic and support households, workers and firms. According to the European Commission's forecasts, published on 6 May, net borrowing will reach 8.5 per cent of GDP for the euro-area countries on average in 2020 (0.6 per cent in 2019). The debt-to-GDP ratio is expected to increase by almost 17 percentage points on average compared with 2019, to above 100 per cent.

The European institutions have extended the room for manoeuvre in individual countries' public budgets, making the use of structural funds and the rules on State aid more flexible and permitting temporary deviations from the common fiscal rules. Furthermore, they have set up new credit lines for Member States (worth €340 billion, through a temporary support scheme intended to ease the unemployment risks connected to the emergency and by providing the European Stability Mechanism with an additional, enhanced precautionary credit line) and the creation of a guarantee fund by the European Investment Bank to mobilize resources for the benefit of firms (€200 billion). Finally, the European institutions have agreed to work on the establishment of a recovery fund that can provide an adequate response to the crisis.

BOX:

The discretionary fiscal policies of the major euro-area countries in response to the COVID-19 emergency

[3] In 2019, the ECB's Governing Council eased monetary conditions to counter the weakening of the outlook for growth and inflation. It adopted a broad package of measures, including a decrease in the key interest rates, the resumption of net asset purchases under the expanded asset purchase programme (APP), and the introduction of a new series of targeted longer-term refinancing operations (TLTRO III).

Since March 2020, the ECB's Governing Council has intervened decisively, introducing new measures intended to deal with the serious risks to economic activity connected to the spread of the COVID-19 epidemic and to guarantee the orderly transmission of monetary policy to all the euro-area countries. To support lending to households and firms, the ECB stepped up refinancing operations: it reduced the costs of TLTRO III (from already negative levels), it increased the overall amount of funds that may be disbursed (to about €3 trillion), and it introduced new longer-term refinancing operations that are especially advantageous. To counter the risk of segmentation and ensure relaxed monetary conditions, it strengthened the APP, increasing its envelope until the end of the year; it introduced a new asset purchase programme, the pandemic emergency purchase programme (PEPP), which allows flexible and decisive intervention in the different markets and countries, moving beyond the self-imposed limits to asset purchases set in previous years and considering the widening in sovereign spreads as a risk to be countered in order to guarantee the effective transmission of monetary policy. These two programmes mean that overall asset purchases for more than €1 trillion will be made over the course of 2020.

The Council has announced that, if necessary, the amount and composition of the PEPP will be reviewed in order to increase its effectiveness; it reiterated that it stands ready to make further use of the other instruments at its disposal to ensure that all sectors of the economy, including the public sector, can benefit from accommodative borrowing conditions and an ample availability of funds. These steps, which are complementary to those of the national governments and the EU institutions, will remain oriented to alleviating the economic consequences of the epidemic and to enabling a swift and decisive recovery in growth and inflation once the emergency has come to an end.

BOX:

The impact of the measures adopted by the ECB

The Italian economy

[4] GDP slowed last year, posting a growth of 0.3 per cent. Investment increased considerably less than in 2018, held back by the uncertainty that spread among firms following the slowdown in the global economy and the persistent protectionist tensions. Household consumption was affected by the slow growth in disposable income.

Against a backdrop of a significant weakening in world trade, Italian firms have largely retained their market shares. This was reflected in a widening in the current account surplus, driven among other things by the improvement in the tourism balance; Italy's net international investment position was close to balance at the end of 2019.

As regards the geographical breakdown, economic activity grew in Northern Italy while remaining at the same levels as the previous year in the Centre and in the South.

Employment continued to rise, albeit at a slower pace than in 2018. Its growth, which was stronger in the first half of the year, subsequently faltered, reflecting the cyclical weakening. The unemployment rate declined to 10.0 per cent on average in 2019.

The fiscal policy stimulus, as measured by the cyclically adjusted change in the primary surplus, was slightly restrictive, after being expansionary for the previous five years.

Since the end of February, the spread of the COVID-19 epidemic has had a strongly negative impact on economic activity. GDP fell by around 4.7 per cent in the first quarter; according to our estimates, the reduction appears to have been more pronounced in the Northern regions. The contraction in GDP seems mainly attributable to the sharp drop in household spending. Since March, foreign trade and international tourist flows have been affected by the fall in global demand and the suspension of 'non-essential' productions decreed by the Government to counter the spread of the epidemic. The available indicators signal a significant drop in GDP for the second quarter as well, which will likely be reflected in a sharp fall for this year as a whole.

The public health emergency has led to a reduction in the number of people in employment since March, above all among fixed-term employees; there was a reduction of 0.4 per cent for the first quarter as a whole, compared with the last quarter of 2019. The fall in jobs was in part mitigated by the freezing of layoffs for financial reasons and the boosting of the wage supplementation scheme. The deterioration in labour market conditions may be more pronounced in the spring months, especially in the fixed-term employment segment.

Inflation was very subdued in the first quarter, and was barely positive in April. Both the inflation expectations recorded in the euro-area financial markets and Italian firms' intentions regarding their own prices for the next 12 months were revised downwards.

The outlook for the public finances has been drastically changed by the public health emergency. According to the official forecasts, the deficit-to-GDP ratio for 2020 and 2021 is expected to be higher by 8 and 4 percentage points respectively, compared with the figures planned during the last budget session; the debt-to-GDP ratio is expected to increase by more than 20 percentage points this year, to 155.7 per cent, and to diminish in 2021 thanks to the economic recovery.

A return to growth for the Italian economy in the next ten years is possible provided there are adequate increases in labour market participation and in employment, in investment, and in productivity.

BOXES:

Regional trends

The impact of the COVID-19 pandemic on the Italian economy

Growth in Italy after COVID-19: long-term assessments

[5] Households' disposable income grew by 1.1 per cent in 2019, slowing compared with the previous year. This reflected the deceleration in payroll employment earnings, while the increase in social benefits had the opposite effect, following the introduction of the new minimum income scheme (*Reddito di cittadinanza* or RdC). The growth in household consumption slowed owing to changes in disposable income as well as the progressive weakening in confidence indicators, in part due to the less favourable assessments of the economic situation and of labour market conditions. The propensity to save rose slightly, though remaining low in historical terms and by international standards.

Over the course of this year, labour earnings will be heavily impacted by the public health emergency. The contraction is expected to be sharper for households with lower employment income, among which there is a higher share of households with limited financial resources available for sustaining consumption. These effects are expected to be mitigated by the social safety nets and the provisions that strengthened them and extended them to categories not previously covered.

For the first half of 2020, mainly owing to the suspension of business activity, the available indicators signal a significant contraction in spending, particularly in some service segments and on the purchase of cars and household and personal goods, while spending on food products increased. Indications of a sharp drop in consumption are also suggested by trends in cash withdrawals and point-of-sale (POS) terminal payments.

BOX:

Italian households' assessments and expectations during the current public health emergency

[6] Economic activity slowed in 2019, owing to the unfavourable developments in the global economy and the persistent protectionist tensions, which affected manufacturing above all.

At the beginning of this year, the production system was hit by the spread of the COVID-19 epidemic. This led to a sharp drop in GDP as early as the first quarter. The fall was sharpest in services for tourism, catering, transport, recreation and culture, but the reduction was widespread. The business birth rate diminished as well: in the first quarter, the balance between registrations and deaths was markedly negative, reaching a seven-year low.

According to the surveys carried out by the Bank of Italy, firms believe that the effects of the epidemic have been transmitted mainly through the reduction of domestic demand, while the foreign demand channel has been significant only for retail trade, accommodation and catering. Investment plans were revised downwards including for the first half of the year.

The consequences of the pandemic underscore the structural challenges that Italian firms must tackle. At the end of last year, the use of new technologies remained low compared with the major European countries; the share of turnover obtained through e-commerce, while increasing, was still lower than that recorded in France and Germany.

BOX:

The impact of the COVID-19 pandemic according to business surveys

[7] Households and firms are facing these difficult economic times with a more balanced financial structure than they had on the eve of the double-dip recession of 2008-13. In 2019, households' financial wealth grew at a fast pace, mainly owing to the upward trend in asset prices; as in recent years, indebtedness grew mainly for less risky borrowers. The fall in interest rates on mortgage loans, which reached historical lows, had a positive impact on debt servicing. Profitability and liquid assets in firms' balance sheets remained at high levels compared with the past, and leverage continued to decrease. The low interest rates facilitated firms' ability to repay their financial debts. The trend in lending to small firms was worse than that overall.

In early 2020, households were affected by the contraction in income that followed the introduction of the measures put in place to contain the pandemic and by the fall in asset prices, which reduced financial wealth; risk aversion increased, and so did the preference for safer financial assets. Households' ability to deal with the effects of the crisis, bolstered by the low indebtedness and the low interest rates, will benefit from the measures adopted by the Government to support income and from the debt moratoriums. Firms' liquidity needs rose rapidly in connection with the fall in sales. The measures adopted to ease the burden of repayments and facilitate access to new loans are contributing significantly to containing the risk that liquidity tensions could translate into lasting business crises. In the long term, however, these measures could lead to imbalances in the financial structure; recent government provisions to encourage a greater inflow of equity into the production system are helping to counter this trend.

BOXES:

Credit to small firms before and after the global financial crisis

The financial support measures for firms in response to the pandemic

[8] In 2019, employment growth continued at a slower pace; the part-time component increased, while the full-time component remained stable. The unemployment rate declined to 10.0 per cent, the lowest level since 2012. During the year, the increase in labour market participation of previous years was interrupted, reflecting the demographic changes and retirements prompted by the introduction of the *quota 100* early retirement scheme (Law 26/2019).

In early 2020, the public health emergency caused a rapid deterioration in the labour market. According to the administrative data from the mandatory reporting on new and terminated employment contracts, the number of new payroll employment contracts began to fall in early March, especially in the fixed-term component: between January and the end of April of this year, almost 600,000 fewer jobs were created than in the same period of 2019. The drop in employment was mitigated by the freezing of layoffs and the boosting of wage supplementation, which sustained permanent employment contracts: employers applied for access to wage supplementation instruments for more than 7 million employees. Subsidies for self-employment, quasi-employment and seasonal employment positions were introduced, as were new household income support measures.

In some sectors, including accommodation and catering services, the consequences of the COVID-19 epidemic could persist even after business suspension measures are eased owing to the drop in tourist flows, the increase in costs associated with the adoption of health protection protocols and possible shifts in consumer demand. In previous recessions, the repercussions for workers were long-lasting.

The unemployment rate fell in March by almost 1 percentage point compared with February, to 8.4 per cent, as a result of the significant decline in labour market participation: the restrictions on mobility, the deterioration in the employment outlook and the closing of schools discouraged job seekers.

The minimum remuneration levels established by national collective bargaining continue to rise very slowly, reflecting the large percentage of employees waiting for contract renewal (more than 80 per cent). Growth could slow further if the uncertainty regarding the changing state of the economy causes a delay in the negotiation process.

BOXES:

Developments in private sector payroll employment during the public health emergency

The impact on workers of a fall in demand or a reduction in lending: evidence from the 2008-09 recession

[9] The weakening of cyclical conditions has had a significant impact on price developments in Italy, as well as in the rest of the euro area. In 2019, consumer price inflation in Italy was 0.6 per cent (compared with 1.2 per cent the year before). There was a significant decrease in energy prices in addition to weakness in the core component. The drop in inflation is in part attributable to stagnation in the producer price index, the decline in the prices of imported goods as a consequence of the slowdown in world economic activity and weakening wage growth. The pass-through of wage costs to selling prices was very modest, probably because of more uncertain demand conditions.

Inflation fell still further in the early months of 2020, reaching nearly zero in April. The sharp drop in energy prices as a result of plummeting oil prices contributed, exacerbated by the pandemic; furthermore, there was an ample increase in margins of spare capacity as a result of the health emergency, which affects the prices of non-energy goods and services. Firms' expectations regarding their own price changes in the next twelve months fell to barely positive levels, reflecting the pronounced worsening in expectations for demand conditions.

Developments in contractual earnings suggest a slowdown in wage growth during the year, which may also be affected by the negative impact of the decline in the economy.

[10] In 2019, exports slowed, but still outpaced world trade, due in part to Italian firms' price competitiveness, especially in non-euro area markets. In these markets, sales of goods increased primarily in Switzerland, Japan and the United Kingdom, whose withdrawal from the EU (Brexit) should have little impact on the Italian economy. The current account surplus grew to 3.0 per cent of GDP. Italy's net international investment position was very close to balance (-1.7 per cent of GDP).

Since March, Italy's foreign trade has been affected by the spread of the COVID-19 epidemic, in particular by the contraction in global demand and by the interruption of 'non-essential' production in Italy and in its main trading partners. International tourist flows have also been impacted since February.

In 2020 as a whole, these trends will have opposite-sign effects, which in the aggregate could possibly cause the current account surplus to increase: the possible improvement in the merchandise trade balance net of energy products, linked primarily to the steep decline in domestic demand, and the reductions in the energy and transport deficits would only be partially offset by the deterioration in the tourism balance surplus. However, tighter trade barriers at global level still pose significant risks, as the historical evidence in Italy suggests.

The Bank of Italy's negative balance on the TARGET2 European payment system fell significantly in 2019; since March, it has again begun to widen in connection, on the one hand, with the creation of liquidity through the Eurosystem's adoption of extraordinary monetary policy measures and, on the other, with less recourse by Italian banks to net funding on the international market and with sales of Italian financial assets held by non-residents.

BOXES:

Protectionism and global value chains: an analysis of the effects of Brexit

The impact of trade barriers in Italian economic history

[11] In 2019, general government net borrowing amounted to 1.6 per cent of GDP. The 0.6 percentage point improvement compared with 2018 is due in almost equal parts to the decrease in interest expense and the increase in the primary surplus, which reached 1.7 per cent of GDP. The debt-to-GDP ratio remained unchanged at 134.8 per cent. The 2020 Budget Law increased net borrowing for this year, allocating resources mainly to the deactivation of the safeguard clauses and the reduction of the tax wedge.

The health and economic emergency have severely altered the public finance projections for 2020 and future years. As a result, comprehensive support measures are essential. According to the official estimates, the deficit is expected to be 10.4 per cent of GDP in 2020 and 5.7 per cent in 2021, respectively around 8 and 4 percentage points of GDP more than was planned in the last budget session. Over the two-year period, just over half of the increase in the deficit is attributable to the marked deterioration in the macroeconomic outlook. The remaining part reflects the effects on the budget of the measures that the Government introduced in March to strengthen the healthcare system and to support households, workers and firms. The measures already approved raise the deficit by about €75 billion in 2020 and by just over €30 billion on average per year starting in 2021.

To prevent the crisis from impairing firms' ability to access credit, a considerable strengthening of the public guarantees system has been undertaken, as in the main advanced countries. The total amount of the guarantees available based on the decree laws approved since March exceeds €500 billion, about six times the value of the guarantees outstanding at the end of 2019. The uncertainty about the general state of the economy could mean that significant outlays will be required going forward, albeit distributed across several fiscal years, as a result of the enforcement of a portion of the guarantees given.

The steep drop in GDP expected and the higher funding requirement will impact the debt-to-GDP ratio, which the official projections expect to rise by more than 20 percentage points this year to 155.7 per cent. The mechanical effect of the decrease in the denominator explains about half of this increase. In 2021, the debt-to-GDP ratio should fall thanks to the economic recovery, the effects of which should more than offset that of the deficit.

In the 2020 Economic and Financial Document published in April, the Government indicated that a multi-year recovery effort will be needed to reduce such high debt levels. This cannot be based solely on a primary surplus, but also on low borrowing costs and on a high rate of economic expansion.

BOX:

The effects of a reduction in the tax wedge on work incentives

[12] In 2019, there continued to be a gradual improvement in the functioning of the civil justice system: cases pending before the courts decreased by 4 per cent compared with the previous year. The number of calls for tenders continued to rise, increasing by about 10 per cent compared with 2018.

The COVID-19 epidemic has had mixed effects on the regulated sectors. While, there was an increase in demand in some, such as the trade in food and basic necessities and telecommunications, in most cases the obligatory suspension of business activity and the decrease in turnover have made it necessary to adjust the regulatory framework and to adopt specific support measures (for example, for public transport and the professions). Provisions have been made for instruments that will enable public participation in the capital of distressed firms and the scope of the special powers exercisable by the Government (its 'golden power') has been expanded in strategically important sectors.

The slowdown in economic activity could translate into an increase in distressed firms in the coming months. This risk could be mitigated by the Government's measures to support firms' liquidity and to keep liquidations to a minimum. A rise in the number of distressed firms could intensify the problems that already plague the crisis management system: the bankruptcy process remains very long, and the evidence available shows that the use of debt restructuring tools is limited to large companies, with outcomes that are not always satisfactory.

The COVID-19 epidemic has also affected the operations of general government and the justice system; the slowdown in activity would have been less had the process of digitalizing the public sector been at a more advanced stage.

BOXES:

Italy's ultrafast broadband network

Business continuity arrangements: debt restructuring agreements and compositions with creditors in Italy

[13] In 2019 banks' balance sheets continued to strengthen. The reduction in non-performing loans (NPLs) continued at a swift pace, with sales of NPLs contributing significantly. The flow of new NPLs rate remained at historically very low levels. Lending to firms fell as a result of low demand for loans associated with the weakening of the economy; the growth in lending to households was in line with that observed in the three years 2016-18. Intermediaries slightly reduced their investment in Italian government securities, a significant share of which was allocated to the portfolio of assets valued at amortized cost. Total funding rose as a result of sustained growth in deposits by residents; bond placements on international markets returned to growth and yields at issue fell. The reduction in net interest income and the increase in tax expense affected profitability, which for the main groups was slightly lower than that of the main European banks.

Italian banks, especially the large ones, proceeded to reorganize the distribution network by cutting the number of branches and employees. In the first half of the year, the reform of the cooperative credit banking sector was completed and most of the cooperative banks joined the ICCREA or Cassa Centrale Banca banking groups. Our analyses show how initiatives to increase the size of Italian banks can lead to significant efficiency gains, especially if combined with greater use of new technologies and a streamlining of the distribution network.

The effects of the spread of the COVID-19 epidemic on the economy are exposing the banking system to new risks; compared with when the global financial crisis started, banks are in a stronger position this time. In part thanks to the comprehensive revision of the prudential regulations undertaken in recent years by the Basel Committee on Banking Supervision, banks' capacity to handle adverse economic conditions has improved: between 2007 and 2019, the ratio of common equity tier 1 to risk-weighted assets (CET1 ratio) of Italian banks almost doubled. The net non-performing loan ratio dropped by two thirds from its 2015 peak; the impact on capital due to changes in the value of government securities was mitigated by the decrease in the proportion of those measured at fair value; loans are funded entirely by deposits. The wide range of possibilities for Eurosystem refinancing are helping to alleviate pressure on funding.

The crisis triggered by the epidemic is having an impact on lending to households and firms. Lending to households slowed, and is expected to continue to do so in the coming months. By contrast, lending to firms picked up again significantly as a result of the higher need for liquidity caused by the interruption in production. Firms' access conditions will benefit from the extensive public guarantees on loans.

The recession will likely result in a deterioration in credit quality and put pressure on profitability. The persistence of tensions in financial markets could translate into a further drop in subscriptions of asset management products, thereby reducing fees. The extent of these effects is, however, still uncertain and will depend on the length of the recession and the speed of the recovery. The measures taken by the supervisory authorities are designed to contain the effects of the pandemic on banks' capacity to finance the economy and to avoid procyclical effects.

In the first quarter of 2020, Italian open-ended investment funds recorded significant net outflows; the drop in funding has, however, begun to slow since the last week of March. The funds have been able to satisfy requests for redemption, in part thanks to the relatively high degree of liquidity of their portfolio; this is partly due to national legislation, which restricts investments in illiquid assets.

BOXES:

Economies of scale in the Italian banking system

The IMF's Financial Stability Assessment Program (FSAP) for Italy

[14] Conditions on Italian financial markets improved in 2019. The yield on ten-year government bonds on the secondary market fell significantly, benefiting both from the easing of monetary conditions by the European Central Bank and by the decrease in sovereign risk, which contributed to the reduction in the redenomination risk component.

Since the end of February 2020, these conditions have been strongly affected, as they have in other countries, by the outbreak of the COVID-19 epidemic and by expectations regarding its effects on the economy and on public finance. Tensions reached a peak around mid-March when there was a sharp decline in prices in all markets, exacerbated by a negative spiral of volatility and illiquidity. Expectations of an increase in government bond issues translated into higher sovereign risk premiums.

The increase in spreads, which was common to most euro-area countries, was also more pronounced for Italian securities.

Thanks to the measures taken by the ECB, these tensions subsequently eased; economic support policies adopted by governments, which gradually became more targeted, also contributed. However, market conditions remained fragile with strong price fluctuations.

BOX:

The financial markets' reaction to the spread of the pandemic

Special focus: The COVID-19 epidemic and the economy

[15] Since the early months of 2020, the world has been facing the most serious pandemic in the last 100 years. The severity of the emergency reflects the highly contagious nature of the virus and its potent lethality for those most vulnerable. Its rapid spread has placed sudden, considerable pressure on healthcare systems due to the increase in demand for treatment and the need to place the most serious cases in intensive care. In the absence of vaccines or effective therapies, the countries hit hardest have adopted strict social distancing measures and have restricted people's mobility in order to contain the epidemic. The actions taken have halted the spread of the infection and have significantly reduced the number of deaths with respect to the epidemic's natural evolution.

The repercussions of the pandemic on the economy and world aggregate demand have been heavy, amplified by the high level of uncertainty over how it will evolve. The spread of the economic effects has followed that of the contagion, hitting China and other parts of Asia first, then Europe and the United States. The epidemic reached other areas later, such as Latin America, and in many cases, containment measures were only strengthened after the start of May. The severity of the effects are a reflection of the strictness of the restrictions imposed in each country and the differences in economic systems. The impact on production has varied depending on the sector: it has been very strong on the restaurant, hospitality and entertainment industries, but more limited on agriculture and on financial and insurance services.

Budgetary and monetary policies have responded swiftly and in an expansionary manner; compared with previous crises, these policies are characterized by being exceptionally broad in terms of interventions taken and announced, and by the specific nature of the shock, which requires that limits be imposed on production and on consumption, making traditional demand support instruments less effective. In addition to bolstering the healthcare systems, the measures taken everywhere have focused on supporting households' income and firms' liquidity and guaranteeing orderly monetary and financial markets conditions.

The impact of the pandemic on the global economy will linger for quite some time, even for the time it takes to develop possible vaccines or effective methods of treatment. Some trends that have become apparent in the last few months will affect future economic policies: the possible slowdown in the globalization process, the spread of smart working, the digitalization of the provision of many private and public services; and sectoral reallocation.