Italy

By Marco Marino, Italian Banking Association

IN A NUTSHELL

- → The Italian residential housing market registered the fourth positive and consecutive increase.
- → Housing transactions with a mortgage continued to increase.
- → Borrowers confirmed their preference for fixed-rate mortgages.
- → The residential house prices continued to decrease (the sixth consecutive) and the average rate on new transactions for house purchasing also reached a new record low of 1.90% (5.72% at the end of 2007).
- → In general, net non-performing loans at the end of 2017 fell to EUR 64.4 bn (EUR 86.8 bn at the end of 2016).

MACROECONOMIC OVERVIEW

In 2017 the Italian economy consolidated its recovery, under way almost with no interruptions since the second quarter of 2013. However, it is proceeding at a slower pace than in previous recoveries and with a lower rate of growth than in the other main Euro area economies. GDP growth reached 1.5% (from 0.9% of the previous year) exceeding the expectations of the main forecasters.

According to the Bank of Italy, growth was driven mainly by domestic demand and exports.

More in detail, demand reflected the positive performance of investment, which rose by 3.8%, and consumption. Investment accelerated, especially in plant, machinery and transport equipment, thanks also to the tax incentives and the increase in business confidence about demand prospects.

Growth in consumption was partly attributable to that in employment, which in turn was driven by the measures supporting labour demand; unemployment decreased from the peak of just under 13%, recorded in 2014, to about 11%. The growth in households' disposable income strengthened, mostly thanks to the ongoing recovery in employment, and supported the growth in consumption.

Exports continue to be a major driver of growth. In 2017 they expanded by 5.4%, more than in the other major Euro area countries.

Overall, consumer price inflation returned to positive territory in 2017, reaching 1.3%, while with regard to public finance, general government net borrowing fell from 2.5 to 2.3% in 2017, thanks in part to a reduction in interest expenses and the debt-to-GDP ratio decreased to 131.8%.

Finally, in 2017 Italian banks strengthened capital and financial and economic situation. According to the Bank of Italy, the stock of non-performing loans (NPLs) was considerably smaller, both as a result of numerous bad-loan sales and because there were fewer new defaults which, in relation to total loans, returned to the levels recorded before the global financial crisis.

HOUSING AND MORTGAGE MARKETS

HOUSING MARKET

In 2017, the Italian residential housing market registered the fourth positive and consecutive trend of the previous years.

Housing transactions amounted to circa 543,000, and the growth was equal to 4.9% compared to 2016. The number of dwellings in new buildings increased by 16.5% in third quarter 2017 (last data available) with respect to third quarter 2016.

In particular, the analysis of transactions across macro geographical areas (Central, North, South, Islands) showed that in 2017 the North West – which represents more than 1/3 of the market – and the South registered the highest growth, with respectively 5.3% and 5.8%; in the Central areas the increase was equal 3.5% compared to 2016, while in the North East and in the Islands the housing transactions increases by circa 4.9%, in line with the national trend. With reference to the size class of the cities, the analysis shows in particular that the growth of transactions in the major cities (4.4%) was lower than that registered in the other no-capital cities (5.2%).

In 2017, the residential house prices decreased by 0.4%, contributing to an improvement in the performance of sales. This sixth consecutive decrease was the result on one hand of the slight increase y-o-y of the prices of new dwellings (+0.1%) and on the other hand of the further decrease of the prices of the existing dwellings (-0.6%). The analysis of regional differences in terms of house prices developments shows that the major cities of Liguria (a region of the North of Italy) registered, in average, the largest decrease, with 3.95% y-o-y, followed by the major cities of Lazio (a region of Central Italy) with -3.21%.

MORTGAGE MARKETS

In 2017, new loans for residential housing purchase decreased with respect to 2016. This trend appears as a physiological consequence of the excellent growth registered in the previous years.

Gross residential loans amounted to more than EUR 71.4 bn at the end of the year, while outstanding residential loans continued to show a progressive growth, started in 2015, reaching circa EUR 375.4 bn in 2017 (EUR 368.1 bn in 2016).

According to a Bank of Italy's research, the good conditions of supply and demand were also confirmed in 2017. Looking ahead, the good conditions of the real estate market – driven by the improvement of the Italian consumer confidence indexes, favourable conditions of mortgage loans for housing purchases and the reduction of house prices – can support the growth of residential loans in the next years.

In 2017, housing transactions with a mortgage continued to increase. They amounted to circa 260,000 units, with a rate of increase of 7.8% with respect to 2016.

Considering the total number of houses purchased, those with mortgages represent circa 50% of the total, recording the maximum value of the incidence observed since 2011.

The South and Island regions registered the highest increase y-o-y (10.8% and 9.2%). The average mortgage amount increased to EUR 126,000. As regards maturity, in 2017 analysis confirmed the preference for mortgages with a maturity of over 26 years (35%).

Borrowers confirmed their preference for fixed-rate mortgages. With interest rates at historic lows, many families preferred not to expose themselves to the risk of future increases, choosing the certainty of a constant rate over the life of the contract.

The average interest rate on short term loans (with maturity <1 year) fell to 1.53%, from 1.7% at year-end 2016 while interest rates with a maturity of over 1 year remained stable at 2.12%; the average rate on new transactions for house purchasing also reached a new record low of 1.90% (1.97% in November 2017, 5.72% at the end of 2007).

NON-MARKET LED INITIATIVES

Tax breaks related to house renovation – extended in 2018 – may have had a positive impact on purchasing decisions.

This measure is applicable on payments made for extraordinary maintenance and restorations of properties and it has been extended several times. Over the years, the bonus has shifted from 36% (with a maximum limit of EUR 48,000) to 50% (with a maximum limit of EUR 96,000) for the costs paid from 26 June of 2012 to 31 December of 2018.

Other important facilities have been introduced over the years. In particular, the ability to pay VAT to a reduced extent, the increase of the maximum limit of the interest expense paid on mortgages to bring in deduction, the fiscal benefit for the purchase of furniture items.

In 2017, the request to access to the Mortgage Guarantee Fund continued to increase. The Fund amount is equal to EUR 650 mn and it supports credit access for all consumers willing to buy a first house and buy and renovate their first house with an improvement in energy efficiency (but it must not be measured). Upon request of the consumer, if all criteria are met and the adhering bank decide to underwrite the mortgage, the public guarantee covers 50% of the total amount of the financing.

The consumer applies both for (i) a mortgage loan to the bank that must be adherent to the initiative and (ii) the public guarantee through the bank that sends to the Consap Ltd., the State Agency that manages the initiative. The applicant must declare that the immovable property securing the financing is "first house" and it is not classified in the Real Estate public registry as a luxury house and the amount of the requested mortgage loan is lower than EUR 250.000.

Banks are always independent in the decision to finance the applicants relying on creditworthiness assessment.

In March of 2018 the Fund admitted more than 40,000 applications for a total amount of mortgage value of EUR 4.5 bn.

ANY FURTHER IMPORTANT EVOLUTION

In general, net non-performing loans[1] (to households and businesses) at the end of 2017 fell to EUR 64.4 bn, compared to EUR 65.9 bn recorded in the previous month, but fell sharply compared to the figure of December 2016 (EUR 86.8 bn). Therefore, in just one year they fell by 25.8%. In particular, they decreased by nearly EUR 24.5 bn compared to the highest level of net non-performing loans reached in November 2015 (EUR 88.8 bn). The ratio of net non-performing loans to total loans dropped to 3.71% in December 2017 (4.89% at the end of 2016).

MORTGAGE FUNDING

In Italy, deposits (current accounts, certificates of deposit, repurchase agreements) increased at the end of 2017, by more than EUR 50.5 bn compared to the previous year (an increase of +3.6%, y-o-y), while medium and long-term funding, i.e. through bonds, confirmed a decrease of about EUR 50.7 bn, in absolute terms, over the last 12 months (equal to -15.2%). The trend of total funding (deposits from resident 7 customers + bonds) at the end of 2017 remained stable at -0.01% y-o-y, compared to +0.2% in the previous month. Since late 2007, before the onset of the crisis, to date, customers' deposits rose from EUR 1,549 bn to almost EUR 1,728 bn, an increase – in absolute terms – of more than EUR 179 bn.

In 2017, Italian Covered Bonds issues backed by mortgages amounted to circa EUR 17.8 bn (EUR 41.8 bn in 2016), while the volume of outstanding bonds increased to around EUR 139 bn.

	ITALY 2016	ITALY 2017	EU 28 2017
Real GDP growth (%) (1)	0.9	1.5	2.4
Unemployment Rate (LSF), annual average (%) (1)	11.7	11.2	7.6
HICP inflation (%) (1)	-0.1	1.3	1.7
Outstanding Residential Loans (mn EUR) (2)	368,169	375,398	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	7,268	7,407	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	32.4	32.5	73.8*
Gross residential lending, annual growth (%) (2)	26.4	-14.4	3.5
Typical mortgage rate, annual average (%) (2)	2.0	1.9	2.4**
Owner occupation rate (%) (1)	72.3	n/a	66.4*
Nominal house price growth (%) (2)	-0.7	-1.9	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

[1] Net of the write-downs and provisions already made by the banks against own resources.

ITALY FACT TABLE

Entities which can issue mortgage loans:	Banks and financial intermediaries.
The market share of the mortgage issuances:	More than 95% of new mortgage loans are issued by banks.
Proportion of outstanding mortgage loans of the mortgage issuances:	Data not available.
Typical LTV ratio on residential mortgage loans:	71% as for 2017.
Any distinction made between residential and non-residential loans:	Residential loans are loans granted for house purchase and renovation.
Most common mortgage product(s):	Fixed interest rate mortgage loans to purchase residential real estate.
Typical maturity of a mortgage:	20-25 years.
Most common way to fund mortgage lending:	Given Italy's universal banking model, there is not a specific funding source for mortgage lending. That said, the most common funding technique is represented by unsecured bank bonds which, in turn, represents also the most common way for funding mortgage lending. For major Italian banking groups, covered bonds recently started to play an increasing role as a funding source for mortgage lending.
Level of costs associated with a house purchase:	Data not available. In addition to costs relating to taxation on transfer, the main costs are related to real estate brokerage agency (if existing), and notary costs. The real estate taxation in Italy affects both direct (on income and capital) and indirect (on transfers and contracts) taxes and depend on the players involved (individuals or companies) and on the nature of the properties (land, buildings, commercial or residential).
The level (if any) of government subsidies for house purchases:	Regarding tax benefits, homeowners can benefit some fiscal advantages for the "first home" purchase, which consist of smaller indirect taxes than the ordinary value. With reference to public guarantees on residential loans for house purchase, in 2014 the "First home mortgage guarantee fund" entered into force. The public Fund has a budget of about EUR 650 mn and will offer guarantees on mortgage financing for an estimated amount of EUR 14 bn.