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Debt Advice in Times of the COVID-19 Pandemic

european consumer debt network

Message from the President

The rapid spread of COVID-19 across the world shows that the virus has no nationality, it does not stop at the border! The ECDN has created different responses to the financial depression, which Europe and the world faces – one of them being this issue of Money Matters with focus on the economic impact of COVID-19 on European countries.

Unfortunately, the conclusions from the 18 papers, created by some of the top minds in their field, are overwhelming; Europe faces an economic depression within the end of 2020. Already now, over a million Europeans have lost their jobs, and many more fears what COVID-19 will mean for their health and their economic well-being.

We must act now! We must be ready to help the people in financial stress all over Europe before it's too late. If we are not ready, we will be hit by a tsunami of debt and over-indebtedness which will threaten the economic and social fabric of Europe for generations to come.

My deepest respect and thanks to the members of the COVID-19 and Debt Scientific Group (CoDeS), who works with collecting important and valid data on COVID-19's economic impact, for making this important issue of Money Matters possible – together we are strongest!

Sandy W. Madar
President of the ECDN

Editorial

In December 2019, the new, aggressive virus SARS-CoV-2 was identified in the Chinese city of Wuhan. Three months later, on March 11, the WHO announced the COVID-19 outbreak as a pandemic. By mid-March 2020, the WHO European Region had already become the epicentre of the pandemic. As a direct result, almost all European governments have adopted drastic measures to protect their populations from the spread of COVID-19. The most important measures in18 European countries are described in this issue of Money Matters.

Above all, the shutdown of many service companies, the introduction of short-time work, the cancellation of cultural and major events have caused economic hardship for many companies and people. Across Europe, the scenarios for the development of national GDP and unemployment paint a very negative picture.

The catalogues of measures to mitigate the consequences of the Europe-wide shutdown are similar. However, they cannot prevent the COVID-19 crisis from putting social groups into financial precariousness that were not at risk from over-indebtedness in the pre-Corona period.

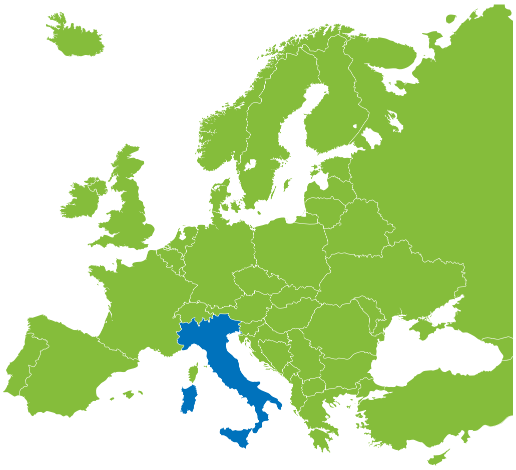
The authors of the individual country sections in this issue report about the short-term and possible long-term impact of the crisis and the significant effects on the well-being of the population and the challenges for debt advice services. They deserve great credit for this.

As of the editorial deadline on May 19, **1 317 267 diagnosed COVID-19 cases and 157.312 deaths** due to/with Sars-Corona virus have been reported in the EU/EEA and the UK by the ECDC. Fortunately, since the peak of the infection rate on April 4, infection and death rates have been falling continuously.

However, the financial and personal consequences of the Covid-19 crisis will remain visible for a long time to come. The analyses in this issue serve a multiple purpose: they provide scientific information, knowledge and evaluation, and serve as a basis for recommendations to stakeholders and the political arena.

Dieter Korczak
Editor

Debt Advice in Times of the COVID-19 Pandemic in Italy



by:
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1. Reduction of GDP and development of unemployment figures 2020

The spread of the Corona virus in Italy let to nationwide shutdown measures, including production shutdowns at the beginning of March. The first data of the impact of COVID-19 on the Italian economy are provided by ISTAT (2020a). On the supply side, the activities of 2.2 million businesses stopped (49 percent of the total, and 65 percent of the exporting companies). The shutdown involved 7.4 million workers (44.3 percent of the total) of which 4.9 million employees (42.1 percent of the total). With an inevitable impact on the demand side: uncertainty increased and consumer confidence further collapsed. As a result, real output is forecast to shrink by about 18 percent in the first half of 2020. In the second half of 2020, income support measures and low inflation are expected to support household expenditure so that consumer spending is forecast to bounce back. Assuming that economic activity starts to resume in May and gradually return to normal, output growth is estimated to recover, fostered by policy support. As shown in Table 1, real GDP is set to fall by 9.5 percent in 2020, as a consequence of a deep reduction in private consumption (-10 percent), in fixed investments (-14.2 percent) and exports, with tourism among the hardest-hit sectors (-13 percent) (EU, 2020). The production shutdowns imply a substantial reduction of employment of -7.5 percent in 2020, but it is estimated to recover in 2021. The unemployment rate will increase to 11.8 percent. In 2020, the Corona virus pandemic is expected to lift the government deficit up to 11 percent of GDP as a result of declining government revenues and increasing government spending. The public debt-to-GDP ratio is expected to rise to 159 percent in 2020.

Support for working parents

(a) Bonus for purchasing baby sitting services up to a maximum of 600 Euro.

(b) Parental leave for 15 additional days to 50 percent of the remuneration

(c) Digital school: the resources for 2020 of the Fund for digital innovation and laboratory teaching are increased by 85 million Euro.

(d) Increase in paid leave days covered by law 104 for the assistance of disabled family members.

Income protection

(a) The Fondo Gasparrini for mortgages for the purchase of the first home are extended for nine months also to self-employed workers and freelancers who have suffered a drop in turnover of more than 33 percent compared to the last quarter of 2019.

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Table 1: Economic figures forecasts (European Union, 2020)

2018			Annual percentage change	
	Current price (bn E)	percent GDP	2019	2020
GDP	1766.2	100.0	0.3	-9.5
Private Consumption	1065.5	60.3	0.4	-10.9
Public Consumption	334.8	19.0	-0.4	2.6
Gross Fixed Capital Formation	315.1	17.8	1.4	-14.2
of which: Equipment	120.6	6.8	0.3	-20.7
Exports (goods and services)	555.5	31.5	1.2	-13.0
Imports (goods and services)	513.2	29.1	-0.4	-13.6
Contribution to GDP growth		Domestic Demand	0.4	-8.7
		Inventories	-0.6	-0.6
		Net Export	0.5	-0.3
Employment			0.3	-7.5
Unemployment rate (a)			10.0	11.8
Saving Rate of the Households (b)			10.2	16.5
Inflation			0.6	-0.3
General government Balance (c)			-1.6	-11.1
Cyclically adjusted budget balance (d)			-1.5	-6.1
General government gross debt (c)			134.8	158.9

Source: European Union (2020) (a) as a percent of total labour force; (b) gross saving divided by adjusted gross disposable income; (c) as a percent of GDP.

(b) Suspension of dismissal procedures started after 23 February 2020: regardless of the number of employees, the employer cannot withdraw from the contract for justified objective reason, including dismissal for economic reasons.

(c) Wage supplementation schemes (Cassa integrazione) is extended for the entire national territory, for all employees, of all production sectors, with a total allocation of 4 bn Euro for a maximum duration of 9 weeks.

(d) Rewards to employees with a gross annual income of up to 40,000 Euro who perform their work in the workplace in the month of March (not in smart working) are granted an incentive of 100 Euro (in proportion to the days worked).

(e) Overtime increase for healthcare personnel

(f) Compensation of 600 Euro for self-employed workers and VAT numbers: The compensation goes to an audience of almost 5 million people

(g) Fund of last resort income for all those excluded from the 600 Euro compensation for a total of 500,000 people

(h) Unconditional Access to Citizenship Income

Tax support

The deferral of deadlines and the suspension of tax and social security contributions are established for all small businesses, professionals and self-employed workers; the collection and dispatch of the tax collection files; of assessment documents and payments due for the various tax amnesty measures.

3. Effects of crisis, the shut-down or the taken measures on people

From a first examination that involved 5,069 municipalities the total deaths between March 1 and April 4 of 2020 was, in overall, 41 percent higher than that observed for the same period of 2019 (ISTA, 2020b). A large group is identified (48 cases) in which the frequency of deaths has increased by at least ten times compared to the value of last year, and there are many others (140 cases) in which this frequency was at least five times higher.

The objective problem of the „Corona virus" becomes a subjective problem in relation to the psychological experience, to the emotions and fears that the theme arouses in different people.

In this vein, a recent survey (Carrieri et al., 2020) on Italian university students investigates their state of psycho-physical well-being in the shutdown period. About 30 percent of those who participated in the survey say they experience concentration problems, 35 percent eating disorders, 38 percent sleep disturbances, 30 percent have little interest .

Moreover, the COVID-19 emergency has dramatic consequences for all those who have other pathologies, especially cancer and heart disease patients, who had seen planned interventions or fundamental visits postponed.

A survey carried out by Unipolis (2020) on a sample of 1028 individuals, finds that nearly all respondents (91 percent) agree to legal restrictions on citizens' freedoms to ensure everyone's safety. The same survey finds that in March the economic fears, compared to the month of January, of all the main concerns, from those relating to the future of the children, to those of job loss, to the loss of savings increased.

Uncertainty and concerns on future are leading to a change in consumer behaviour implying higher precautionary savings (EU, 2020). Indeed, a recent analysis on 500 households (CERVED, 2020) shows that the crisis is causing serious consequences in the households.

(a) One out of five families (21.2 percent) is suffering a huge impact on income, and this share rises to 32.2 percent in the less wealthy segment. Almost half of the families (47.8 percent) had to make a reduction in savings, and 18.6 percent did so consistently.

(b) The confidence for the immediate future is low: 37 percent of households fear (very or very much) the closure of the company or the loss of work, 43.6 percent fear strong loss of income while maintaining their job, 44.9 percent are seriously afraid that they cannot keep their savings. Expectations are even more negative for next year. Families who fear losing their jobs rise to 41 percent and those who expect to suffer heavy income losses to percent.

(c) The most affected segment is that of families with self-employed income, among whom 31 percent had a very negative or dramatic impact on income, and 34.9 percent had to significantly reduce their savings. These households also have a more negative vision of the future.

4. New and old vulnerable groups

Elderly citizen

An almost-natural experiment has been carried out in the city of Vo' (Veneto Region). All 3300 inhabitants were tested, and most cases were among asymptomatic young people. Older populations are at greater risk. The Italian population has a larger share of the elderly that have more interactions with young people compared to other countries (Surico and Galeotti, 2020).

Women

The shutdown triggered by COVID-19 is taking a huge loss on women in the labour market, as the sectors with high rates of female employment are experiencing heavier job contractions while increased childcare needs during school closures exert additional work on mothers (Titan et al., 2020). From a survey carried out on a sample of university students from Southern Italy (about 2000 respondents), however, it would seem that women suffer the current emergency most regardless of the employment situation and the presence of children. It is not surprising to find that 63 percent of students say they feel nervous, 54 percent are concerned about their health and 91 percent are concerned about their loved ones. Women show greater concern and nervousness than men (Carrieri et al., 2020).

Children

6 percent of all Italian students do not access any type of online teaching. According to Istat data, 12.3 percent of children between 6 and 17 years of age (850 thousand in absolute terms) do not have a computer or tablet at home. Half of those who do not have one are in the South, where the problem affects almost 20 percent of the boys. Furthermore, 57 percent of those who own one must share it with others (Saraceno, 2020).

Immigrants

Phase 2 could penalize migrant workers. They carry out tasks that expose them more to the risk of contagion. At the same time, the risk of poverty increases and that of losing the right to a residence permit (Campa et al, 2020).

5. Effects of the crisis on debt advice

In Italy, debt advice to families in over-indebtness is usually offered by lawyers or consumer associations. With the exception of state entities and small undertakings, the Italian Bankruptcy Law applies to all entrepreneurs and only to them. As a result, non-entrepreneur individuals cannot be declared bankrupt.

However, in 2012 it was introduced the process of debt relief (esdebitazione), which is a mechanism that allows the private citizen and consumer to offer creditors a repayment plan to cancel their debts.

It was introduced by the law of 27 January 2012, no. 3 entitled „Provisions on usury and extortion, as well as the composition of the over-indebtedness crises" giving the possibility also to private individuals to gradually get rid of any residual debt allowing a complete „economic and financial rehabilitation" to the individual that makes use of it.

The high and increasing public debt levels and a possible rise in the banking sector's stock of non-performing loans may impact financing conditions. A recent survey on the effects of COVID-19 on Italian consumers (Altroconsumo, 2020) estimates that the average loss of wealth for families is 479 Euro (for a total of 12.3 bn Euro), largely due to the loss of labour income (30 percent), travel cancellation (18 percent) or investment losses (15 percent).

References are available on request

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