

## **The Impact of Pandemic On the Italian Economy - The Recovery Plan of the Government**

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*Abstract.* This paper analyses the impact of the pandemic on the Italian economy and the government's emergency fiscal measures as a response to it. Covid-19 was an unexpected event with a massive impact on the economic system. Consumptions and investments decreased. There was a deep recession in 2020 and a slight recovery in 2021. The lockdown influenced the Italian trade negatively. Retail trading of non-food items dropped, while e-commerce increased sharply. As in other countries, in Italy temporary closures, lockdowns, and a situation of uncertainty caused many businesses to close their activities forever. Only companies that provide essential services remained open. In 2020, 390.000 enterprises closed. By contrast, 85.000 new ones started their activities. Trade activities influenced by the pandemic were mainly in the clothing sector and petrol stations. Activities like travel agencies and entertainment businesses closed temporarily. During the crisis, public debt was 160% of GDP. During the fourth quarter of 2021, an increase of 4,1 % in new companies was registered compared to the previous quarter. The substantial activities that influence the Italian economy are small and medium-sized businesses. In the first period of the pandemic, sanitary emergency was considered a priority. After this period, the government introduced measures to support the economy and businesses influenced by the emergency. The Government liquidity measure was a vital support to the enterprises. Other measures were tax cuts, labour support, and public guarantees. Public guarantees were able to increase access to credit for small and medium-sized enterprises. The fiscal policies, implemented since March 2020 to contrast the negative consequences of the pandemic, have obtained significant results. In a different scenario, without government fiscal interventions, the impact of the pandemic would have been much more devastating.

*Keywords:* pandemic, Italy, economy

### **1 Introduction**

Italy was one of the first European countries to be faced with the impact of the pandemic both in social life and the Economy. Similar to what happened in other countries, this was an unprecedented event, for which the country was not prepared on a sanitary level. There were only a few structures available for the emergency, and there was a lack of surgical masks and oxygen devices. The pandemic also had a psychological impact on the people who were faced with an uncertain future. People had to rearrange their daily lives. However, it also had a positive effect. Italy is a country based on small and medium-sized businesses and is not structured to face a similar situation. For example, the luxury sector resisted the consequences of the pandemic. On the other hand, Italy is a country that has high savings, and for this reason, many families were able to sustain the expenses. The governmental measures, starting from non-repayable contributions, credit guarantees, tax credits and some direct contributions to families, made it possible for the people to overcome the pandemic crisis.

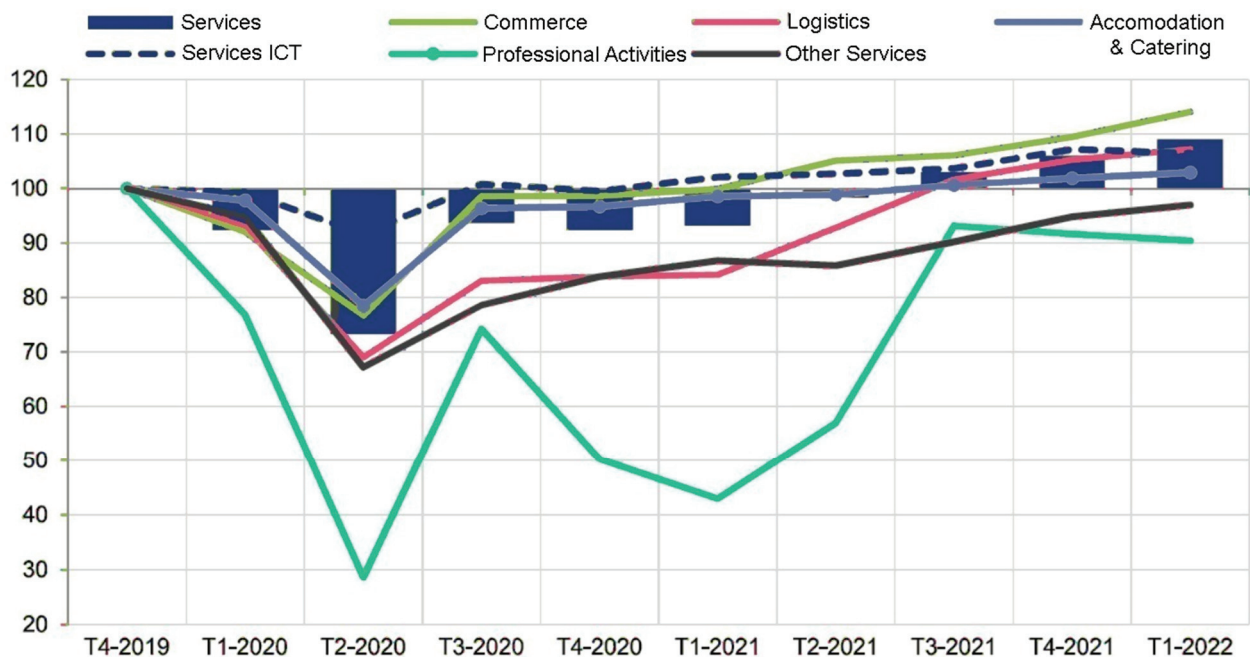
The pandemic had social consequences too. In my opinion, I partly consider restrictions and social distancing as something positive, as it has allowed many people to devote more time to themselves and, sometimes, to discover even talents that they didn't know they had. Several big companies have closed

branches and shops, whereas small and medium-sized enterprises have survived in a time of restrictions and temporary closures, with the owner's commitment to keep in place the activity they put the dreams and sacrifices of a lifetime into. Many foreign clothing brands, which help the Italian economy in terms of employment, have closed their stores. Even banks, in an era of digitalization, have shut down their branches. The state helped businesses with several incentives, such as layoffs, that have been paid directly to the company's employees each month instead of salaries. The tax credit for rentals, for which the state recognized 60% of the rent paid in the form of a tax credit, which could also be transferable to third parties, was another incentive to businesses. Other governmental strategies for the recovery were State guarantee for bank loans to companies at a subsidized rate and with 2-year pre-amortization period and a tax credit for advertising expenses. The governmental measure of the discount on the invoices on the construction sector encouraged many private individuals to carry out renovation works and consequently adapt the houses with the new energy-saving standards. There were also more lost funds for all companies affected by the pandemic in terms of turnover compared to the previous period. Several lost funds went to areas such as catering and tourism, and also to activities that had to close temporarily during the pandemic, such as entertainment venues, theme parks, cinemas, and theatres. Unlike other countries, such as the United States where aid went directly to the population and many lost their jobs, in Italy, the incentives went to companies and employees, and people kept their jobs. The relocation of human resources is challenging in Italy. Some big companies closed and fired employees just by sending them a message but the state took a measure that prevented layoffs during the pandemic. In addition, there were also incentives in the form of decontribution for hiring young people. Despite the governmental arrangements for employment, many people lost their jobs: mostly freelancers or employees with a fixed-term contracts. Furthermore, young people too had difficulties finding their first job. (Costa, De Santis, and Monducci. 2022) In 2020, in Italy occupation decreased by 3,2% compared to 2019. In 2021, employment in Italy increased slightly, just 0,6% (Istat). There were other incentives for digitization and purchasing electronic devices for students; other vital incentives during this period were those for purchasing electric bikes and scooters, which were crucial for reducing pollution. For the marginalised groups, the state created the emergency income measure: a card that can be recharged every month by the state to meet the expenses for basic goods. Many people have benefited from this measure. A positive effect of the smart working adopted by public offices was that people saved physical time by sending the requests online, whereas previously they were formulated and delivered at the offices. By doing so, the time spent handling bureaucratic practices was shorter. The social impact of the pandemic has been that of fewer interpersonal relationships, but on the other hand, smart working has left more time to devote to family and hobbies. Many people attended online courses in foreign languages, cooking classes, music, literature, and outdoor activities. The state even gave incentives for parents to stay at home. Parents had more time to spend with their children. The government's new recovery and resilience measures are dedicated to economic recovery, digitalisation and innovation, ecological transaction reforms, and social inclusion. A real revolution in the way of working has started with the pandemic: smart working is now a reality we will be dealing with for a long period.

The phenomenon of smart work concerned companies involved in "office life": such as real estate agencies, food stores, and transport. On the other hand, it's an advantage for other companies too: shares of the Zoom video conferencing platform have increased more than sixfold this year. Furthermore, the possibility of working from home, along with the fear of the virus, has also triggered a hasty flight of city dwellers to the suburbs or the countryside and, in some countries, an increase in rural real estate prices. The car sales market has collapsed. More than €220 billion envisaged by the NRP (€191.5 billion from the Recovery Facility and resilience plus €30.6 billion from the Complementary Fund) represent the most important investment plan in recent decades, with forecasts of impact on the economic system of broad relevance. The planned interventions are wide range, from the economy to the climate, to the functioning of public administration, health, education, and research, up to the judicial system, to consolidate the country towards the challenges of the coming decades. The investments in digitalisation were crucial for public administration and museums. (Cirera, Cruz, Grover, Iacovone, Medvedev, Pereira-Lopez, and S. Reyes. 2021) In 2020, measures to fight the pandemic were translated, for

museums and libraries, into 126 days of closure and 172 days of partial openings. Many institutes have put together alternatives to face-to-face activities, producing and disseminating digital content that has allowed them to maintain contact with the public.

Figure 1. Turnover of services in Italy. Q.IV 2019 – Q.I 2022 ( index numbers t4: 2019=100)



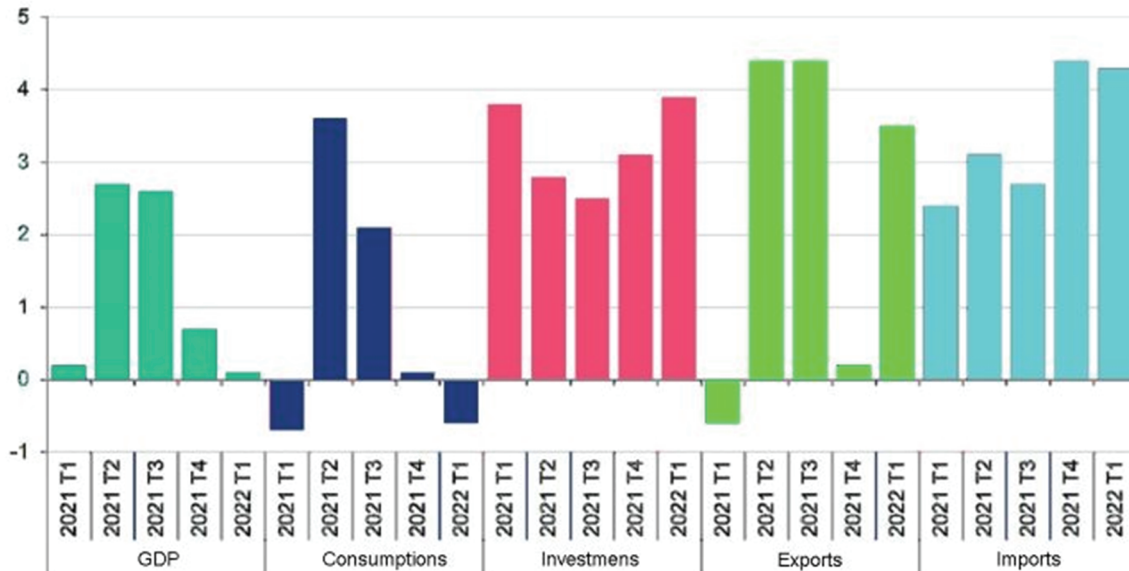
Source: Istat. Market survey on the turnover of service businesses.

## 1 Overview situation of consumptions and investments

In the first period, the consumption of essential products such as food increased due to the uncertainty in finding first-need products. For this reason, supermarkets were besieged by people desperate to buy anything. After the first period of the pandemic, online consumption increased dramatically. People stayed at home during lockdown restrictions and often ordered non-essential online products. People spent a lot of time on online portals. During lockdowns, people tended to have cautious behaviour regarding consumption. Many people avoided big supermarkets and concentrated their shopping in a few shops or online. Hotels and restaurants were closed due to the restrictive measures imposed by the government. These categories of services had significant losses in profits compared to the period before the pandemic. (See Figure 1) By contrast, online business increased their profit by 150%. Italy was one of the first countries where the pandemic spread significantly; this brought the stop of investments and blocked the economy. Consumptions were also influenced by the increase in prices starting from the fourth quarter of 2021. In addition, exports decreased significantly. (See Figure 2) Many companies are investing in digitalisation. In 2021, Italy signed a phase of economic growth due to the positive contribution of household consumption by +3% and gross fixed investment increase by +3%, supported by the expansive orientation of the economic policies. Imports increased by 24,4% compared to 2020, and exports by 18,8%. In 2021, the medium value of exports in Italy increased significantly compared to the fourth quarter of 2019. The increase in exports from Italy (+ 9,9%) was higher than in other European countries as Germany signed an +7% and France + 3,1 %. Exports in value in 2021 grew in almost all production sectors, even if in some areas, such as textiles, clothing and footwear, machinery,

and motor vehicles the recovery in volume sales was partial compared to the losses suffered during the crisis.

Figure 2. GDP and demand components in Italy. First Quarter 2021- First Quarter 2022. ( percentage changes on the previous quarter)



Source: Istat. National Accounts. Gdp and main components

### 3 Balance sheet of small and medium-sized businesses

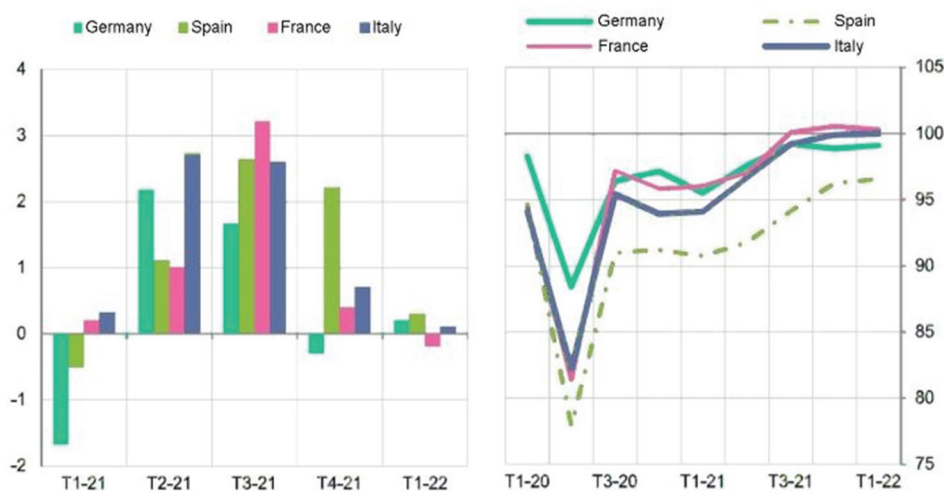
The balance sheet of enterprises, which had profits in previous years before the pandemic, was in red and signed up losses. The reason behind this is found in the closures imposed by the government and in the restrictive measures applied to avoid the spread of the pandemic. Due to closures and lockdowns, tourism (hotels) and transport (airlines) stopped, leading to many losses. The entertainment area (cinemas, discos, or theme parks) signed losses too. Imports and exports decreased. Businesses continued to carry the expenses of the activities, which were not covered by the government measures. The government covered a major part of labour costs, introducing cassa integrazione (redundancy fund). It was a vital measure, where the workers were paid directly by the government. The employees' taxes were covered by the government. Another important measure was the block of dismissals; a key factor in a country like Italy, where reallocating people in the job market is burdensome. (Blanchard, Olivier, Thomas Philippon, and Jean Pisani-Ferry. 2020) The enterprises lost money because another relevant cost was the amount of the shop's rent. Many shop owners did not discount the monthly rent because it was their only entrance. For some types of businesses like hotels and restaurants, the government acknowledged selling a tax credit of 60% of rent payments to third parties, even to the owners of shop walls, or to be allocated for other taxes. The price of raw materials increased slightly, and the discontinued work chain, caused by lockdowns, generated losses on final products that couldn't be sold or that expired. The government guaranteed credit with a 2-year pre-depreciation, and minor interest rates, which helped many businesses to carry up the expenses of their activities. One of the most worrying legacies of Covid-19 is the increase in corporate debt. The Bank for International Settlements calculates that non-financial corporations borrowed more than \$3 trillion in the first half of 2020. Considering the fall of revenues in many sectors due to lockdowns, a cautious approach, and losses in the budget, we can observe the conditions for a severe corporate solvency crisis, according to a new

report. (Banerjee, Ryan, Illes, Kharroubi, and Serena. 2020)The possibility of not putting the depreciation of multi-year assets on the economic balance, and the option of covering the losses in 5 years, has ensured that the businesses didn't declare bankruptcy.

## 1 Data

Istat provided the data used to study the pandemic effects on small and medium Italian businesses. FMI and World Bank data were used to compare the macroeconomic effects of Covid-19 on the Italian and Worldwide economies and create graphs and models of study on how the pandemic influenced the debt and deficit and which measures were taken from different countries to manage this kind of situation in probable future scenarios. The pandemic crisis caused a double shock, both in the supply and the demand induced by lockdowns imposed by the government in different areas of industries and services. It has produced disruptive effects on the Italian economy. The authorities adopted restrictions on people to contain the spread of the virus. The GDP decreased by 17,8% in the first and second quarters of 2020, compared to the fourth quarter of 2019. (Istat 2020) GDP recovery continued gradually from the first quarter of 2021. Italian export of goods decreased by 14,3 % in 2020 e increased by 11,3% in 2021. (Istat 2021) In 2021 Italian GDP increased by 6,6%. In the first quarter of 2022, GDP surpasses the fourth quarter level of 2019. In the Euro area, France overcame the pre-pandemic levels, in 2021 with an increase of 7 % in GDP. (See Figure 3)Spain had an increase of + 5,1 % and Germany of + 2,9 %. These countries haven't reached yet the level of pre-pandemic GDP growth. Another relevant study is on occupation, which during 2020 decreased significantly in different sectors, as in trade, transportation, hotels, and restaurants – 5 % compared to -3,4% EU average and in the entertainment sector -3 % compared to -1,9 % of EU average. These sectors have been significantly affected by the closures and restrictions imposed to protect public health. The areas that showed the greatest delays in the recovery process were the most affected by containment measures due to the health emergency, such as accommodation activities and catering, travel agencies, and business support services. For what concerns services, the recovery was consolidated in the first quarter of 2022 when the turnover recorded a consecutive growth rate. Wholesale also trade recorded the highest cyclical increase (4.1 per one hundred) because the turnover of price increases.

Figure 3. GDP trends in the major EU economies. Q.I 2021- Q.I 2022 cyclical changes and index numbers (T1= Quarter I)



Source: Eurostat. National accounts indicator

Table 1. Main indicators of public finance euro area economies. Years 2019-2021  
(Percentage values in relation to GDP) - Istat

	2019	2020	2021
<b>Net Debt</b>			
Italy	-1,5	-9,6	-7,2
Germany	1,5	-4,3	-3,7
France	-3,1	-8,9	-6,5
Spain	-3,1	-10,3	-6,9
<b>Public Debt</b>			
Italy	134,1	155,3	150,8
Germany	58,9	68,7	69,3
France	97,4	114,6	112,9
Spain	98,3	120	118,4

Considering the main European economies, in 2021 deficit-to-GDP ratios are between Germany's 3.7% and 7.2% of Italy's (with a value among the highest in the entire euro area), while France and Spain stand at 6.5 and 6.9% each. (See Table 1) In all countries, the leading indicators of public finance remain very far from the values before the crisis. In 12 of 19 countries, debt continues to exceed the threshold of 60% of GDP set by the Maastricht criteria. The highest incidence is Greece, whose debt reached 206% of GDP in 2020 and returned to below 200% in 2021. Italy, as in the last decade, remained the second country by ratio higher debt/GDP. After the deterioration of the public finance framework in 2020, unparalleled in the post-War period, there was a significant recovery in 2021, with an improvement in the deficit and debt of the Public Administration concerning the nominal GDP more considerably than what was expected by the policy documents.

In 2021, deficit progress has reversed the dynamics of the debt/debt ratio. GDP, decreased to 150.8%, after the all-time high of 155.3% of the previous year. However, the value is 45 percentage points above the euro area average and 16 above the 2019 level. The temporary measures for slippage and/or cancellation of tax charges for some categories of taxpayers adopted in the aftermath of the outbreak of the pandemic have not been repeated in 2021. The government measures for the vaccine campaign and contributions to families and businesses increased are reflected in a sustained dynamic of current outputs. In 2021 expenditure levelled off, but with an internal recomposition: the weight of temporary anti-crisis measures was greatly reduced (wage integration checks go from over 14 billion in 2020 to 8 billion in 2021), the weight of structural support to the family increased because it was affected by the strengthening and reorganization of the family allowance system. Regarding capital expenditures, the strong growth mainly reflects the recording of non-repayable contributions to support business activities provided for by the Covid-19 decrees (over 19 billion, they were more than 9 billion in 2020) and tax breaks for innovative technology, research, and development and green investments envisaged by the Transition Plan 4.0 (over 3 billion in 2021). The overall increase in revenue (+9.2%) is explained by the rebound after the sharp fall of 2020 (-6.9%), hand in hand with the recovery of economic activity. Both direct and indirect taxes and social contributions have marked consistent increases (6.5, 13.8, and 6.7 % each). Indirect taxes, in addition to the growth in VAT, and driven by the increase in the prices of energy products, were affected by the restoration of normal tax obligations, after the cancellation in 2020 of payments of part of the IRAP and IMU for the companies most affected by the crisis.

## 5 GDP dynamics in the main international economies

With this research, data and models of how pandemics affected the Italian economy in different areas of activity and the arrangements undertaken by the government were studied. Comparing the influence of pandemics to other disasters, appropriate conclusions will be drawn. Studying other pandemic crises of the past years, Covid-19 had a devastating effect on all economies in the world and compared to the

previous ones it had far greater consequences for the economies of different countries. (Barro, Ursua, Weng, 20 March 2020) It was the first time a similar situation had spread so intensely across the global economy. The unprecedented lockdown measures have caused a stagnation of the economy from which it is difficult to recover. All the countries, especially in Europe, are in the same situation, and Europe should give a unique response to the pandemic's effects on the economy. The measures taken by governments, such as the Cura Italia decree, aim to fill the vacuum of the economy in this period of forced pause, presenting themselves to companies and families as "liquidity injections", and trying to limit layoffs and bankruptcies. For what concerns Italy, however, these prospects are negative: the crisis will have a huge impact on the millions of precarious or undeclared workers. It is estimated that unemployment will return to exceed 10%. The vital support provided momentarily by the institutions could be prolonged further but going to burden public debts. Therefore, there could also be many requests for spending cuts, to put the accounts in order. In this case, the suppression of the stimulus to the economy will be followed by an increase in unemployment and business failures, as was the case after the 2008 crisis. The latest forecasts from the International Monetary Fund and the World Economic Forum have revealed the devastating impact of the pandemic on the world economy, with even more serious consequences in the southern countries of Europe. Regarding Italy, the "record" of the fall in GDP is expected at 9.1%, followed by a rise of 4.8% which, however, would recover only half of the income levels lost in recent months. Only Greece would do worse with a 10% drop. Germany is expected to have a recession of 7%, France 7.2%, and Spain 8%. The crisis was general and all European countries had a recession in 2020, with considerable consequences in terms of GDP contraction, indebtedness, and unemployment. In addition, both advanced and developing economies and emerging markets were in recession. There were similarities with the 2008 crisis.

Experts have elaborated on some trends like those resulting from the crisis of 2007-2008. It is expected that, as it did then, the gap between the US and Europe will increase.

For the United States, the economic outlook is slightly less negative: the recession brought down national income by 5.9%, with a recovery of 4.7% in 2021.

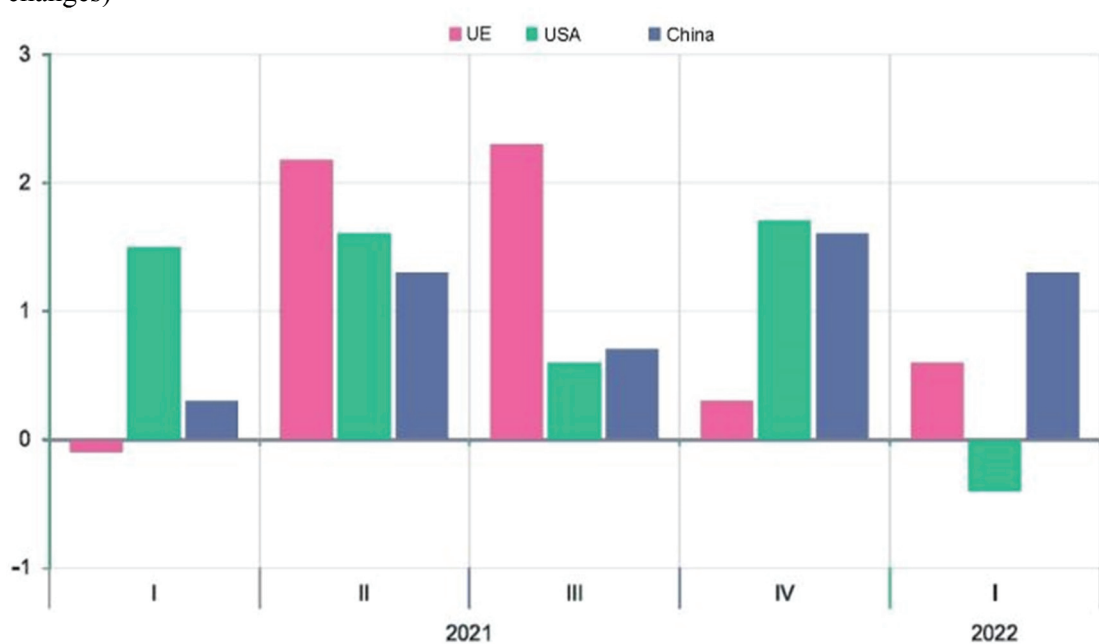
According to these data, while the US seems able to recover in a year what was lost, it is estimated that the Eurozone will require at least two years to recover from the pandemic. Moreover, just like twelve years ago, the countries that are estimated to react best to the crisis will be the emerging Asian powers, especially China. (McKibbin, Fernando, 2020) According to the World Economic Outlook, the Chinese economy was able to avoid a contraction in 2020 and reached a slight growth of 1.2%, perhaps thanks to the plan to relaunch the economy for which 7 thousand trillion Yuan have been allocated, amounting to 8% of national income. (See Figure 4) Covid-19 seems to accelerate a shift in international economic balances toward the East. In this context, Europe seems even more in trouble than the US, and Italy seems even further behind the other major economies of the monetary union.

Table 2. Forecasts for the Italian economy: GDP and main macroeconomic variables.

Years 2021-2023 (percentage changes and percentage contributions)- Istat

	2021	2022	2023
GDP	6,6	2,8	1,9
Import of goods and services fob	14,2	8,5	3,8
Export of goods and services fob	13,3	6,7	3,7
Domestic demand	6,6	3,2	1,9
Expenditure of families	5,2	2,3	1,6
Expenditure of public administration	0,5	0,5	0,6
Gross Investments	17	8,8	4,2
Unemployment rate	9,3	8,4	8,2

Figure 4. GDP dynamics in the main international economies. Q.I 2021- Q- I 2022 (cyclical percentage changes)



Source: OSCE. Economic Outlook

In Italy, the slight economic growth at the beginning of 2022 was entirely due to the contribution of gross fixed investments. (See Table 2) Imports have slightly increased, but public administration expenditure has not influenced the growth. (Istat 2021)

## Conclusions

One of the most distinctive characteristics of the Covid-19 pandemic is its enormous impact on the economy due to governmental responses and individual behavioural change. The scope of pandemic economics is not limited to the normative discussion on which policies should be implemented. It also analyses what are, in practice, the most likely responses for a given set of structural factors. The direct effects of the pandemic were a reduction in employment, an increase in international transactional costs, a decline in travel, and a general decline in the demand for services. Many workers were excluded from the labour market. Small and medium-sized businesses found themselves in difficult times, without liquidity, and in an anomalous market situation. Consumptions were reduced significantly. Enterprises had difficulties accessing credit, which has been increasing again due to public credit guarantees, launched to address the lack of liquidity in the business system generated by lockdowns. (De Marco, Filippo, 2020) Another important measure was the moratorium on debts. These contained bankruptcies and reduced the risk for banks. The Italian government also adopted new measures to reduce tax pressure on families. The European Commission adopted the Temporary framework for State aid measures to support the economy in the current Covid-19 outbreak 2020/c 91 I/01, to allow further aid measures for economic recovery by union countries. These resources would be in line with the economic policy measures launched in the countries affected by the Covid-19 emergency, providing a positive effect on the international economic situation. The new European instruments SURE and Next Generation EU are crucial tools for the economic recovery of the member states. Over a longer horizon, the deep recession triggered by the pandemic is expected to leave lasting scars through lower investments, and fragmentation of global trade and supply linkages. Emerging and developing economies were already

experiencing weaker growth before the pandemic crisis, and the shock of Covid-19 makes the challenges even harder now. Global cooperation is needed to slow the spread of the pandemic, and coordinated actions are needed to alleviate the world's economic damage. There is a need for Government measures to support businesses in industrial and service sectors, short and long-term policies to strengthen health services, and stimulus measures to help reignite growth. GDP has fully recovered from the pandemic crisis, but government debt has risen to sky-high levels. The policies reduced the gross domestic product (GDP) impact of the Covid-19 shock by 25% at the peak of the crisis over a longer time, and the government needs to adopt reform programs to improve the fundamental drivers of economics once this crisis loosens. For now, the priority of the governments is to contain the short-term damages caused by the pandemic crisis. The recession caused by the Covid-19 pandemic across advanced and emerging market economies will have a temporary or lasting impact? It remains to be seen. Despite the strong policy responses, particularly in advanced economies, there is a risk of long-term output scarring. Precisely because of the simultaneity and globality of this crisis, the IMF seems to be siding with those European governments such as France, Italy, Spain, and Portugal; countries calling for a common response to the emergency. It became clear now that Covid-19 does not jeopardize the financial stability of a limited number of countries, but of the entire Eurozone. This line of thinking has led Europe to approve a series of Community measures aimed at supporting the economy of the member countries, including the long-awaited Recovery Fund, a community fund guaranteed by the Union budget, to be used for the issuance of so-called recovery bonds. These bonds would provide liquidity, which will later be distributed to governments whose economies have suffered the most from the crisis. In this way, risk-sharing would be common to all countries only for the future, without a mutualization of the debts of the past, an operation strongly opposed by the countries of Northern Europe.

What will be the consequences of the crisis on public finances?

The deficit is the difference between the income and expenditure of a state. When expenditure exceeds revenue, it is called a deficit. The deficit is related to the value of a country's GDP, to understand the state of health of public finances. The higher the percentage, the worse they are. For Italy, the deficit/GDP ratio following the Covid-19 crisis is estimated to grow to 8.3%. The figures are worse in other European countries, with 9.2% in France, 9.5% in Spain, and even 15.4% in the United States. Only Germany would seem to be able to contain the impact of the crisis on public finances. The risks to the outlook are overwhelmingly tilted to the downside. Tighter global financial conditions could induce debt distress in emerging markets and developing economies, renewed Covid-19 outbreaks and lockdowns, as well as a further escalation of the property sector crisis, might further suppress Chinese growth; geopolitical fragmentation could impede global trade and cooperation. A plausible alternative scenario is the one in which risks materialize, inflation rises further, and global growth declines to about 2.6 percent and 2.0 percent in 2022 and 2023, respectively, would put growth in the bottom 10 percent of outcomes since 1970.

With increasing prices continuing to squeeze living standards worldwide, taming inflation should be the priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but the delay will only exacerbate them. Targeted tax support can help cushion the impact on the most vulnerable, but with government budgets stretched by the pandemic and the need for a disinflationary overall macroeconomic policy stance, such policies will need to be offset by increased taxes or lower government spending. Tighter monetary conditions will also affect financial stability, requiring judicious use of macroprudential tools and making reforms to debt resolution frameworks all the more necessary. (Benmelech, E., Tzur-Ilan, N., 2020) Policies to address specific impacts on energy and food prices should focus on those most affected without distorting prices. And as the pandemic continues, vaccination rates must rise to guard against future variants. Finally, mitigating climate change continues to require urgent multilateral action to limit emissions and raise investments to hasten the green transition. (I.M.F.) Notwithstanding the good performance through mid-2022, growth is expected to moderate sharply relative to 2021 in a baseline characterized by elevated energy prices (but no major supply shortages), further increases in interest rates, ongoing supply chain disruptions, and persistent inflation. Consumption is predicted to moderate the erosion of real incomes despite partial fiscal

compensation for higher energy bills and a lower aggregate household saving rate. Rising interest rates and weakening confidence are projected to dampen private investment, although tax credits will continue to support construction. Shortages of key inputs and shrinking profit margins will cause firms to scale down production.

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