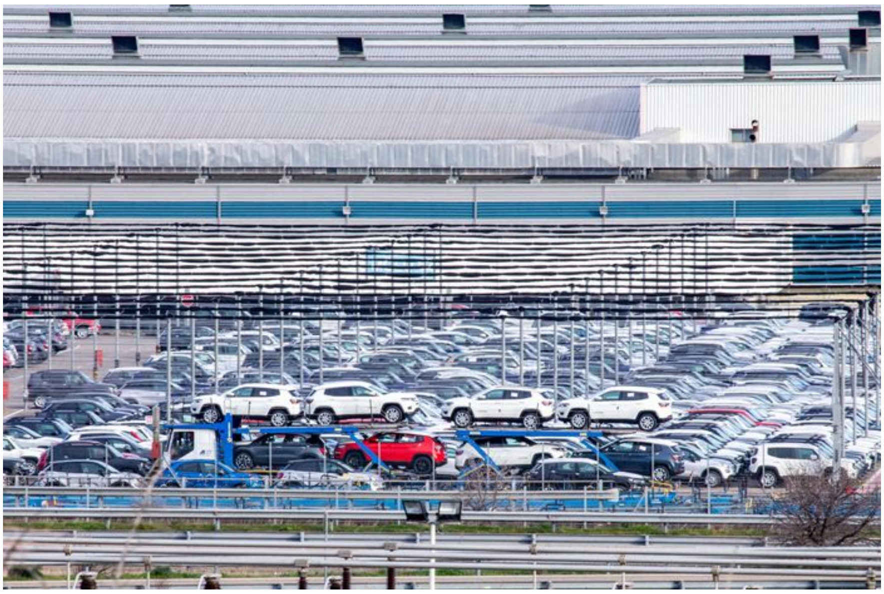
Italy pushes car fleet renewal yet still lags behind EU average in EVs

Italy's car renewal scheme should boost the adoption of low-emission cars such as hybrids and electric vehicles, and lead to double-digit growth in 2024. However, Italy will still lag the EU average and the net economic impact is limited. Charging infrastructure is a key requirement for progress, while EVs in the small segment could eventually help



Italy introduces long-awaited subsidy programme for greener car sales

While various other countries have been scaling back subsidies, Europe's fourth largest car market and one of the most densely populated car countries – Italy – has introduced a long-awaited stimulus programme to incentivise purchases of lower carbon hybrids and electric vehicles.

The scheme leverages budgets carried over from previous 2022 and 2023 incentive programmes, resulting in a total fund of €953mn, of which €782mn is allocated to cars. Just over 30% of this allocation supports battery EVs, 18% goes towards plug-in hybrid EVs and the remaining portion facilitates the renewal of traditional hybrids (and scrapping of older vehicles). Subsidies can reach up to €13,750 when an old Euro 0-2 petrol car is replaced by a battery EV car.* There's also no exclusion of foreign-made cars, such as Chinese EVs from BYD, which started selling cars last year.

*The budget will be allocated to the purchase of new cars up to €35/k excluding tax (EVs and hybrids) to €45/k (plug-in hybrids) and apply to households with an 'economic indicator' below €30k.

The Italian car fleet comprises 40mn cars for a population of just under 59mn people.

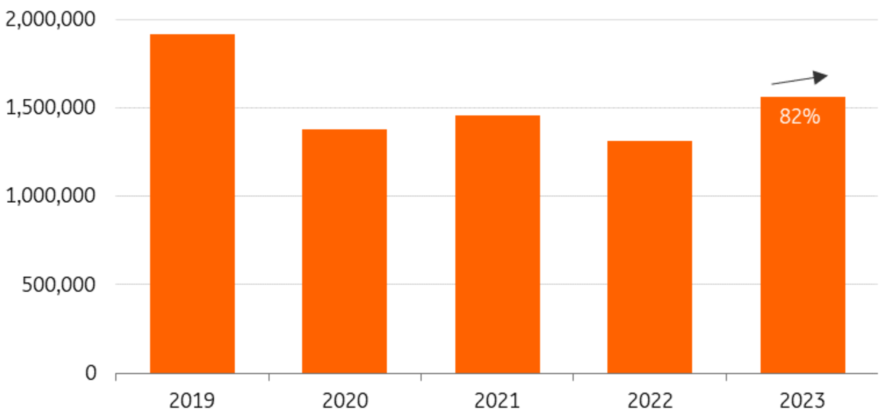
The scheme could shift private spending towards durable goods

The incentive scheme comes at a time when household disposable income is already improving, supported by a very resilient labour market, yearly wage growth in the 3% area, and sub-1% inflation. This is a backdrop which, in principle, is favourable for consumption. But with household saving ratios on an upward trend, towards the 8% pre-Covid average, the overall economic impact of the package might be contained. We expect it will induce a shift in private consumption over the second half of 2024, favouring durable goods over non-durable goods. The temporary nature of the package, which is set to expire by the end of 2024, also supports this view.

After the online platform for incentives opened on 3 June, the amount available for pure electric vehicles was exhausted in a single day. The quick take-up of funds (especially for battery electric vehicle purchases) indicates that these incentives are particularly generous, although people also recognise that this is a one-time opportunity.

Lagging Italian new car sales will recover more strongly on the back of the subsidy scheme in 2024

Total new car registrations in Italy per year, share of pre-pandemic sales (2023)



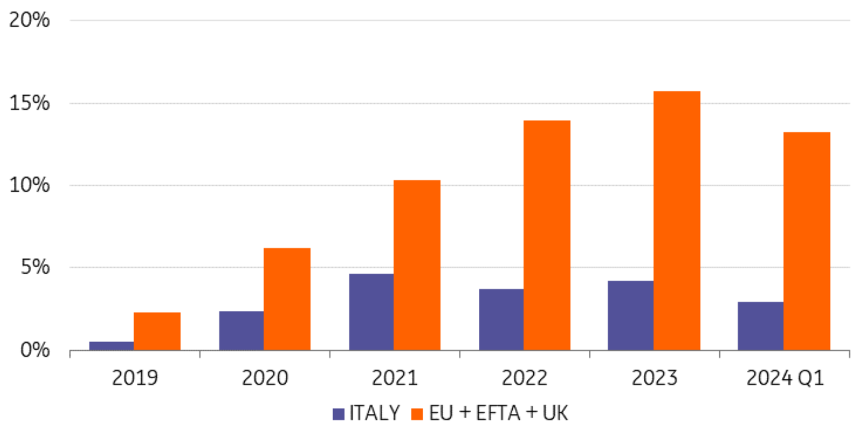
Source: ACEA, *Average age estimate ING Research **EU, replacement rate incl. UK + EFTA

Car sales for 2024 set to rise after previous sluggish years

Consumers and businesses delayed orders of EVs in anticipation of the subsidy scheme. Now that it has been implemented, it will likely encourage people to replace cars earlier leading to frontloading effects. How many cars are eventually eligible for subsidies will depend on the choices that people make. Altogether, the scheme is likely to cover over 200,000 new cars, potentially pushing sales growth into double digits in 2024. Over the last three years, car sales have decreased compared to the pre-pandemic level, like elsewhere in Europe. In the first four months of 2024, sales ran 6% higher and the subsidy scheme will at least add to this amount, as wage increases will likely surpass inflation and the increase in car prices this year.

Italy behind in Europe's uptake of battery electric vehicles

Share of battery electric vehicles in total new car registrations per year



Source: ACEA, ING Research

Electrification rate temporarily boosted but European average not in sight

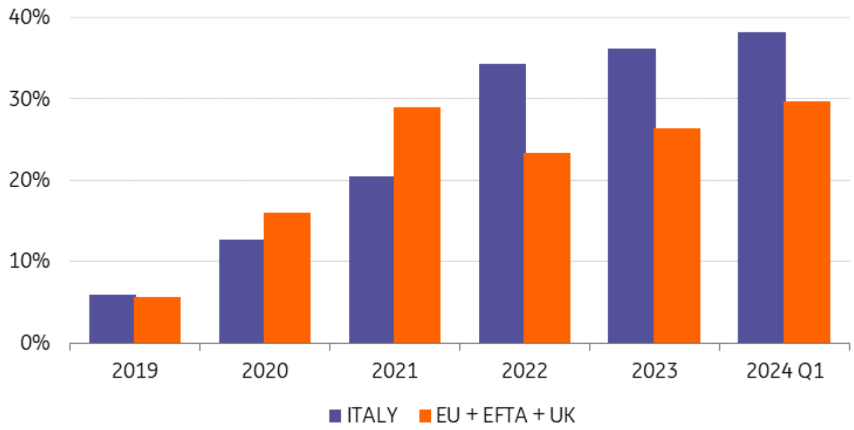
Battery electric vehicle (BEV) sales made up just 4% of total new car sales in Italy. Given the rapid exhaustion and that some 40% of the applications involved the scrapping of an old car, the scheme may have boosted BEV sales by some 38,000 in June and in the months to follow. This might send the market share of BEVs to 5% in FY2024, but this is likely to be a temporary uplift and it's still far behind the EU's double-digit average.

Acceleration of plug-in hybrids likely first

In the latter half of this decade, EVs are expected to become more accessible to a larger group of consumers. As manufacturers plan to introduce more affordable smaller models in the smaller middle class segments (A and B) in the years to come, this could attract more Italian consumers, even without subsidies. But given the current infrastructure limitations, the acceleration will likely start with more plug-in hybrids (PHEVs). The production of the Fiat 500e from early 2026 (Stellantis) in Italy is one of the models that will support this.

Many potential Italian EV buyers so far have opted for traditional hybrids

Share of hybrid electric vehicles (without plug) in total new car registrations per year



Source: ACEA, ING Research

Charging infrastructure is a key constraint and explains the popularity of conventional hybrids

In addition to the affordability of EVs for households, the development of charging infrastructure is a key requirement to get more electric cars on the roads. Italy counted just over 41,000 public chargers in early 2024 whereas France, for example, has twice as many with a comparable fleet. Charging concerns are also likely one of the reasons why conventional hybrids (with a small regenerating battery, but without a plug) are so popular.

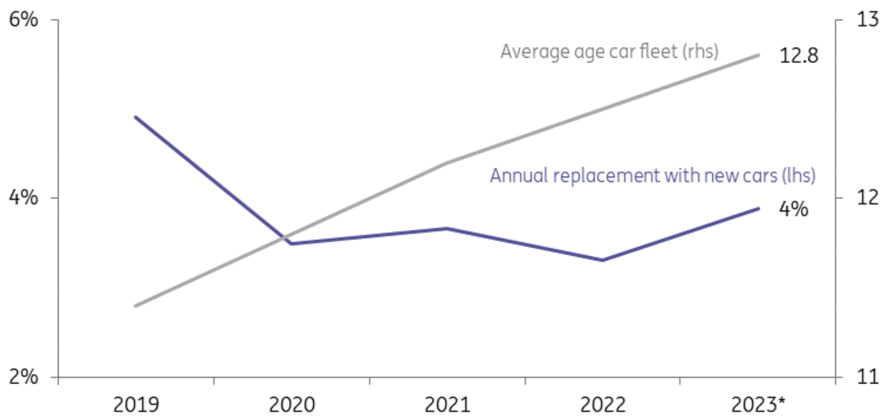
Like other EU member states, Italy remains bound to the European Green Deal forcing car manufacturers to fully shift away from internal combustion engines by 2035 (CO2 targets) and build charging networks along motorways (AFIR regulation). Last year's discussion regarding an exemption for synthetic fuel within the EU may have left the impression that a complete phase-out of ICE vehicles by 2035 is not as urgent as it appears. However, car manufacturers remain obligated to adhere to the declining trajectory for average CO2 emissions per kilometre during production.

The scrapping element works on both sides

As the fleet has grown and new sales have fallen, fleet replacement rates have dropped to just 3-4% per year. Italy's car fleet is ageing and approaching an average of 13 years. Italy isn't a European exception here and this obviously weighs on the progression of emissions reduction. Therefore the scrapping element in the scheme is helpful. This takes out both old vehicles and promotes new, more efficient and lower carbon emission vehicles. You would ideally need more structural implementation, but in essence, this is something more European countries (along with France and Italy) could consider.

Low renewal rates push the Italian car fleet age close to 13 years

Annual replacement by new cars as % of the total fleet and average age in Europe**



Source: ACEA, *Average age estimate ING Research **EU, replacement rate incl. UK + EFTA

The programme lacks a structural support framework for EVs and this is not easily available given Italy's fiscal constraints

All in all, the temporary nature of the programme is its main constraint. For an accelerated pick-up in the share of EVs, a structural support framework would likely be needed. However, this conflicts with existing fiscal constraints. Italy is burdened by high public debt (at 137.3% of GDP in 2023) and this is likely to increase further over the next two to three years, mainly due to the delayed effects of a very generous tax incentive scheme introduced to improve the energy efficiency of the existing stock of residential buildings ('Superbonus', now being phased out). This limits the fiscal room of manoeuvre for the current government even more. With the new Stability Pact in 2025, the fiscal constraints will become even tighter. We therefore suspect that the current government will refrain from prioritising the greening of the existing car fleet in any substantial manner, at least in the short run.

The EV transition in Italy therefore remains very much linked to the downward trajectory for car manufacturers to reach zero emissions for new cars by 2035, and at this point, there's still a long way to go.

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