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ITALY

Italy: Draghi Cabinet approves long awaited €32bn support package

It is still very much a multi-faceted emergency measure, hinging on monetary compensations to affected businesses and on the refinancing of the CIG short time work scheme and the redundancy ban. More action (and more deficit) to come soon

Another omnibus emergency-type decree, worth a total of €32bn

The Draghi cabinet met today to approve the much-awaited decree, whose gestation has been lengthened but the occurrence of the government crisis. As it has been always the case with support packages released over the Covid-19 emergency, the current decree covers many areas: it is a mix of compensating measures, of employment protection extensions, of health-related new spending and of tax-related measures. It is worth a combined €32bn of extra deficit, already approved by the Italian parliament earlier this year. The "Supports" decree is meant to finance the sanitary emergency, to provide new monetary support to those parties most affected by anti-Covid-19 restrictive measures and give more breath to labour market safety nets.

Half of the money will finance vaccination and money compensations for businesses

In his inaugural speech PM Draghi had clearly set the health emergency as a top priority of his government, and the decree commits €5bn to fund the new strengthened vaccination plan. With the Astra Zeneca (the key supplier to the Italian vaccination plan) vaccine now re-admitted for administration, additional modalities will be introduced to speed up the pace of vaccination.

Monetary handouts meant to compensate businesses and self-employed workers are worth some €11bn. Here we note a discontinuity with previous practices: they will not be based on the Ateco activity code, but instead will benefit all businesses (with a 2019 turnover up to €10mn) who lost at least 33% of their average 2020 monthly turnover vs 2019; the percentage of restoration will be declining with turnover. Another part will finance the exemption from social contributions for self-employed and professionals.

Labour market support the other big item

Measures supporting households will be worth €8bn, the bulk of which will re-finance the redundancy ban and short time work schemes. The redundancy ban will be extended until the end of June 2021 for businesses operating in agriculture and industry and until the end of October 2021 for those in service sectors and funding for the Covid CIG short time work scheme until the end of 2021. This is broadly consistent with what we had anticipated in our recent forecast update, and points to a continuation of the dichotomy between temporary and permanent employment, with the latter protected by the redundancy ban for at least another quarter and the unemployment rate of limited informative use for some time yet.

Still in the emergency domain, with more to come soon

The set of measures approved today is clearly belonging to the “emergency domain”. During the press conference which followed the meeting, PM Draghi preannounced that another package (not funded yet) would likely follow when the new Economic and Financial Document will be disclosed (sometime in April). At this stage it is not clear yet whether that additional package will remain of the emergency kind or will it look also at the recovery roll-out phase. With the possibility to obtain a public guarantee on new loans and debt moratoria due to expire at the end of June 2021, we cannot rule out that some action on the two issues could be part of the new package. It is obvious that, over 2021, the suspension of the Stability and Growth Pact will leave room for manoeuver to the Draghi government to spend more if need be. The scope of the extra bill will crucially depend on whether vaccinations will accelerate enough as to allow a gradual lifting of containment measures in time to allow the upcoming summer tourism season to start. We are currently penciling a decline in the Italian budget deficit/GDP ratio to 8.6% (from 9.5% in 2020) and an increase in the debt/GDP ratio to 158%

(from 155.6%) at the end of 2021.

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