Italy: More stimulus, with an eye on recovery

Italy's new stimulus package, while still compensatory in nature, has started to introduce some forward-looking features. Should a recovery materialise soon, as we believe, further emergency measures will not be needed

Long-awaited decree approved

The Italian government on Thursday approved €40bn of stimulus measures to support the economy. This spending has already been factored into the budget, and the increased deficit has been approved by both branches of the Italian Parliament. The specific measures took a relatively long time to develop, reflecting lingering uncertainty about local developments of the Covid-19 pandemic.

Still biased on compensatory measures for businesses, with a forward-looking tinge

Inevitably, at this stage of the Covid-driven recession, the new decree marks only a partial change from the recent past, and the bulk of the package remains compensatory in nature.

Some €15 will be used to provide disbursements to help out businesses affected by the pandemic. This will be done by extending the scope of protection and layering compensation to be more consistent with actual economic damages suffered. In order to support the economy and attenuate the impact of fixed costs on businesses' balance sheets, existing tax credits and tax cancellations for businesses have been prolonged, with special treatment for those acting in core tourism activities (hotels, tour operators, travel agents), who will be able to benefit until July 2021.

Another key part of the decree devotes some €9bn to refinancing measures meant to ease access to credit and liquidity for firms, and to incentivise businesses to recapitalise. The extension of the loan moratorium on principals until 31 December 2021, still somewhat backward-looking, is coupled with more forward-looking actions such as the introduction of a state guarantee on medium/long term loans, R&D related loans to PMIs, and the possibility of extending the fiscal benefit on capital increases and investments liable to super-amortisation.

Labour protection still a priority

Almost inevitably, with the economy in technical recession, some €4.2bn will be used to re-fund labour protection schemes and to introduce new tools for the recovery phase. The redundancy ban, due to expire by the end of June 2021, has been extended until 31 August, but only for firms tapping the Covid furlough scheme until the end of 30 June. Starting from 1 July, businesses using standard furlough schemes, will be exempt from their share of the cost provided they do not sack workers. Looking ahead, the decree introduces a new re-employment contract, allowing for temporary exemptions from paying social contributions in exchange for compulsory training and hiring. It also extends the so-called expansion contract which is meant to ease the turnover between workers close to pension age and young workers. This may be a possible harbinger of future active labour policies which will likely be part of the reform arm of the EU funded recovery plan.

The pure emergency phase should be over

The decree approved by the Italian government marks only a partial change from the recent past, adding a forward-looking component to compensation to support the economic recovery. The big question mark now will be whether this marks the end of extraordinary budgets. This will crucially depend on developments in the Covid-19 pandemic on the ground. As progress on the vaccination front has continued to be reflected in declining contagion and death toll numbers, the government has recently decided to accelerate the reopening schedule, with many key services (restaurants, shopping centres over the weekends) allowed to reopen by the beginning of June, and the rest (still subject to constraints) on 1 July. With vaccine availability no longer a constraint, the commitment to reopen faster looks credible, as is the forecast of a quick return to positive GDP growth in 2Q21, with a clear acceleration on the cards for the second half of the year. In principle, this should close the chapter on emergency budgets, leaving room for possible minor adjustments over the rest of the year. We are currently penciling in a budget deficit of 11.5% of GDP in 2021, falling to 6.7% in 2022 as most one-off support measures will terminate this year.

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