



Ministero  
dell'Economia  
e delle Finanze

**PROTECT HEALTH,  
SUPPORT THE ECONOMY,  
PRESERVE EMPLOYMENT  
LEVELS AND INCOMES**

*THE ITALIAN ECONOMIC RESPONSE TO THE COVID-19 OUTBREAK*

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## **PROTECT HEALTH, SUPPORT THE ECONOMY, PRESERVE EMPLOYMENT LEVELS AND INCOMES**

### ***THE ITALIAN ECONOMIC RESPONSE TO THE COVID-19 OUTBREAK***

On March 16<sup>th</sup> the Italian Government presented a 25-billion-euro package (accounting for 20 billion of net borrowing, 1.1% of GDP) as an immediate response to the COVID-19 outbreak in order to strengthen the Italian health care system and support companies, workers, and families. The aim is to protect citizens' **health**, support **businesses**, and preserve **employment levels** and **incomes**. The Government will step up its intervention to tackle the unfolding of the crisis.

The **four pillars** of the package are:

- 1. Strengthening the National Health Care System and the Civil Protection Department**
- 2. Preserving employment levels and incomes**
- 3. Pumping a huge amount of liquidity to help businesses and households**
- 4. Suspending tax payments and providing tax incentives for workers and businesses**

### **1. Strengthening the National Health Care System and the Civil Protection Department (3.2 billion euro)**

The Government has mobilized all the needed resources to ensure staffing and tools for the health care system, the civil protection department and law enforcement bodies in order to assist people affected by the disease and prevent, mitigate and contain the epidemic.

More specifically, the Government will proceed immediately to hire medical and nursing personnel to reinforce the units of the military health care services, and to involve the private hospitals. Rules have been introduced to allow, if necessary, the requisition of private facilities and properties in order to enhance medical facilities and health care networks across the country.

The Government has also streamlined the purchasing procedures for medical protection equipment. This allowed, among other results, the timely acquisition of 5000 assisted ventilation

equipment and millions protective masks. Delivery of such devices is currently in progress and will be completed within 45 days.

## **2. Preserving employment levels and incomes (around 10.3 billion euro)**

Preserving jobs and incomes is crucial to shield families and businesses from the economic consequences of the coronavirus pandemic.

To this end, the Government has allocated 10.3 billion euros to strengthen social safety net, in particular temporary unemployment benefits for employees in every productive sector, including businesses with less than five employees. The purpose is to keep people in employment and avoid firings due to a temporary crisis. This measure is complemented with an allowance of 600 euro for the month of March for self-employed workers – almost 5 million people who generally do not have access to ordinary social safety nets – and seasonal workers.

Other measures in the package include:

- Families may apply for a suspension of their mortgage repayment if business shutdowns caused by the pandemic threaten their livelihoods.
- Parents may claim up to 600 euro to pay for babysitting. Alternatively, they can apply for an extended parental leave of 12 days at 50% of their salary. In March and April, paid leave granted to people who look after a disabled family member is extended to 12 days per month instead of three days.
- Hiring of additional 1000 doctors.
- Additional resources to pay overtime work to police and security personnel.

These measures aim to protect workers' incomes and, at the same time, allow companies to re-organize the workplace to safeguard employees' health and safety.

Furthermore, on Saturday March 14<sup>th</sup>, the Government, the trade unions, and the employers' associations signed a Protocol defining a set of guidelines to ensure the maximum health and safety standards for workers who keep working. This also allows to ensure the application of containment measures on the workplace.

The implementation of the Protocol is expected to minimize the pandemic's impact on economic activity while ensuring uniform implementation of safety requirements all over the country, as defined by the health authorities.

### **3. Pumping up to 350 billion euro of liquidity to help businesses and households (5.1 billion euro)**

The government intends to prevent businesses and families from suffering from a collapse of revenues and a sudden lack of liquidity also caused by the credit crunch, as in the financial crisis of 2007-2008.

To support credit supply the Government's plan has allocated additional 5.1 billion euro that will leverage credit up to 350 billion euro to professionals and firms, in particular SMEs and MidCaps, and will top up this amount in order to further increase the guaranteed amount of credit for enterprises of any size.

The package consists of the following tools:

- Moratorium on loan repayments for small and medium-sized businesses, including mortgages and overdrafts (increased liquidity by 220 billion euro).
- Enhancement of the SME Guarantee Fund. The size of the Fund has been increased by more than 150% bringing the guaranteed funding from the current 40 billions to over 100 billions.
- Incentives for financial and non-financial companies to transfer non-performing or stranded loans through the conversion of their Deferred Tax Activities into Tax Credits. The intervention will allow businesses to access to additional liquidity and credit for up to 10 billion euro.
- State guarantee for Cassa depositi e prestiti (CDP), which will itself provide additional guarantees and liquidity to banks in order to allow the expansion of financing and liquidity for medium to large enterprises that do not benefit from the SME Guarantee Fund. A guarantee worth 500 million euro is expected to have a multiplier of 20, which can therefore generate new funds up to 10 billion.
- Further measures to support credit to all firms – large companies as well – through the banking channel, by including a guarantee on the first loss and/or subsidised financing, in line with the forthcoming temporary new state aid framework.

#### 4. Suspending tax payments and providing tax incentives for workers and businesses (1.6 billion euro)

The Government has suspended a number of tax payments to help taxpayers, and introduced tax incentives and credits to support the economy. The key measures included in the law-decree are the following:

- **Tax and social security payments due in March have been suspended for a large number of taxpayers.** These include all businesses and self-employed with turnover below 2 million euros, as well as taxpayers belonging to sectors heavily hit by the emergency (e.g. tourism, transportation, restaurants and cafes, movie theaters, amusement parks, organization of fairs and events). Once resumed, these tax payments can be made in up to five instalments. In addition, withholding taxes on the remuneration paid to self-employed taxpayers with turnover below 400.000 euros and without employees have been suspended for the months of March and April.
- **Tax controls, field audits, coercive collection, litigation and tax compliance obligations have been suspended until June.** There are some exceptions, such as the information that intermediaries have to file in order to populate the pre-filled tax returns for year 2019 and the tax payments that have not been suspended.
- **Tax credit for sanitation.** All expenses for sanitation, protection of workers and containment of the contagion benefit from a tax credit of 50% of the expenses incurred (up to a tax credit of 20,000 euro per taxpayer).
- **Special bonus for employees.** A bonus of 100 euros is granted to all employees who keep working with income below 40.000 euros, proportional to the days of presence at the work premises.
- **Tax credits and deductions for COVID-19 donations:** All donations in cash or in kind to support the containment of the contagion are deductible for corporations and generate a 30% tax credit for individuals (up to a tax credit of 20,000 euro per taxpayer).
- **Tax credit for commercial rents:** Stores and small shops which are closed because of the emergency are granted a tax credit equal to 60% of the rent for March.

**Additional measures in support to Central and Local Public Administrations, including Municipalities are worth 4.5 billion euro.**

### **Impact on deficit and on public finance sustainability**

The first package will lead to a net borrowing increase of about 1.1 percentage points of GDP (about 20 billion) in 2020 and to a temporary deviation, already authorized in both houses of the Italian Parliament by absolute majority of their components, from the adjustment path towards the medium-term objective.

The overall expenditure, limited to 2020, aims to ensure an increased capability to effectively deal with the extraordinary emergency and they will be treated, due to their nature of one-off expenses, as budget components that do not impact on the structural budget balance, which is a key indicator in national and European fiscal rules.

The temporary nature of this intervention will ensure that public finances sustainability is not jeopardized. The extraordinary intervention decided today is based on solid foundations, as evidenced by the excellent budget results achieved in 2019, with a growth in revenues higher than expected and a drop in net borrowing to 1.6% of GDP. It is the lowest deficit in the last twelve years and more than half a percentage point lower than both the 2018 figure and the forecasts formulated in October for the Draft Budgetary Plan. This is the result of policies implemented to fight against tax evasion and of a rigorous, coherent and credible behaviour of the Government, both on the revenues side and in containing public expenditure.

The debt-to-GDP ratio stabilized in recent years. The larger deficit needed for emergency interventions will probably lead to an increase in the ratio in 2020. In the next Economic and Financial Document, the Government will present a policy scenario consistent not only with a relaunch strategy for the Italian economy, but also with a declining path of the debt-to-GDP ratio in the three-year programming period and on a longer-term horizon.

## The European context

The measures implemented by the Italian Government are compatible with the European regulatory framework, as the European context has declared to be able to adapt existing rules to new needs by exploiting all the current and potential flexibility of the Stability and Growth Pact and by reviewing the State aid framework, revisioning margins and allowing States to act in a resolute and coordinated manner.

In this context, also the ECB strongly supports the commitment of the euro area governments and the European institutions to implement a joint and coordinated political action and adopted a package of monetary policy measures to support liquidity and financing conditions for households, businesses and banks and to help preserving the orderly credit flow to the real economy. Together with the significant monetary policy stimulus already in place, these measures will support liquidity and financing conditions for households, businesses and banks, will help preserving the regular supply of credit to the real economy and ultimately avoid fragmentation of the euro area financial system.

The Government is therefore working to ensure the highest degree of coordination and the appropriate level of ambition of the common European response to the Covid-19 crisis. Europe has decided to act and respond swiftly and flexibly to developments as they unfold making use of all instruments necessary to limit the socio-economic consequences of the outbreak. A first set of national as well as common measures have been put together while setting a framework for further actions to respond to developments and to support the economic recovery. In example by making structural funds fully eligible for meeting expenditures to tackle the epidemic crisis. These funds will contribute to the financing of the next package of measures.

Overall, the Government is determined to do whatever it takes to effectively address the current challenges and to restore confidence and support a rapid recovery. Italy was the first country in Europe in which the epidemic spread and will be the first to emerge from the crisis.