A “reality check” of the measures adopted by the Government to support the economy
28 April 2020

Telos A&S thought it could be an interesting exercise to do a *reality check* of the measures adopted by the Government in its latest economic recovery packages.
Here we are not talking about any new measure, but we are sharing the available data that can give you an idea of the extent to which these measures have been implemented, how many citizens and businesses have requested some form of financial aid (either directly to the State or through the banking system) and what issues they are confronting.

1. **Liquidity support for businesses guaranteed by the State through the banking sector**

a) In spite of the Government’s intention to mobilise private loans expeditiously through the provisions laid down by the two legislative packages adopted in mid-March (Decree-Law 18/2020) and early April (Decree-Law 23/2020), companies have encountered several major issues in accessing credit.

In particular:

- Although both Decrees-Law provide for a simplified procedure for the SMEs Guarantee Fund to grant loans covered by State guarantees, **the administrative burden on applicants remains high**. In compliance with the Decrees-Law, banks must still request a wide array of documents before granting loans, and reportedly many banks are requesting even additional paperwork. So far only a tiny minority of loan applications under this public guarantee scheme have been submitted by banks to the SMEs Guarantee Fund due to frequent formal errors by businesses.
- As regards loans granted to larger businesses under a State guarantee scheme through Export Credit Agency SACE, this mechanism may be triggered only upon the **signing of a memorandum between SACE and each individual bank**. So far only a limited number of larger credit institutions, e.g. Intesa Sanpaolo, have complied with this requirement.
- Applications by larger businesses are still subject to **creditworthiness assessments**, which further slow the process down. Based on the amount of the loan, SACE-guaranteed **credit lines may take up to 45 days to be granted**. Moreover, creditworthiness assessments are further complicated by the fact that several types of businesses are still likely to remain subject to certain restrictions as the lockdown is gradually eased, therefore it is **hard to anticipate their capability to pay back their debt**.
- In order to be granted State-guaranteed credit, **companies may need to receive a waiver by the banks to which they are bound by previous loan contracts**. In normal conditions, this procedure required a few weeks, but as the system is overloaded with countless waiver requests, it may take longer to grant them.
- In compliance with the Decree-Law 23/2020, **borrowing companies with non-performing exposures as of 31 December 2019 may not access State-guaranteed loans**. As a consequence, the companies which are most in need of aid are the least likely to get it at a time when they are even more fragile.

Telos *Analisi & Strategie* srl |Via del Plebiscito 107| Rome 00186|T. +39 06 6994 0838| telos@telosaes.it
www.telosaes.it

- Although interest rates on these loans usually range between 0.04% and 1,6%, some news outlets have reported instances were **banks apply significantly higher interest rates** (as high as 4.6% according to press sources), thus discouraging applications.
- **Credit supply capability has failed to meet demand**. New resources allocated by the Decrees-Law to the SMEs Guarantee Fund and SACE amount to €2.7 billion, which are estimated to be sufficient to mobilise no more than €20 billion in private loans, falling short of the €400 billion target set by the Government. It is safe to assume that the SMEs Guarantee Fund and SACE are moving forward cautiously pending the allocation of additional funds by the Government in the forthcoming fiscal package.
- According to the Italian Banking Association (ABI), **several banks are concerned by potential criminal prosecution**. In fact, should any of the businesses to which they granted credit fail and it is ascertained that they did not conduct proper creditworthiness assessments, they may be charged with offences such as conspiracy in fraudulent bankruptcy and unlawful loan granting.

b) The SMEs Guarantee Fund is sharing data on the number of applications received and the total amount of loans that the Fund will assist with its guarantee.

Between the adoption of **Decree-Law 18/2020** on 17 March 2020 and the publication on the first data on loan requests on 3 April 2020 (before the adoption of Decree-Law 23/2020 of 8 April 2020), **the SMEs Guarantee Fund received 9,972 applications (for a total amount of requested loans of €1.6 billion); most of the applications (8,697) were filed according to the eligibility criteria and the procedures laid down in Decree-Law 18/2020 (for a total amount of requested loans €1.5 billion).**
8,571 applications were accepted (for a total amount of €1.3 billion), of which 7,451 pursuant to the provisions laid down in Decree-Law 18/2020 (for a total amount of €1.2 billion).

We also have some very preliminary data on the loans assisted by the Fund's guarantee according to the criteria and the procedures laid down in the second package (Decree-Law 23/2020).

In compliance with the provisions laid down in **Decree-Law 23/2020**, **the banking system has begun accepting applications for loans of up to €25,000 guaranteed by the State through the SMEs Guarantee Fund only on 20 April**, although the Decree-Law dates back to 8 April, owing to the need to put the place the whole infrastructure to submit credit requests. **Applications for higher amounts will start being processed by the SMEs Guarantee Fund no sooner than on 27 April. By contrast, as stated above, applications by larger businesses for SACE-guaranteed loans remain contingent on the signing of agreements with each individual bank**.

Overall, as of 23 April, when the latest available data was published, the SMEs Guarantee fund received 17,881 applications, of which 16,368 according to the criteria and the procedures laid down by the latest legislative packages, for a total value of €2.6 billion.

Of these, 3,423 were applications for loans of up to €25,000 100% guaranteed by the State for a total value of €76.6 million.
So far, the SMEs Guarantee Fund has approved 12,600 applications for a total value of €2 billion.

By contrast, businesses have submitted approximately 200,000 loan requests to banks, which are still processing them before submitting them to the SMEs Guarantee Fund. It is worth noting that **an estimated 4 million SMEs and self-employed workers are eligible** to be granted loans by the SMEs Guarantee Fund.

2. **Economic aid to workers: income support schemes and other forms of direct cash payments**

Here, interesting data were shared by Pasquale Tridico, the President of the National Social Security Institute (INPS), which is the entity entrusted with most of the cash payments, during a parliamentary hearing.

a) The mid-March Decree-Law had allocated roughly **€5 billion** on top of the resources already available to INPS to fund income support schemes (for a maximum of 9 weeks) for workers whose employers had temporarily shut down their companies because of the lockdown. **Roughly 460,000 businesses have lodged their application for "ordinary" income support schemes** (either the ordinary lay-off scheme, s.c. *CIG - Cassa Integrazione Guadagni ordinaria* or other solidarity payments for workers who are not covered by CIG) **to INPS so far, for a total of 6.7 million workers.**
However, although the legislation in question has been in force for more than one month (since 17 March), **INPS is still not in the position to make any payment** – President Tridico said he is confident that payments will start within the end of April. This delay is not due to the covid-19 emergency: as a matter of fact, the bureaucratic procedure for INPS to grant these payments typically exceeds 2 months of the submission of the application.
So far, **more than 4 million workers out of the 6.7 million involved have been paid by their own employers** (including through the involvement of the banking sector), who will then be refunded by INPS. This leaves more than 2.5 million workers and their families without cash payments until INPS is ready to proceed.
Extraordinary income support schemes (s.c. *CIG straordinaria*) are even more complex to deliver, because the bureaucratic process involves the relevant Region which then passes the application on to INPS. Tridico told Parliament that **INPS has so far received roughly 60,000 applications from the Regions, and has only authorized roughly 2,000 of them, for a total of only 4,000 workers approximately.**

Another issue beyond the complexity of bureaucratic procedures is the **financial sustainability** of the applications received by INPS. Tridico said that **overall, the requests for income support schemes will generate additional spending of roughly €15 billion, which is three times what the Government had allocated in March**. This is why Tridico told Parliament that these schemes will need to be refunded with €25-30 billion going forward, which is what we were told the Government is planning to allocate in the next stimulus package.

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www.telosaes.it

b) Also, the mid-March Decree provided for a **one-off direct cash payment of €600 to a wide array of workers**, including self-employed professionals, workers under atypical/non-permanent employment contracts and workers in specific sectors (e.g. tourism) – basically those workers who are not hired under standard employment contracts and are not covered by the above-mentioned income support schemes.

Tridico told Parliament that **INPS has so far received 4.4 million applications and has authorized 3.5 million**, with around 500,000 applications still to be processed, while 400,000 applications were rejected **– which means that INPS will spend at least €2.1 billion.**
INPS started processing the requests in early April, and the payments are still underway, although in theory this was supposed to be an income support for the month of March.

c) Finally, the mid-March Decree and its implementing acts allocated **€200 million to fund a s.c. *"income of last resort"* for those self-employed professionals who are not covered by any INPS-managed social security programme** (because they are enrolled in private pension plans, managed by the pension funds run by the Association of their professional category). To be eligible for this income support, professionals must bring evidence that either their income in 2019 did not exceed €35,000 and their activity has been "affected" by the lockdown, or their income in 2019 was between €35,000 and €50,000 and due to the lockdown their turnaround in 2020 Q1 decreased by at least 1/3 vs. 2019 Q1.
In any case the income support to all eligible professionals is a **one-off direct cash payment of €600**, that is supposed to be paid by the relevant private pension fund which in turn will be refunded by the Government (up to €200 million).
The issue here is that it turned out that the number of professionals who are entitled to this one-off payment is much higher than it was originally foreseen, therefore the funds made available by the Government are not enough for private pension funds to make all the payments. More in detail:

- **Around 450,000 professionals applied for the income of last resort; 413,000 applications were approved.** This is an astounding figure: just to give a couple of examples, **more than half of Italian registered lawyers applied** (136,000 out of 245,000), as well as one third of accountants (27,000 out of 80,000) and 3/5 of surveyors (50,000 out of 80,000). Given the very high fraction of applications that were approved, you can get an idea of how much the lockdown has impacted the business of professionals.
- This means that overall, **private pension funds should now pay around €250 million, which is €50 million more than what the Government has pledged to refund.**
- Moreover, in many cases the payment is subject to an assessment by INPS, to verify that the professional in question is not enrolled in any INPS-managed social security programme – a requirement introduced by the Government at a later stage (early April), which obviously results in an even more lengthy process.

The result is that to date, only 270,000 professionals have received their €600 payment.

3. Beyond the implementation of the mid-March Decree-Law: the spread of poverty and the loss of irregular jobs is boosting applications for the citizenship income

The package adopted in mid-March did not bring any change to the existing citizenship income scheme.

What we are observing, however, is that **the applications for the citizenship income increased dramatically in February and March** (+142,000 households over 2 months which means +8.5% vs. January) compared to the trend observed in the previous months (e.g. in January the increase in the number of those applying for the citizenship income was only by 2.2% vs. December). It is also interesting that as always, **more new applications came from Southern Regions** like Campania (+320,000) and Sicily (+290,000) than from the Northern Regions that were hit the most by the epidemic like Lombardy (+178,000), Piedmont (+105,000), Veneto (+66,000) and Emilia-Romagna (+77,000).

It is reasonable to assume, although this cannot be confirmed, that this increase in applications for the citizenship income is among others due to the loss of irregular jobs, especially in the South, as those who lost irregular jobs were by no means covered by any social security programme.

This is why the Government is planning to widen the scope of the citizenship income in the forthcoming stimulus package.

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