IMF/FMI REPORT

Italy

COVID-19 has been spreading rapidly across the country. As of March 23, nearly 64,000 people have contracted the virus, and over 6,000 people have died. The government has moved resolutely with containment measures. In early March, a four-week nation-wide lockdown was announced. Travel is restricted and public gathering are banned. All schools and universities are shut. Non-essential productive activities are closed across the country until early April, with exceptions for supermarket and grocery stores, pharmacies, banks, public transport and essential public services.

Key Policy Responses as of March 23, 2020

FISCAL

- The government adopted a €25 billion (1.4 percent of GDP) emergency package. It includes (i) funds to strengthen the Italian health care system and civil protection (€3.2 billion); (ii) measures to preserve jobs and support income of laid-off workers and self-employed (€10.3 billion); (iii) other measures to support businesses, including tax deferrals and postponement of utility bill payments in most affected municipalities (€6.4 billion); as well as (iv) measures to support credit supply (€5.1 billion) aimed to unlock about €350 billion (20 percent of GDP) of liquidity for businesses and households (see below). The authorities indicated that additional steps could be taken if needed.

MONETARY AND MACRO-FINANCIAL

- The ECB decided to provide monetary policy support through (i) additional asset purchases of €120 billion until end-2020 under the existing program (APP), and (ii) providing temporarily additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) starting between June 2020 and June 2021. Further measures included an additional €750 billion asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Eurosystem refinancing operations (MROs, LTROs, TLTROs).

  The ECB Banking Supervision allowed significant institutions to operate temporarily below the Pillar 2 Guidance, the capital conservation buffer, and the liquidity coverage ratio (LCR). In addition, new rules on the composition of capital to meet Pillar 2 Requirement (P2R) were front-loaded to release additional capital. The ECB considers that the appropriate release of the countercyclical buffer by the national macroprudential authorities will enhance its capital relief measures. The ECB Banking Supervision further decided to exercise – on a temporary basis – flexibility in the classification requirements and expectations on loss provisioning for non-performing loans (NPLs) that are covered by public guarantees and COVID-19 related public moratoria; and recommended that banks avoid pro-cyclical assumptions for the determination of loss provisions. Furthermore, the ECB recommends that banks opt for the IFRS9 transitional rules.

Key measures adopted in the government's emergency package include: a moratorium on loan repayments for some households and SMEs, including on mortgages and overdrafts; state guarantees on loans to SMEs; incentives for financial and non-financial companies in the form of Deferred Tax Activities; state guarantee of €0.5 billion to the state development bank—Cassa Depositi e Prestiti—to support lending and liquidity to banks to enable them to finance medium- and large-sized companies.

The Bank of Italy have announced a series of measures to help banks and non-bank intermediaries under its supervision, in line with the initiatives undertaken by the ECB and the EBA. These include the possibility to temporary operate below selected capital and liquidity requirements; extension of some reporting obligations; and rescheduling of on-site inspections.

EXCHANGE RATE AND BALANCE OF PAYMENTS

- No measures.