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ITALY'S RESPONSE TO THE HEALTH CRISIS: Thinking today about the country's future¹

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An unprecedented crisis is unraveling before our eyes. The damage caused to people's and business' economic viability is being added to the losses and human suffering caused by the Covid-19 epidemic. Even the economic consequences, as well as those concerning healthcare, elude our ability to reliably predict developments in the coming months. The "consensus" forecast on the fall in Italy's GDP, currently 5% in 2020, would require the economy to start recovering at the end of May and to remain firm afterwards. This is an optimistic hypothesis. Other estimates place the fall in Italy's GDP well above 10%.

In this context, the task of the state is primarily to strengthen healthcare, ensure the functioning of essential activities and provide immediate and general insurance to incomes, jobs and the survival of businesses for as long as necessary. The state will have to mobilize resources that are three or four times greater than those currently estimated. In addition, it will have to carefully assess how to intervene in order to prepare for recovery after the fall. It is very important that all the measures are placed in a broader perspective than that of today and opportunity is found to support investments in production, which in the future will be the engine of the Italian economy's recovery in line with the new models of sustainable and efficient development.

The Italian government has reacted to the crisis with a decree (the "Cure Italy" Decree 18/2020), which contains important measures to support employment and the incomes of all those directly affected by the crisis, as well as to help businesses in difficulty survive. But the financial commitment outlined in this measure is insufficient. The comparison with similar initiatives taken in other countries seems to confirm this. Some concerns also regard the effectiveness of the promised interventions, which must be able to reach families, workers and businesses quickly, without running into obstacles in complicated conditions or access procedures.

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The new guarantees provided by the 'Cure Italy' decree leave outstanding loans and new finance for all businesses largely uncovered, while the expected increase in the Central Guarantee Fund for small and medium-sized enterprises (SMEs) is completely insufficient. Even before the crisis, Italy was characterized by a much lower amount of public guarantees for credit to SMEs than that of the other major countries: for example, 4.2% of GDP in Italy compared to 10-15% in Germany. In the current crisis, these guarantees play a crucial role not only in maintaining liquidity support for all businesses and VAT holders; but also to ensure the influx of resources made available by the ECB at largely negative rates. Without the guarantees, banks will be obliged to reduce credit as increasing risks make capital constraints more stringent. It is therefore urgent to double the allocation of the Central Guarantee Fund and quickly bring the percentage of credit to companies guaranteed by the state to 90%. The cost for public finance - estimated between half a percentage point and one percentage point of GDP - is certainly a game worth the candle: we are talking about the ability to keep hundreds of thousands of businesses alive, businesses that must absolutely not collapse because that would cause permanent damage to Italy's productive capacity. A further intervention to be improved is the suspension of tax and social security obligations, today subject to the incomprehensible size limits of companies.

Finally, the "Cure Italy" decree postpones measures that relaunch growth until further provisions are implemented. It is necessary that the first decree be quickly completed, as already anticipated by the Minister of Economy, by a second and more decisive legislative intervention aimed at longer-term challenges. In this regard, we would like to highlight some principles that should be taken into consideration.

First, support for the economy should include investments that favor the transformation of activities in such a way as to mitigate the present distress and to facilitate future recovery, particularly if the health emergency lasts until the introduction of vaccines or the attenuation of the infection. Second, the sectors to be safeguarded must be identified with greater precision and transparency, starting with those for the development of healthcare facilities or the digitization of distribution networks, and their future development must be assessed: for example, the creation of hospitality and healthcare facilities in the South or the technological and digital development of activities across the country. In this case, procedures must be adopted that would allow for the drastic reduction of the implementation time of capital expenditure. More generally, it is necessary to take advantage of the systemic nature of the current crisis to anticipate the inevitable transformations required both by new digital technologies and the challenges posed by sustainable growth, which today more than ever must include the health sector. One way to do this is to support investment in innovation. Finally, it is necessary to begin to prepare social insurance systems adaptable to the new conditions of the economy.

The overall size of the interventions needed immediately is probably in the order of 5-10 points of GDP, depending on what the size of the shock will be. It should be emphasized that the announced purchase of public securities by the European Central Bank is such as to broadly compensate for this greater deficit, therefore it can be expected that there will be no problems in allocating the securities necessary to cover the greater needs. Overall, central banks have created unprecedented liquidity and it is vital

that Italian banks and companies equip themselves to direct it to the real economy. This does not exclude, however, the need to use all European channels of financial support - from the EIF, to the European Mechanism for Financial Stability, to the European Investment Bank. European support is also important to strengthen the credibility of the public guarantees that the Italian government is called to provide in this difficult situation. The government should also examine any modalities capable of strengthening the direct contribution of Italian savings to the support of expenses for dealing with the crisis and the large investments for the future, for example by evaluating the feasibility of an ad hoc bond loan, as has already been proposed.

In this context, consideration should be given to the possibility that Italy will use an 'increased' precautionary credit line offered by the European Stability Mechanism (ESM), which could go up to 2 percentage points of its GDP. With two considerations: the credit maturity of the ESM appears too short; and, above all, the economic policy conditionalities for the loan should be limited to the good use of resources to face the health emergency. The use of the ESM loans, among other things, would open the way to the possibility of unlimited ECB interventions in case of need.

Just when a challenge seems insurmountable, one must have the ability to look beyond. It is necessary to imagine how the Italian economy can emerge transformed by this test. We see the need for adequate research and health care facilities, but we also feel the importance of an adequate level of digitization of activities across Italy that makes the system of distribution networks of goods and services more efficient. We have also been aware for some time of the need for an environmental conversion of production activities and infrastructures. The financial resources available, partly from the European Union, must be immediately directed towards projects that are useful for today and tomorrow. By supporting families, workers and businesses without savings, facilitating the rapid improvement of the Italian economy and investing for the future, the state will offer citizens a picture showing the recovery of their active life, a picture around which they could rebuild trust in their future.