Memorandum on Bill C. 3132 ratifying Decree Law 73 of 25 May 2021 (Support II Decree)

Summary

The Chairman of the Parliamentary Budget Office (PBO), Giuseppe Pisauro, sent the Budget Committee of the Chamber of Deputies a memorandum on the bill ratifying Decree Law 73/2021 (the "Support II Decree") containing additional urgent measures related to the COVID-19 emergency for firms, work, young people, healthcare and local services.

In addition to discussing the contents of the measure and their impact on the main public finance aggregates, the memo offers specific analyses of the main interventions, which on the one hand extend measures already adopted in previous emergency measures and, on the other, introduce a number of new programmes.

The measures contained in the decree law have an unfavourable **financial impact** on general government net borrowing essentially in 2021, in the amount of €39.1 billion (2.3 percentage points of GDP), which declines to around €900 million in 2022 and about €70 million in 2023. Especially in 2021, the effects differ if they are expressed in terms of the general government borrowing requirement or the net balance to be financed (NBF) of the State budget, rather than general government net borrowing: in terms of the borrowing requirement, the impact comes to €38.4 billion, while for NBF it rises to €41.8 billion. These financial effects, added to those of Decree Law 59/2021 – establishing the complementary fund to the National Recovery and Resilience Plan and other urgent measures supporting investment - are consistent with the request for authorisation of a deviation in the deficit contained in the Report to Parliament of 15 April, which was subsequently approved by the houses of Parliament.

The most substantial package of measures concerns **support for firms**, which totals €27.3 billion in 2021 (-€0.7 billion in 2022 and -€0.5 billion in 2023). These are mainly extraordinary measures continuing those already envisaged in 2020 and in the first Support Decree of April 2021. Some measures, however, for example, those relating to grants, access to guarantees and capitalisation incentives, reflect an intention to begin a gradual phase-out of emergency measures.

First, the measures are aimed at directly supporting firms' operations, providing for two new grants, more specific measures to help firms meet their costs and the renewal of some measures extending tax deadlines.

More specifically, the decree provides for an immediate grant to be paid on the basis of the average monthly decline in turnover (calculated alternatively on the basis of the calendar year or on the period April 2020-March 2021 compared with April 2019-March 2020) and an additional grant to be paid in the second part of the year that will be determined on the basis of profit for the year, to be disbursed net of grants already received by the beneficiary under all anti-crisis decrees, including Support II.

Two comments are in order concerning this latter grant. First, the measure defers to a future decree of the Ministry for the Economy and Finance the determination of the eligibility requirement – i.e. the minimum decline in annual profit that beneficiaries must report in order to be eligible for the grant – and the percentage of relief to be applied to that decline to specify the gross amount of the grant. It should be borne in mind that in order for the measure to be considered by the European Commission to be compatible with the requirements for uncovered fixed cost support contemplated in Section 3.12 of the State Aid Temporary Framework, two requirements must be met, among others: 1) the measure must be targeted at undertakings that have suffered a decrease in turnover of at least 30 per cent compared with the same period in 2019; and 2) the firms must have incurred a loss, since the measure is intended to provide relieve for fixed costs incurred by companies not covered by profits. Therefore, the current generic reference to only a deterioration in performance is not sufficient because it does not preclude access to the measure for firms that, despite having seen profit decline, remained profitable in the eligible period. Furthermore, again according to Section 3.12 of the Temporary Framework, aid can be granted on a preliminary basis on the basis of forecast losses, but the definitive amount must be determined on the basis of actual ones stemming from audited accounts for the eligible period. Aid received in excess of the amount due on the basis of actual losses shall be recovered. Second, the provision in the Support II Decree, although not yet specified in detail, envisages the possibility of taking account of actual losses, which for many firms cannot be effectively represented by the reduction in turnover alone, but applying for the grant is optional and therefore applications will only be filed by those who will actually benefit. Consequently, if, on the one hand, the new grant makes it possible to compensate companies that had previously been excluded on the basis of the turnover criterion, on the other, it does not address the distortions and inequities, which have been noted on multiple occasions, engendered by the choice of eligibility criteria (loss of turnover calculated with reference to a single month and restriction of aid to firms in sectors with specific Ateco codes).

As regards the support for business costs, the provisions essentially regard the renewal and extension of measures already introduced with Decree Law 34/2020 and Decree Law 41/2021 (for example, relief for rent on non-residential properties and payments for business leases or electricity consumption). Finally, the decree law also extends the suspension of payments related to tax payment notices and executive tax assessment notices issued by the Revenue Agency and payment notices issued by social security institutions.

Second, the decree law also contains measures to benefit the sectors most affected by the restrictive measures imposed in response to the pandemic (entertainment, cinema and audio-visual, publishing and places of culture, the trade fair industry and winter tourism operators). These measures essentially refinance funds established previously and extend the tax credits and tax and contribution exemptions granted since March 2020.

Third, in order to continue to support corporate liquidity by facilitating access to credit, the exceptions to ordinary rules for granting guaranteed loans to large firms and SMEs, respectively, through the Guarantee Italy Fund of SACE and the Guarantee Fund for SMEs of Mediocredito Centrale have been extended to the end of 2021. To enable the latter to operate, its envelope will be increased by €1.86 billion in 2021. Overall, since the beginning of the pandemic, the SME Fund has been granted appropriations to cover the risk of financial losses associated with firms' probability of default amounting to €19.7 billion. Between March 17, 2020 and May 21, 2021, the Fund received a total of 1,625,801 applications involving €152.9 billion in financing. The moratorium on the repayment of loans has been extended under the same terms as the SACE Fund and the SME Fund. The liquidity of companies has also been boosted with the extension to 2021 of the incentive for assignment sale of non-performing receivables, a measure that could be particularly attractive for financial companies but which could also benefit companies in the non-financial sector in relation to the volume of such receivables they are capable of assigning. The decree law also provides for the following measures: the possibility of using the tax credit for new capital goods in a single annual instalment; the refinancing of the Fund for the support of large enterprises; additional lending support measures, again through the SME Fund, with new public guarantee instruments for portfolios of both new medium/long-term loans for research and development projects and bonds issued to implement qualifying business development programs. Finally, in order to encourage the use of alternative financing channels other than bank credit, the eligibility conditions for the Italian Guarantee for certain bond loans have been eased for large companies.

Fourth, specific measures are envisaged to encourage the capitalization of companies. These measures are intended to restore financial balance by offsetting the extraordinary measures taken to facilitate the access to bank credit. In particular, the allowance for corporate equity (ACE), introduced in 2011, has been strengthened. The preferential treatment is structured so as to generate greater liquidity for companies already in 2021 and represents an important incentive for firms to expand their capitalisation and thereby to rebalance their financial structure (the benefit has been increased by almost 99 per cent compared with the ordinary ACE mechanism). For individuals, capital gains on the sale of holdings in the capital of start-ups and innovative SMEs have also been exempted from tax. Finally, tax incentives for business combinations have been introduced.

With regard to the **labour market**, the decree law continues to provide support for the employed (payroll employees and the self-employed) and those who have lost their jobs. However, compared with the previous anti-crisis decree laws, the intention of phasing out the extraordinary programmes implemented to counter the consequences of the pandemic is evident (as in the case of measures for firms).

For employers insured under the ordinary wage supplementation programme (CIGO), the COVID-19 justification for benefits and the moratorium on layoffs for economic reasons both expire on July, 1st. To mitigate the impact on the labour market, the decree law allows employers to draw on CIGO and CIGS (special wage supplementation) benefits for ordinary reasons up to the end of the year on more advantageous conditions than those under the rules set out in the Jobs Act. Firms experiencing severe distress can receive 26 weeks of wage supplementation that does not count towards the cumulative ceiling on the duration of such benefits, without co-payments for drawings, and higher benefits for employees. All others will not have to pay the co-payment for drawings but the cumulative limit on benefit duration and the benefit level under the Jobs Act will be restored. The recent trends in production, turnover and orders suggest that in any case these employers will neither find it necessary nor beneficial to layoff large numbers of employees. It is estimated that around 70,000 workers could lose their jobs, almost exclusively in industry, given that in construction – the other sector normally insured by CIGO – net activations of all three types of employment contract (fixed-term, open-ended and apprenticeship) have already increased. Any layoffs will likely be staggered over time as opportunities for normal turnover and reorganisation of the workforce materialize and some of these could be channelled through the preferential CIGO/CIGS programmes. The elimination of the moratorium on layoffs will boost employment policies for job seekers, especially young people, who have seen employment opportunities disappear in recent months.

To address the critical issues facing the labour market, the decree law also strengthens other structural pre-crisis programmes that can now take up the burden in the less acute final stages of the crisis. Until the end of the year, NASPI unemployment benefits will not be cut as the duration of benefit receipt increases, the number of months of CIGS benefits have been increased to 18 for companies that are closing down but with the possibility of sale to new buyers and relaunch, and the pool of companies that can use the expansion contract for workforce reorganisations has been expanded. This latter instrument seeks to stimulate new permanent hiring through company-level agreements between the social partners that may provide for reductions/suspensions of working hours or redundancies pending achievement of pension requirements.

The progress of the vaccination campaign and the economic recovery will help mitigate the impact of the expiry at the end of October of the moratorium on dismissals for the large number of employers that are not covered by the CIGO programme. For those, the provisions of Decree Law 41/2021 are confirmed.

Among the innovations introduced there is the re-employment contract, a type of permanent contract of an exceptional nature – it can be used from 1 July to 31 October 2021 – aimed at encouraging the return of unemployed workers into the labour market. For the activation of open-ended contracts, employers will benefit from full contribution relief for six months on the condition that they hire unemployed people on the basis of individual programmes for professional retraining.

The decree law grants a new **one-off allowance** – the eighth since March 2020 – to individuals belonging to certain marginal categories of payroll employment and self-employment who have been hit most severely by the crisis. The measure is targeted both in general at the most vulnerable categories (including seasonal and on-call workers and door-to-door sales people) and at certain specific sectors that are still being severely impacted by the crisis and the restrictions imposed on movement (including tourism, entertainment, sports and fishing). The pool of potential beneficiaries is largely the same as that delineated in the decree laws issued since August 2020 (DL 104/2020, DL 137/2020 and DL 41/2021). Compared with the one-off payment provided for in the first Support Decree, the per capita value of the benefit is smaller but overall expenditure is greater because fixed-term agricultural workers are now eligible to receive the allowance.

Four additional monthly **Emergency Income** payments for the months from June to September have been granted on the basis of April 2021 income, in addition to the three already provided for in the first Support Decree for March-May. The measure is officially estimated to cost €884.4 million, thereby raising the total expenditure limit for the Emergency Income programme to €1,547.7 million for the seven monthly payments currently envisaged for 2021. This amount, plus the €8.4 billion in benefits paid out under the Citizenship Income programme, brings total anti-poverty spending in 2021 to around €10 billion.

Data on Emergency Income disbursements for March, April and May 2021 are still not available. However, it is possible to produce an initial reconstruction of spending in 2020. Households granted the benefit in 2020 under the provisions of the various decree laws issued during the year numbered 426,000, with an average benefit of €550 paid for an average of 3.5 months for a total cost of about €830 million. Of these, 183,000 households received five months of benefits, 19,000 received four months, 70,000 three months and 154,000 two months. About half of the beneficiaries of the Emergency Income would have also met the income and wealth eligibility requirements in the pre-COVID period and just over a third would have met the eligibility requirements for the Citizenship Income without however having applied for it.

The financial effects of the measures in the **healthcare** sector are mainly concentrated in 2021, when the financing to the National Health Service (NHS) is increased by €538 million, gross of taxes and contributions charged to employees (€101 million). A further €1.65 billion have been appropriated for the interventions of the Special Administrator, while a fund of €500 million has been established for Italy's participation in multilateral initiatives to finance global public goods in the health and climate field. Just under €90 million have been granted to the military healthcare system (mostly capital expenditure). For the years after 2021, the effects on net borrowing mainly concern the grant of a tax credit to companies for research and development of innovative medicines and vaccines. Experience has shown that while it is important to strengthen public research, it is also advisable to link grants to private-sector companies and public-private initiatives to public health and open science research objectives.

In addition, the mechanism for allotting resources among the Regions was revised for 2021 in order to quickly determine the NHS budget, both by reducing the general funding distributed on the basis of the age-weighted population, and by increasing the "reward portion", which can be used with a certain degree of discretion. This measure, which is again implemented in derogation from Decree Law 68/2011, which had provided for the introduction of additional parameters as well as demographic parameters, nevertheless is announced as a step forward in the planned revision of allocation criteria. It would be appropriate to undertake a constructive assessment of the possibility of adopting broader parameters, which could probably rebalance the effects of a weighting based exclusively on demographics with the consideration of aspects such as social and epidemiological conditions, rather than resorting to provisional policy measures to implement such balance, while implementing incentives to improve the quality of services.

Among the various measures involving **local authorities**, some renew or extend programmes already adopted with earlier legislative measures to combat the impact of COVID-19 and with the 2021 Budget Act, while others introduce significant new initiatives in response to a variety of needs.

The main measures include the following: an increase in the 2021 allocation to the fund for the support of local public transport companies (€450 million); the renewal for 2021 of a fund (€500 million) for municipalities to finance food solidarity measures and provide support for the household expenses (rents and utilities) of households in need; the allocation of resources (€600 million) to offset the decrease in revenue from the tax on municipal waste collection due to relief measures granted to the economic sectors affected by mandatory closures or other restrictions; the establishment of a fund in the budget of the Ministry of the Interior (€500 million for 2021 only) to reduce the deficit of local authorities following ruling no. 80/2021 of the Constitutional Court; and €100 million to refinance the fund for regions and autonomous provinces to be allocated to mountain municipalities in ski areas.

Appropriations for **education, research and educational poverty** total €777.7 million for 2021, €285 for in 2022 and €170 million for 2023 and 2024. For 2021, €477.7 million have been allocated to schools, €120 million to research and €180 million to combatting educational poverty. Appropriation in the following years regard research, with the exception of 2022, for which €115 million have been allocated to combat educational poverty and support community welfare. Some of the provisions in in the decree law are organisational in nature and therefore do not entail new or greater public spending.

Some of the measures continue those adopted previously (containment of epidemiological risk, training opportunities and combatting educational poverty), while other introduce new initiatives (methods of recruiting teachers, Italian Research Fund) designed to remedy a number of critical issues typical of the sector.