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State aid: Commission approves Italian recapitalisation scheme for financial institutions

The European Commission has approved an Italian aid scheme aimed at supporting the financing of the real economy by providing capital instruments to fundamentally sound financial institutions. After intensive exchanges with the Italian authorities, the Commission found the scheme, as amended, to be in line with its Guidance Communications on state aid to overcome the financial crisis (see IP/08/1495 and IP/08/1901). In particular, the measures are limited in time and scope, require market oriented remuneration and contain enough incentives to redeem the state participation over time, as well as sufficient safeguards to avoid abuses. The Commission therefore concluded that the scheme is an adequate means to restore a serious disturbance of the Italian economy and as such compatible with Article 87.3.b of the EC Treaty.

Competition Commissioner Neelie Kroes said: "The Italian recapitalisation scheme provides effective means of strengthening confidence in the markets and, above all, of financing the real economy in a period of crisis, while at the same time establishing safeguards to limit distortions of competition".

The Italian recapitalisation measures provide for the possibility for Italy to subscribe subordinated debt instruments, to be counted as bank core tier 1 capital. The global budget will be around €15 - 20 billion.

Only fundamentally sound banks as determined by their credit default swaps spread level, their ratings and the additional assessment to be made by the Bank of Italy will be eligible for the recapitalisation.

Capital endowment will be within 2% of the banks' risk weighted assets and in principle within a level of 8% of tier 1 capital.

The distortive effect of the recapitalisation is minimised by various remuneration conditions including fixed step-up clauses, increases in remuneration linked to dividend payments and a link of the remuneration with the financing cost of the Italian state. In order to give banks an incentive to redeem the state participation once the crisis is over and to allow a return to normal market functioning, a redemption price higher than the nominal value and increasing over time has been introduced. Conditions relating to dividend policy, management remuneration, behavioural commitments and an ethical code are also included in the conditions of the recapitalisation. The Bank of Italy will regularly monitor how the funds will be put to use to sustain lending to the real economy.

The measure is fully in line with the newly adopted Commission guidance on bank recapitalisation (see IP/08/1901).

The Commission found the scheme and the commitments to constitute an appropriate means to restore confidence in the creditworthiness of Italian financial institutions and to stimulate lending to the real economy. The measures are well-designed and interventions will be limited to what is necessary to achieve the stabilisation of the Italian financial sector.

A report on the functioning of the scheme will be submitted to the Commission every six months. The possible need to either prolong the scheme beyond six months from its adoption or to introduce amendments will be notified to the Commission. This will enable the Commission to verify that the measures are maintained only as long as the financial crisis so justifies.

The non-confidential version of the decision will be made available under the case number N648/2008 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.