



Italian Government Approves Banking Support Measures

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Italy's Economy Minister Giulio Tremonti on Wednesday (25 February) signed a decree putting into action a number of banking support measures. The scheme will see banks issuing bonds which the conservative government will buy. In exchange banks will get additional capital to boost their balance sheets. According to the government, the bonds will have an annual yield of between 7.5% and 8.5%, with this expected to increase gradually. In return for government purchase of bonds, banks will be required to increase lending to small- and medium-sized enterprises and individuals as well as providing assistance with mortgage restructuring for those on unemployment benefits. The banks taking part in the scheme will also be obliged to put limits on executive and trader pay.

The government has allocated up to 12 billion euro (US\$15.4 billion) for the scheme. Significance: The Italian government has taken a long time enacting the banking support measures which were initially presented last year as part of the wider 80-billion-euro economic stimulus plan (see Italy: 1 December 2008:). Although Italian banks have not been drastically affected by the credit crisis, the country's deteriorating financial and economic outlook as well as the fact that the majority of European banks have received state funds helping them to boost capital ratios, has prompted the conservative government into providing assistance. Local newspaper La Repubblica has indicated that UniCredit SpA and Intesa Sanpaolo will each receive 3 billion euro in state aid while Banca Monte dei Paschi di Siena SpA and Banco Popolare will both receive 1.5 billion euro. The bond issuance is expected to help the banks achieve Core Tier 1 ratios of at least 8%. Contrary to initiatives launched throughout Europe, the government will not become a shareholder in participating banks, limiting taxpayer's exposure should the situation deteriorate. Instead, the banks will pay interest rates on the bonds giving the package a more market-orientated feel than other packages in Europe where numerous banks have been nationalised. The package is unlikely to prove revolutionary and the best that can be hoped for is that it prevents a significant deterioration in banking stability and wider economic outlook, and IHS Global Insight is predicting that Italy will not start coming out of recession until 2010.

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