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Italy

Bad bank measures seen as 'silver bullet' for economy

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Italy plans to launch a series of bad bank-style measures as early as the end of the year as it seeks a "silver bullet" to boost its weak economic recovery, senior officials say. The measures are designed to reduce the country's €330bn pile of non-performing loans.

Such a move raises the prospect of a confrontation with the European Commission, which has so far rejected draft plans presented by the Italian Treasury, arguing that any state intervention would qualify as state aid.

According to several senior Italian officials, one plan under discussion involves the bulk of Italy's non-performing loans being put into a privately held vehicle in which senior debt would be guaranteed by the state, probably through the state development agency Cassa Depositi e Prestiti.

The aim would be to reduce the gap between the price at which banks are offering to sell the loans and the price private entities are willing to pay for them. This gap has remained stubbornly wide as private investors are concerned about the ease with which soured loans can be clawed back in Italy.

One senior government official said a clean-up of non-performing loans would be the single most effective "silver bullet" for boosting Italian growth.

"The aim is to create a structure with as little involvement of the state as possible," to avoid triggering European Commission rules on state aid, said another senior Italian official, speaking on condition of anonymity.

Nonetheless, bank chiefs remain sceptical. "It would be a miracle if they manage to convince the EU," said the chief executive of one of Italy's largest banks. The move comes as the government of Matteo Renzi, prime minister, stiffens its resolve to shore up Italy's banking sector, which is still weak from the eurozone debt crisis and remains a drag on lending to the real economy.

The cabinet was due to meet yesterday for an emergency session, while markets were closed, to decide how to inject €2bn to save four small banks — Banca Marche, CariFerrara, CariChieti, Banca Etruria — taken under state control in the past year owing to insolvency.

Again, Italy's plans to rescue the banks using money from a national fund, paid for by Italy's banks, have faced opposition from Brussels on the grounds that they would constitute state aid, according to several people.

Italy's stock of non-performing loans hit €330bn in mid 2014, according to the International Monetary Fund. It has barely slipped from that level, with a knock-on effect on bank lending. Credit flow to small businesses, which make up the bulk of the Italian economy, remains stagnant, according to the Bank of Italy.

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For the government, encouraging businesses to increase investment in the real economy is crucial to bolstering the recovery.

Most recent data show Italy's economy grew by a disappointing 0.2 per cent in the third quarter.

Echoing growing concern among Italy's business leaders, Citi analyst Giada Giani wrote last week that while the country had seen momentum for reform pick up over the past two years, the impact on growth was probably limited as signs of improvement to overall competitiveness were scant.

"Once the monetary and fiscal stimuli fade, we reckon Italian GDP growth is unlikely to exceed the 0.75 per cent to 1 per cent range," Ms Giani wrote.