Italian Government Measures for Exporters in Times of Crisis.

Danilo Carmine Guaglianone and Tobias Mauderer

IfTI Working Paper 10(2020)
1. Introduction

According to Malaket (2020) ‘trade financing is required to enable trade’ (p.469). Statements like this are certainly put to the test in the current exceptional situation. The COVID-19 outbreak from fall 2019 in China followed by a worldwide spread continues to keep economies in suspense. Especially Italy, which got hit badly and unexpected, resulting in a complete lockdown for the whole population and a partial shutdown of the economy, suffers extremely from the impacts (FAZ, 2020). Devastating pictures of military trucks transporting dead people out of cities and overcrowded hospitals went around in the media (Sueddeutsche Zeitung, 2020a). Getting in this situation already suffering from previous economic challenges – like e.g. the public debt and a low GDP increase – led to exceptional strains (Wirtschaftskammer Österreich, 2020a). In the European Union Italy’s financial situation is considered highly concerning (European Commission, 2020a). Furthermore, the quick arrival of the virus and the resulting economic impact caused a lack of liquidity in particular for SMEs, which are one of the most important pillar for the Italian export economy (White&Case, 2020, OECD & World Bank, 2017). Especially export finance appears to be an important instrument in putting struggling economies back on track (Malaket, 2020).

Considering these difficult circumstances, the aim of this research is to analyse in two sections the released measures by governmental institutions to support Italian exports. The first part of this research gives an overview of the Italian export economy and examines the economic damage caused by COVID-19. In the second section, which is the main part of this research, the direct and indirect export related support programmes of the Italian government are presented and the Italian export credit agency SACE is analysed in an international comparison. This research is fully based on quantitative and qualitative secondary data of
leading institutions (e.g. OECD) as well as from national (e.g. SACE, ISTAT) and international offices (e.g. EKF, bpifrance) and follows a descriptive approach.

2. Background of the Italian Economy and Impact of the Coronavirus

2.1 Italian Export Economy

Based on the annual GDP Italy is currently the third biggest member state of the Eurozone and the eighth largest global economy (International Monetary Fund, 2020). Furthermore, Italy ranks in ninth place worldwide regarding their export activities, which amounted up to 544.4 billion USD in 2018 (ISTAT, 2019a). From this figure it is apparent that a huge part of the Italian GDP of approximately 30% depends on the export activities (Trading Economics, 2020). In 2019 the Italian Peninsula had a positive foreign trade balance of 59.2 billion euros, coming from a negative balance of 40 billion euros in 2010 (Wirtschaftskammer Österreich, 2020b; OECD, 2019). The most significant export industries are machinery, textile products, means of transport, metal products, food products and chemical products as illustrated in figure 1 (ISTAT, 2019b).

![Figure 1: Export Industries of Italy in 2018](source: Own illustration following ISTAT, 2019b, p. 542.)
In 2018 the major sales market was by far the European Union (EU) with a share of 59% followed by Asia with 11.6% and non-EU countries with 9.9%. The most important export countries in 2018 were Germany with an amount of approximately 58 billion euros, followed by France with 48 billion euros and the United States with 42 billion euros (ISTAT, 2019b). To reduce the competition Italy has to face with low cost countries, export goods have developed since 2010 towards higher value products (OECD, 2019).

Additionally, it is interesting to take a closer look at the regional origin of Italian exports. According to ISTAT (2019b) over 70% of total export goods are prevenient from regions, which are situated in northern Italy like e.g. Lombardy (27.4%) and Emilia-Romagna (13.7%). In contrast, less than 8% of the exported goods are originally from southern Italy. The remaining exports arise from the central regions of Italy and the Italian islands. Furthermore, there is a huge difference in the rate of industrialization between the north and the south of Italy. The industrialized northern regions are wealthier and have a fewer unemployment rate than southern Italy, which has a more agricultural background (NWZ Online, 2015; OECD, 2019).

In Italy more than 125,000 companies maintain business relations with foreign partners, while 50% of them belong to the manufacturing industry (ISTAT 2019c). Moreover, the landscape of exporting companies is dominated by the small- and medium-sized enterprises (SME), which contributed more than 50% to the total national export activities in 2017 (ISTAT 2019b). Regarding the contribution of SMEs to gross manufacturing direct exports, Italy showed the second highest contribution rate worldwide in 2012 (OECD & World Bank, 2017).

2.2 COVID-19 affecting the Italian Export Economy

COVID-19 hit Italy unexpectedly. On 23rd June 2020, there were more than 238,000 cases of infection of which over 34,000 led to death (NZZ, 2020). Due to the rapid spread of the virus, which is assumed to be caused by an undiscovered chain of infections in Lombardy, the Italian government reacted with a complete national lockdown starting from 9th March 2020. From this day, residents were only allowed to leave their house with a special permission for essential activities, like e.g. visiting a doctor, buying groceries or medicines, walking their dog or going to the ATM (Sueddeutsche Zeitung, 2020).

Before focusing on the economic impacts of COVID-19 in Italy, it is important to discuss the principal economic effects of the pandemic. The COVID-19 crisis led globally to several economic impacts, which can be described by the four drivers: offer, demand, uncertainty and finance (Italian Trade Agency, 2020). First, there are offer-related implications, which have been caused due to partial and total shutdowns of corporate activities resulting in interrupted value and supply chains (Italian Trade Agency, 2020; Monducci, 2020). These prescribed shutdowns in high affected nations (e.g. Italy and Spain) have also huge economic effects on other less contaminated countries due to their rising difficulty to import goods needed for production (Baldwin & Weder di Mauro, 2020; Baldwin & Tomiura, 2020). Second, there is a huge loss of demand caused by the lockdowns (Italian Trade Agency, 2020; Klasen, 2020a; Monducci, 2020). The principal reasons for this drop are especially the decreasing productivity causing diminished incomes, which result in a sharp decline of consumption (Monducci, 2020), and the sinking physical coincidences of consumer and goods or services (Baldwin & Weder di Mauro, 2020; Baldwin & Tomiura, 2020). Third, there are postponements of purchases and investments resulting from the rising uncertainty due to...
the unpredictable consequences of the COVID-19 crisis (Baldwin & Weder di Mauro, 2020; Baldwin & Tomiura, 2020; Italian Trade Agency, 2020). This uncertainty is also shown in the fourth driver finance resulting in form of high volatility, sharply declining asset valuations and augmenting flight-to-safety transactions (e.g. buying gold) (Italian Trade Agency, 2020; Monducci, 2020).

In regard of Italy, there is a huge uncertainty, which can be proved by the development of the monthly tracked Economical Sentiment Indicator (ESI) of the European Commission. According to the latest report, the ESI of Italy dropped from 101.3 points in February 2020 to 71.2 points in June by reaching the all-time low point with 63.0 points in May 2020 (European Commission, 2020b). In the first quarter of 2020, Italy suffered a decline of the GDP by 4.7% with even worse expectations for the upcoming second quarter (Banca d’Italia, 2020). In addition, there is also a strong decrease regarding the Italian business activities with foreign countries. As shown in figure 2, the Italian exports and imports suffered a dramatical drop of 18.9% and 18.3% in comparison to the past quarter. On an annual basis the numbers are even more tremendous as the exports have diminished by 41.6% (ISTAT, 2020a).

![Figure 2: Italy's Foreign Business Activities in million euros](source)

Even the economic activities with the main export partner, the EU (in particular France, Germany and Spain), declined sharply by 39.4% while those with third countries (e.g. USA and China) fell even more (-44.0%) (ISTAT, 2020a). Focusing the impacts of COVID-19 on the exports by industry, there is a significant drop regarding the exportation of machinery and appliances not otherwise specified (-50.9%), motor vehicles (-86.1%) and apparel (-71.9%). There is only one sector with augmenting exports consisting of pharmaceutical, chemical-medical and botanical articles (+16.7%) (ISTAT, 2020a).
3. Government Support Measures for Italian Companies

3.1 Italian Government responding to COVID-19

According to Fornaro and Wolf (2020) there is principally a need of governmental actions to overcome the negative economic effects of the COVID-19 crisis by boosting aggregated demand with fiscal and monetary measures. As illustrated in table 1, the Italian Government provides programmes worth 225.0 billion euros to diminish the impact of the pandemic, which correspond to over one eighth of the annual GDP. More than 88% of these measures aim to enable access to liquidity for corporate and private households (Italian Trade Agency, 2020). Only France and the United Kingdom (UK) provide a similar high contribution of liquidity-related measures while other countries respond to the crisis by taking primarily other initiatives like e.g. using tax- and labour-related instruments (e.g. partial suspension of VAT in UAE) (Italian Trade Agency, 2020). Most of the Italian government support measures were enabled through the three decrees Cura Italia, Liquidità and Rilancio (Ministero dello sviluppo economico, 2020).

Table 1: Comparison of GDP to Volume of Governmental Response to COVID-19

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP in billion euros</th>
<th>Public debt in % of GDP</th>
<th>Government Support Measures to reduce the Impact of COVID-19 in billion euros</th>
<th>in % of GDP</th>
<th>of which Liquidity-related in billion euros</th>
<th>in % of total measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>400</td>
<td>70.7%</td>
<td>39.0</td>
<td>9.8%</td>
<td>1.0</td>
<td>2.6%</td>
</tr>
<tr>
<td>Belgium</td>
<td>433</td>
<td>101.0%</td>
<td>8.1</td>
<td>1.9%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>France</td>
<td>2,418</td>
<td>99.3%</td>
<td>349.5</td>
<td>14.5%</td>
<td>300.0</td>
<td>85.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>3,451</td>
<td>58.6%</td>
<td>809.0</td>
<td>23.4%</td>
<td>400.0</td>
<td>49.4%</td>
</tr>
<tr>
<td>Italy</td>
<td>1,776</td>
<td>133.2%</td>
<td>225.0</td>
<td>12.7%</td>
<td>200.0</td>
<td>88.9%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>639</td>
<td>38.6%</td>
<td>41.2</td>
<td>6.4%</td>
<td>19.0</td>
<td>46.1%</td>
</tr>
<tr>
<td>UAE</td>
<td>362</td>
<td>20.1%</td>
<td>29.0</td>
<td>8.0%</td>
<td>0.7</td>
<td>2.4%</td>
</tr>
<tr>
<td>UK</td>
<td>2,451</td>
<td>85.6%</td>
<td>365.8</td>
<td>14.9%</td>
<td>283.3</td>
<td>77.4%</td>
</tr>
<tr>
<td>USA</td>
<td>19,151</td>
<td>106.2%</td>
<td>1,924.7</td>
<td>10.1%</td>
<td>830.8</td>
<td>43.2%</td>
</tr>
</tbody>
</table>

n/a = not applicable, Data based on available information of 10th April 2020.

Source: Own illustration following Italian Trade Agency, 2020, pp. 3-5.

Particularly SMEs need fiscal support due to their limited capabilities to face such an economical shock (Klasen, 2020a). Regarding this fact, the importance of SMEs for the Italian export economy and the national financing problems resulting from the high public debt (Moody’s, 2020, Financial Times 2020), the focus will be besides on international trade finance measures (chapter 3.3) also on non-directly export related programmes enabling liquidity especially for SMEs (chapter 3.2).

3.2 Indirect Export Measures

The state-favoured liquidity programmes of 200 billion euros comprise numerous individual and industry specific measures. As the aim of this research is to give a clear impression of the most important liquidity-related supporting instruments, the focus will be put on two
measures that are considered to be highly relevant for SMEs and therefore also for the Italian export business.

First, there is the public guarantee fund called “Fondo di Garanzia”, which is managed by the Ministero dello sviluppo economico and partially financed with resources coming from the EU (EY, 2020, Fondo di Garanzia, 2020a, Ministero dello sviluppo economico, 2020b). This measure is predestined for SMEs as it supports particularly those companies that have limited or no access to loans like e.g. due to a lack of collaterals (Fondo di Garanzia, 2020a). In response to the extraordinary situation caused by COVID-19, the Italian government reacted with the decree Liquidità to improve access to liquidity by modifying this guarantee fund, which already existed since 2000 (UniCredit, 2020, Fondo di Garanzia, 2020b). The key modifications in order of the decree were the expansion of the maximal duration of guaranteed loans from 72 months to 120 months, the amplification of potential beneficiaries and the total exemption of costs for all guaranteed loans until 31st December 2020 (UniCredit, 2020). All companies with less than 500 employees have access to the fund, which can be divided in three principal options (EY, 2020, UniCredit, 2020, White&Case, 2020). The first option includes a 100% guarantee for loans up to 25,000 euros for SMEs and other professionals. The second option contains a 90% guarantee for SMEs or Mid-Caps with an annual turnover of less than 3.2 million euros, while the guarantee could be set to 100% with CONFAPI. To the extent that companies with fewer than 500 employees meet certain requirements (e.g. loan does not exceed 25% of past annual turnover), 90% can be applied for guarantees for loans of up to five million euros (EY, 2020, KPMG, 2020, UniCredit, 2020, White&Case, 2020). In addition, the guarantee can be requested for already ongoing loans, if the existing financing has not been entered three months before the demand (White&Case, 2020).

Second, the Italian export credit agency (ECA) SACE, which will be analysed in more detail later on (chapter 3.4), provides with its product “Garanzia Italia” guarantees with governmental counter guarantees worth 200 billion euros of which at least 30 billion euros are foreseen for SMEs (SACE Simest, 2020a, SACE Simest, 2020b). The principal conditions to get this extraordinary loan guarantee from SACE are that the loaned liquidity is intended to pay salaries, to support investments (excluding acquisition of shareholdings) or to use it as working capital (SACE Simest, 2020a, White&Case, 2020). Furthermore, it can only be requested by companies with registered offices in Italy, which had not any difficulties until 31st December 2019 and already used the “Fondo di Garanzia” (SACE Simest, 2020a, SACE Simest, 2020c, White&Case, 2020). Depending on the number of employees in Italy and the group-wide annual turnover, the granted loan guarantee varies between 70% and 90% (EY, 2020, SACE Simest, 2020a, White&Case, 2020). The maximal loan volume is determined by the higher value between 25% of total group revenue in Italy or the double of group costs for personnel in Italy and its duration can be about six years including a grace period of 36 months at the most (Deloitte, 2020, SACE Simest, 2020d). In contrast to the “Fondo di Garanzia”, this loan guarantee causes costs for the requesting companies with the particularity that these costs must be lower than the charge required for operations with the same characteristics without the guarantee. In addition, SMEs will be granted half of bps regarding costs in comparison to differently sized companies (SACE Simest, 2020a).

Furthermore, there is a plenty of further comparatively smaller sized non-export related measures facilitating liquidity like e.g. moratorium, short-term loans, mid- and long-term loans and other funds (e.g. Piattaforma Imprese) (CDP, 2020, EY, 2020, KPMG, 2020).
3.3 Direct Export Support Measures

Out of the numerous measures of the Italian government, a lot of them are not explicitly linked to exports. However, especially SACE introduced various products promoting exports.

One of these measures is “Export Up”, which includes a fully digital trade credit insurance without guarantor for transactions up to five million euros. It can be applied to single orders or repeated transactions. This product covers risks like e.g. non-payment and non-recovery of production cost or the confiscation of the exported goods (SACE Simest, 2020e). A further export-related measure is “Sviluppo clienti”, which is organized by SACE as part of the push strategy programme. This measure is intended to arrange business matching events, where foreign buyers can present their business and their procurement demand to Italian enterprises. These events take place in Italy, abroad or online (SACE Simest, 2020f).

In addition, SACE supports SMEs with a four-billion-euros package, which is supposed to expand the export markets and endorse their cashflow needs. SACE now also guarantees 10% of non-market risks including the commitments and relative market risks regarding their insurance activities. The other 90% is guaranteed by the government (KPMG, 2020). Moreover, SACE installed a 500-million-euros fund for supplier credits to foster exports of Italian SMEs especially to Latin America, Africa and the Middle East. The intent is to enter markets with high growth rates and low presence of Italian SMEs. The amount of support is laid out up to five million euros for supplier credit or workplace policy, related to offline programmes, Export Up or Export Plus (CDP, 2020).

Furthermore, the “Fondo 394” was refinanced with 400 million euros to respond to the COVID-19 crisis. Its function is to give financial support especially for the internationalizing process of SMEs (e.g. for participation at foreign fairs or to train employees abroad). In this context, companies can finance their expenses with a reduced interest rate of 0.069% p.a. (CDP, 2020).

Also, CDP, which is the parent company of SACE, introduced a buyer credit called “Credito a buyer esteri”. The purpose is to support high potential purchases from outside Italy with an estimated amount of up to two billion euros by offering insurance coverage and financing to increase the sales of Italian goods. This programme was set up for industries regarding especially oil and gas, machinery and mechanics, infrastructure, food and energy (CDP, 2020).

Furthermore, the Integrated Promotion Fund of Italy was endowed with 250 million euros. This fund can be used by the ministry of foreign affairs and international corporation to buy expert advice from private or public companies to boost the internationalizing process of Italian companies. (KPMG, 2020).

Additionally, there are similar to the non-export related measures various smaller-sized measures like e.g. the redemption of costs, which have already been spent on the preparation of events and fairs by the Italian Agency for the Promotion of Business Internationalization (ICE).
3.4 Analysing SACE

3.4.1 Role of ECAs and SACE

For every country export growth leads to multiple advantages. On the one hand, it promotes economic growth, enlarges the productivity of domestic companies and brings technological progress (Alexopoulos & Stratis, 2016; Klasen, 2012). Therefore, it is in the interest of governments to support export activities. On the other hand, international trade brings various risks for companies like e.g. payment default of customers or political risks (Krummaker, 2020; Klasen, 2011). Private banks are willing to cover those risks to a certain extent. In case of higher risks export companies are unable to get it covered. For this purpose, ECAs were initiated (van den Berg et al., 2019; Klasen, 2011). ECAs play an important role for establishing international working corporations and for enabling the international trade to prosper. The financial services offered by ECAs are very diverse and range e.g. from credit guarantees and export credit insurances to government-backed loans (Dorozynski & Dorozynska, 2016; European Commission, 2012; Klasen, 2011). Furthermore, there are different types of ECAs. They can be distinguished by government owned companies, government departments or private companies on behalf of the government (Alexopoulos & Stratis, 2016; Klasen, 2011).

The Italian export credit agency SACE (Servizi Assicurativi del Commercio Estero), set up in 1977, is a subsidiary of the Italian bank CDP (Cassa Depositi e Prestiti), which is majority owned by the government (SACE Simest, 2020g; KFW, 2014). SACE itself acts through its subsidiaries Simest, SACE FCT and SACE BT with its subsidiary SACE SRV as described in figure 3 (SACE Simest, 2020h).

![Figure 3: Corporate Structure of SACE](image-url)

Source: Own illustration following SACE Simest, 2020h.
Thanks to its broad set up, SACE can offer numerous services including buyer credits, political risk insurances and many other offerings as illustrated in figure 4 (SACE Simest, 2019). In 2018, SACE had a commitment portfolio of 114 billion euros. They paid 248 million euros for claims and earned a net profit of 129 million euros. Their regular clientele was about 21 thousand companies, while 98% of them were SMEs. (SACE Simest, 2019).

Figure 4: Volumes in 2018 by products

3.4.2 SACE in Comparison to other ECAs

With the aim of protecting the Italian export business from COVID-19, SACE has launched a variety of measures (CDP, 2020, SACE Simest, 2020i). In the following, SACE will be compared with other ECAs to identify the existing strengths and weaknesses of the Italian export credit agency during this extraordinary period.

Considering the unexpected shock across the whole nation due to COVID-19, SACE reacted very quickly. In this context, it is particularly important to highlight the generous moratoria that have been rapidly released by SACE and ABI (Associazione Bancaria Italiana) (KPMG, 2020, SACE Simest, 2020j). Within a few weeks, numerous measures of incomparable monetary extent followed (e.g. “Garanzia Italia” worth 200 billion euros). The prompt release of these large-scaled measures was only possible thanks to the very broad structure of the institution (SACE Simest, 2020h). In international comparison, only the Canadian EDC, French bpifrance and Danish EKF have a similarly broad set up, while others like e.g. the ECAs of Germany and Switzerland dispose of more concentrated and therefore more limited structures (EDC, 2020a, EKF, 2020, bpifrance, 2020). Furthermore, SACE provides good advisory and information services for their clients, which is a further indicator for the high resemblance to the structure of the Canadian EDC (EDC, 2020b, SACE Simest, 2020k).

The other side of the coin regarding these numerous measures is represented by dangers that could result in a toxic mixture for the financial stability of the country, which consists of the high monetary effort to enable the programmes, the precarious financial situation due to the high public debt and the difficulty to assess the consequences of the pandemic.
In addition, this variety of measures could cause augmented transaction costs in comparison to less measures of higher extent. Moreover, it would be advisable to condition the accessibility of the provided instruments to further long-term conditions like e.g. the use of granted loans or guarantees to boost innovation or the digital transition process as done by the Finnish ECA Finnvera (Klasen, 2020b). Such a conditioning could also prevent a fraudulent use of the worthy measures. In contrast to other ECAs (e.g. KUKE in Poland), SACE did not change anything regarding the conditions of export guarantees, which is a further useful instrument to foster exports for overcoming these difficult times (KUKE, 2020).

Apart from this, it is very arduous to place the facilitated support measures in a clear context. During this research serious deficiencies in the provision of highly relevant information have been identified. Most of the important data on the SACE-website (e.g. conditions of the measures or the award process) was only available in Italian. For example, SACE set up a handy coronavirus emergency webpage, which disappeared completely when the website-language was changed to English. Such information-related difficulties can cause easily avoidable transaction costs. Additionally, there were not any indications regarding the enabling of fast-track procedures, which are very helpful to minimize the duration of the award process and particularly to reduce occurring transaction costs.

4. Summary and Conclusion

Italy's export economy is predominated by the foreign trade relations of SMEs and is represented by a very diversified portfolio, which is increasingly characterized by higher-quality goods (e.g. machinery). Over the past ten years, Italy has been able to move its foreign trade balance from negative to positive results thanks to its increasing exports on the mainly European foreign markets. The unexpected impact of the COVID-19 pandemic, which epicentre had been mainly in Italy, caused a massive economic drop in the Italian export industry. Apart from this, the financial stability of the nation is a permanent hot topic on the international financial markets due to the extraordinary high level of public debt.

To enable the Italian companies to escape this dilemma, numerous governmental support measures have been adopted for the main purpose to ensure liquidity in the companies. Among the most important liquidity-related measures are the governmental guarantee “Fondo di Garanzia” and “Garanzia Italia”, which is a guarantee of the Italian ECA SACE containing a governmental counter-guarantee.

In regard of export-related measures SACE released together with its parent company CDP various export supporting programmes, whose implementation has been possible thanks to the broad set up of the ECA. Compared to other countries only the fewest dispose of similar broadly structured ECAs (e.g. Canada and France). The key findings by analysing SACE concern the lack of clarity and accessibility of information regarding the provided measures and the non-implementation of fast-track procedures. Both aspects cause avoidable transaction costs, which hinder a higher efficiency of the provided support measures.

After analysing the impacts and the government support measures in response to COVID-19 it would be recommendable to analyse further possibilities to overcome such global shocks. Considering the global impact of the crisis and the highly interconnected economies created by globalisation, the question arises as whether globally centralised measures in support of
international trade would make sense. Furthermore, it would be very interesting to analyse if COVID-19 could possibly be a booster or a reanimator for multilateralism.

Author Information

Danilo Carmine Guaglianone is a Master student in Business Administration at Offenburg University. He holds a Bachelor of Arts in Business Administration from Offenburg University. Tobias Mauderer is a Master student in Business Administration at Offenburg University. He holds a Bachelor of Science in Business Administration from the University of Bayreuth.
List of References


Ministero dello sviluppo economico. (2020a) * Decreto Rilancio: le principali misure per le imprese.* Available from: https://www.mise.gov.it/index.php/it/per-i-media/notizie/it/198-


SACE Simest. (2020g) Our history - We have supported the growth of Italian companies for 40 years. Available from: https://www.sacesimest.it/en/about-us/our-history [Accessed 1st July 2020].


