

# Policy Analysis of the Financial Sector in the Context of Covid-19 the Case of Italy

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**Abstract.** This paper analyses in detail the financial policies adopted by the national financial sector in the context of the covid-19, the study assesses the number and nature of economic policies introduced during 2020 in 10 countries using data from the Kaggle database. And finally, Italy was selected for the specific study, which introduced the greatest number of policies during the year. The study describes the data through tools such as bar charts, pie charts and tables, and employs a three-tiered classification of policies to give more detail to the analysis. The report shows that Italy's primary focus was on the banking sector with a clear emphasis on support for borrowers. In addition, the Italian government's expansionary fiscal policies have played a key role in revitalizing sectors hit hard by the pandemic, including tourism. While these policies improved Italy's economic situation during the pandemic to some extent, the potential impacts, such as an increase in the national deficit and the burden on the Government, merit future study.

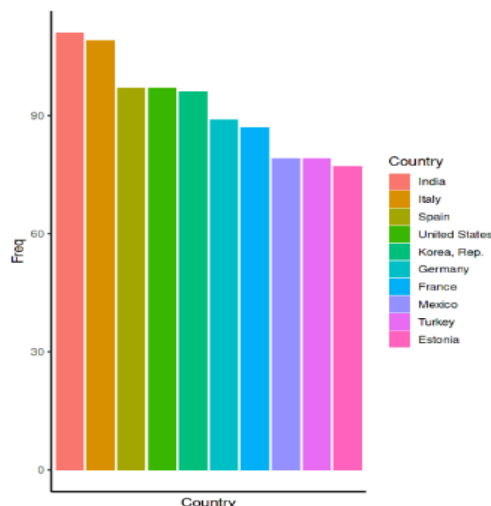
**Keywords:** Financial policy, covid-19, Italy, banking sector.

## 1. Introduction

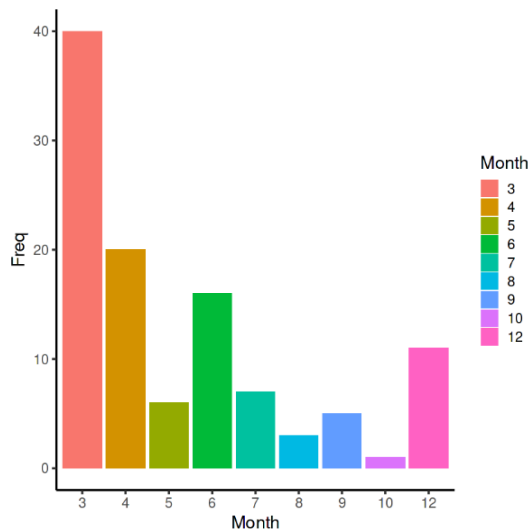
Since the outbreak of the novel coronavirus (COVID-19) at the end of 2019, the global economy and social structures have faced unprecedented challenges. The pandemic that ravaged the world in 2020 had a direct and severe impact on the economic system, leading to an exceptional decline in gross domestic product (GDP) and a significant rise in public deficits and debt (Della Posta, 2022). [1] In this pandemic, the financial sector has played a pivotal role. To maintain economic stability, central banks and governments worldwide have implemented a series of emergency financial measures aimed at ensuring the liquidity of the financial system and supporting businesses and households through this crisis. This research aims to explore deeply into the policies adopted by the financial departments of various countries during the COVID-19 pandemic, assessing the effectiveness of these policies in cushion economic downturns, protecting consumers, and stabilizing financial markets. Furthermore, we will examine the potential long-term impacts of these policies and the direction and challenges of future financial policies. In the face of this global health crisis, the formulation and execution of financial policies have become one of the core strategies for governments worldwide in responding to the pandemic. This paper seeks to offer policymakers, scholars, and the public a comprehensive perspective, helping to understand the role of financial policies in.

## 2. Data description

The original data comes from the Kaggle data base, the link is <https://www.kaggle.com/datasets/tunguz/covid19-finance-sector-related-policy-responses>. In terms of information, the number of economic policies introduced by ten countries - India, Italy, Spain, the United States, South Korea, Germany, France, Mexico, Estonia and Turkey - during the COVID-19 pandemic in 2020 is listed in Figure1, where the horizontal axis represents the country, the vertical axis represents the policy frequency, and the data of different countries are presented in different colors from left to right.



**Figure 1.** Frequency of countries



**Figure 2.** Frequency of months

By studying the number of economic policies issued in these countries, A preliminary understanding of the role of economic policies during the COVID-19 context can be obtained. After listing ten countries, to study the impact of financial policies more specifically on national economy during the epidemic period, Italy has been selected, the country that introduced the most economic policies during a given epidemic period among the ten countries, to build a more accurate map. According to Figure 2, the horizontal axis represents the month, choosing March to December as the research period and use different colors to distinguish the data of each month, the vertical axis is the frequency to represent the number of financial policies launched in each month. Through this graph, A preliminary understanding of the number of policies Italy introduced each month from March to December 2020 can be acquired, offering a basic insight into their variations.

**Table 1.** Count of first-level policies

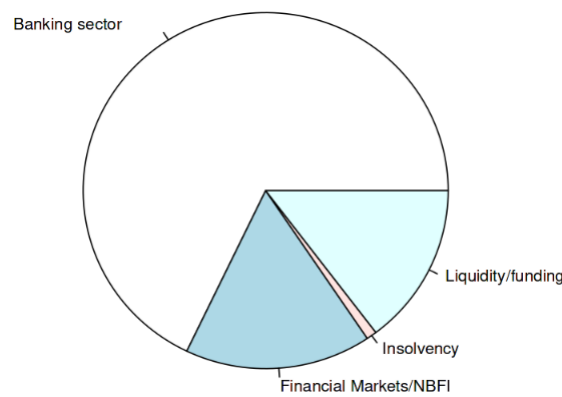
Content	Frequency
Banking sector	74
Financial Markets/NBFI	18
Insolvency	1
Liquidity/funding	16

At the same time, R language was utilized to categorize different levels of financial policies in detail, with the specifics of the policies being organized and elucidated. Initially, a pie chart of first-level policies was drawn to observe the introduction ratio of each first-level policy more effectively.

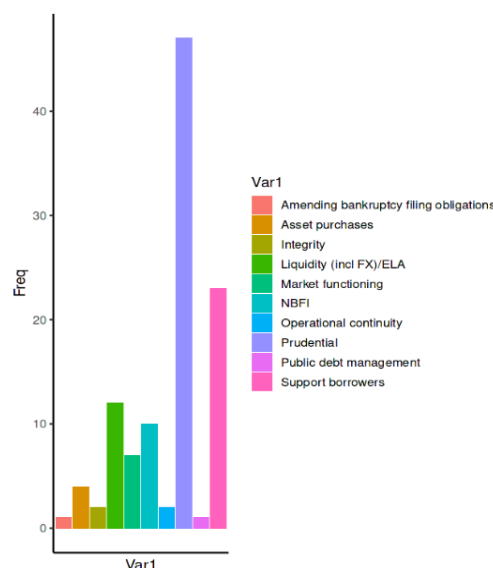
As Figure 3 shows, four types of policies are present: banking sector, liquidity/funding, NBFi/financial markets, and insolvency. These first-level policies primarily concentrate on various policy implementation areas in the economy and society, representing a relatively broad classification.

**Table 2.** Count of second-level policies

Content	Frequency
Amending bankruptcy filing obligations	1
Asset purchases	4
Integrity	2
Liquidity (incl FX)/ELA	12
Market functioning	7
NBFI	10
Operational continuity	2
Prudential	47
Public debt management	1
Support borrowers	23



**Figure 3.** Pie plot of first-level policies



**Figure 4.** Frequency of second-level policies

Compared with the first-level policies, the scope of the second-level policies is narrower, and the content is more specific. For the second-level policies, Figure 4 was constructed to display in detail. Through illustration, 10 different secondary policies were listed based on the foundation of primary policies and were differentiated by their unique colors.

**Table 3.** Count of third-level policies

Content	Frequency
Blank	19
Restrictions on use of profits and resources (e.g., dividends)	10
Insurance	9
State guarantees on loans	8
Supervisory guidance and expectations	8
Mandatory credit repayment moratorium	6
Reduce non-essential regulatory reporting requirements for banks	6
Temporary ease on liquidity requirements	5
Other prudential flexibility	4
Relaxation in capital requirement (definition of capital, CAR, risk weights)	4
State subsidies, direct loans and tax incentives to facilitate repayments	4
Other Support borrowers	3
Regulatory measures	3
Relaxation in NPE treatment (definition, classification, provisioning)	3
Release/defer capital buffers (conservation, counter-cyclical, systemic)	3
Market restrictions	2
Other integrity	2
Other prudential relaxation	2
Adjusting funding strategy	1
Encourage restructuring of loans	1
Ensure minimal functionality in the primary and secondary markets	1
Ensure public risk disclosures by banks	1
Other credit repayment moratorium	1
Other Market functioning	1
Pensions	1
Prioritize or review critical supervisory actions	1

Regarding the detailed tertiary policies, owing to the extensive total count and the limited number of individual policies, are presented solely in Table 3. The table showcases a total of 26 tertiary policies.

### 3. Quantitative analyses

Through a horizontal comparison of financial data from ten countries in the figure, Italy, with its abundant data that can partly illustrate the state of European financial policies, was selected as the subject for detailed study. Observing the data of Figure 2, classifying the number of policies from March to December reveals that Italy had a significant number of financial policies introduced in March. It accounted for 40% of the annual proportion, and there was a large degree of decline in the following months, especially in July to October, and a small increase in the number of policies in December at the end of the year.

**Table 4.** Comparison of policies

Date	Level.1. policy. measures	Level.2. policy. measures	Level.3. policy. measures
3/1/20	Banking sector	Operational continuity	Blank
3/1/20	Financial Markets/NBFI	NBFI	Insurance
3/11/20	Banking sector	Support borrowers	State guarantees on loans
3/11/20	Banking sector	Support borrowers	State subsidies, direct loans and tax incentives to facilitate repayments
3/20/20	Banking sector	Prudential	Reduce non-essential regulatory reporting requirements for banks

Five policies from March 1, March 11, and March 20 were extracted from the month with the highest policy count for a more in-depth examination. From the Table 4 listed, four of the five policies are about the measures of the banking sector. The one left is about financial market. The government injects vitality into the bank by supporting borrower and giving operational opportunity to maintain the procedure of the financial machine and the stability of the banking industry. In terms of government policies during these three days, the banking sector was the main financial policy pursued by the government during the epidemic, a trend that was not only reflected in March but also throughout the year.

Analyzing the statistical tables and the corresponding pie charts of Italy's policies from March to December reveals that out of 109 policies, 74 pertained to banking. This accounts for approximately 68% of the annual policy share, a striking figure, with nearly 2 out of every 3 policies focusing on the banking sector. The Government reduced the pressure on banks through precise regulation of the banking sector so that the level of bank funding and credit could be maintained, this kind of policy also ensure the sustainable development of the country's economy during the epidemic. Except one policy about insolvency, the second and third policies are the financial market and liquidity counterparts, both of which account for about 15 per cent of the total, and both of which are also aimed at increasing market activity, promoting economic growth during the epidemic, and mitigating the economic downturn and market volatility caused by the epidemic.

Following this broad overview of primary policies, the role of Italian financial policies during the New Crown epidemic will be examined in greater detail using secondary and tertiary policies. Looking at the Figure 4 of secondary policies and at the Table 2, the secondary policies were classified from the original four to a more specific ten, the largest number of adjustments are the prudential principles of the banking sector appearing 47 times, nearly half of the total, and the second largest number being support borrowers, which appears 23 times, Both policies fall under the umbrella of the banking sector, where prudential principles are constantly adjusted by Governments to ensure that financial institutions operate in a safe and sound manner, thereby enhancing financial stability and allowing them to have sufficient capital, liquidity and risk management procedures to cope with a pandemic. Financial crises in the context of pandemics reduce the likelihood of institutional failure. Similarly, the government has further supported borrowers by reducing their financial burdens in order to improve overall household finances, reduce the risk of insolvency, promote long-term economic stability, and increase their confidence in financial markets, which in turn increases consumption, improves market liquidity, and stimulates economic growth, and the government has put in place policies to improve integrity and increase business continuity, both of which are designed to protect consumers and the broader financial system from the volatility of market risk during an epidemic, and the revision of bankruptcy filing obligations has also had the effect of reducing bankruptcies, as has support for borrowers. Retaining more economic entities helps the market to recover and grow. In other parts of secondary policy, adjustments to the functioning of markets and public debt have also been repeatedly used by the Government as tools to maintain market stability and liquidity. More notably, special policies such as asset purchase programs, liquid foreign exchange, and emergency liquidity assistance (ELA) have been used to further stimulate the economy at a time when traditional economic policies were not working well, and to strengthen the stability of the national currency to mitigate pressures from world markets and large capital outflows. The government has also introduced measures for non-bank financial institutions to improve the difficult situation of different agents, specifically at the three levels of policy, insurance companies, pensions, and securities firms, which are all cross-cutting and partly similar.

The number of policies at the third levels has been subdivided from 10 at the previous level to 26, with 19 blanks removed, leaving 90 policies. These data can be seen in Table 3. The remaining 90 policies are specific in terms of how to be implemented. Unlike the previous two levels of policies, although they are more specific in terms of content, the effects are also more similar and narrower, in some cases, they are even identical, but affect the market in different areas or with different focuses. In the Table 3, the easing of non-performing loans (NPEs) and the easing of liquidity requirements

are both aimed at stimulating the economy and stabilizing the market, although the former focuses mainly on credit risk and asset quality, but the latter focuses mainly on increasing profitability. Italy has used many types of financial policies to improve market conditions in different ways. The significant impact of financial policy on the economy during the epidemic is evident, the government through the adjustment of policies to regulate every subtle part of the financial market to achieve overall control, such adjustments for the special period, especially during the new crown of the epidemic of the country's economy has an irreplaceable positive effect.

#### 4. Qualitative analyses

Quantitative analyses of fiscal and monetary interventions provide a valuable measure of the immediacy and scale of the economic response, but qualitative analyses are still needed to provide a more nuanced perspective on what type and extent of role Italian financial policy played in developments during the epidemic. The analysis will focus on the influence of Italian financial policies on the country's economic life during the epidemic, emphasizing the banking sector and credit support to enterprises. This examination will be further enriched by integrating the economic status of Italian households with shifts in the multisectoral domain. From the tables of the secondary and tertiary policies, the economic assistance to the banking sector and to enterprises is the area with the highest policy intensity and the greatest economic impact during the epidemic, by scrutinizing both segments, a clearer demonstration of the results from the quantitative analyses and their validity can be achieved. In Italy, at the end of January 2020, the first case of COVID-19 was detected. Since mid-March 2020, the Italian government started developing economic recovery plans and progressively approved tax and expenditure measures intended to support firms generally and those operating in specific industries (Piva, 2022). [2] This is consistent with our summary of the number of economic policies in March. The second phase began on 4 May with the reopening of economic activities and the easing of movement restrictions in the region. Finally, the third phase, which began on 15 June, entailed the easing of most of the embargo measures (Borri, 2020). [3] The number of economic adjustment policies in May and June also decreased as the epidemic slowed down. The Italian government implemented the fiscal stimulus in response to the COVID-19 crisis through three decrees: the Decree No. 18 (so-called "Heal Italy") of March 17, 2020; the Decree No. 23 ("Liquidity") of April 8, 2020; and the Decree No. 34 ("Relaunch") of May 19, 2020 (Di Pietro, 2020). [4] The total financial assistance package to support families, workers, and businesses in 2020 is equivalent to 4.5 per cent of GDP (Cifuentes Faura, 2021). [5] The current economic crisis, caused by an external shock, can be transformed into a banking crisis if the current measures are not effective enough to stop the expected increase in delinquency rates, bankruptcies, and mistrust in financial markets or in the economy. The banking sector already had some of its internal problems before the epidemic arrived. Lacalle (2021) indicated that Banks have been preparing for the risk of rising NPLs and loss of income over the past few years, but the risk of capital shortfalls could be significant, especially since policies in most countries are aimed at increasing corporate lending. [6] Moreover, as the adverse effects of the COVID-19 shock were more pronounced and long-lasting for banks than for firms and other non-bank financial institutions (Demirgüç-Kunt, 2021). [7] Through our three-tier policy chart, Italy helped to maintain a healthy capital position in the banking sector during the epidemic by increasing regulatory measures and state subsidies and tax incentives to facilitate repayments and reduce the volume and risk of non-performing loans, thereby reducing the capital shortfall. Italy also provides support to enterprises through expansionary fiscal policies based on different aspects such as credit, funds, and taxes. Businesses have experienced a sharp drop in sales without a corresponding reduction in the number of employees. This may be because a special integration fund was made available to safeguard employment (Fasano, 2022). [8] The Government cancelled the first semi-annual payment of the Italian Regional Production Tax (IRAP), which was levied on all small and medium-sized enterprises (SMEs) in 2020 (Di Pietro, 2020). Two measures are earmarked to reduce the fixed costs of production for businesses: €180 million for a four-month,

60 per cent tax credit for businesses with annual revenues of up to €5 million and whose revenues have fallen by more than 50 per cent in March-May compared to the same period in 2019 (Di Pietro, 2020). Following the approval of the deficit deviation by Parliament in August, the Government adopted the so-called August Decree, which included labor and social measures, an extension of the moratorium on debt repayment by businesses and the repayment of tax obligations (Di Bartolomeo, 2022). [9] Canelli (2021) indicated that Italian domestic and EU policies are the best contingency measures that may be slow to halt the sharp decline in Italian GDP and employment. [10] Through a series of policies introduced in March-December 2020, Italy has achieved some results in terms of business assistance and employment, which have likewise improved the living conditions of a significant number of families. Di Bartolomeo (2020) found that program implemented since March 2020 to address the negative impacts of the pandemic has achieved significant results, Italian businesses and families are experiencing the dramatic consequences of the worst economic crisis in the last two centuries. However, without timely government intervention, an even more devastating situation would have emerged. Spending-based fiscal stimulus appears to be more effective in mitigating the negative real impact of COVID-19 (Di Pietro, 2020). This kind of expansionary fiscal policy also provided an opportunity for the tourism industry, which had been hard hit by the epidemic, to recover. Tourism firms, whose revenues have fallen sharply, have sought to operate with credit or liquidity flows provided by the Government (Şengel Ü, 2023). [11]

## 5. Conclusion

In this study, Italy serves as the primary example to investigate the influence of financial sector policies on the national economy during the epidemic. The findings indicate that Italy's financial strategies during this period have, to some degree, fostered economic growth and recovery in pertinent sectors, enhancing employment and the living conditions of its citizens. This research, grounded in limited information about financial policies during the epidemic and enriched by detailed analysis through various charts spanning different levels and periods, holds innovative and referential value. However, more in-depth studies and explorations are still needed on the negative impacts of the relevant expansionary fiscal policies on the national deficits and government burdens of Italy during the epidemic period.

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