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RPT-UPDATE 2-Italy starts talks with EU over bank bad loan scheme renewal - source

2 MIN READ



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(Repeats Feb. 18 story with no changes)

MILAN, Feb 18 (Reuters) - Italy has started discussions with the European Union over the renewal of a state guarantee scheme designed to help banks shed bad loans, a government source said on Monday.

The source said while talks to renew the scheme, set to expire on March 6, were under way, nothing was imminent. "There's a series of options on the table," the source said.

Rising risk premiums on Italian assets have made the "GACS" scheme more costly, but renewal remains important for the country's banks which still hold 100 billion euros (\$113 billion) in bad debts, a legacy of the financial crisis of 2007-2009 which had a major negative impact on Italy's economy.

Asked on the sidelines of an event in Milan whether GACS would be renewed, cabinet undersecretary Giancarlo Giorgetti told reporters: "I think so, what else can we do?"

The scheme was introduced in 2016 to help banks sell bad loans at a higher price.

Lenders were initially slow to embrace the measure, which allows them to buy a guarantee from the state to wrap the least risky tranche in a sale of bad loans re-packaged as securities, but it has since proved a success.

Italian banks completed 13 GACS-backed deals in 2018, shedding a nominal 44.3 billion euros in bad debt, or 42 percent of total sales, according to bad loan data group Credit Village.

UBS faces \$5.1bln fine for tax fraud

The government said in September it would start talks with European competition authorities to gain approval for a new scheme, possibly widening its scope to include so-called "unlikely-to-pay" (UTP) loans which are not yet in default.

Several sources, however, have told Reuters a widening of the measure to UTP loans is proving too complicated to be pursued.