



What's next for Italy?

National Association for Business Economics

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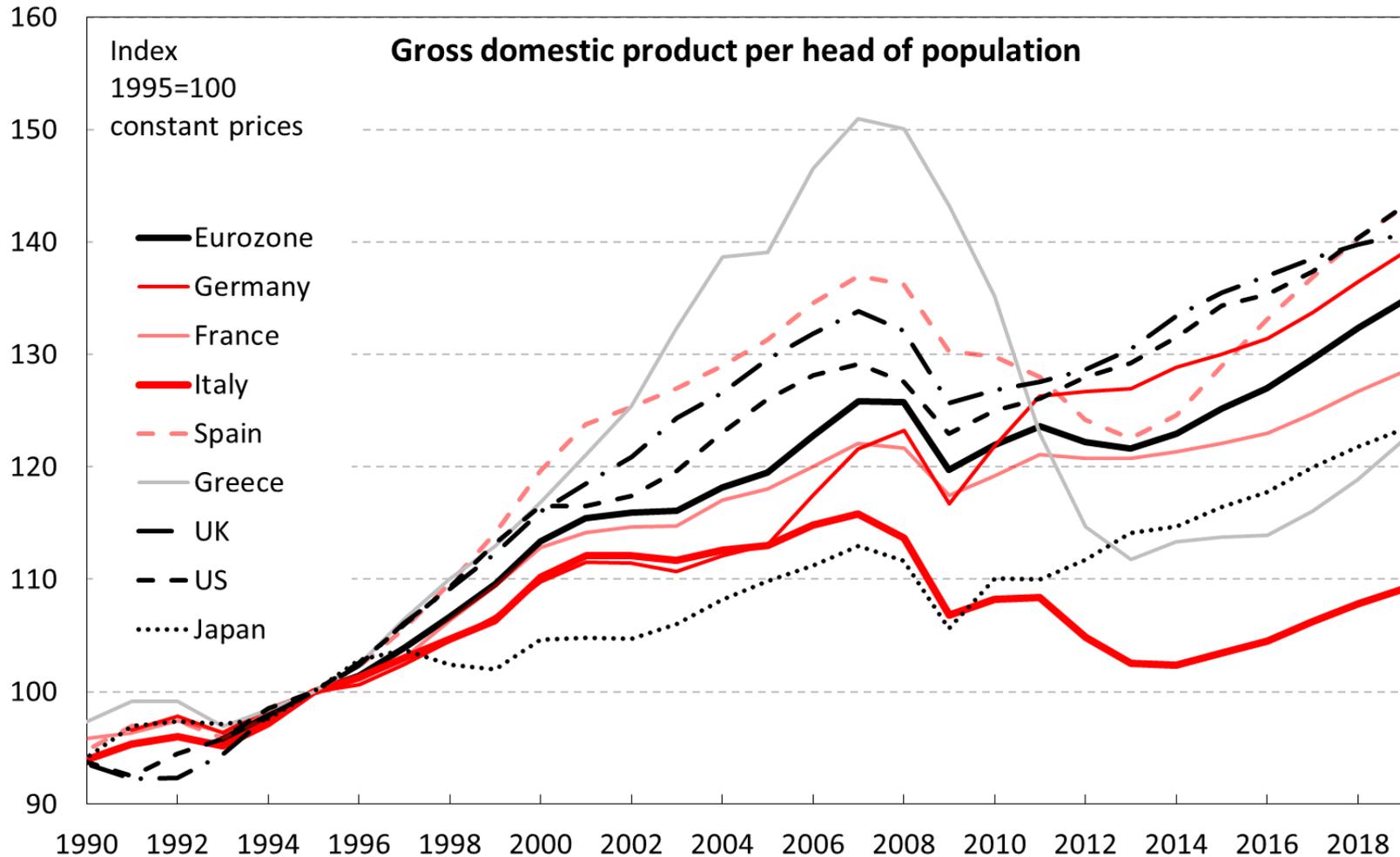
AGENDA

What's next for Italy?

- ◆ **Economy:** Will it continue to expand?
- ◆ **Banks:** Positive developments, but are they still vulnerable?
- ◆ **Public finances:** What are the sources of risk? Can Italy be heading for a strong fiscal expansion?
- ◆ **Politics:** Will the government survive? What are the policy priorities?
- ◆ **Financial markets:** What are the risks over the next few weeks/months?
- ◆ **Economic/political scenarios:** Italexit, Syriza-like, or radicals to become mainstream? Or Italexit?

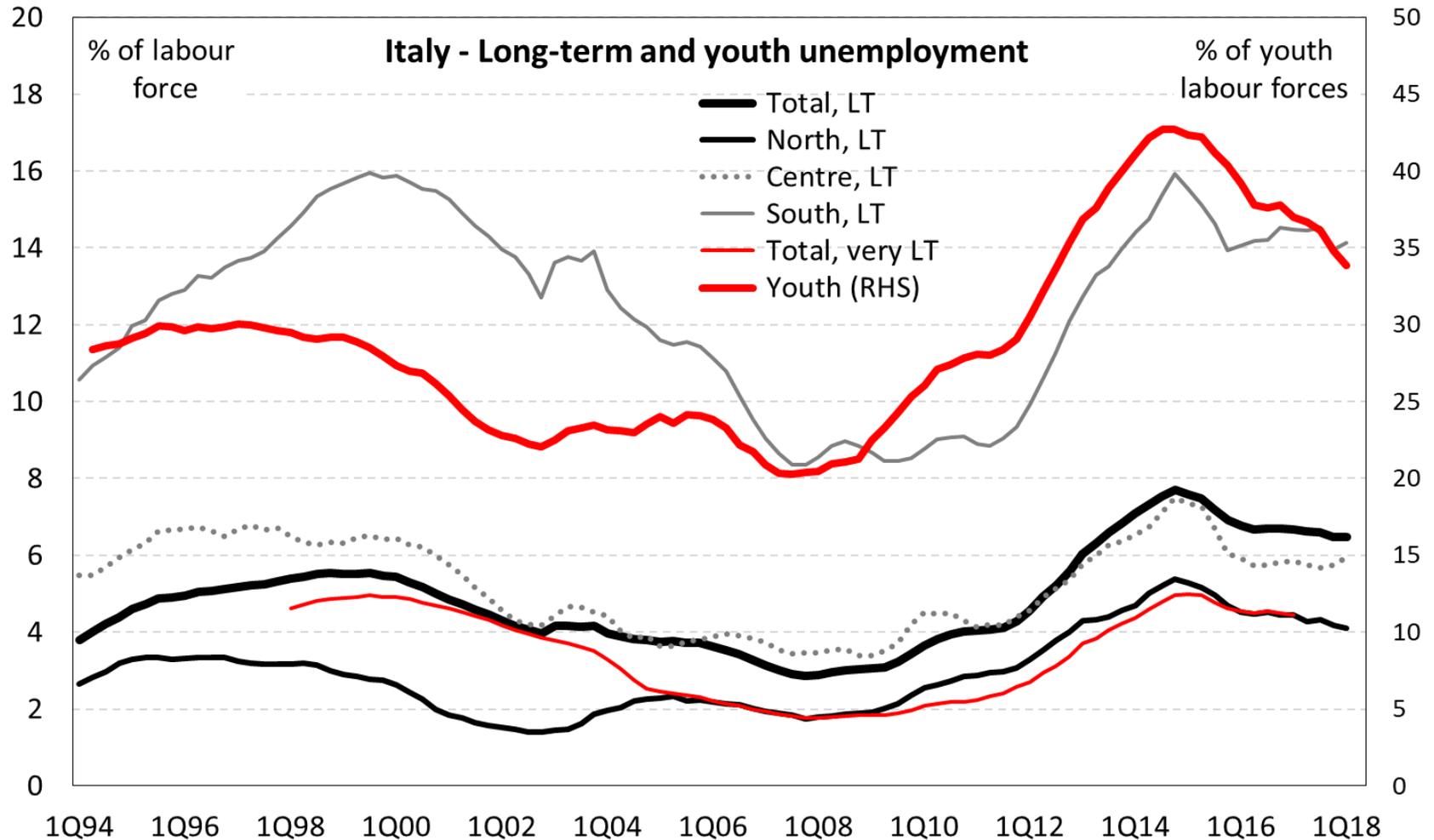
ITALY – ECONOMY

Divergence in GDP per capita since the launch of EMU



Source: Thomson Reuters Datastream, European Commission AMECO, LC-MA calculations.

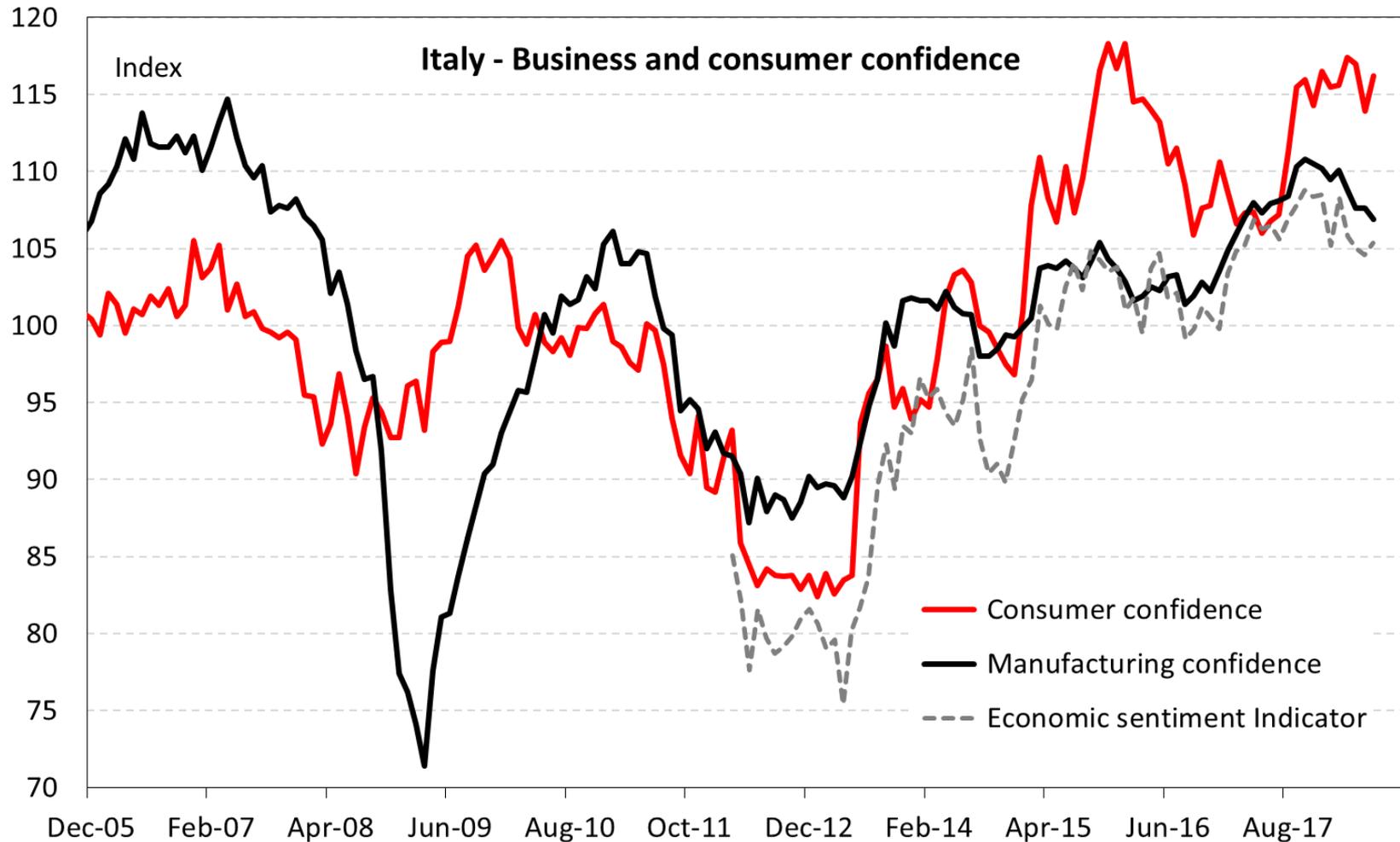
Youth and long-term unemployment: a big concern



Source: Thomson Reuters Datastream, ISTAT, Eurostat, LC-MA calculations; 4-term moving average of quarterly data. (Very) Long-term unemployment = ratio of job seekers for more than (24) 12 months to labour force.

ITALY – ECONOMY

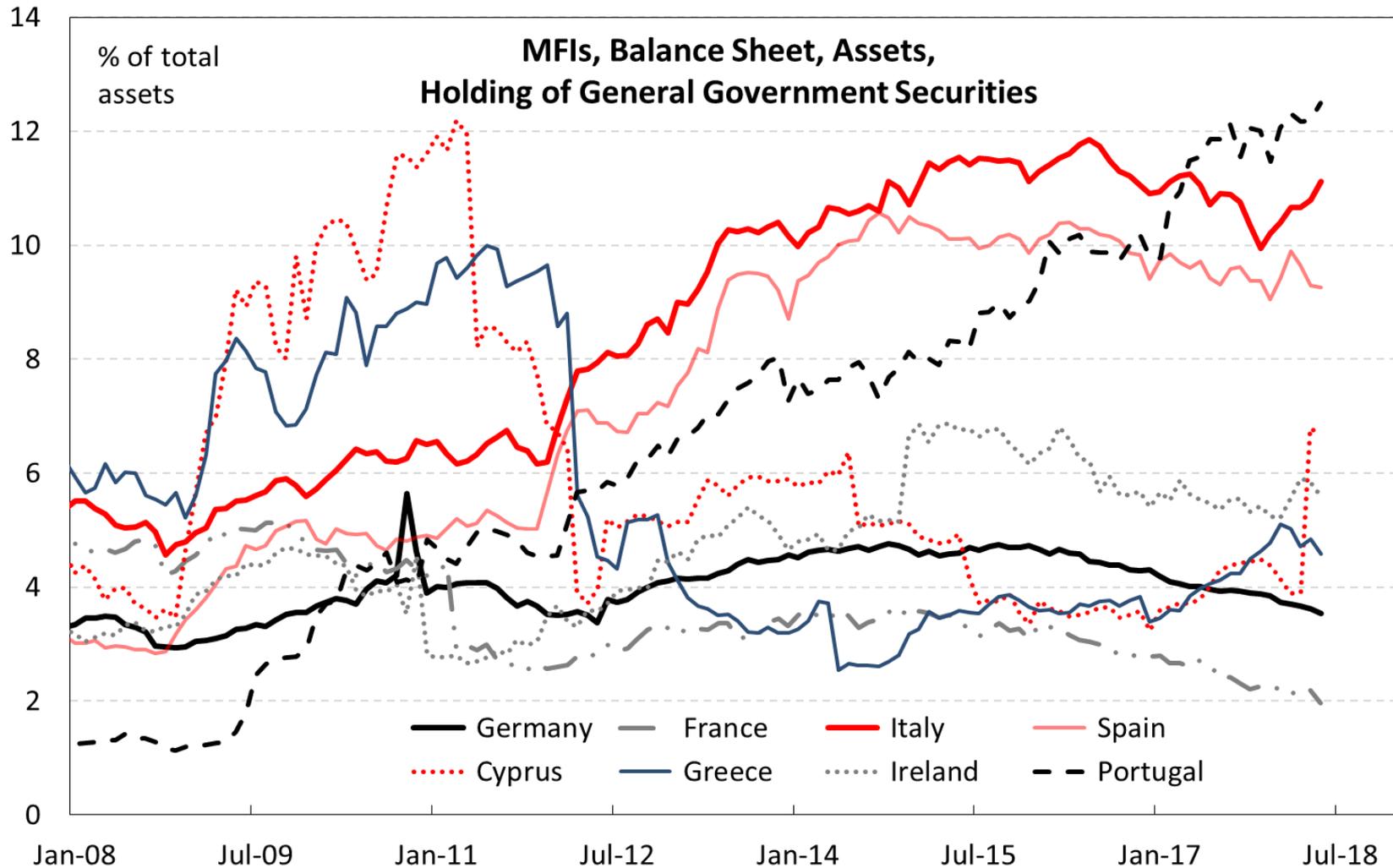
Will the political climate dent confidence?



Source: Thomson Reuters Datastream, ISTAT, LC-MA calculations.

ITALY – BANKING SECTOR

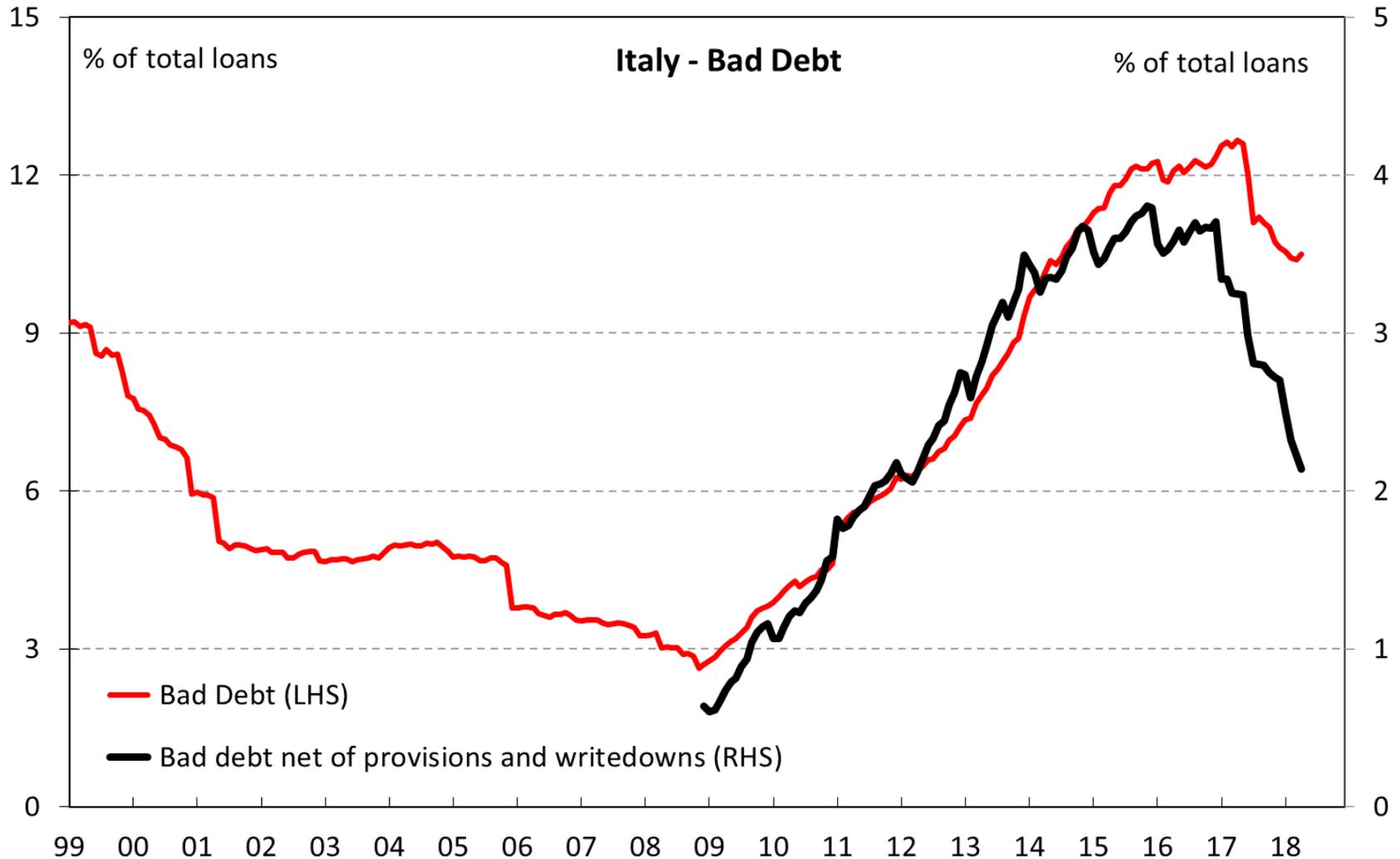
High percentage of government bonds over total assets



Source: Thomson Reuters Datastream, ECB, LC-MA calculations.

ITALY – BANKING SECTOR

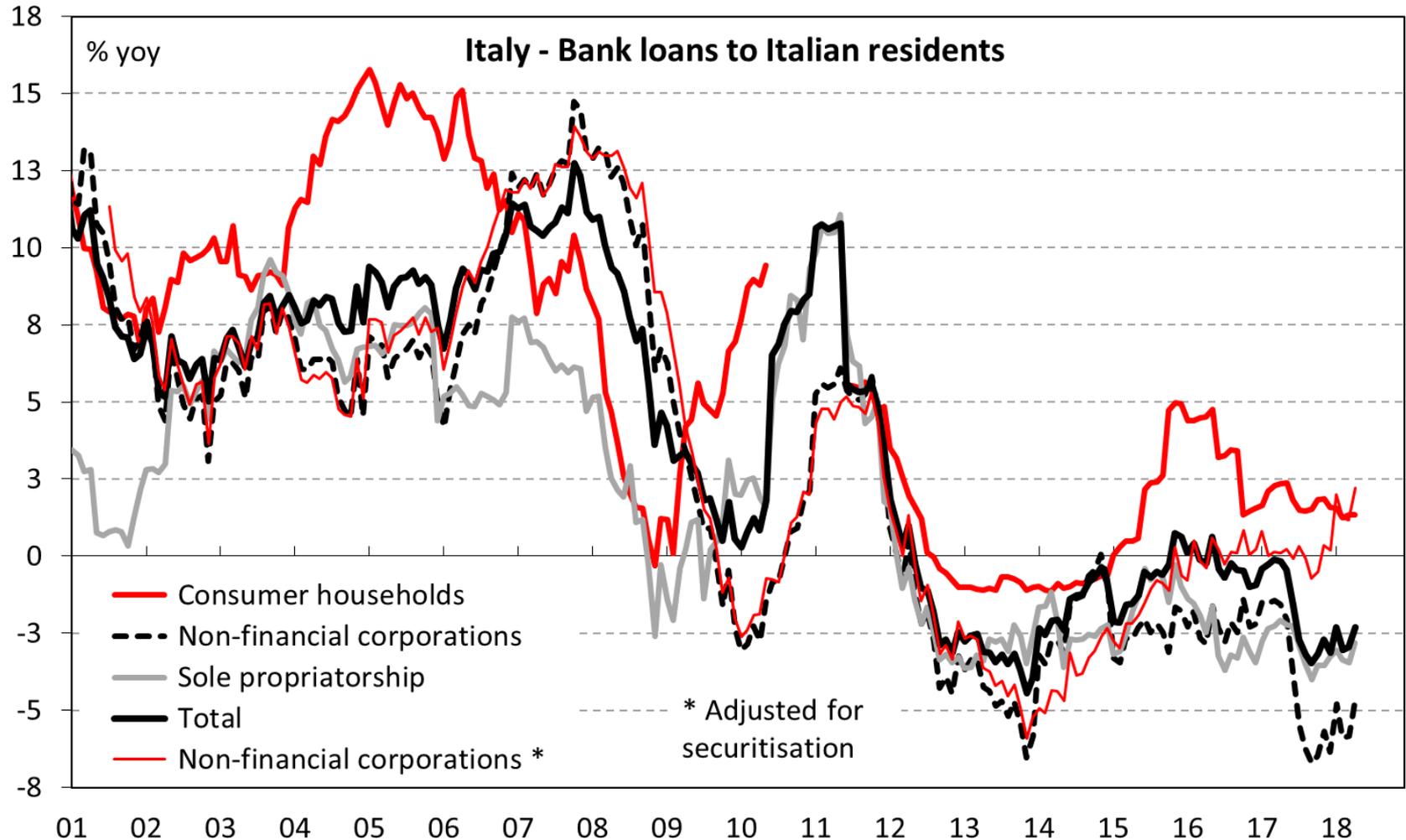
Banks have reduced NPLs forcefully, but the stock is still high



Source: Thomson Reuters Datastream, Bank of Italy.

ITALY – BANKING SECTOR

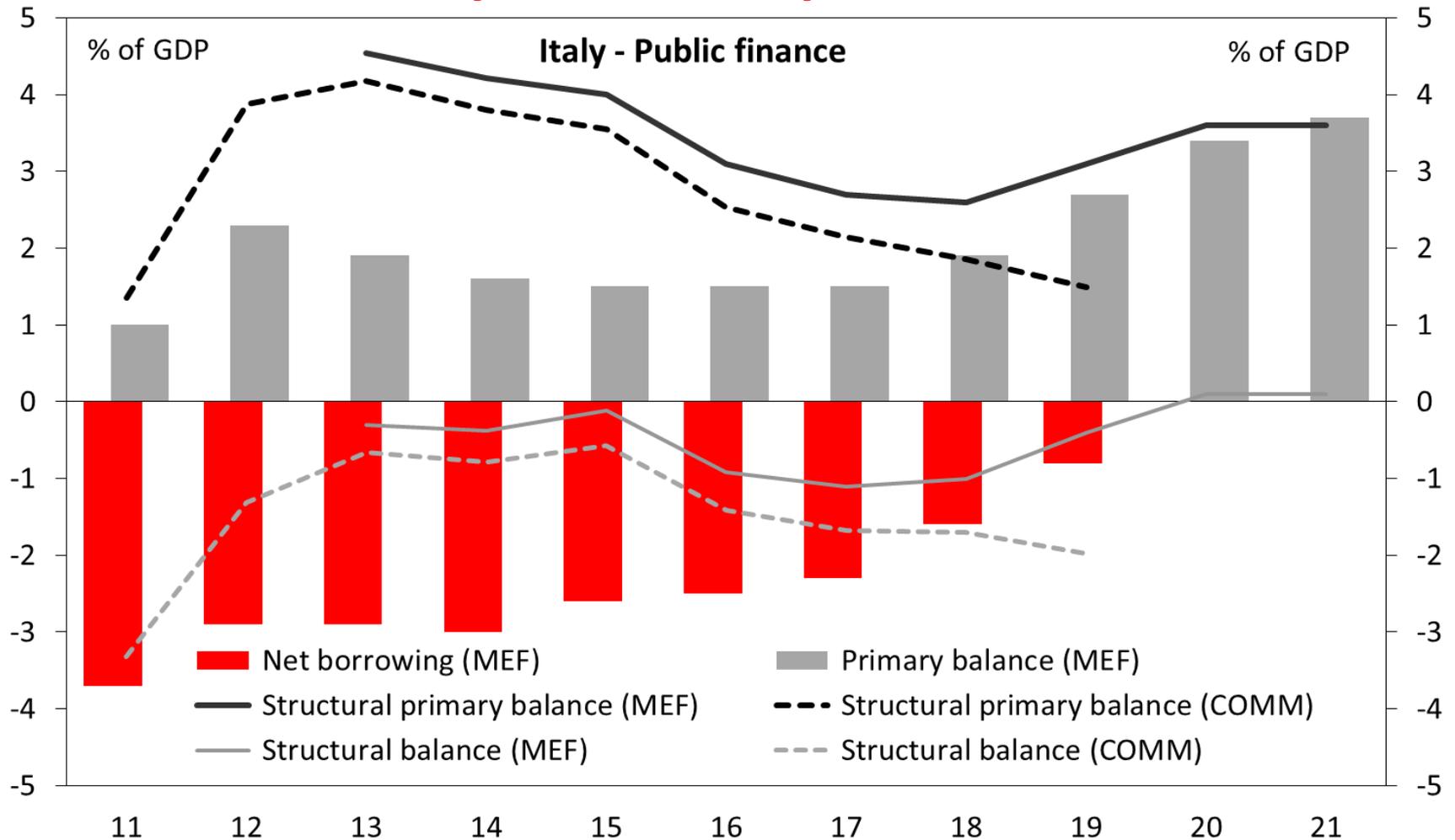
Credit growth still somewhat depressed (ex securitisation)



Source: Bank of Italy, TR Datastream; unadjusted for securitisation unless specified. Discontinuity in the series in 2010.

ITALY – PUBLIC FINANCE

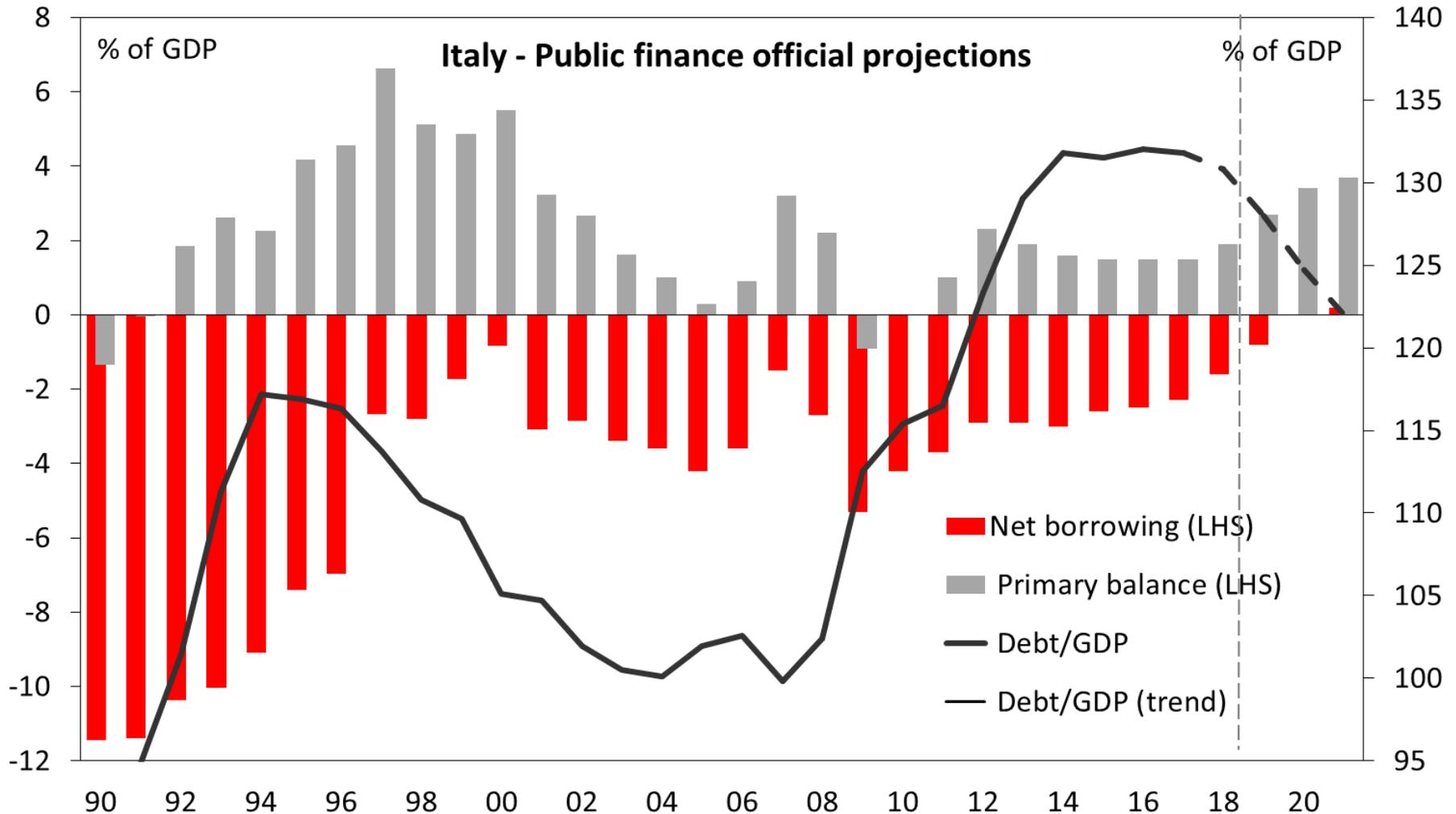
So-called “austerity” was already over in 2014



Source: Thomson Reuters Datastream, Italy's Ministry of Economy and Finance, EU Commission, LC-MA

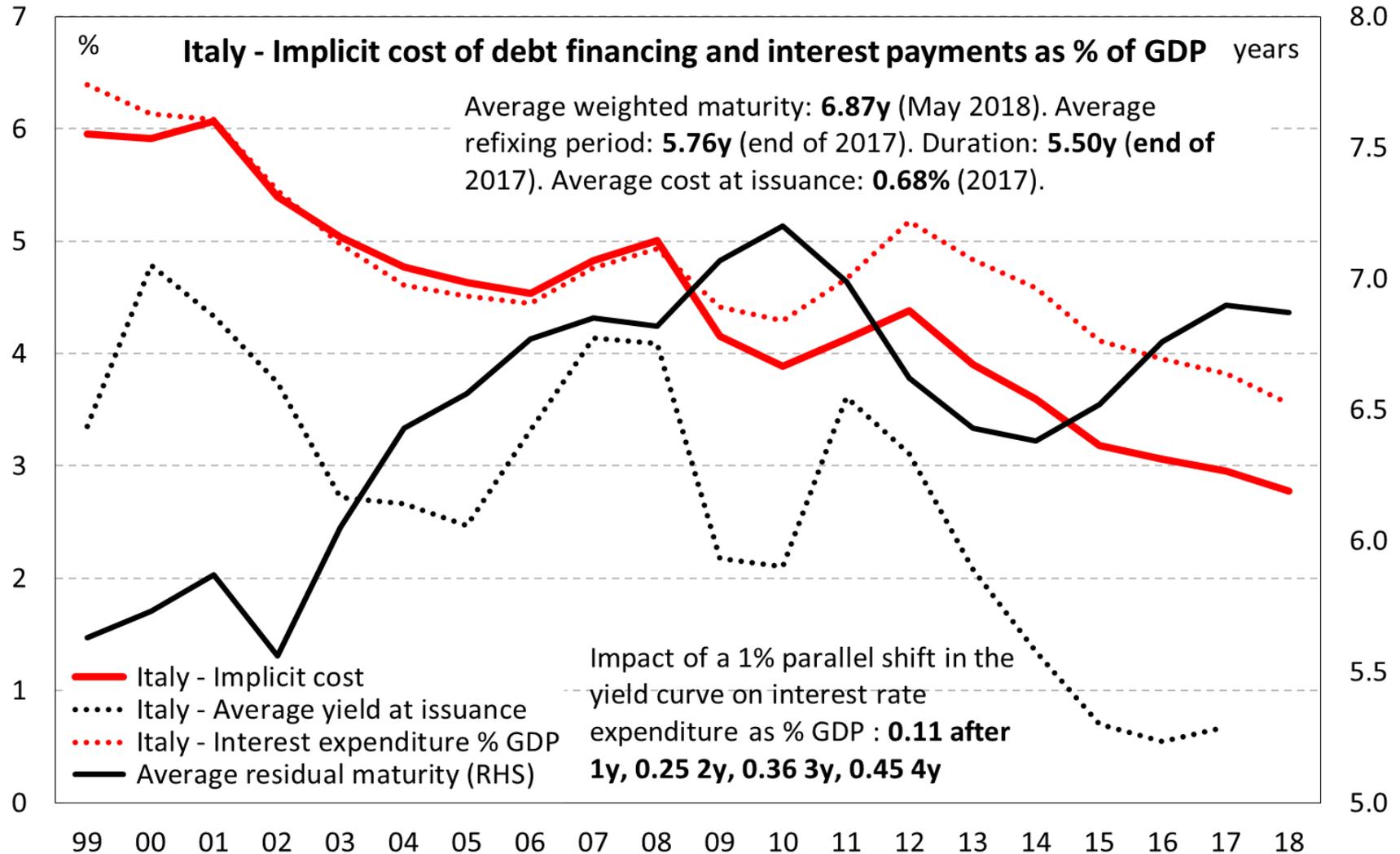
ITALY – PUBLIC FINANCE

A primary surplus steadily above 3% of GDP is key



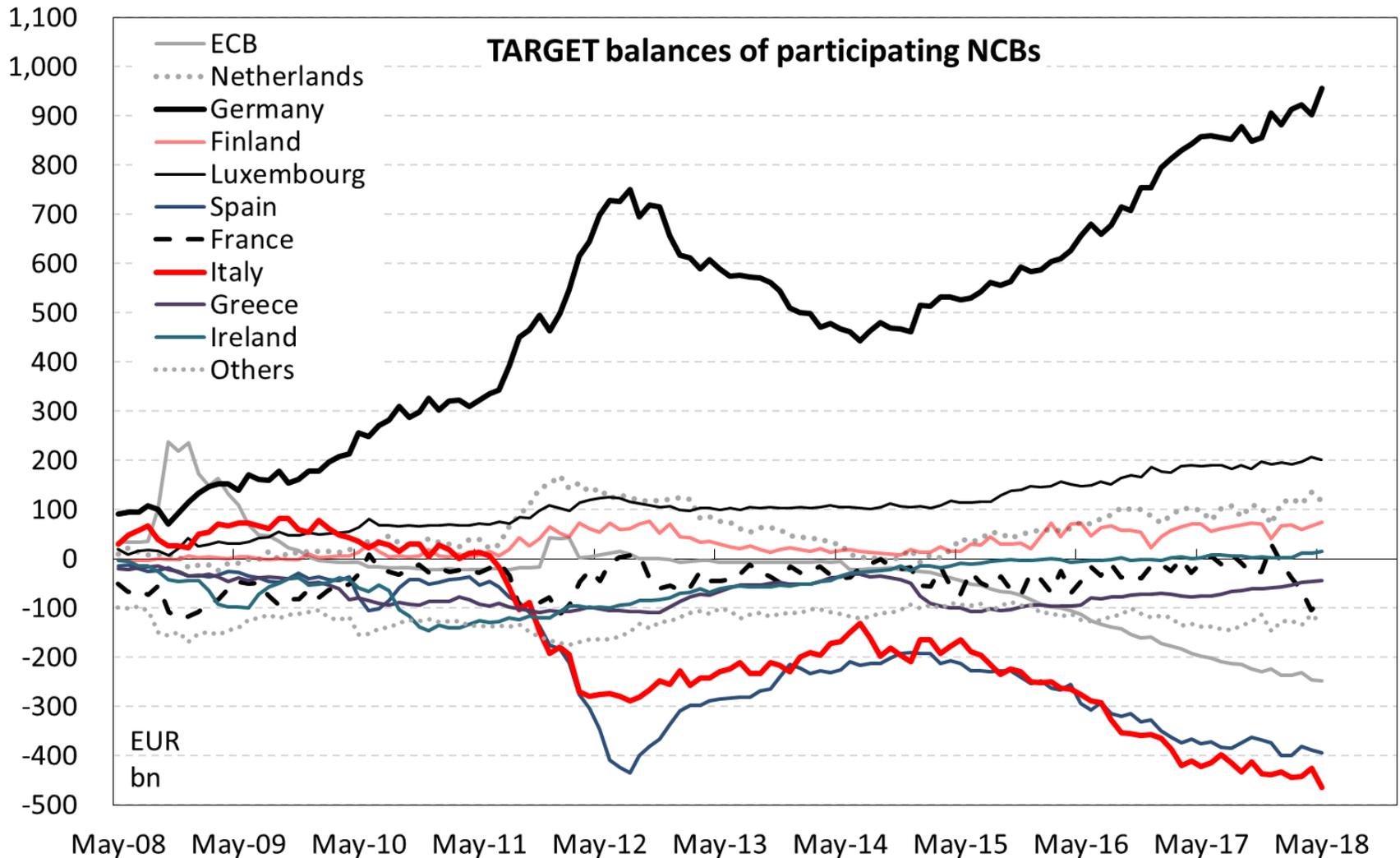
Source: Thomson Reuters Datastream, Italy's Ministry of Economy and Finance, LC-MA calculations.

The long maturity of public debt helps



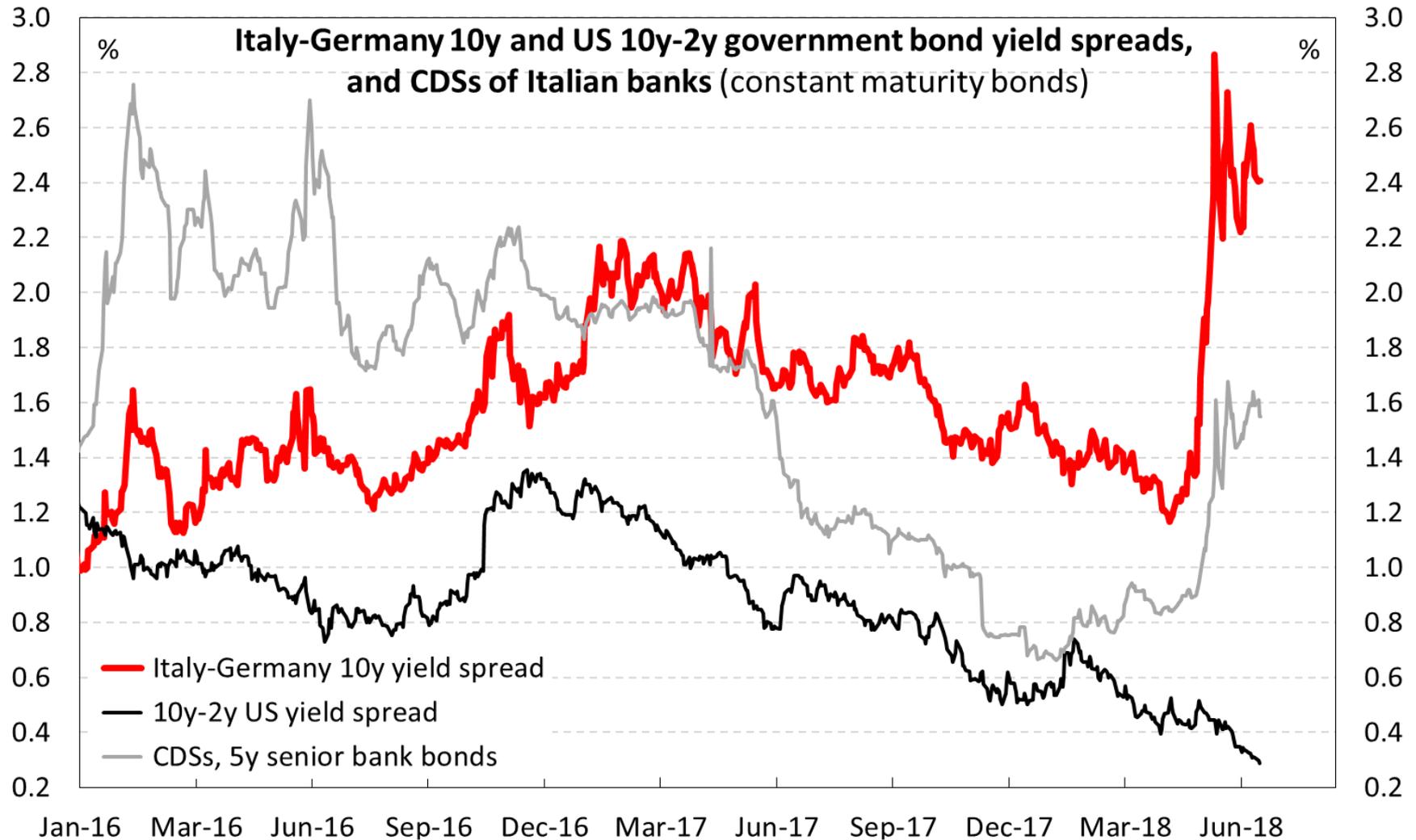
Source: Thomson Reuters Datastream, European Commission Forecasts, Italian MEF, LC-MA calculations.

Who is afraid of TARGET balances?



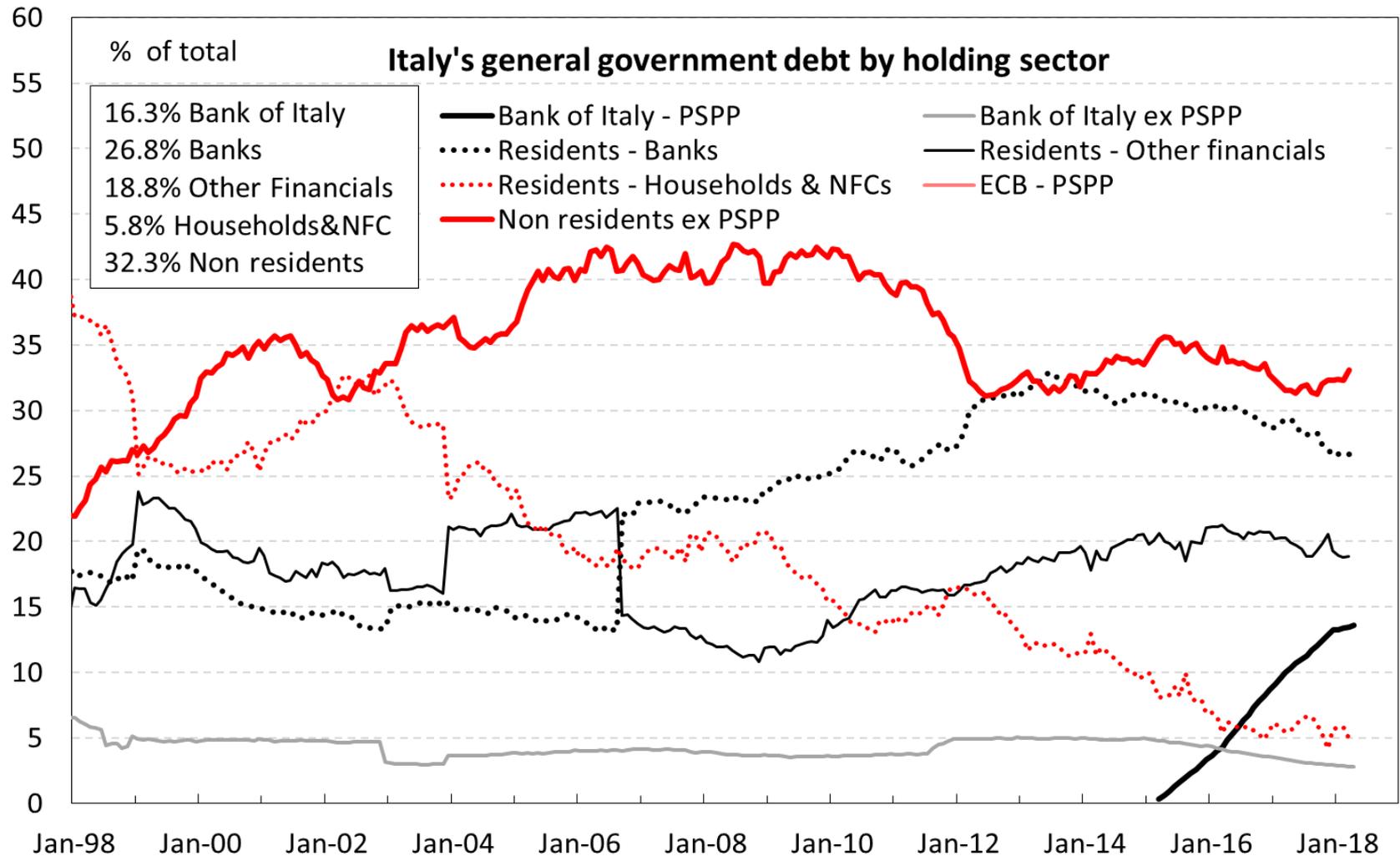
Source: ECB, Thomson Reuters Datastream, LC-MA calculations.

Bank CDSs moving in parallel



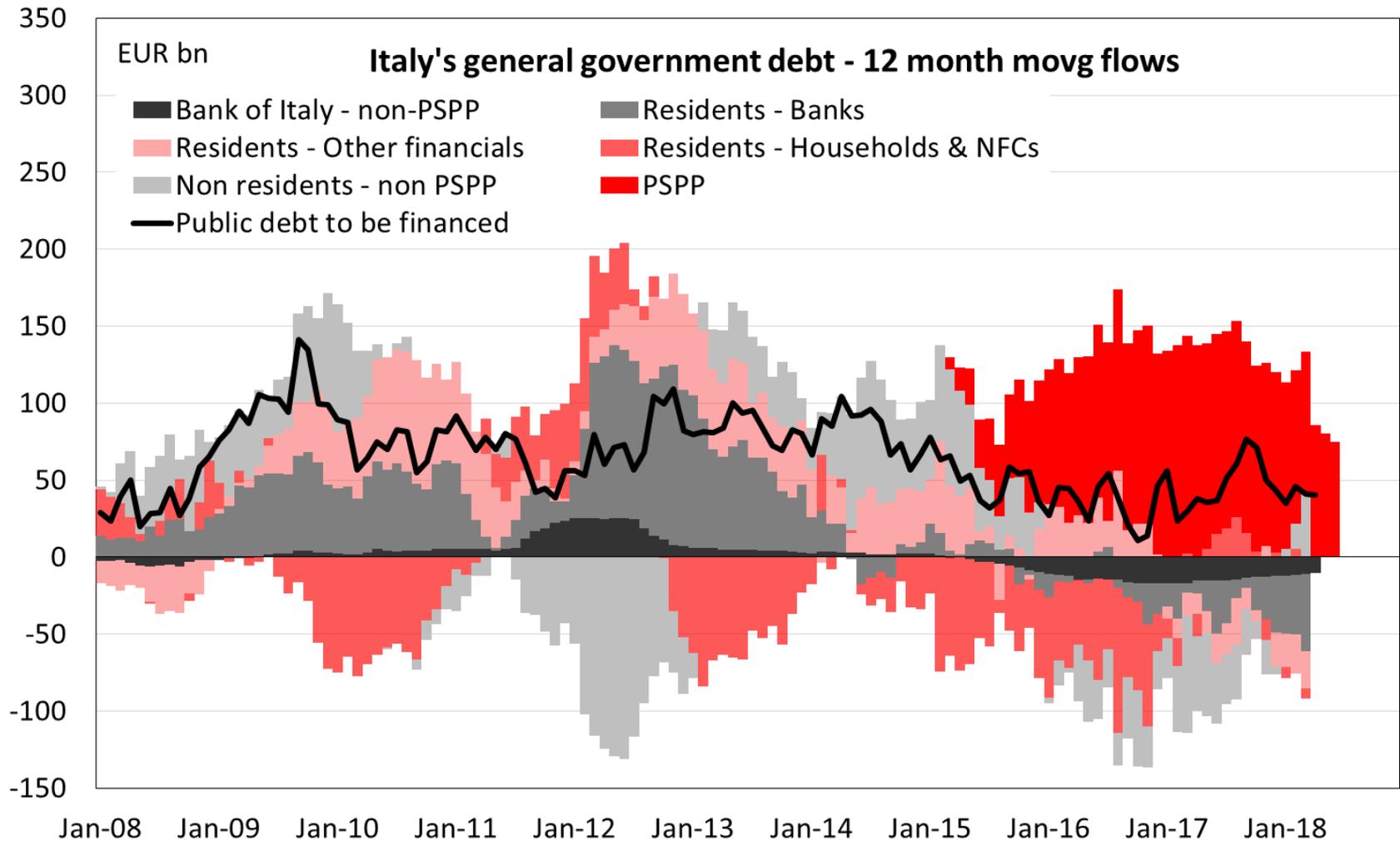
Source: Thomson-Reuters Datastream, LC-MA calculations.

The percentage of debt held by non resident is still high



Source: Bank of Italy, ECB, Thomson Reuters Datastream, LC-MA calculations.

The ESCB is the only buyer of Italy's government paper



Source: Bank of Italy, ECB, Thomson Reuters Datastream, LC-MA calculations.

What's next for Italy? Scenarios over the next 1-2 years

- ◆ **50% probability: Radicals to become mainstream.** The 5SM and the League start behaving more responsibly and pragmatically, finding ways to claim they have delivered on promises.
- ◆ **45% probability: A Syriza-like trajectory.** Populists try to deliver on electoral promises. They will eventually back down, but not before a new crisis and financial market turbulence. Help from Europe? Restructuring of debt?
- ◆ **5% Italexit.** Confrontational stance towards Europe and departure from fiscal discipline cause a major crisis. No help from Europe, no desire to compromise or back down by the government. Reaction function: Italexit, i.e. 10 years of economic depression.
- ◆ Is it the start of a **new Euro crisis? Eurozone contagion?**