

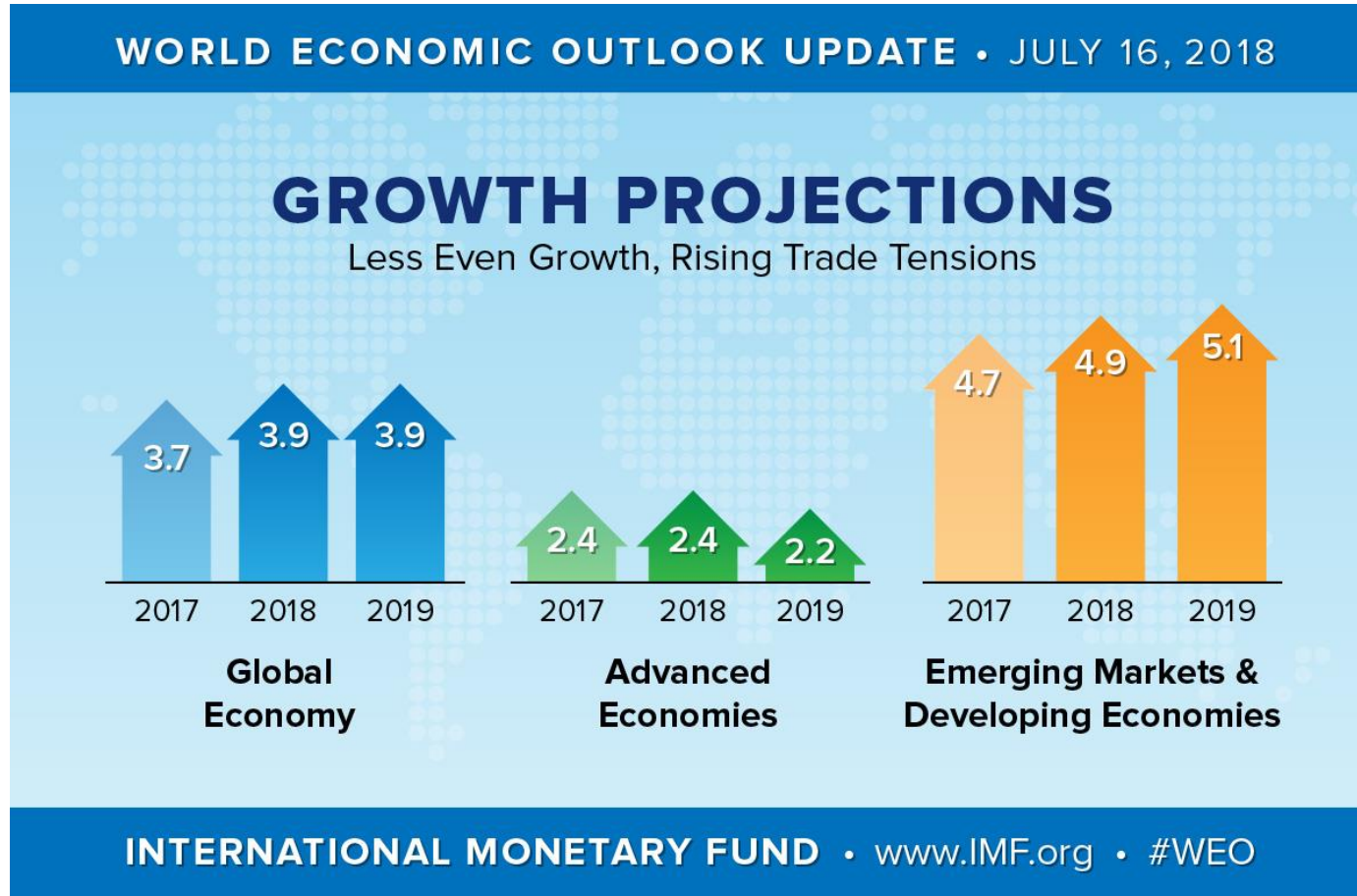
Scenario Globale, Europeo ed Italiano

Daniel Gros

Confindustria Emilia,

Bologna, 5. settembre, 2018

A happy world economy.....



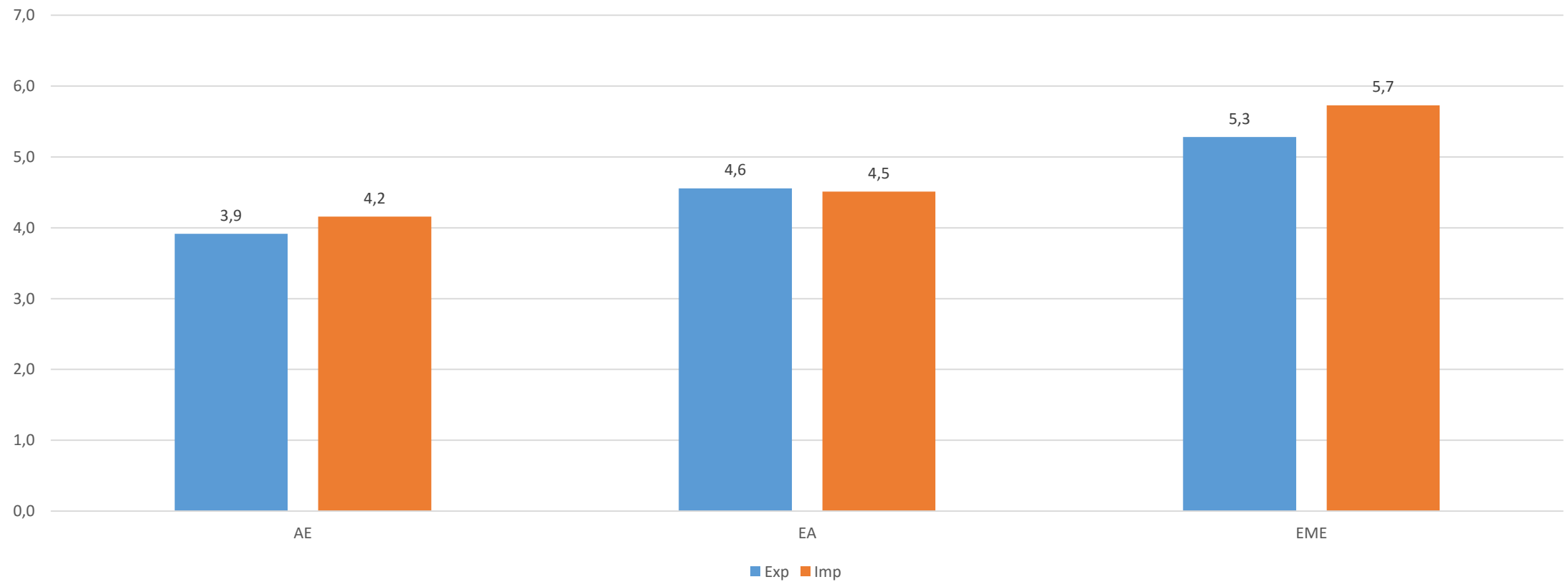
A happy Europe?

Germania - Francia poca differenza, L'Italia ultima

			Projections	
	2016	2017	2018	2019
World Output	3.2	3.7	3.9	3.9
Advanced Economies	1.7	2.4	2.4	2.2
United States	1.5	2.3	2.9	2.7
Euro Area	1.8	2.4	2.2	1.9
Germany	1.9	2.5	2.2	2.1
France	1.1	2.3	1.8	1.7
Italy	0.9	1.5	1.2	1.0
Spain	3.3	3.1	2.8	2.2
Japan	1.0	1.7	1.0	0.9
United Kingdom	1.8	1.7	1.4	1.5

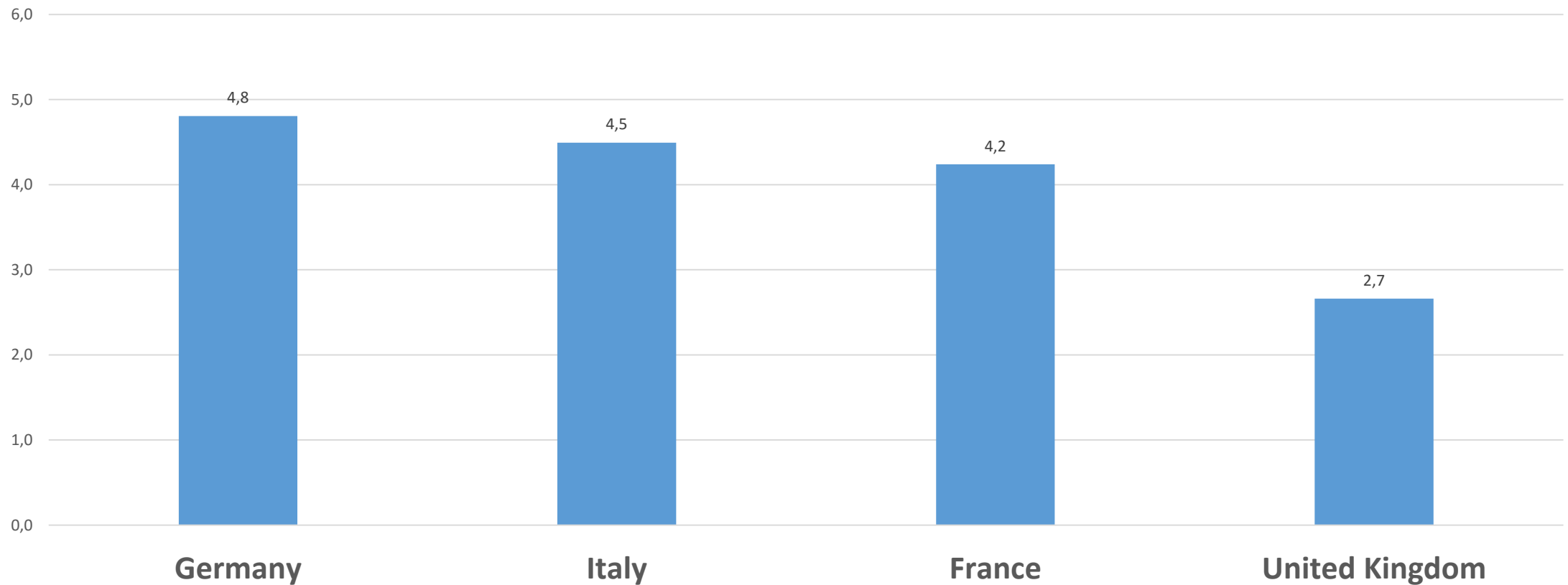
Niente paura per il commercio mondiale

World trade expected to expand nicely



Il made in Italy va bene:

Average growth of real exports 2017-2021 (IMF)



L'europa 'arranca'?

Ripresa lenta?

Ma solida: più consumi basati su redditi crescenti (niente eccesso di investimento, politica fiscal +/- neutrale).

Ripresa molto 'omogenea': tutti crescono (con il 'solito' divario per l'Italia)

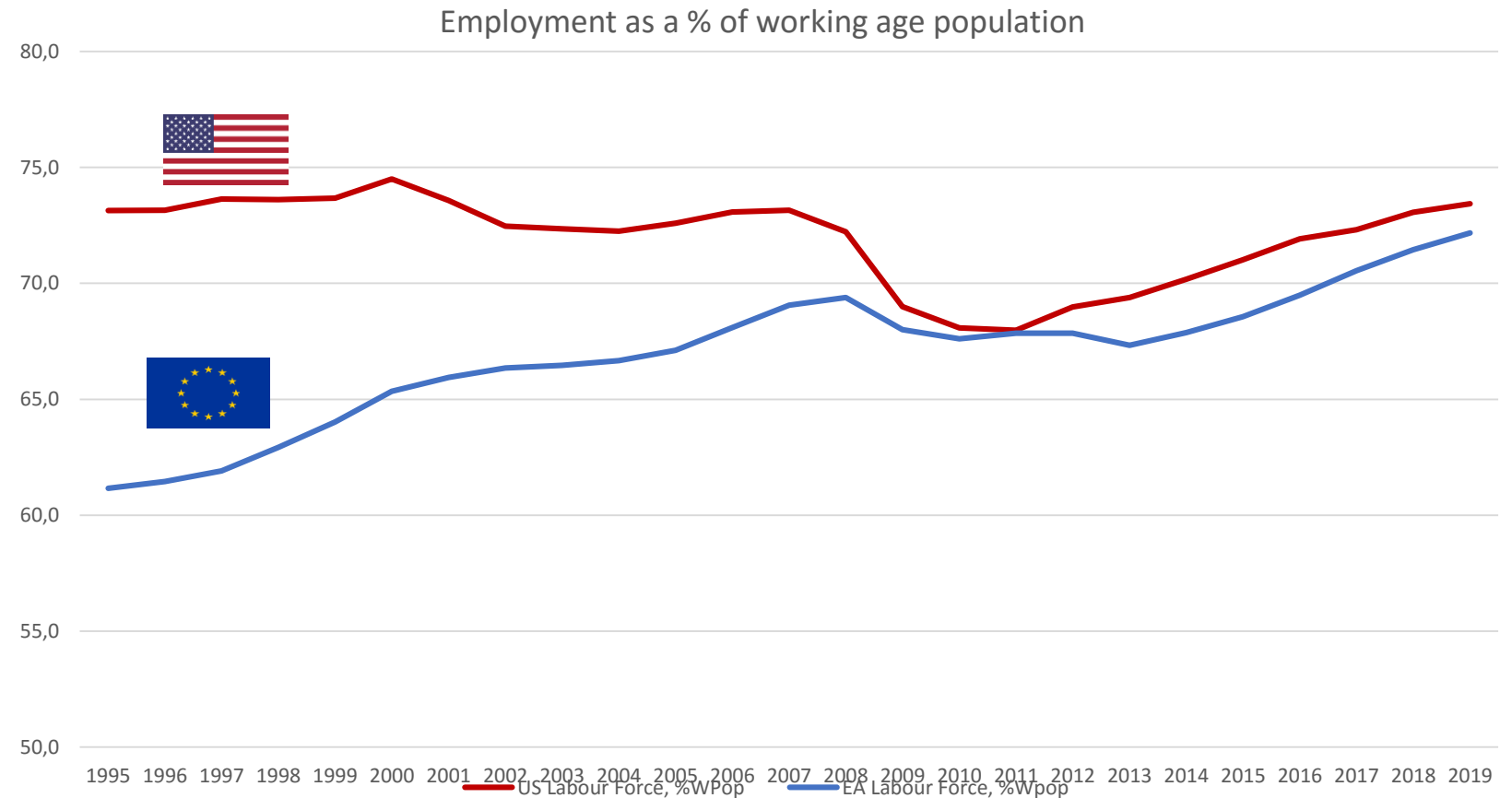
Petrolio e tasso di cambio oscillano, ma non sono decisivi.

=> La 'tartaruga' europea sta marciando al suo passo.

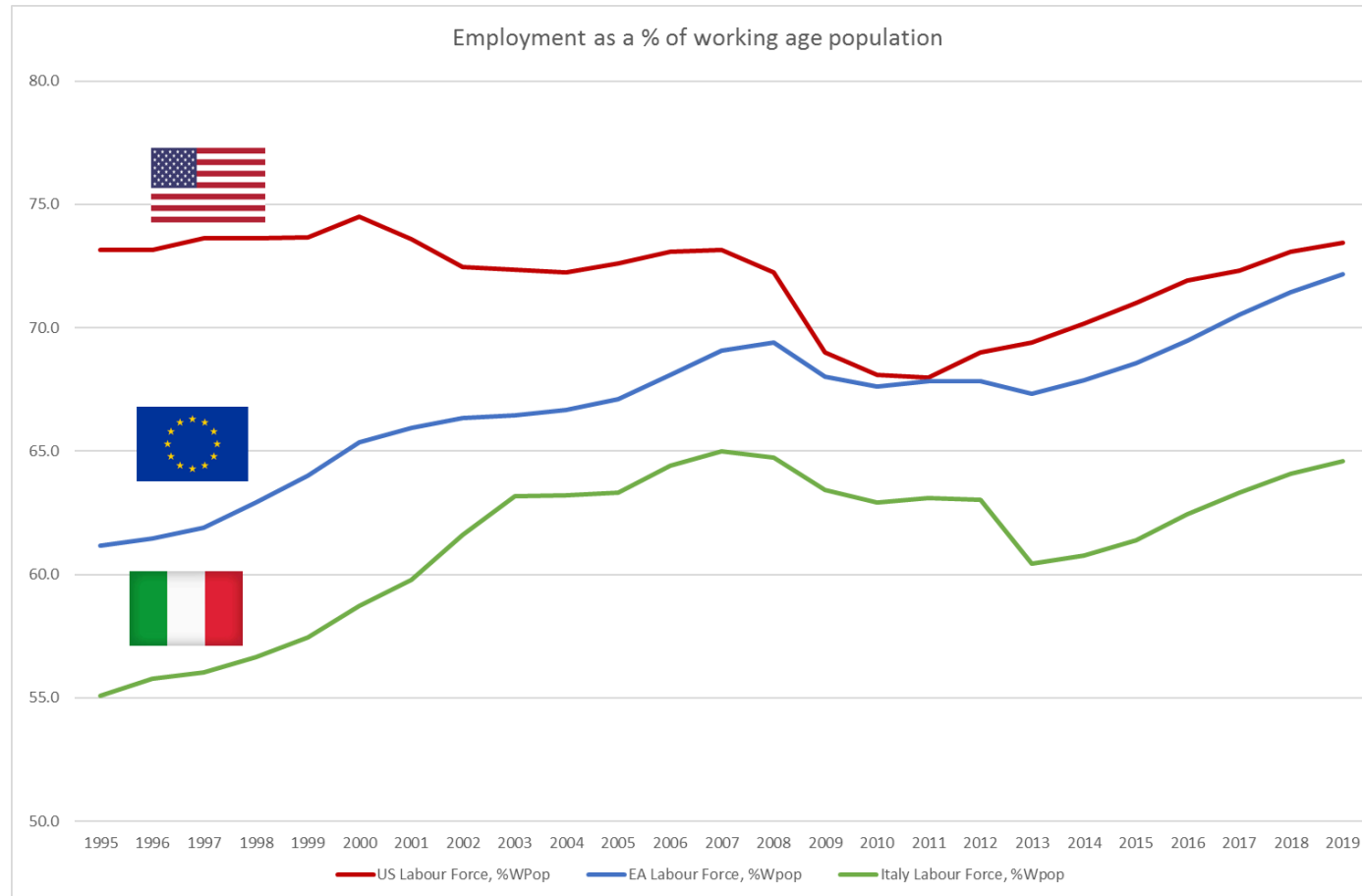
I pericoli

- Trump – Trade wars?
- Pericolo limitato.
- Dopo la tregua on l'Europa (e con i partners NAFTA, CAN, MEX) rimane essenzialmente il confronto US-Cina.
- Rivalità geo-strategica, oltre che economica.
- Più opportunità che pericolo per l'Europa?
- Imprese europee potrebbero essere avvantaggiate in tutti i due i mercati.

Il mercato del lavoro in piena ripresa (strutturale)



Qualche miglioramento anche in Italia



I mercati finanziari: la vera minaccia per la ripresa

- EME troubles limited (ARG, TUR less than 2 % of global GDP)?
 - But financial market over-reaction (flight to safety) cannot be excluded.
 - In Europe, banks are solid, limited exposure to vulnerable EMEs.
 - End of bond buying by ECB a 'contraccolpo' for Italy?
 - QE in euro area:
 - **Not ECB which is buying, but National Central Banks, on their own risk. NCBs are part of public sector (profits to Treasury).**
- ⇒ Banca d'Italia buying BTPs does not change national (public) debt!

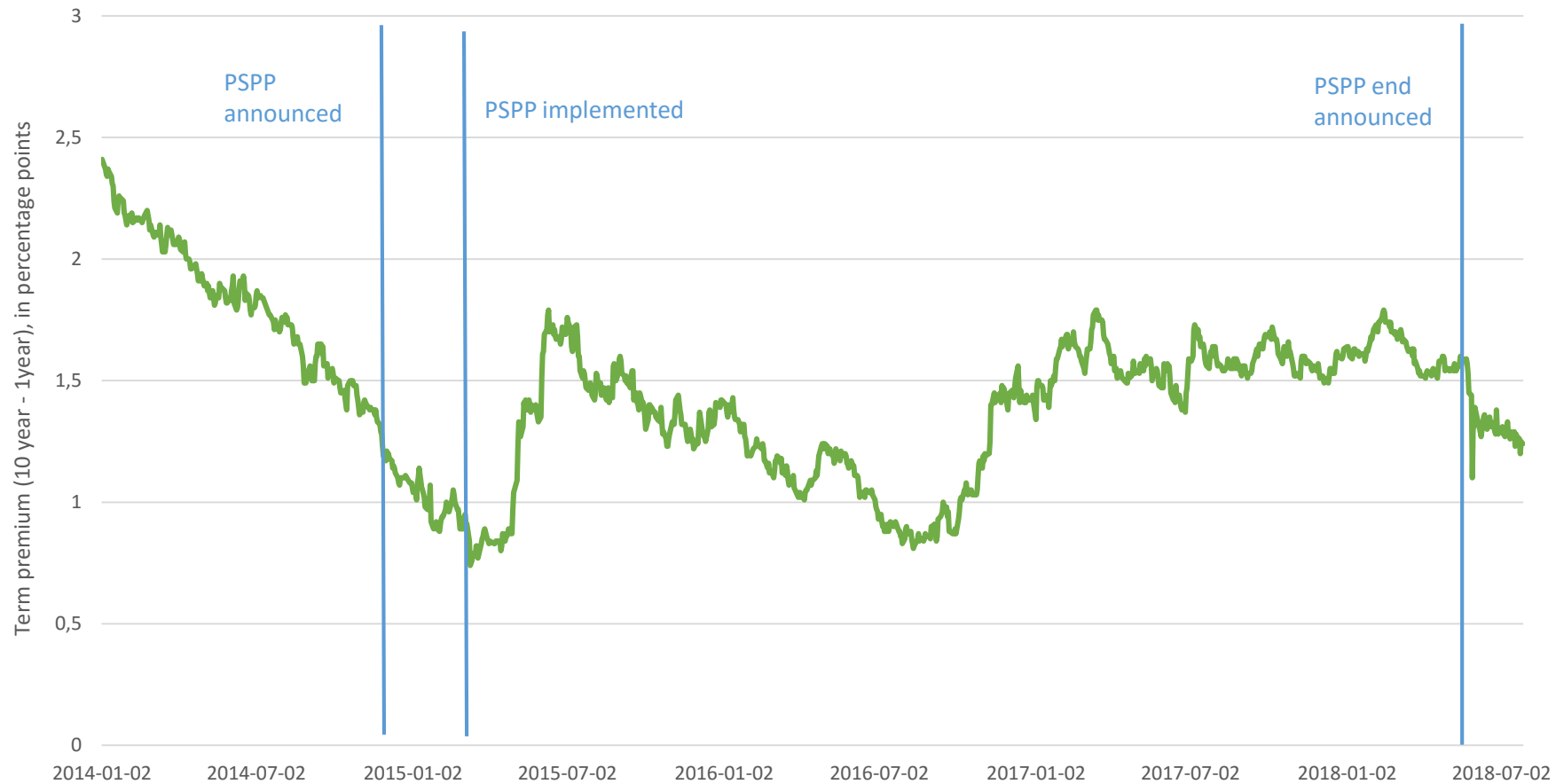
I benefici fiscali del QE della BCE

- Fiscal gain: lower debt service as long term rates > short term (cost of NCB liabilities zero or negative).
 - Fiscal gain low for Germany,
 - More substantial for periphery: IT: 2 % (= average yield during PSPP purchase, today's yields irrelevant) on BTPs versus 0 cost of Target2 balances on 400 billion euro => savings of 8 billion euro (= 0.4-0.5 % of GDP. (But some of this goes to reserves of Banca d'Italia).
- ⇒ Debt service savings in some cases non-negligible (even with zero impact on Bunds and risk premia)

QE come uno 'scudo' per l'Italia?

- Since all government bonds purchased by 'home' NCB no cross country risk sharing.
 - Assume risk premium = $PD * LGD$
 - LGD: goes up since liabilities of the NCBs cannot be restructured and fewer bonds held by public.
 - PD: goes down: liabilities of NCBs (deposits or Target2 balances) not 'runnable'! But refinancing needs of government little reduced. (PSPP long term bonds.)
- ⇒ QE reduces (a bit) risk of 'speculative attack' on national government debt market but increases LGD.
- ⇒ Impact of PSPP on risk premium uncertain

PSPP and term premium (Euro area)



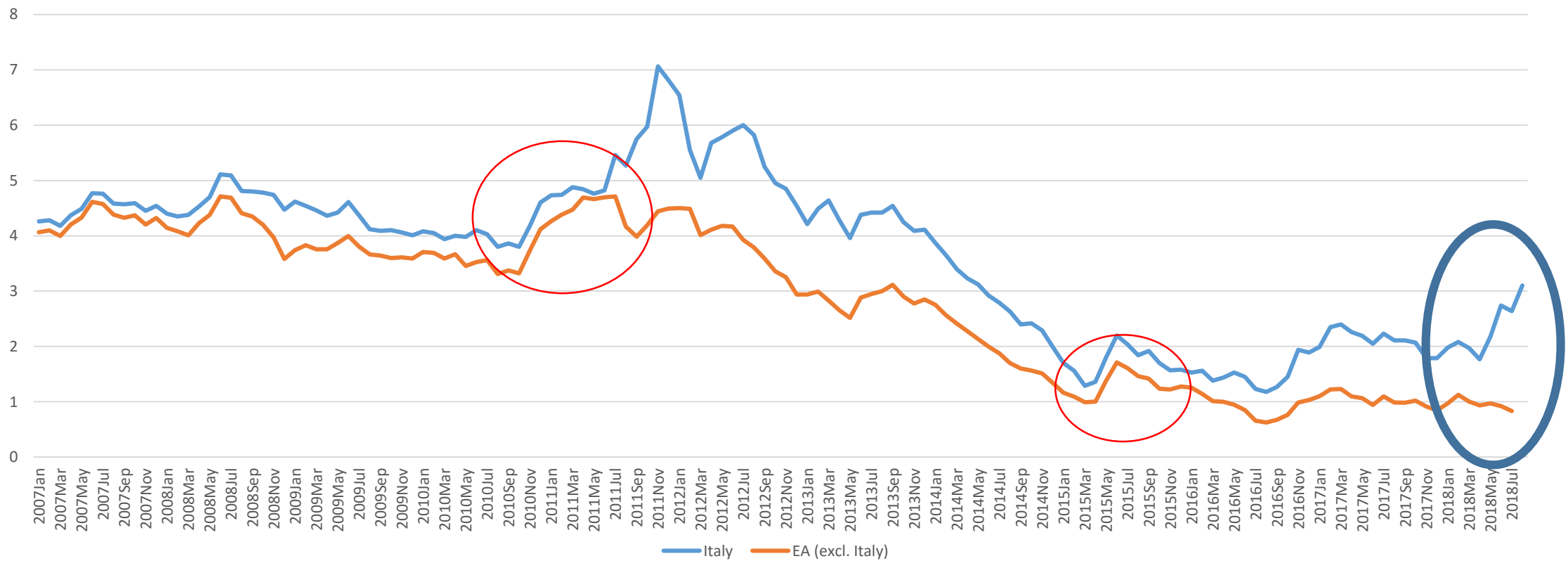
Source: DataMarket

Fine QE della BCE nessun 'contracolpo'

- Fiscal gain anyway continues.
- The buying itself had limited impact on spreads.
- Current spreads mostly 'political', home made.

Una crisi tutta italiana (no contagion)

Long-term interest rates Italy versus EA average (w/o IT)



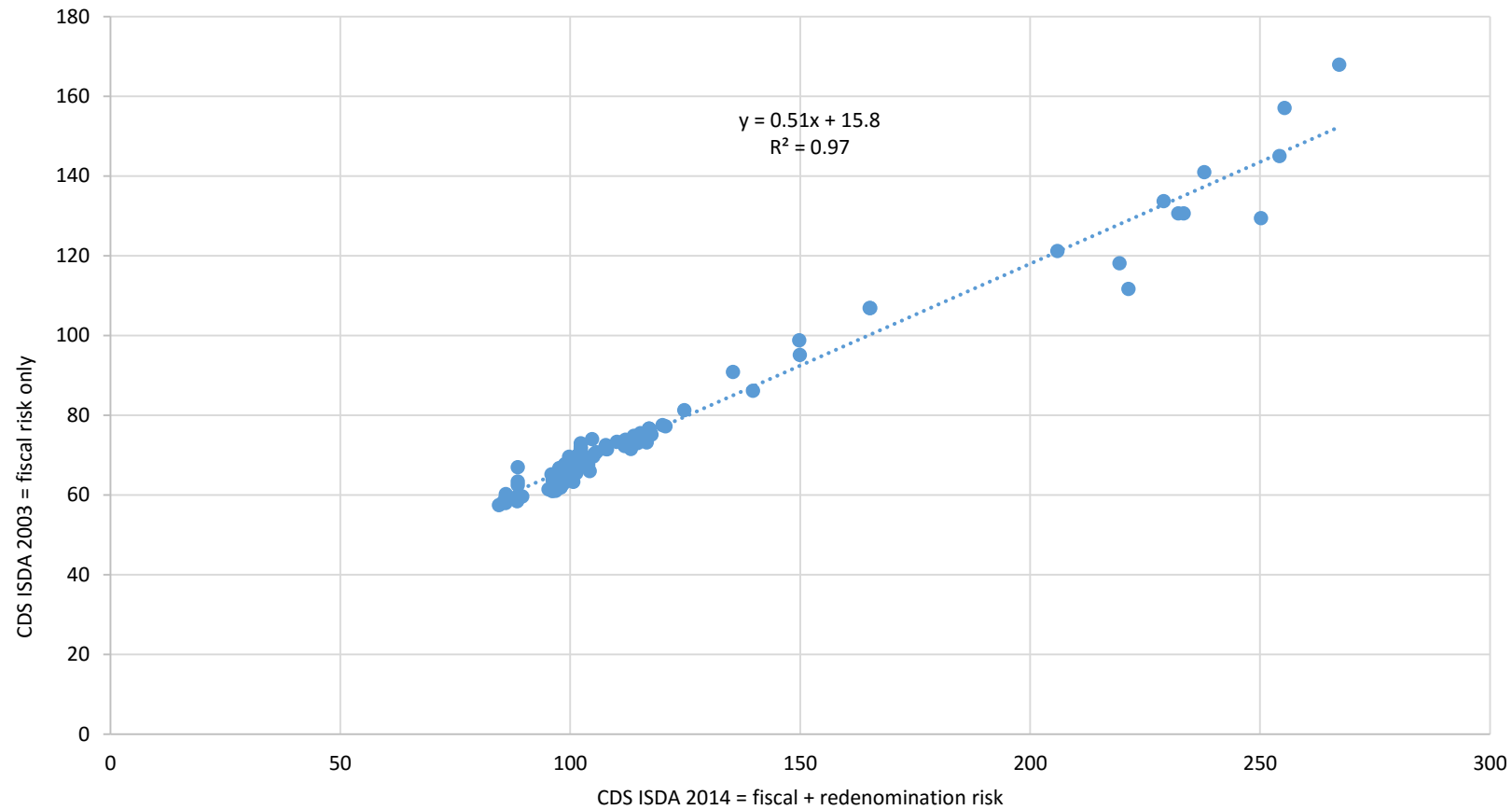
Consequences of 'Savona' plan

- Denomination rather than fiscal key uncertainty.
- Finance minister can do little to reassure markets.

Denomination risk measured two ways:

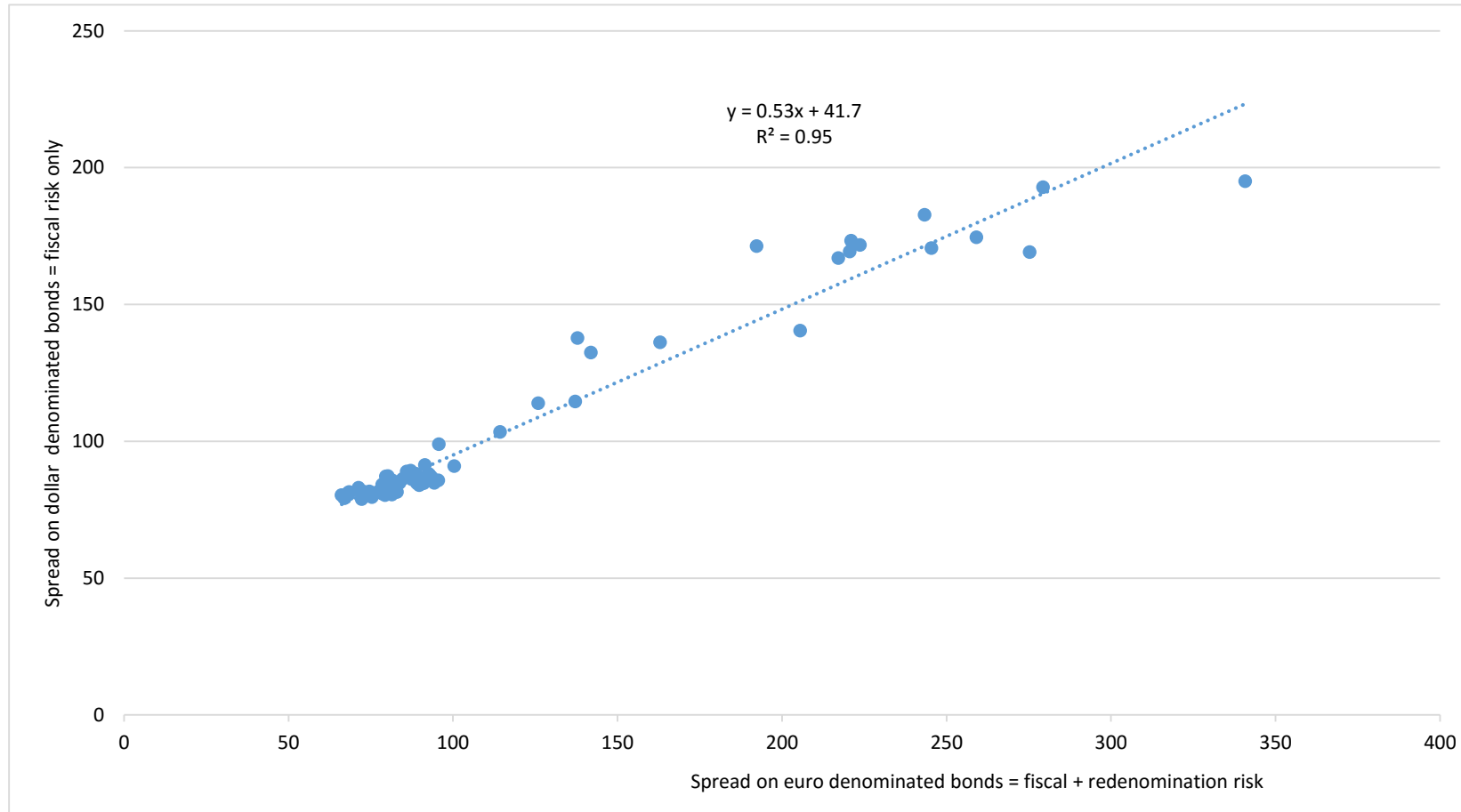
1. difference in yields (rather risk spreads) on USD and euro denominated bonds,
2. Difference in CDS 2003 and CDS 2014.

Fiscal and redenomination risk: CDS



Source: Bloomberg

Spread Italy bonds EUR and USD Maturity 2023, after the elections



Source: Bloomberg

Conclusioni

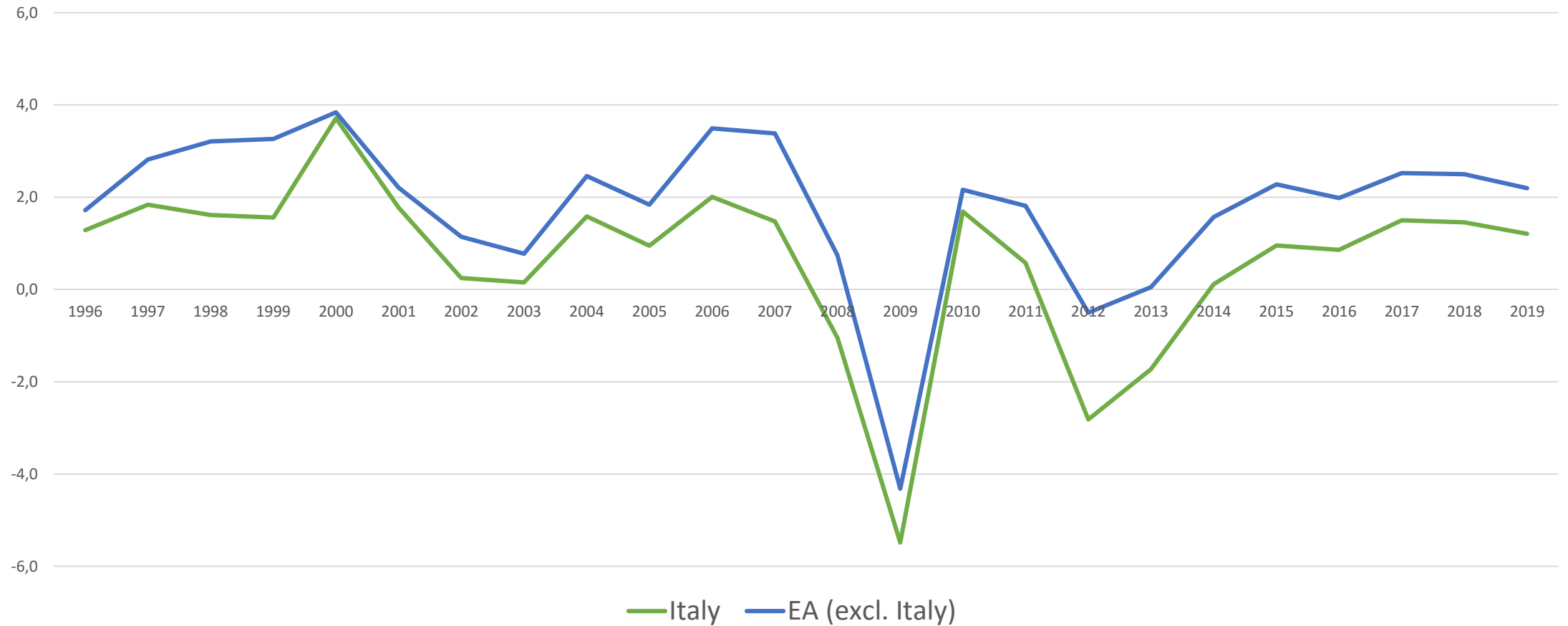
- L'economia va bene nel mondo ed in Europa.
- Alcuni paese emergenti 'fragile', ma ininfluenti (Turchia, Argentina).
- Ma la politica crea incertezza (soprattutto in Italia)
- L'ambiguità ha un costo.
- Rimane il problema della crescita in Italia.

Italy: What is the problem? Growth

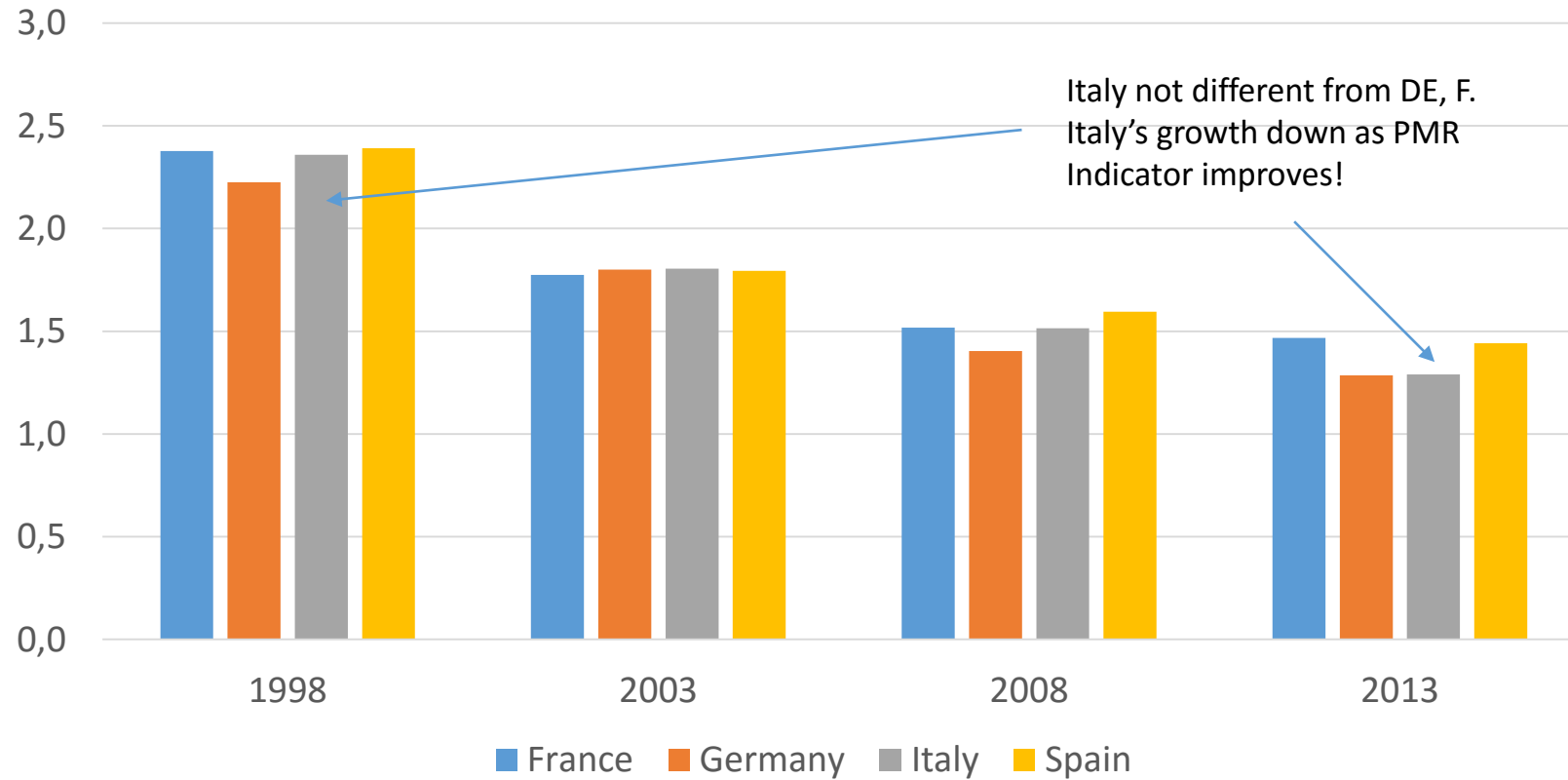
Why?

1. Structural reforms?
2. Education?
3. Investment Quantity versus Quality?

The long term growth deficit of Italy (growth of real GDP EA - IT)

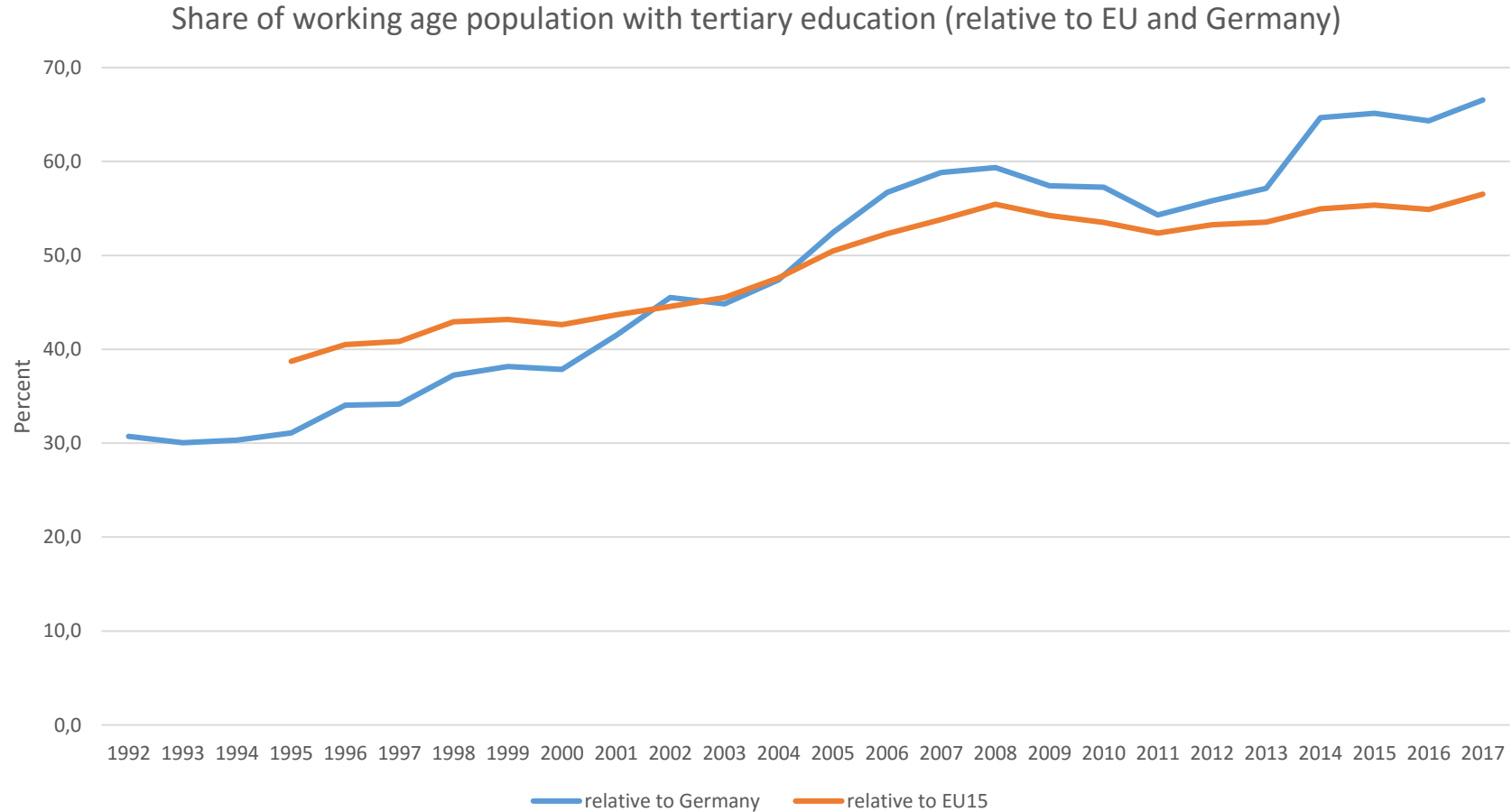


PMR little difference among 'big' EA

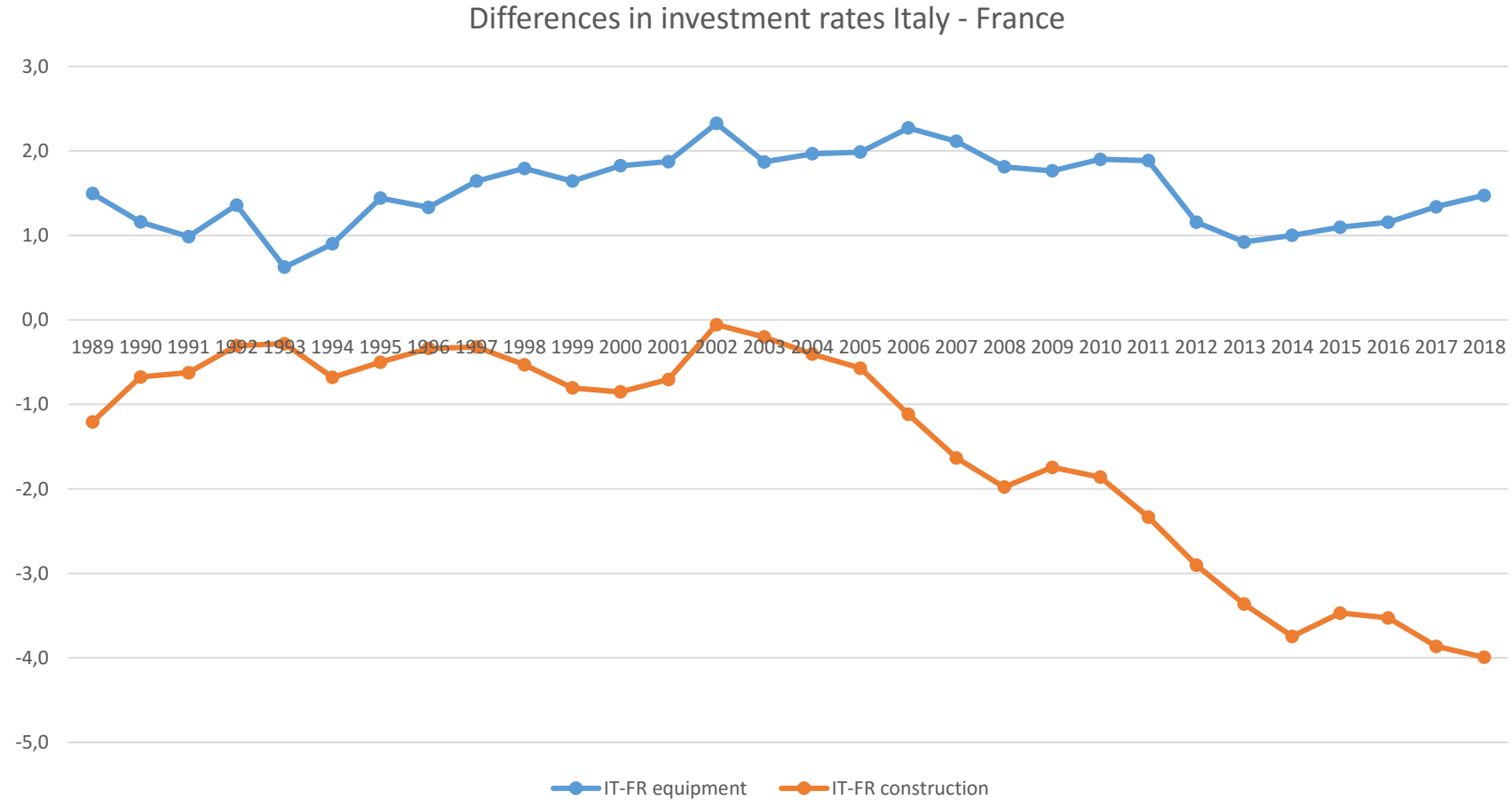


What is the problem?

Not education

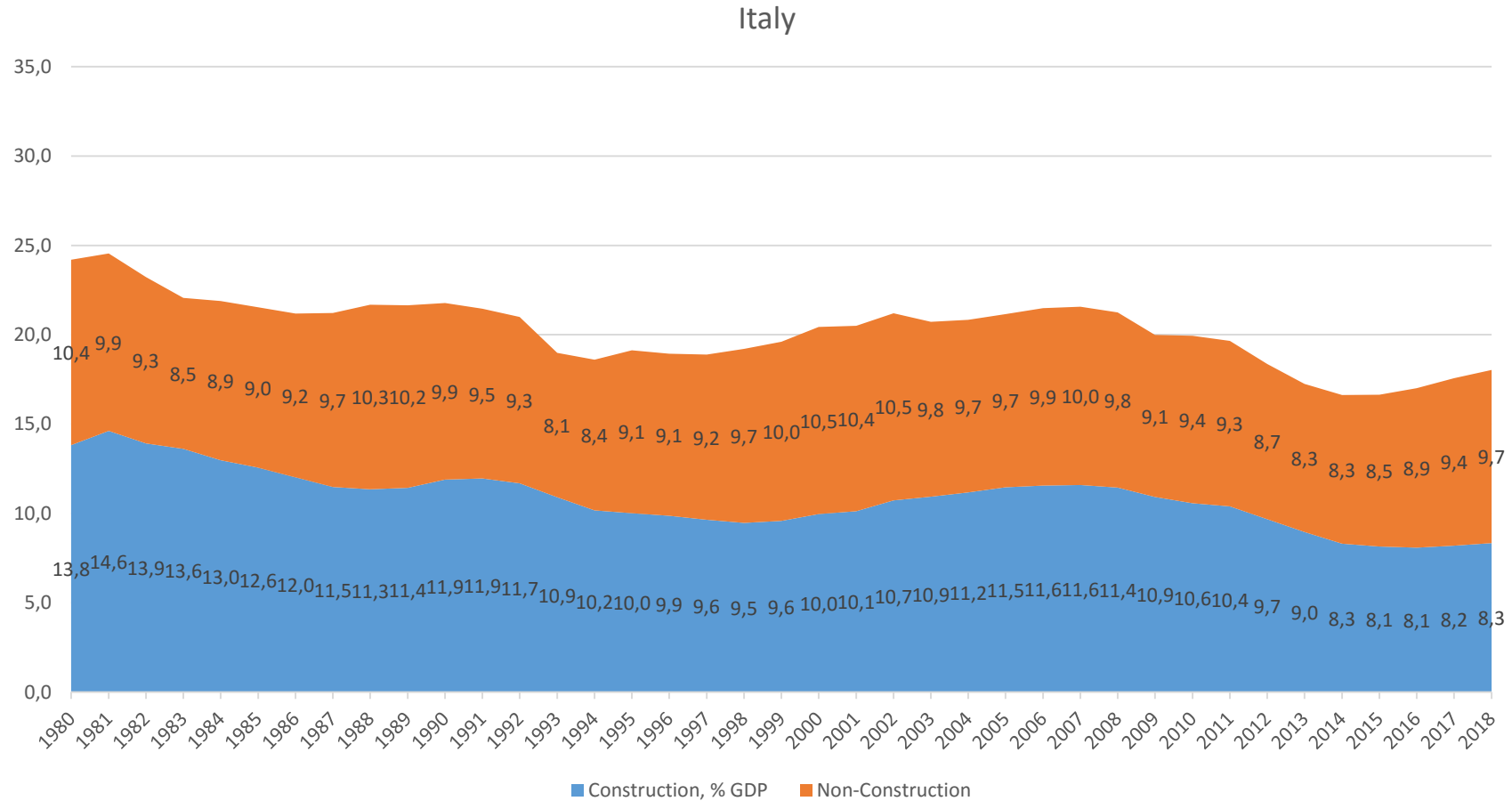


What is the problem? Not investment?

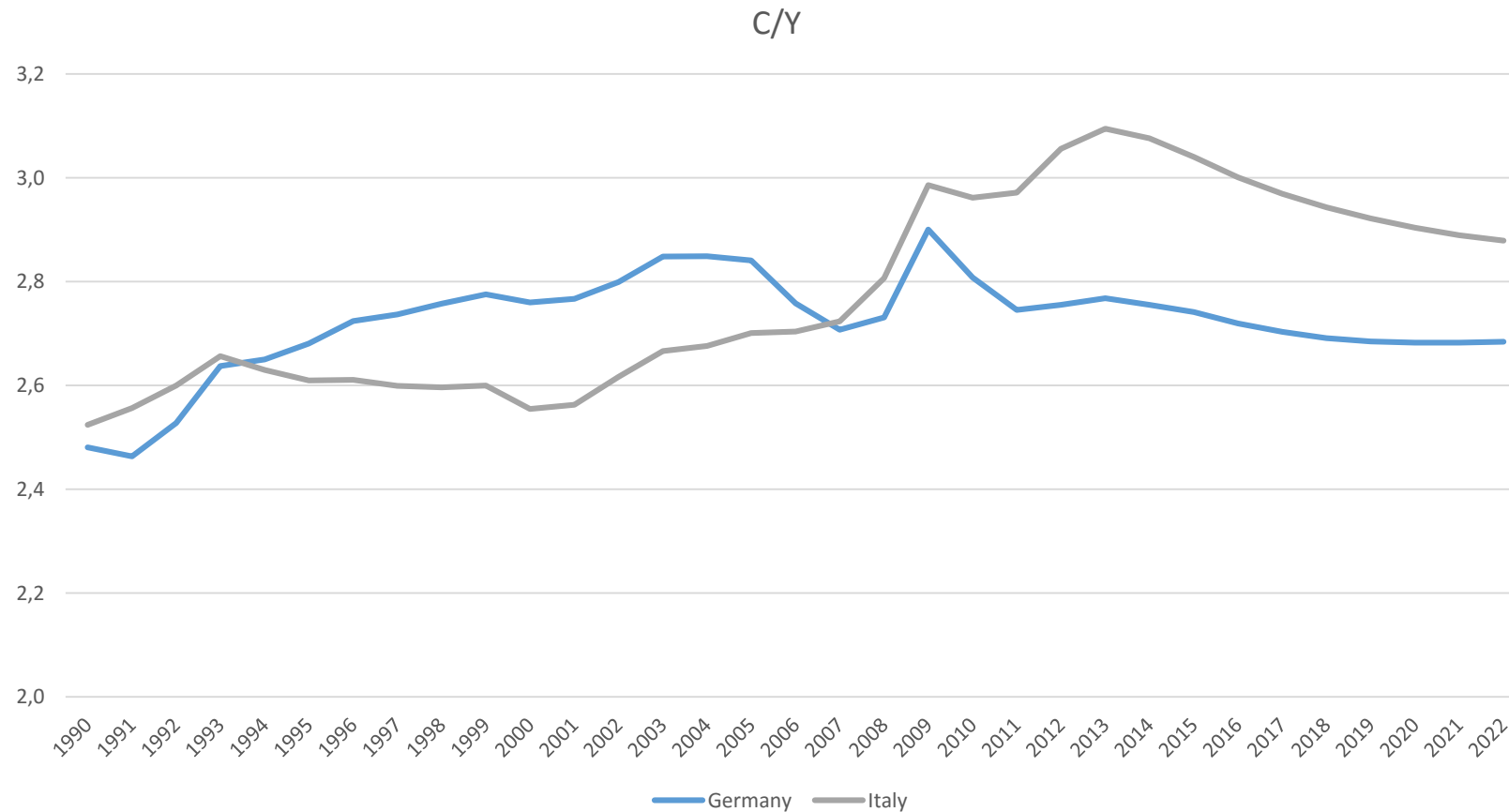


What is the problem?

Composition of investment?



But large differences in efficiency of investment
(c/y = capital needed per unit of output)



Governance is the problem



I sopravvissuti sono più forti (ROE più alto)



I sopravvissuti sono più forti (meno debito)

