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28/07/2016



Expert Commentary

Robert Bergqvist, Chief Economist at SEB, on Italian economy

”The best solution right now for Italy is to make a final decision about bail-in or bail-out and try to create stronger economic growth...”



Robert Bergqvist
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German Chancellor Angela Merkel said last week that she expects no banking crisis in Italy, whereas some analysts say that the current situation can become riskier than the recent Brexit. Which point of view do you believe is the closest to reality?

We know that NPLs in Italy is around €360bn according to IMF estimate, which is a very big number. We also know that the Italian economy has shown real problems in creating stable recovery. This means that Italian banks are facing many challenges in the low-interest rate environment. The big question right now is of course if it is right by the Italian government to consider a bail-out or if it should stick to the EU strategy that bail-in comes first.

I am confident with the fact that Europe today has a coordinated supervision on the banks and that we use the same kind of stress tests. We also have experience from dealing with weak banks. So, from that perspective I do not think that we have a banking crisis; nevertheless, banks, especially in the southern part of Europe, are facing many challenges right now.

Some experts say that only one Italian bank, Monte dei Paschi di Siena, faces a severe crisis, while other Italian banks are just in a difficult situation. In your point of view, is it a reasonable assumption or not? Why?

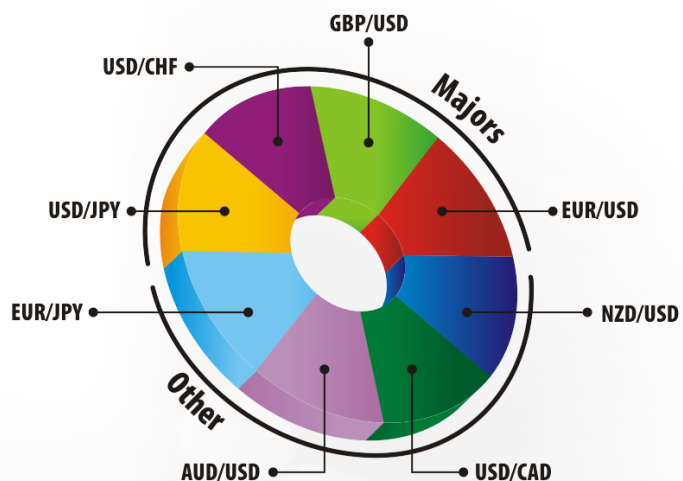
Since the size of NPL is so big, it means that it is a challenge for the whole Italian banking system. The best solution right now for Italy is to make a final decision about bail-in or bail-out and try to create stronger economic growth, which in turn, coupled with lower interest rates should be good news for corporates and it will reduce levels of NPLs.

Should we expect some drastic measures from the ECB's side in regard to the actual situation? If yes, then what kind of measures?

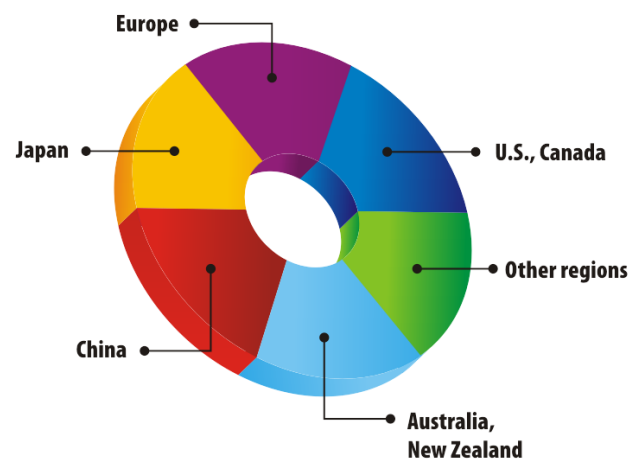
The ECB has already reacted by introducing the LTROII instruments which is providing support both to the corporate sector and the banking sector, when very favourable lending conditions means compensation for lending to corporates.

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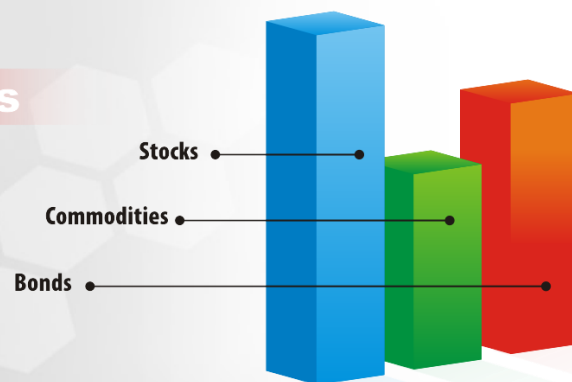
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