Italy hit by banking crisis

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Sharp turbulence on the Milan stock exchange in January focused attention on Italy's deep economic and financial crisis. At the same time, the conflict between the Italian government and the European Union (EU) Commission has intensified. Prime Minister Matteo Renzi (Democratic Party–PD) has responded with new, stepped-up attacks on the working class.

Stock markets across the world experienced a sharp downturn at the beginning of 2016, with the stock exchange in Milan affected particularly severely. Although all European economies suffered as a result of the slowdown of growth in China and the decline of oil prices, "apart from Athens, the Milan stock exchange was … by far the worst affected," as the Swiss *Neue Zürcher Zeitung* wrote on January 21.

In mid-January, the stocks of many major banks and corporations fell steeply. The worst losses were to the stocks of Fiat, UniCredit bank, Monte dei Paschi di Siena bank, and Cariger bank.

The value of Monte dei Paschi di Siena (MPS) bank, the oldest bank in the world (founded 1472), fell temporarily by half, and its share price dropped to just 50 cents. The bank had to be removed from trading. On January 24, the government decided to protect the bank from bankruptcy with a guarantee from the Economics and Finance ministry.

The MPS is one of six Italian banks that reportedly hold large quantities of toxic assets. With net wealth of €10 billion, the value of bad loans allegedly totals €24 billion. As the European Central Bank confirmed in a data analysis at the end of last year, there are more than €200 billion worth of toxic assets on the books of Italian banks.

The figures reflect the weakness of the Italian economy after five years of recession. Seventeen percent of loans held by Italian banks today are, according to EU figures, in danger of turning bad. By contrast, according to figures from the Royal Bank of Scotland, in Germany the figure is 2 percent and in France 7 percent.

The following comparison brings out the state of crisis in the Italian economy: while six years ago small and medium-sized businesses had the possibility of paying back 90 percent of their loans, today it is only 72 percent.

Already in November 2015, four smaller banks fell into crisis: Banca Popolare dell'Etruria in Arezzo, Banca Marche in Ancona and two local savings banks in Chieti and Ferrara. The Italian government did not step in to support the crisis-ridden institutions with state loans, because the EU has since banned state help for failed banks.

New EU competition regulations prevent the kind of state assistance financed by taxpayers' money that was carried out in almost every country after the 2008 financial crisis. In place of the "bailouts," a so-called bail-in has been established, which means that bank customers must support the bank with their assets.

The New EU regulations, which were allegedly intended to prevent taxpayers' money being used to finance failed banks, have been exposed as a new claim on the funds of small savers and pensioners. In the case of the four failed banks, 12,500 savers lost their funds.

The bankers have used a provision of the new regulations, according to which not only savers with deposits of over €100,000 could be made liable for a bank in crisis, but also holders of sub-prime bonds. Such junk bonds were evidently sold in large quantities to unsuspecting small savers.

At the end of 2015, as the banking crisis became acute, many of these savers lost everything. Dramatic stories resulted: a 68-year-old pensioner hung himself in Civitavecchia, when he, a former employee of the state energy firm ENEL, realised his savings at the Banca Popolare dell'Etruria had vanished. This case and similar incidents affecting hundreds of savers, mainly pensioners, provoked a wave of protests.

Finally the government—with a view to upcoming municipal elections—established a “solidarity fund” of €100 million for those small savers affected, although this came nowhere near covering all the losses. But this measure by the finance minister intensified the conflict with the EU.

For months, a bitter dispute has played out between the government of Matteo Renzi and the EU. Under the leadership of Germany, the EU has pressured weaker countries like Greece, Spain and Italy to implement a brutal austerity programme.

In the case of the steel firm Ilva, the EU Commission accused Renzi of using too much state aid and thus breaking EU competition law. On the issue of an Italian “bad bank,” which Italy has wanted to establish for some time to allow the banks to dump their bad assets, the EU responded only when the stock market crisis was in full swing.

On January 26, EU competition commissioner Margrethe Westagar finally permitted the Italian government to create a “bad bank.” The agreement signed by Finance Minister Pier Carlo Padoan in Brussels was coupled with such stringent conditions that it proved unable to calm the alarm on the stock market. Bloomberg cited a representative of the investors as saying, “The agreement can help the banks to get rid of part of their dubious outstanding debts, but it will not solve the problem, especially for the weakest finance houses, which without doubt require fresh capital.”

On February 2, the Italian Central Bank issued a record 30-year bond worth €9 billion. This was “the largest issuing Italy had ever done, and the most important over a 30-year period ever undertaken by a European sovereign,” explained Frédéric Gabizon from HSBC. But just two days later, on February 4, the Milan stock exchange fell sharply once again.

Italy’s state debt rose to 132.2 percent of GDP in 2015, well above €2 trillion. Only Greece has a higher level of state debt.

Under pressure from the EU, the Renzi government therefore intensified the severe austerity measures it has been imposing for two years, announcing wide-ranging cuts in the public sector. A new law, which is supposedly to launch a struggle against the “Fannulloni,” the slackers in the public sector, makes it easier for the state to implement layoffs that have already been planned.

The attacks already carried out on pensioners and workers have resulted in a massive polarisation and increased social tensions. The major increase in the retirement age left millions of seniors in poverty. Although the liberalisation of the labour market has slightly reduced unemployment figures, two of every three newly created jobs are temporary and precarious, short-term contracts or low-paying positions.

The official unemployment rate is 11.5 percent, and youth unemployment is 38 percent. But in reality, unemployment is much higher, since more than 36 percent of all working-age Italians are absent from the statistics. They are considered “inactive” because they could not prove they had actively looked and applied for work in the last month. This means that for those aged 15 to 24, a much higher percentage is without work or training.

The bare numbers conceal a development with explosive social consequences. Conflicts are taking place daily between the police and homeless people over occupied houses, and with youth and workers determined to fight for their jobs and futures. One example is the workers at Ilva, who briefly occupied Genoa town hall in early January. Conditions in Italy differ little from those in Greece.