# Monte Paschi bank will seek Italian state bailout

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Monte Paschi di Siena (MPS), Italy's third-largest bank, will seek a state bailout to meet an emergency cash crunch at the end of 2016, as tens of billions of bad debts pile up on its books.

MPS spokesmen admitted late Wednesday night that the bank could not find a so-called "anchor investor," a private investor that would invest the key portion of the necessary funds in the bank, after the oil sheikdom of Qatar refused to invest €2 billion in MPS. On Thursday morning, MPS' shares on the Milan stock exchange collapsed to a new record low of €14.71, having already lost 87 percent over the year.

On Wednesday, Italy's parliament accepted preconditions for a €20 billion bailout being prepared by Italian Finance Minister Pier Carlo Padoan. The Chamber voted 389-134 and the Senate 221-60 to approve the plan. The ruling Democratic Party (PD), the New Center Right (NCD), and ex-Prime Minister Silvio Berlusconi's Forza Italia backed the plan, while right-wing populist Beppe Grillo's Five-Star Movement (M5S) voted against.

The *Corriere della Sera* wrote, "Finding those 5 billion euros on the market before the year's end would have given a respite to the bank led by [MPS CEO] Marco Morelli. Now instead it will have to seek fresh air from the financial lungs of the Treasury, although it is unclear what form this will take."

The bankruptcy of European capitalism is again starkly exposed. Tens of billions in public funds are to be handed over to the financial aristocracy, as Italy and Europe slide ever deeper into slump, in a bailout that only sets the stage for further disasters. MPS and Italy's largest bank, UniCredit, are poised to announce branch closures and tens of thousands of job cuts, with other banks to follow.

The state bailout also threatens not only to ruin small businesses that have borrowed from MPS and at least 40,000 small savers that have invested in MPS bonds, but to unleash deep conflicts among the European powers over the bailout's terms.

Under European rules effective since the beginning of 2016, state bailouts are illegal unless the bailed-out bank's creditors take a haircut on at least 8 percent of the bank's liabilities. When these rules were applied to smaller Italian banks last year, ruining many of their depositors, it provoked a political uproar and protests after a ruined 68-year-old retiree committed suicide in Civitavecchia.

Amid speculation over whether the Italian Cabinet would meet late last night or today to discuss the MPS bailout, reports emerged that the bail-in provisions were included in the PD's plans. "The scheme is ready," a senior Italian official declared. "The burden-sharing principle will be respected, but we will try to limit the damage to savers as much as possible."

European parliamentarians (MEPs) have charged that planned MPS bailouts are illegal and are demanding harsh terms against the Italian banks. Earlier this month, MEP and Green parliamentary fraction leader Sven Giegold said the MPS bailout would be an "unacceptable breach of the firewall between governments and banks and an assault on confidence in the banking union."

With his December 4 referendum on constitutional changes, former PD Prime Minister Matteo Renzi hoped to strengthen his powers and limit those of the Senate, so as to be able to impose whatever terms he worked out with European authorities and the financial markets.

After Renzi's referendum failed in a landslide, however, the crisis rapidly intensified. The European Central Bank (ECB) rejected MPS' request for more time to meet capital requirements, and Qatar refused to invest more funds without more details on what government would emerge from Renzi’s resignation.

Enormous tension over the Italian banking crisis pervades international financial markets and the European political system. With Italian banks facing €360 billion in bad debts, there are fears that attempts to bail out MPS could simply starve UniCredit, an even larger bank, of capital it needs to survive and avert a collapse of the entire European banking system. Other major European banks massively exposed to Italian banks include two of France’s big three banks, BNP Paribas and Crédit Agricole, and Germany’s fourth-largest bank, Hypovereinsbank.

Moreover, Grillo’s anti-European Union (EU) and anti-euro M5S is rising against the ever more unpopular PD, threatening the PD government of Prime Minister Paolo Gentiloni hastily installed after Renzi’s defeat.

Wolfango Piccoli of Teneo Intelligence predicted that conflicts over the MPS bailout would only emerge after the Christmas holidays, but that they would become “politically toxic” later. “In terms of the junior bondholders [i.e., small savers], let’s see what happens. It will eventually be decided by Brussels,” he told the *Guardian*, adding: “This will drag on for some time. If we have elections in May or June, it will be used then [against the PD], and there is no way to deflect that.”

The MPS bailout will only intensify the historic crisis of the EU and of European capitalism, most starkly demonstrated by the victory this summer of the British referendum, called by sections of the Conservative Party and of the far-right UK Independence Party, to leave the EU.

The principal danger currently is that rising social anger is benefiting right-wing forces. The MPS bailout threatens to ruin thousands of middle class Italians amid rising electoral support for right-wing populists not only of the M5S in Italy, but across Europe. The neo-fascist Front National could take power in next year’s French presidential elections, on a program of leaving the euro and holding a referendum on France’s EU membership.

There is growing discussion that, in the event of a major banking crisis in Italy, Rome might bail out its banks in overt violation of European rules, setting up an explosive confrontation with the EU. “Italy would be willing to pump billions of euros into its banks to stem a systemic crisis in defiance of the EU, say people familiar with the government’s thinking,” the *Financial Times* wrote earlier this month.

At the same time, the MPS bailout will simply intensify the economic and social crisis in Italy and across Europe that is undermining the banking system.

The recession that followed the financial crash of 2008 has wiped out nearly a quarter of Italian industry. There is vast unemployment, far higher than the official rate of 11 percent, since many of the unemployed are no longer counted as part of the labor force. The official youth unemployment rate is around 40 percent, however. There is deep and rising poverty, particularly in the South, and more recently in earthquake-hit regions, where most people have not had the chance to move away and start their lives anew in other locations.