Italian Debt Observer

Independent Analysis of Italian Economic Data

Italy - at the half-way mark in 2012

MAZZIERO RESEARCH

Contents

Authors

Debt Observer:	Maurizio Mazziero
In Depth:	Leonardo Baggiani
	Silvano Fait
	Andrew Lawford

Abstract:
This study examines the quarterly evolution of Italy's sovereign debt, its stock of government bonds, official reserves, GDP, inflation and unemployment.

Introduction

I am pleased to present the seventh edition of the Italian Debt Observer (the second that has been translated into English), a project that has the scope of evaluating the economic situation in Italy on the basis of the available quarterly data. I would invite any readers of the English edition to register for future updates: please send an e-mail to info@mazzieroresearch.com with "English Debt Observer" in the subject heading and we'll be happy to forward details to you of future editions. Please be assured that our privacy policy is never to share the e-mail addresses of our contacts.

Today, the Debt Observer is a fixture in the publications of Mazziero Research and IdeasHaveConsequences and one to which we dedicate significant resources. Nevertheless, it is the authors' intention to distribute the publication freely to all those who find it of interest. In this context, it is pleasing to see the increasing interest in this study even in the mainstream press.

The previous English edition of the Observer can be found here.

This editions presents a number of differences in terms of its presentation; the changes have the aim of encouraging rapid access to individual data that is of interest to the reader. In particular:

- Each topic is divided more clearly.
- Each section has a table or graph.
- Each topic is divided into two categories:
  - **Facts**, presented in a concise list.
  - **Comment,** which examines the data in greater detail and provides an evaluation.

As with the previous English edition, those readers unfamiliar with Italian debt, economic or political terms will find definitions of text appearing in blue in the glossary on page 34.

I would like to note that not all the authors necessarily agree with all of the comments made in the Observer; each of us is responsible for his own section alone.

Before leaving the reader to explore the rest of this document, I must once again thank again Leonardo Baggiani, Silvano Fait and Andrew Lawford who have provided the "In Depth" sections towards the end of this publication.

Maurizio Mazziero

Ratings

Country	Standard & Poor's		Fitch		Moody's		Dagong	
Austria	AA+	*Negative*	AAA	*Stable*	Aaa	*Negative*	AA+	*Stable*
Belgium	AA	*Negative*	AA	*Negative*	Aa3	*Negative*	A+	*Negative*
Cyprus	BB+	*Negative*	BBB-	*Negative*	Ba1	*Negative*	NA	*NA*
Denmark	AAA	*Stable*	AAA	*Stable*	Aaa	*Stable*	AA+	*Stable*
Estonia	AA-	*Negative*	A+	*Stable*	A1	*Stable*	A	*Stable*
Finland	AAA	*Negative*	AAA	*Stable*	Aaa	*Stable*	AAA	*Negative*
France	AA+	*Negative*	AAA	*Negative*	Aaa	*Negative*	A+	*Negative*
Germany	AAA	*Stable*	AAA	*Stable*	Aaa	*Negative*	AA+	*Stable*
Greece	CCC	*Negative*	CCC	*NA*	C	*NA*	CC	*Negative*
Ireland	BBB+	*Negative*	BBB+	*Negative*	Ba1	*Negative*	BBB	*Negative*
Italy	BBB+	*Negative*	A-	*Negative*	Baa2	*Negative*	BBB	*Negative*
Luxembourg	AAA	*Negative*	AAA	*Stable*	Aaa	*Negative*	AAA	*Stable*
Malta	A-	*Negative*	A+	*Stable*	A3	*Negative*	A-	*Negative*
Norway	AAA	*Stable*	AAA	*Stable*	Aaa	*Stable*	AAA	*Stable*
The Netherlands	AAA	*Negative*	AAA	*Stable*	Aaa	*Negative*	AA+	*Stable*
Portugal	BB	*Negative*	BB+	*Negative*	Ba3	*Negative*	BB+	*Negative*
United Kingdom	AAA	*Stable*	AAA	*Stable*	Aaa	*Negative*	A+	*Negative*
Slovakia	A	*Stable*	A	*Stable*	A2	*Stable*	NA	*NA*
Slovenia	A+	*Negative*	AA-	*Negative*	Baa2	*Negative*	NA	*NA*
Spain	BBB+	*Negative*	BBB	*Negative*	Baa3	*Negative*	A	*Negative*
USA	AA+	*Negative*	AAA	*Negative*	Aaa	*Negative*	A	*Negative*
Sweeden	AAA	*Stable*	AAA	*Stable*	Aaa	*Stable*	AAA	*Stable*

Table 1: Ratings of selected countries
(Source: Various rating agencies)

Facts

- 13 June 2012, Moody's downgrades Spain from A3 to Baa3 and Cyprus from Ba1 to Ba3.
- 13 July 2012, Moody's downgrades Italy from A3 to Baa2.
- 23 July 2012, Moody's changes the outlook for Germany, The Netherlands and Luxembourg from stable to negative; Finland's outlook remains stable.
- 25 July 2012, Moody's changes the outlook for the EFSF from stable to negative.
- 2 August 2012, Moody's downgrades Slovenia from A2 to Baa2.
- 7 August 2012, S&P changes the outlook for Greece from stable to negative.
- 3 September, Moody's changes the outlook for the EU from stable to negative.

Comment

Again in this edition of the Debt Observer we note a series of changes in sovereign creditworthiness by the rating agencies, mostly on the downside, with the exception of Finland that continues to hold its triple-A position with two stable and two negative outlooks.

Table 1 shows a schematic summary of the ratings assigned by the various agencies; the Chinese agency Dagong has been added in this edition. Table 2 shows the correspondence between the ratings levels of the various agencies.

S&P	Fitch	Moody's	Dagong
AAA	AAA	Aaa	AAA
AA+	AA+	Aa1	AA+
AA	AA	Aa2	AA
AA-	AA-	Aa3	AA-
A+	A+	A1	A+
A	A	A2	A
A-	A-	A3	A-
BBB+	BBB+	Baa1	BBB+
BBB	BBB	Baa2	BBB
BBB-	BBB-	Baa3	BBB-
BB+	BB+	Ba1	BB+
BB	BB	Ba2	BB
BB-	BB-	Ba3	BB-
B+	B+	B1	B+
B	B	B2	B
B-	B-	B3	B-
CCC+	CCC+	Caa1	CCC+
CCC	CCC	Caa2	CCC
CCC-	CCC-	Caa3	CCC-
CC	CC	Ca	CC
C	C	C	C
D	D		D

Table 2: Equivalence of ratings between Standard & Poor's, Fitch, Moody's & Dagong

The rounds of ratings changes have not spared Italy, with the 13th July downgrade by Moody's from A3 to Baa2. As per usual, many Italian politicians have levelled criticisms at Moody's for not having taken into account the strong path of reforms that Italy has embarked upon. This journey, it is worth noting, is not lacking for good intentions, but the actual facts are a little less encouraging: according to a recent survey of Il Sole 24 Ore, the Italian business daily, the seven reforms of the Monti Government require the passage of 393 laws to bring them into effect. As of 30th August, only 53 of these had been passed.
In a nutshell, our country seems much like a schoolboy who, in order to remedy his past shortcomings decides to do a great deal of homework. At the end, he does only one-eighth of the intended amount and then he complains about his low marks; this analogy should make some sense to the academically-minded Professor Monti.

The reasons given by Moody's for the downgrade were as follows:

1. Increase in the cost of the issuance of government bonds, with the danger of access to markets being limited should the contagion effect from Greece and Spain become more acute.
2. Deterioration in the economic outlook in the short term: weak growth and rising unemployment, which determine the risk of not achieving the objectives of fiscal consolidation. Failure to meet budget targets in turn could further weaken market confidence, increasing the risk of a sudden withdrawal of access to funding.

These arguments, as we have already seen in past editions of the Observer, have been present for some time. After the stick, however, Moody's continued with the carrot, noting that Italy:

1. Maintains a primary surplus.
2. Is a large and diversified economy, a fact which allows it to cushion the effects of the current crisis to some extent.
3. Has made significant progress in structural reforms, a fact which, if continued in coming years, could improve the competitiveness of the country and its potential for medium-term growth.

But criticism was not reserved only for Italy, given that a trio of the most virtuous countries - Germany, the Netherlands and Luxembourg – have seen their outlooks changed from stable to negative. The important consequence of this is that the EFSF, the vehicle created for the financial stability of European countries, begins to see its strength brought into question, as Moody's has revised its outlook from stable to negative. This result comes from the fact that the trio mentioned above constitute 35.5% of the guarantees given to the EFSF. A further consequence is the worsening outlook for the European Union itself, which has had its outlook cut from stable to negative.

As can be seen, Moody's has done the lion's share of the work in these summer months, given that S&P limited itself to a changing of the outlook for Greece. It should be clear, however, that hyperactivity may lead to mistakes. The wavering judgment of Moody's makes this risk quite clear: towards the end of August it had the following to say - "Italy, Spain and Portugal may exit the current state of crisis by 2013 if they are able to apply fully the reforms adopted so far."- only then to provide a correction after a week to express concerns about GDP - "the Italian economy will contract between 2.5% and 1.5% this year and between 1% and zero next year."
Moody's concerns are far from being unwarranted, but this piecemeal approach risks compromising the completeness of the analysis for any given country.

Public Debt

(€ Millions)	2011		2012	
	Public Debt	Variation	Public Debt	Variation
January	1,880,007	36,780	1,934,965	37,786
February	1,876,128	-3,879	1,928,911	-6,054
March	1,868,283	-7,845	1,946,083	17,172
Aprile	1,890,566	22,283	1,948,584	2,501
May	1,897,522	6,956	1,966,303	17,719
June	1,901,874	4,352	1,972,940	6,637
July	1,911,807	9,933		
August	1,899,553	-12,273		
September	1,883,749	-15,796		
October	1,909,072	25,334		
November	1,904,859	-4,213		
December	1,897,179	-7,680		
Increase		**53,952**		**75,761**

Table 3: Monthly variation of public debt from 2011 to Q2 2012
(Source: Bank of Italy)

Facts

- June recorded a new record level of Italian public debt at almost 1,973 billion euros.
- The increase in debt during Q2 was almost 27 billion euros.
- The increase in debt from the beginning of 2012 was almost 76 billion euros.
- The increase in debt during the first half of 2012 was 40% greater than the increase for the whole of 2011.
- The per capita public debt based on the population estimates as at 31st December 2011 was 32,422 euros.

Comment

A new record level of public debt was reached in June (1,973 billion euros) despite the stabilisation manoeuvres put in place by the government. Although the second half of the year is generally less intense (see Table 3), there is little reason to hope for a reduction of debt levels in the coming months.

The continuing trends in government debt are clear, but no less concerning are those in Italian household debt levels, which, according to an analysis by CGIA Mestre, have reached an average of 20,107 euros per family, a growth of 33.4% (or 5,039 euros) since the beginning of 2009.

(€ Millions)	Public Debt	Variation	Variation %	Inflation
2000	1,300,341			2.60%
2001	1,358,333	57,993	4.46%	2.70%
2002	1,368,512	10,179	0.75%	2.40%
2003	1,393,495	24,984	1.83%	2.50%
2004	1,444,604	51,108	3.67%	2.00%
2005	1,512,779	68,176	4.72%	1.70%
2006	1,582,009	69,230	4.58%	2.00%
2007	1,598,971	16,963	1.07%	1.70%
2008	1,663,452	64,481	4.03%	3.20%
2009	1,761,229	97,777	5.88%	0.70%
2010	1,843,227	81,998	4.66%	1.60%
2011	1,897,179	53,952	2.93%	2.70%
1 Trim. 2012	1,946,083	48,904	NA	NA
2 Trim. 2012	1,972,940	26,857	NA	NA
Increase		672,599	51.72%	25.80%

Table 4: Annual variation of public debt from 2000 to Q2 2012
(Source: Bank of Italy)

Facts

• From 2000 to present, Italian public debt has increased by circa 673 billion euros.
• In percentage terms, it has increased by 51.72%, double the level of inflation i the same period (25.80%)

Comment

The increase in public debt from 2000 to present shown in Table 4 is the clear symptom of the complete failure of Italy's political class during the period. The responsibility lies on both sides of the political spectrum, albeit to varying degrees, and it is laughable to attribute the blame only to past legislatures, even though it is clear that a debt-funded patronage system has long been part of the political system in the Republic of Italy.
It must be noted that the creation of debt becomes particularly dangerous once it gets close to the level of GDP and any growth beyond the level of GDP sets the stage for the conditions of financial instability and unsustainability that are currently being experienced in Italy.
There is no excuse whatsoever in the current situation, given that the favourable financing conditions resulting from Italy’s entry into the euro were squandered on increased spending instead of carrying out the fiscal consolidation that would have been possible.
The fact that debt growth has consistently exceeded the inflation rate provides further evidence of poor government.

(€ Millions)	2011			2012		
	Revenue	Expenditure	Difference	Revenue	Expenditure	Difference
January	32,068	22,996	9,072	31,808	20,658	11,150
February	27,028	30,944	-3,916	27,784	33,632	-5,848
March	31,072	49,217	-18,145	28,729	43,038	-14,309
Aprile	28,729	29,328	-599	29,791	36,410	-6,619
May	34,474	34,722	-248	37,475	53,901	-16,426
June	38,613	62,066	-23,453	41,047	29,178	11,869
July	39,361	38,361	1,000			
August	37,200	29,128	8,072			
September	25,449	23,471	1,978			
October	30,933	31,065	-132			
November	32,083	51,614	-19,531			
December	80,859	99,050	-18,191			
Total	**437,869**	**501,962**	**-64,093**	**196,634**	**216,817**	**-20,183**

Table 5: Government revenue and expenses from 2011 to Q2 2012
(Source: Bank of Italy)

Facts

- In the first half of 2012 the government deficit was 20.18 billion euros.
- The deficit in the same period in 2011 was 37.29 billion euros.
- The average monthly government revenue in the first half of 2012 was 32.8 billion euros.
- The average monthly government revenue in the first half of 2011 was 32 billion euros.
- The average monthly government revenue in 2011 was 36.5 billion euros.
- The average monthly government expenditure in the first half of 2012 was 36.1 billion euros.
- The average monthly government expenditure in the first half of 2011 was 38.2 billion euros.
- The average monthly government expenditure in 2011 was 42.83 billion euros.

Comment

Notwithstanding the evident difficulties encountered in the course of Italy's fiscal consolidation, it would seem that a some small sign of improvement is evident in the data presented in Table 5. The deficit remains, but it has been reduced when compared with the corresponding period in 2011.
In this regard it may be noted that although the average monthly revenue for the first six months of 2012 is less than the monthly average for full-year 2011, it is still above the level for the same period of 2011. On the expenditure side, the average of the first six months of 2012 is lower than both the average for full-year 2011 and for the corresponding period in 2011.

The Ministry of Finance data show that tax revenues and social security contributions in the first half of this year increased by 7.1 billion euros (+2.4%), composed of an increase in the taxes of 8.4 billion (+ 4.5%) and a reduction in social security contributions for 1.3 billion (-1.2%).

When making the above comparisons, it should be noted that in April 2011 there was a one-off tax on real estate leases (circa 1.3 billion euros), making the first half 2012 data all the more favourable.

In conclusion, from the data examined there appears to be a timid change of course in Italy's public finances. Given that the main changes seem to be increases in excise duties and other taxes, one must hope that the Laffer Curve[1] does not start to bring about a fall in revenue as a consequence of the tax increases.

----

[1] http://en.wikipedia.org/wiki/Laffer_curve

The Stock of Government Debt

(€ Millions)	Govt Bonds	Av. Maturity	Interest	Av. Rate paid
2006	1,256,946	6.77	68,578	5.46%
2007	1,288,578	6.85	77,126	5.99%
2008	1,356,207	6.82	81,161	5.98%
2009	1,446,133	7.07	71,288	4.93%
2010	1,526,334	7.20	65,952	4.32%
2011	1,586,741	6.99	72,734	4.58%
1 Trim. 2012	1,619,188	6.83	23,724	NA
2 Trim. 2012	1,640,806	6.71	15,559	NA

Table 6: Government bonds and interest expense from 2006 to 2011
(Source: Treasury Department of Finance Ministry)

Facts

- June recorded a new record level of Italian Government Bonds at 1,641 billion euros.
- The average maturity continues its downward trend and is currently at 6.71 years.
- Average interest rates for the month of July: BOT 2.57%, BTP 5.68%, CCT 5.88% .

Comment

The stock of Italian Government Bonds continues to increase, a fact made necessary by the continued increase in overall Government Debt; Figure 1 shows the relationship between these two items.

Figure 2 shows the trend in interest rates required by the markets; the most critical phase has been overcome, but rates remain too high to be sustainable in the long-term.

Figure 3 shows the continuing reduction in the average maturity of Government Bonds outstanding, a positive development in the context of the elevated rates at which the Italian Government is currently forced to finance itself.

Figure 4 presents the bonds maturing during the final four months of 2012; December appears to be the most critical month, when over 56 billion euros of bonds mature.

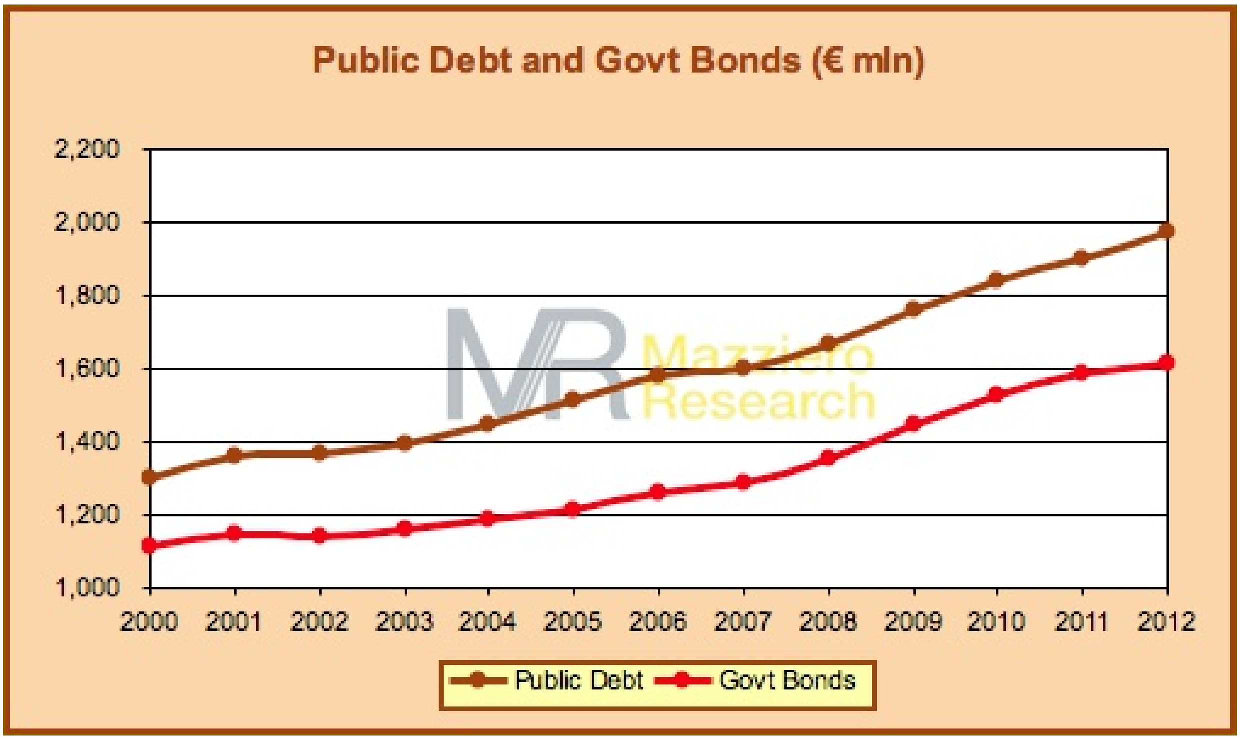


Figure 1: Public Debt and Government Bonds from 2000 to June 2012 (Source: Bank of Italy and Treasury Department of Finance Ministry)

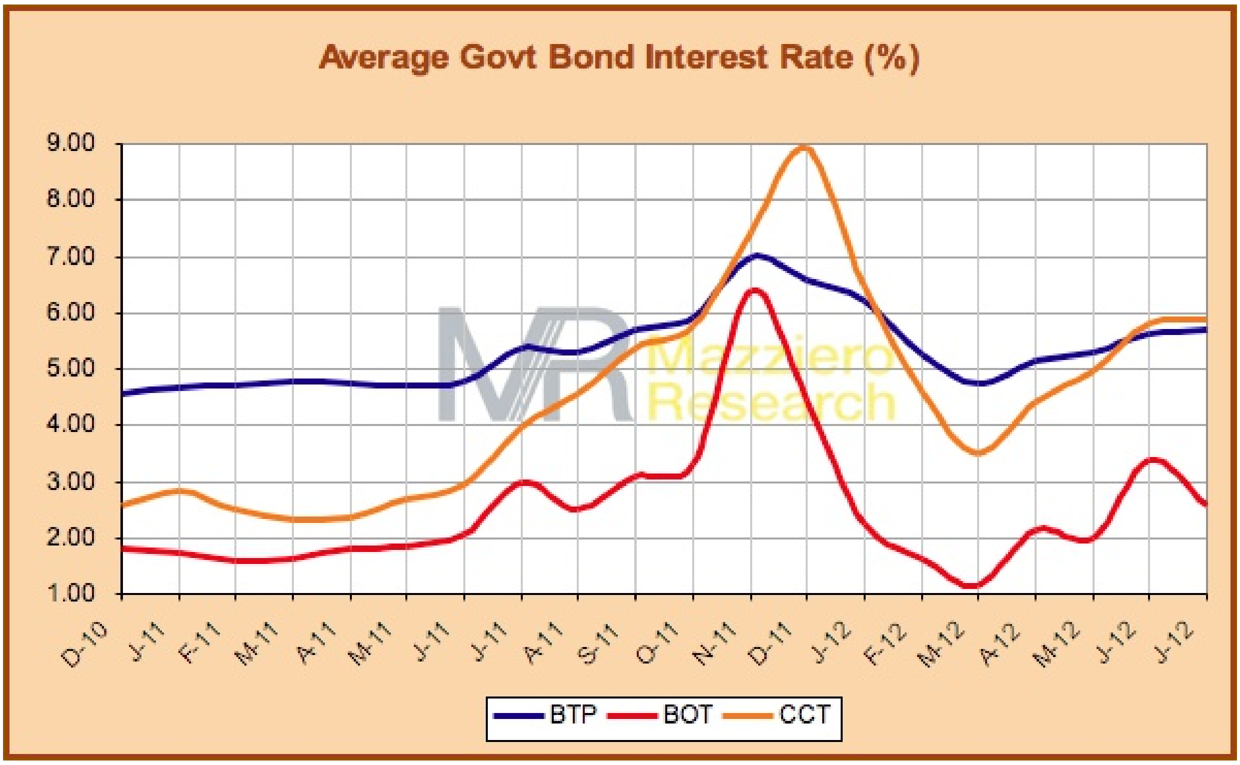


Figure 2: Average government bond interest rates from Dec. 2010 to July 2012 (Source: Bank of Italy)

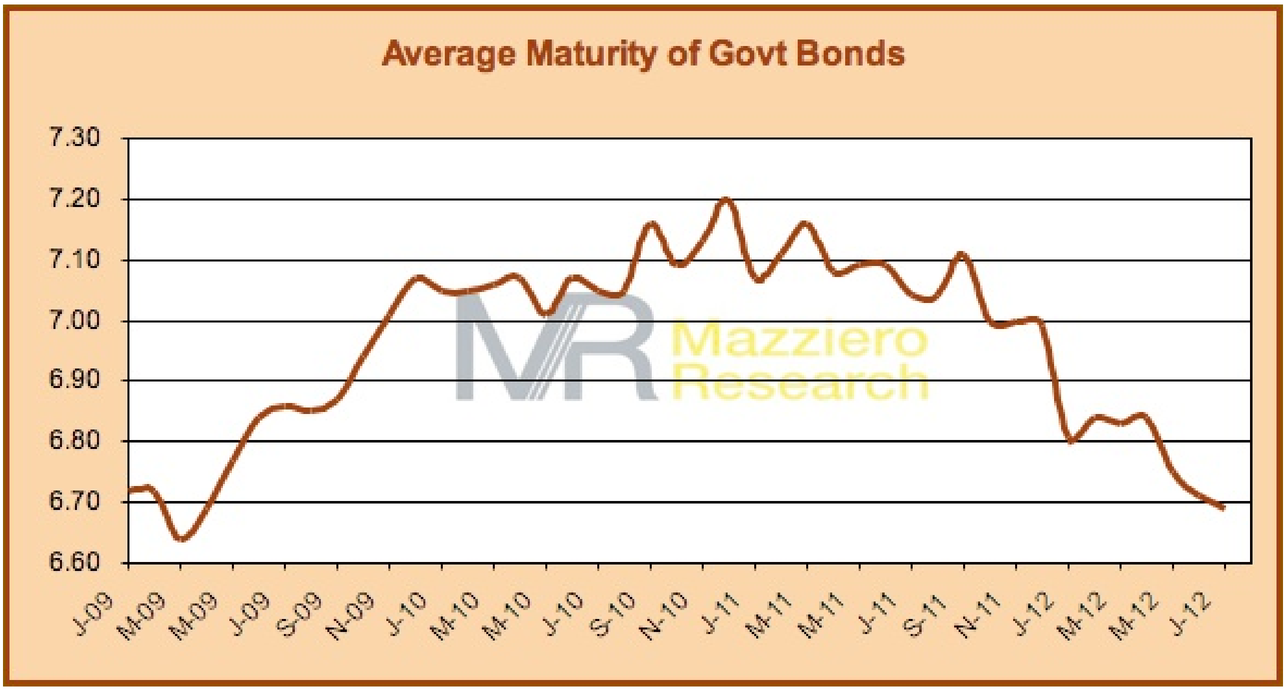


Figure 3: Average maturity of government bonds from 2009 a July 2012 (Source: Treasury Department of Finance Ministry)

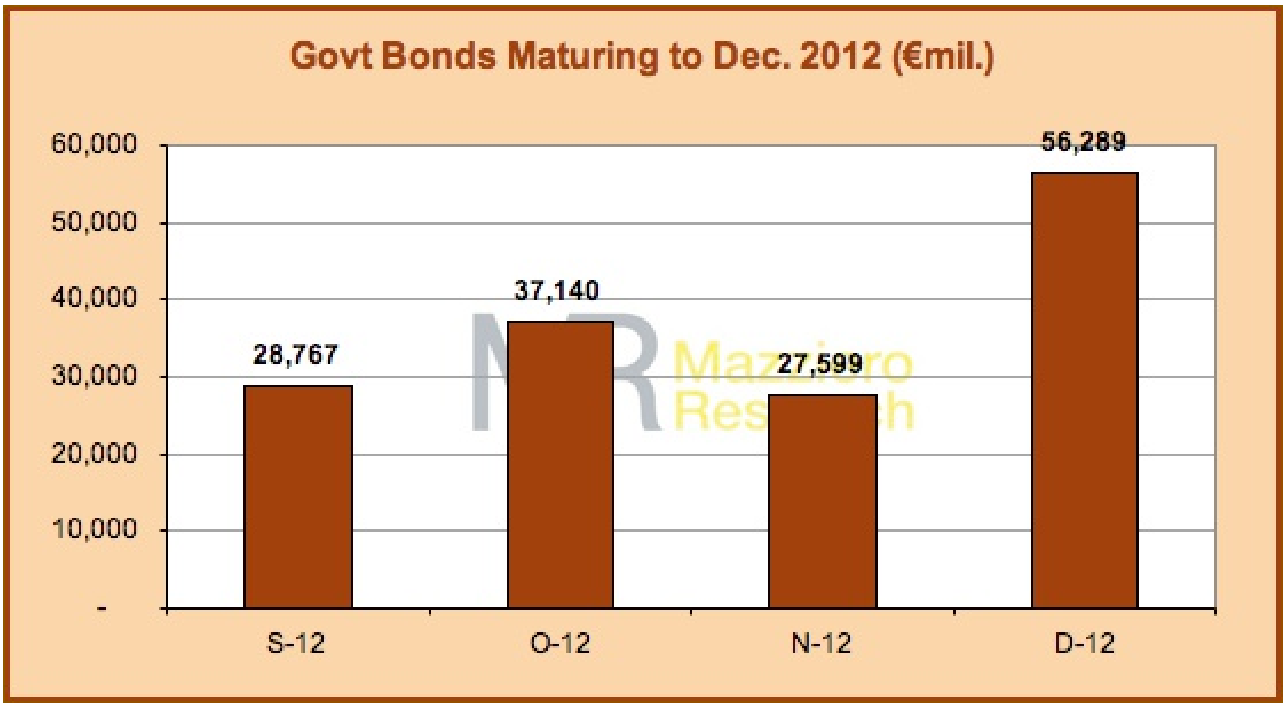


Figure 4: Government bond maturities until December 2012 (Source: Treasury Department of Finance Ministry)

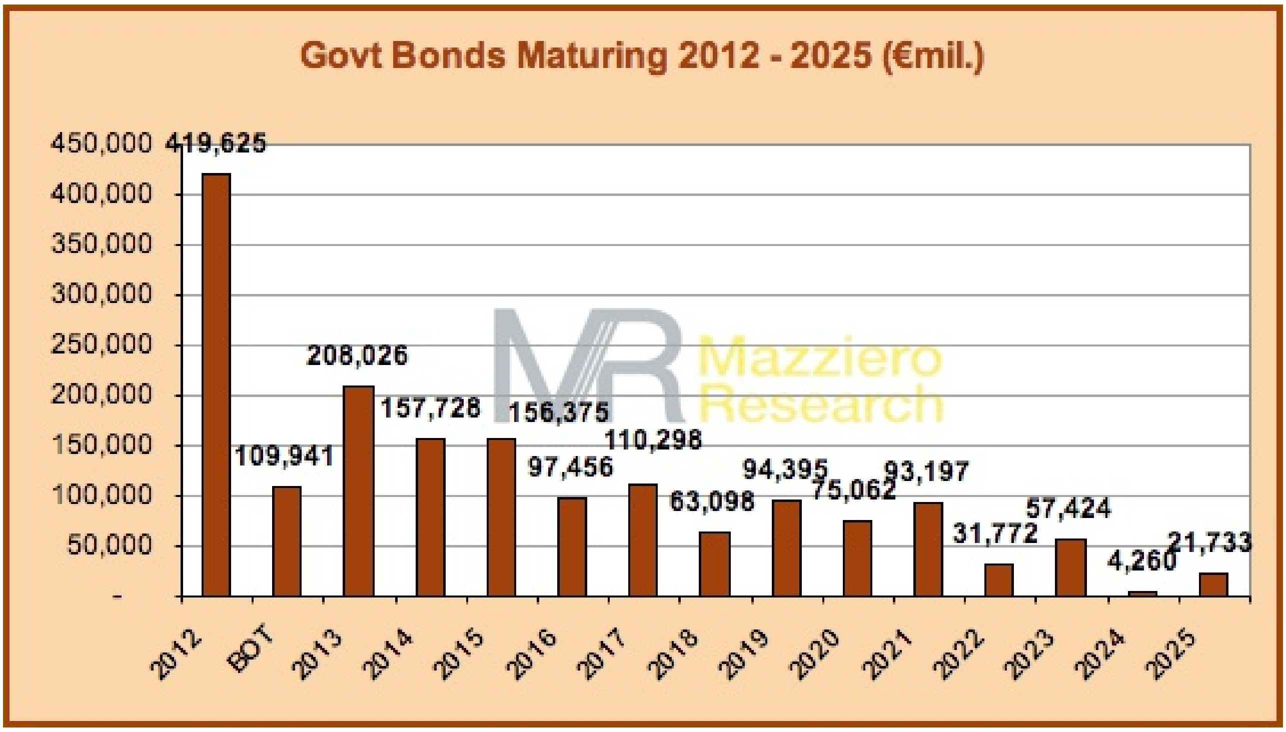


Figure 5: Government Bond maturities until 2025
(Source: Treasury Department of Finance Ministry)

Figure 5 presents the maturity profile of Italian Government Bonds up until 2025. It would appear that the next few years are relatively favourable, but in reality the situation is somewhat more critical. This is due to the influence of short-term bills (BOTs) that will need to be rolled over: the bar to the left of 2013 in Figure 5 will therefore need to be added to the 2013 figure to give a true picture. There will also be other BOTs issued with maturities under one year that are not counted: in total, it will not be difficult to go beyond the 420 billion euros of 2012.

Figure 6 and Figure 7 present the subdivision of Government Bonds by type of issue; the debt is still largely fixed rate (BTPs), an indication that the Italian Treasury foresees more elevated interest rates in the not-to-distant future.

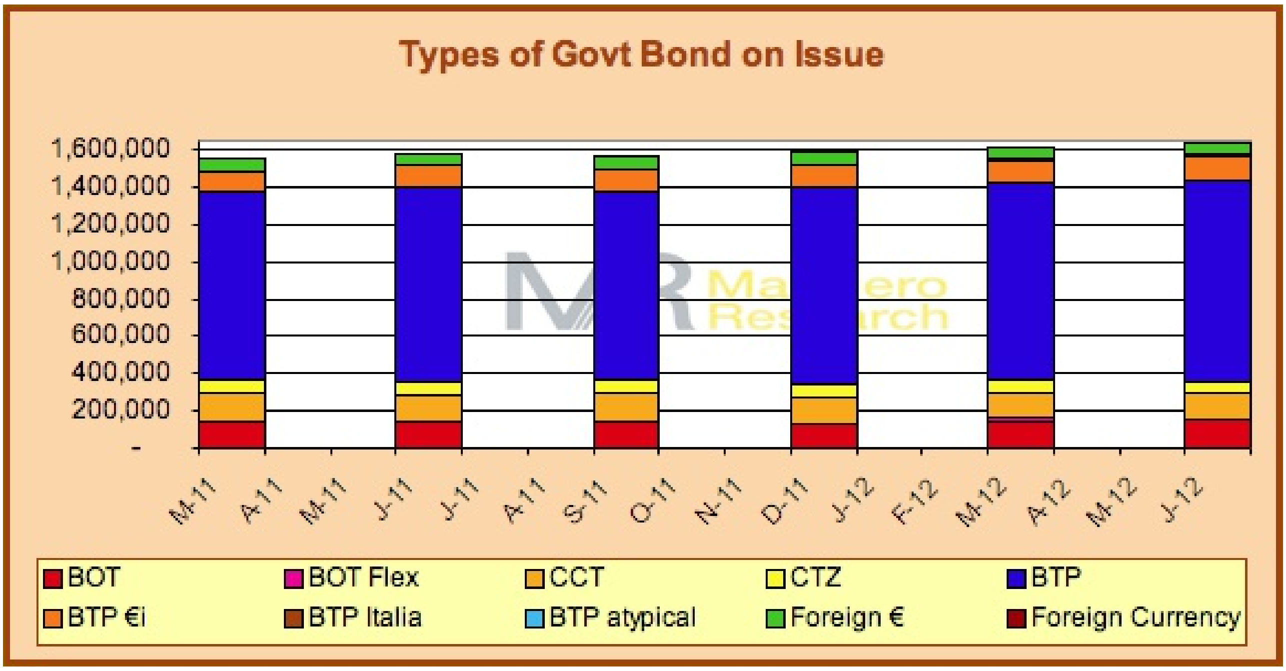


Figure 6: Type of government bond on issue from Mar. 2011 to Jun. 2012
(Source: Treasury Department of Finance Ministry)

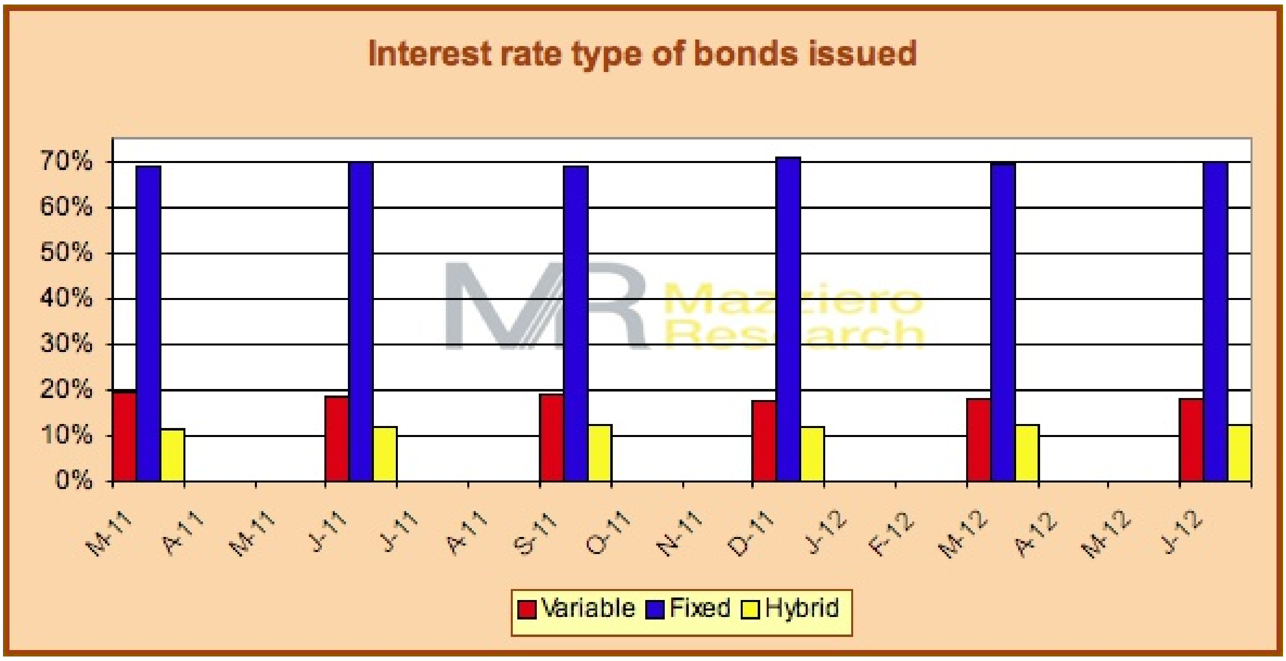


Figure 7: Subdivision of interest rate type for bonds on issue from Mar. 2011 - Jun. 2012
(Source: Treasury Department of Finance Ministry)

Bank of Italy Reserves

	€ millions	€ millions	%
Foreign currency reserves	29,470		20%
IMF	5,140		4%
SDRs	7,565		5%
Gold	104,087		71%
Other	-		
		146,262	100%
Other foreign currency assets	2,758	2,758	

Table 7: Bank of Italy reserves - January 2012
(Source: Bank of Italy)

Facts

• Official reserves in the month of July 2012 amounted to 146 billion euros.
• The variation compared with May 2012 is positive for about 6 billion euros.
• Gold reserves, at 2,451.8 tonnes, represent 71% of the total.

Comment

Table 7 breaks down the value of the Bank of Italy's reserves; although they represent a large sum in absolute terms, they are largely insignificant in the context of Italy's sovereign debt problems, in that they represent only about 7% of the total.
The increase compared with March 2012 is due to the growth in the gold price over the period considered.
Excluding the IMF, Italy is the third largest holder of gold in the world, after the USA and Germany.

Gross Domestic Product

(€ Millions)	GDP	Variation	%real GDP	Public Debt	Deficit/GDP	Debt/GDP
2000	1,191,057		3.70%	1,300,341		109.18%
2001	1,248,648	57,591	1.90%	1,358,333	4.64%	108.78%
2002	1,295,226	46,578	0.50%	1,368,512	0.79%	105.66%
2003	1,335,354	40,128	0.00%	1,393,495	1.87%	104.35%
2004	1,391,530	56,176	1.50%	1,444,604	3.67%	103.81%
2005	1,429,479	37,949	0.70%	1,512,779	4.77%	105.83%
2006	1,485,377	55,898	2.00%	1,582,009	4.66%	106.51%
2007	1,546,177	60,800	1.50%	1,598,971	1.10%	103.41%
2008	1,567,851	21,674	-1.30%	1,663,452	4.11%	106.10%
2009	1,520,870	- 46,981	-5.20%	1,761,229	6.43%	115.80%
2010	1,548,816	27,946	1.30%	1,843,227	5.29%	119.01%
2011	1,580,220	31,404	0.40%	1,897,179	3.46%	120.11%
2012 (est.MR)	1,550,196	- 30,024	-1.90%	1,972,940	4.89%	127.27%
2012 (est.Monti Govt)	1,588,043	7,823	-1.20%	1,959,645	3.89%	123.40%
2013 (est.Monti Govt)	1,627,259	39,216	0.50%	1,977,120	1.07%	121.50%
2014 (est.Monti Govt)	1,673,029	45,770	1.00%	1,977,520	0.02%	118.20%
2015 (est.Monti Govt)	1,725,545	52,516	1.20%	1,974,023	-0.20%	114.40%
2012 (est.IMF)	1,550,196	- 30,024	-1.90%	1,950,147	3.42%	125.80%
2013 (est.IMF)	1,545,545	- 4,651	-0.30%	1,953,569	0.22%	126.40%
2014 (est.IMF)	1,553,273	7,728	0.50%	1,950,911	-0.17%	125.60%
2015 (est.IMF)	1,568,806	15,533	1.00%	1,946,888	-0.26%	124.10%
2016 (est.IMF)	1,587,632	18,826	1.20%	1,936,910	-0.63%	122.00%
2017 (est.IMF)	1,606,683	19,052	1.20%	1,918,380	-1.15%	119.40%

Table 8: GDP and public debt from 2000-2011,
Mazziero Research estimates 2012, Finance Ministry 2012-2015, IMF 2012-2017
(Source: Istat, Bank of Italy, Finance Ministry and IMF)

Facts

• In Q1, GDP growth was: -0,8% QoQ;
-1.4% YoY.
• In Q2, GDP growth was: -0,7% QoQ;
-2.5% YoY.
• The variation in GDP acquired in 2012 is -1.9%.
• Mazziero Research forecasts a Debt/GDP ratio of 127% at the end of 2012.

Comment

The public debt level confirmed in June (1,973 billion) and GDP in the second quarter (-2.5% YoY) show that the Monti Government's forecasts in April of 2012 were overly optimistic.

These forecasts included public debt at the end of 2012 at 1,960 billion, a figure exceeded already in June, and a contraction in GDP of 1.2% (against ISTAT figures showing a contraction acquired in the course of the year at -1.9%). This should have brought the debt/GDP ratio to around 123.4% by year-end.
The Monti Government forecasts extend out to 2015, but one has to question their usefulness given that they already appear to be a long way from the reality of the situation.
Table 8 also shows the IMF forecasts announced in July for the period 2012-2017. These indicate a contraction in GDP equal to -1.9% for 2012, debt levels at 1,950 billion euros and a debt/GDP ratio of 125.8%. The IMF forecasts a gradual improvement in debt levels and economic growth, with a primary surplus of around 4 - 5%.

These rather benign forecasts by the International Monetary Fund certainly do no harm in terms of international credibility and consequent access to funding, but Mazziero Research maintains some scepticism as to the likelihood that these forecasts will prove to have been correct.

Our more prudent calculation of the year-end debt/GDP ratio for 2012 is based on the following criteria:

- Public debt levels tend to have a more favourable development in the second half of the year, but it will nonetheless be difficult to see any reduction from current levels. For this reason, we have estimated year-end debt levels in line with those at the end of June (1,973 billion euros).
- GDP could worsen during the second half of the year and unemployment figures indicate that this might very well be the case. In any case, we have used the GDP contraction already acquired (-1.9%), a fairly optimistic estimate if one considers the contraction of -2.5% in the same period last year.

Based on these calculations, the debt/GDP ratio would be equal to 127.3%, which would seem to be a more prudent forecast given the above.
For the moment, it would seem that the government has avoided an increase in VAT from 21 to 23%, a move that we indicated as likely in the previous edition of this document. In part, the necessity of increasing VAT was obviated by increasing other taxes and, in any case, it is a distinct possibility that further fiscal stabilisation measures will become necessary towards the end of the year, or early in 2013 (even though the coming elections will make any further manoeuvres more difficult).

Inflation

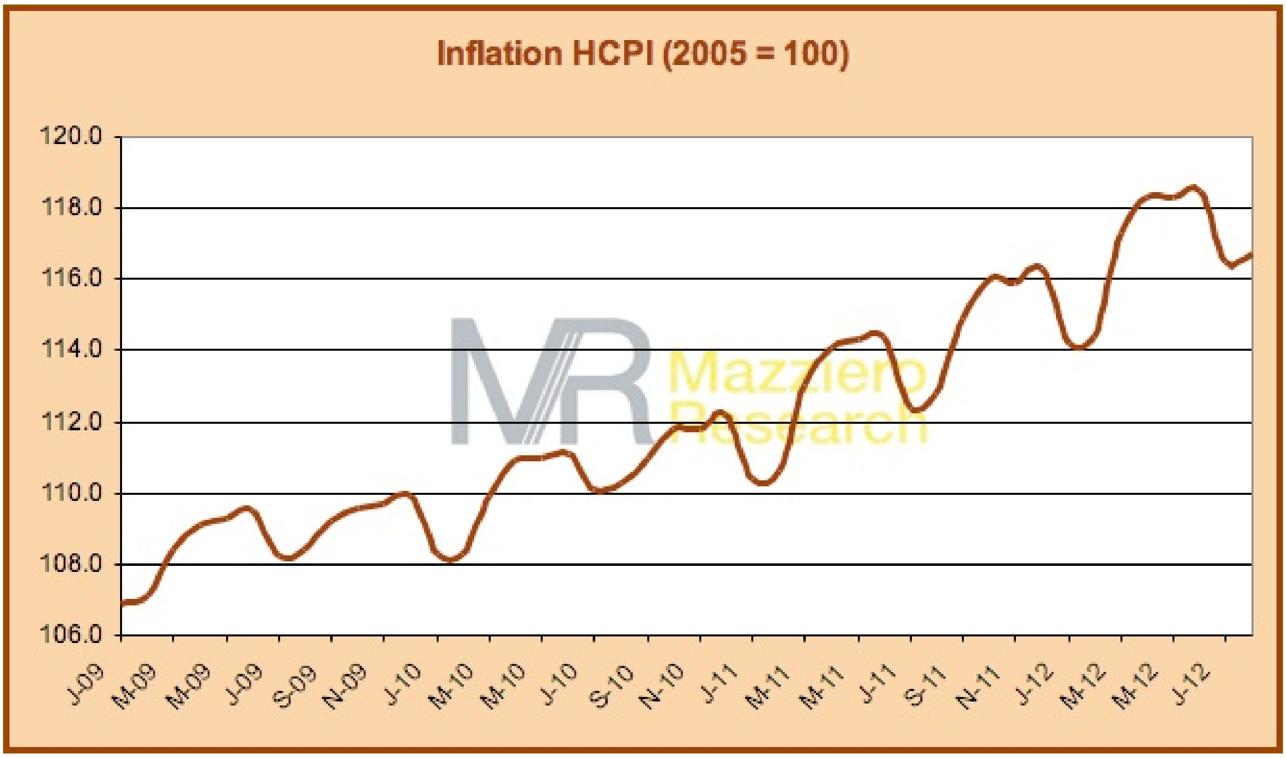


Figure 8: Harmonised consumer price index from January 2009 to August 2012 (Source: Istat)

Facts

• Inflation in August increased by 0.2%.
• The annual rate of inflation is currently 3.5%.
• Acquired inflation for 2012 climbs to 3%.
• The harmonised consumer price index, with base 100 in 2005, is currently at 116.7.

Comment

The bite of inflation, after having reached its peak at 3.8% in October last year and March this year, is still at an uncomfortable 3.5%.
The cyclical variations are within the norm (see Figure 8) and are evidence of a loss of purchasing power equal to 16.7% since 2005.

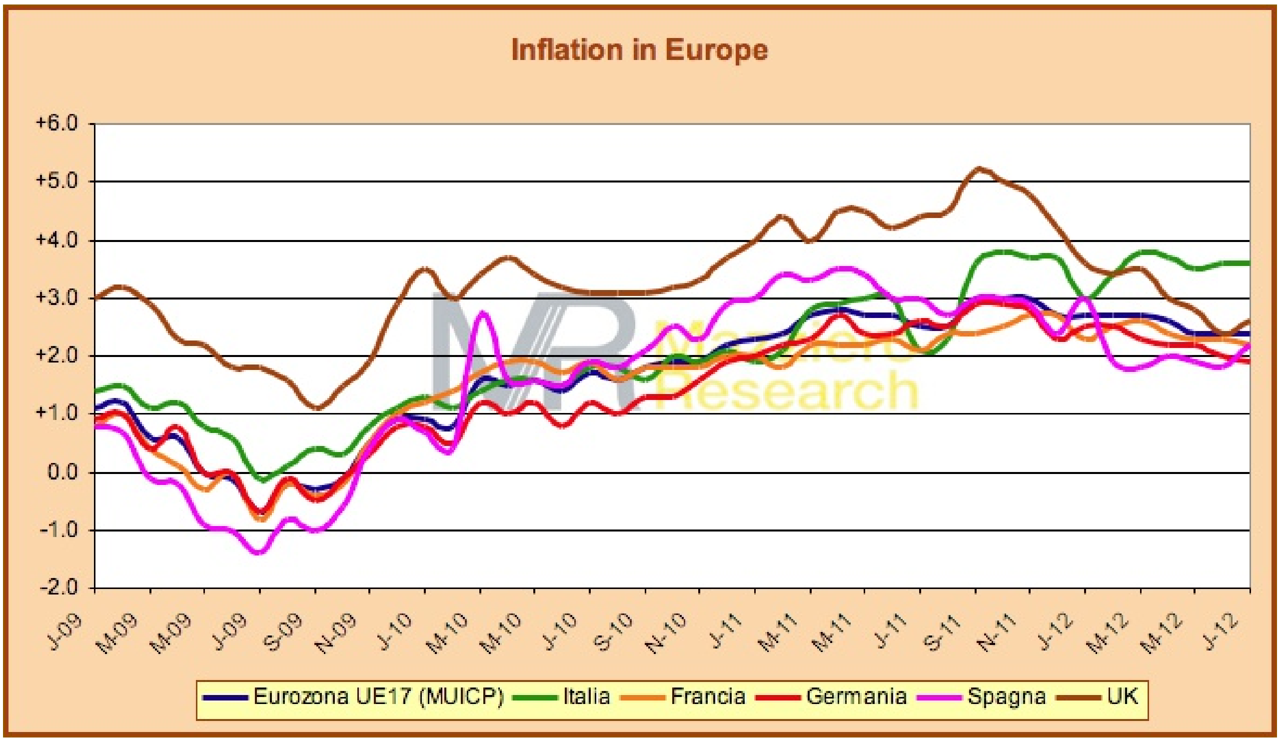


Figure 9: Inflation in Europe from 2009 to July 2012
(Source: Eurostat)

The consequences of this are that in the seven and a half years since 2005, our money has lost on average 2.2% of its value each year[1]. With salaries at a constant level, purchasing power has decreased by 2.2% per annum, whereas if we consider an increase in salaries of 3% per annum, only 0.8% of that increase is a real increase in income, even if we ignore the effects of taxation (which is applied to the full nominal amount).

Another aspect that is worth considering is that we are basing our comments on official estimates that carry with them certain distortions created by the type of goods tracked as well as other calculation parameters.

----

[1] This calculation is made by compounding annually the inflation rate.

Due to the above, it is quite normal that the perception of ordinary citizens is of a much greater erosion of purchasing power, in particular when considering the following factors:

- Increased prices for energy and food related commodities.
- Weakness of the euro compared with other main currencies[2].
- Increases in excise and other taxes.
- Waterfall effect of energy costs on the transportation of goods in general.

Most families have also suffered a reduction of wealth due to further factors:

- Loss of value of Italian government bond investments due to the deterioration of creditworthiness of the sovereign.
- Generally poor conditions for other widely-used financial investments.
- Introduction of wealth taxes on liquidity and other investments.
- Reintroduction/increases of property taxes.
- General malaise in the real estate market and difficulties in obtaining expected prices when selling.

The above paints the picture of a somewhat poorer state, a fact which has been accentuated by the labour market conditions that will be explored in the next section.

To conclude, Figure 9 shows inflation trends in various other countries; the important aspects to note are as follows:

- Italian inflation is above the EU average.
- The lowering of inflation in the UK back to the EU average.

----

[2] Commodities are generally priced in US dollars on the world markets.

Unemployment

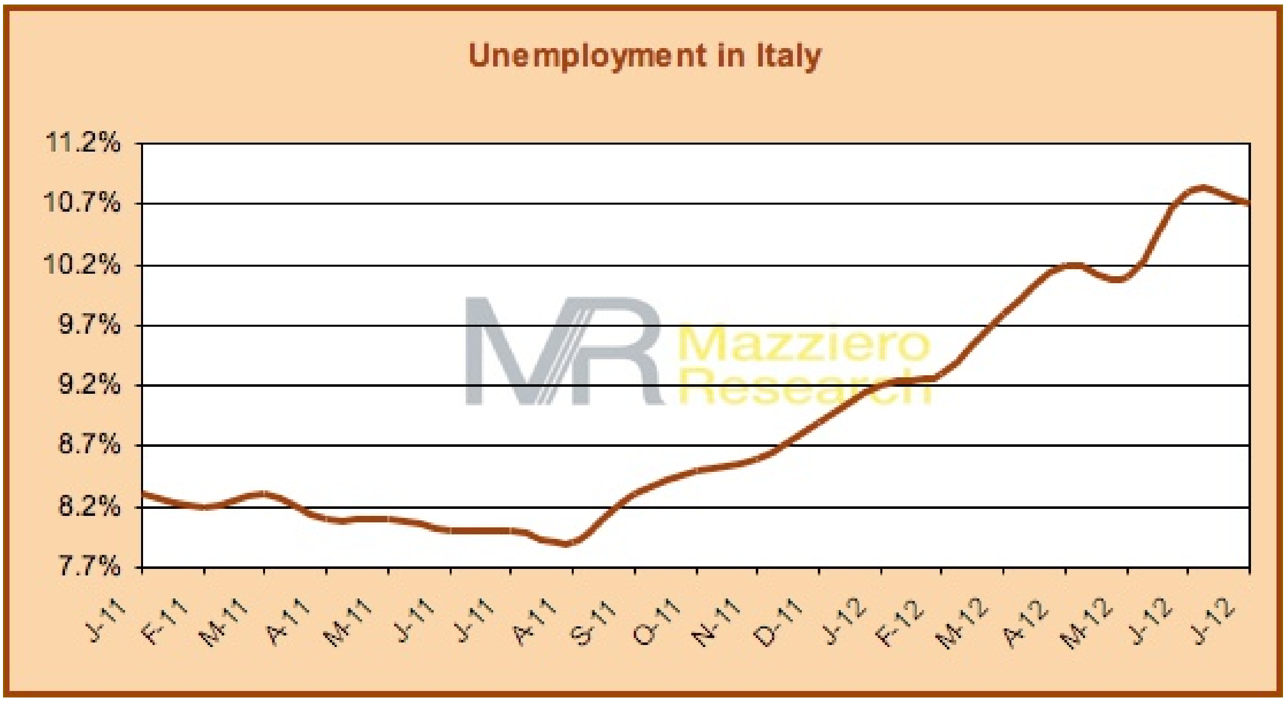


Figure 10: Unemployment in Italy from January 2011 to July 2012
(Source: Eurostat)

Facts

• Unemployment: 10.7% in July; +2.5% YoY.
35.3% unemployment among 15 - 24 year olds.
• Workforce participation: 57.1% of the working-age population.
• Cassa integrazione: from January - July 639.5 million hours authorised,
in July 115.7 milion hours authorised:
+21.3% compared with June 2012;
+44.2% compared with July 2011.

Comment

The unemployment rate continues to grow in Italy, even after the slight decrease in seasonality between June and July, (see Figure 10). Particularly worrying is the high unemployment among young people of working age.

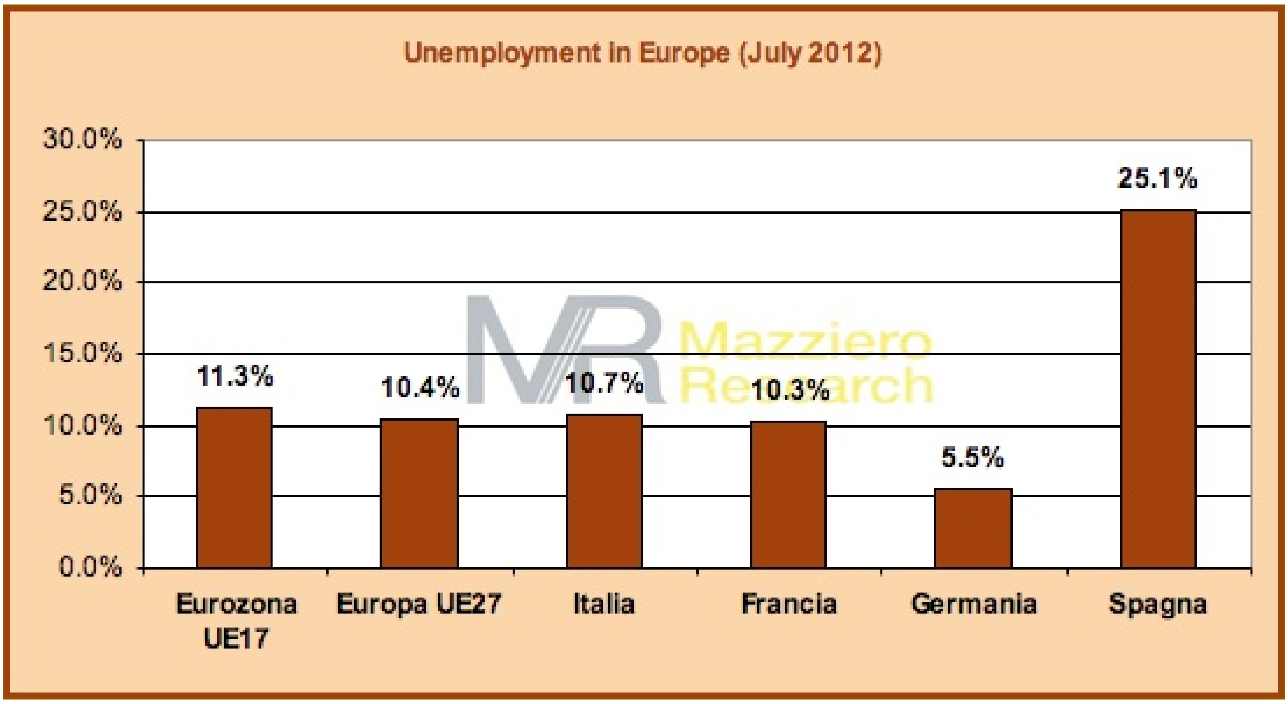


Figure 11: Unemployment in Europe - July 2012
(Source: Eurostat)

The hours of cassa integrazione authorised, considering 240 working days per annum of 8 hours each, conceal other 571,000 unemployed people (an additional 2.2% unemployment), making the total closer to 12.9% - far from the EU average (see Figure 11) and even more so from Germany's 5.5%.

Italy is an old society with an inflexible labour market that in effect closes off the employment market from the dynamism that could result if it were more open to younger workers. We appear to have short-circuited the labour market: longstanding workers grimly defend their rights, leaving companies terrified to take on new employees. The young do not have the scope to plan their own independent lives, leaving them to cling on to the support network of their families. The state taxes workers avidly and yet avoids those reforms that would lower the cost of labour and encourage employment.

In Depth

Focus by IdeasHaveConsequences.org

Money market 2nd Quarter 2012

In the second quarter of 2012, the European Central Bank kept the refinancing rate unchanged at 1%. Notwithstanding the differences of opinion within the board, monetary policy remained accommodative and the interbank market began to price in expectations of future falls in the refi rate. In the graph on the following pgaes, you can see clearly how the Euribor 3-month rate follows a markedly negative slope, anticipating cuts of 25 to 50 basis points and continuing the trend started in March 2012.

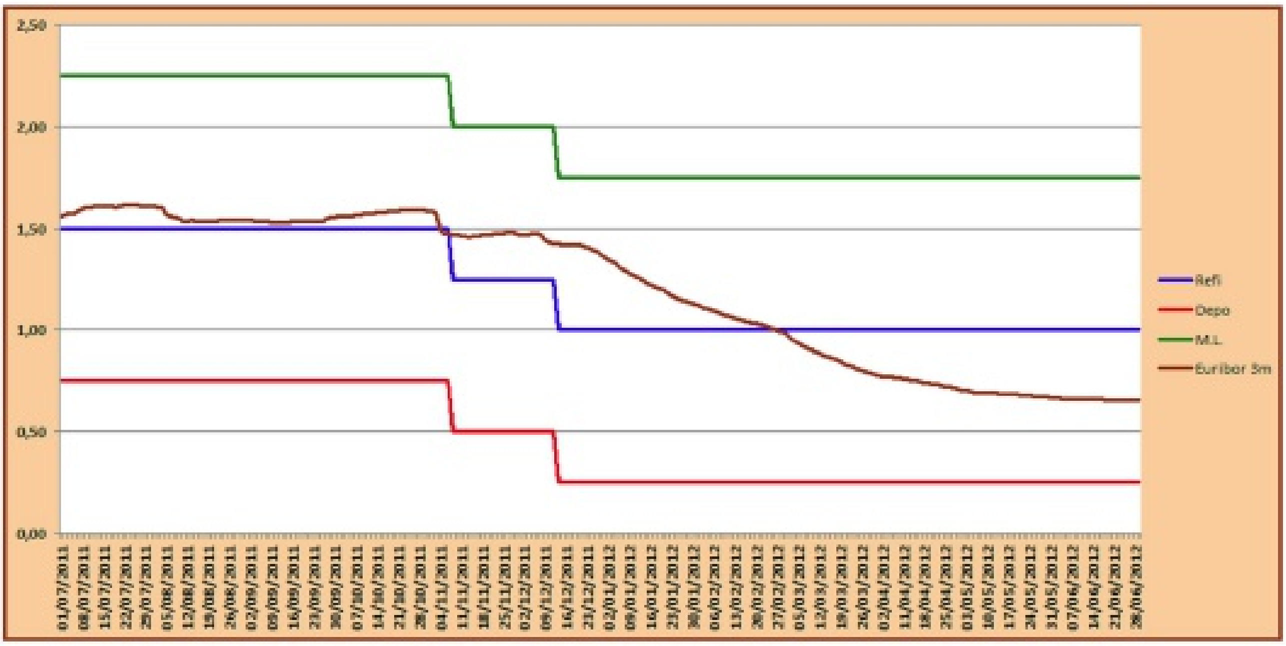
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Eonia	1.012	0.906	1.005	0.960	0.790	0.627	0.380	0.366	0.357	0.345	0.337	0.332
Euribor 3m	1.597	1.553	1.536	1.576	1.485	1.426	1.222	1.048	0.858	0.744	0.685	0.659
Eurepo 3m	1.277	0.883	0.634	0.634	0.395	0.208	0.135	0.155	0.143	0.142	0.118	0.104

Eonia – Euribor 3m – Eurepo 3m (monthly averages 07/11 – 06/12)

The ECB continued to refinance significantly the banking system in June with the approach of the end of the semester. 12th, 19th and 26th June saw the sums of 131, 167 and 180 billion euros respectively assigned to the banks. The high level of deposits at the central bank continues, having passed the level of 700 billion euros.

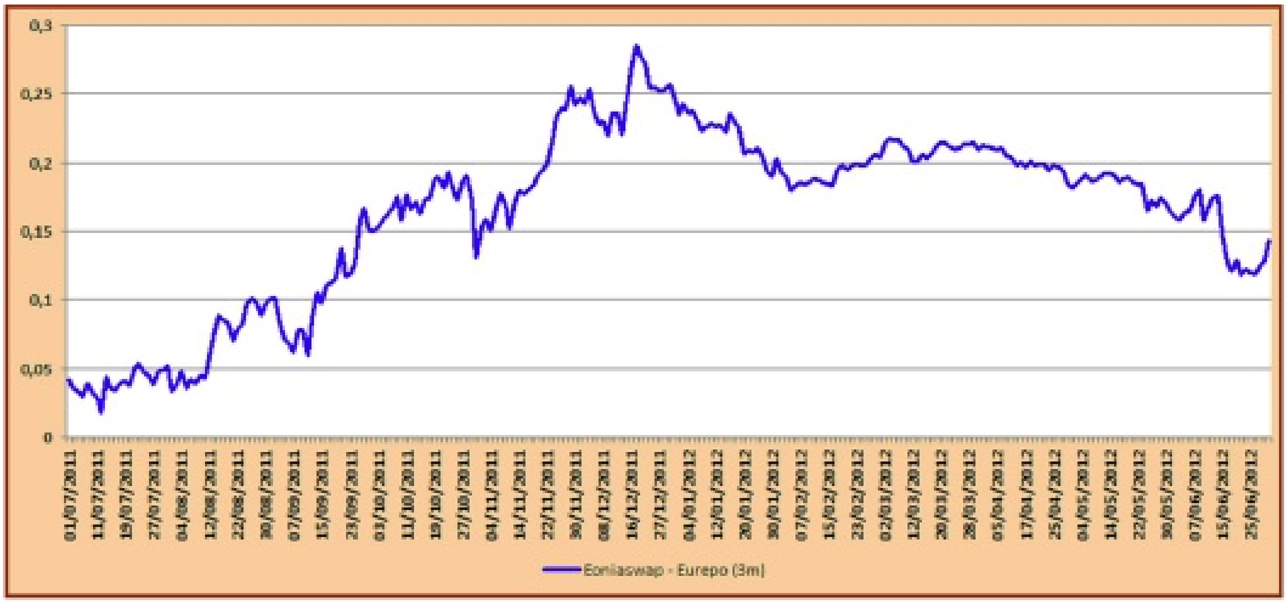
The second quarter saw an increase in the spread between the yield on long-term government bonds of peripheral countries and that of the core countries with a flow-on effect on the prices of the securities issued by the banking sector, whose oscillations are closely linked to those of their respective governments. The Spanish banks have been particularly hard hit in this context, having resorted to the support of the Madrid Government to avoid bankruptcy. Bankia, the result of a merger of 7 weak regional banks with large real estate exposure, made an initial request for 19 billion euros, having joined the “too-big-too-fail” club. Spain was forced to turn to the EU for support as it was unable to take on the recapitalisation of its banks on its own.

The situation remains critical for the major Italian banking groups: the largest five (Intesa, Unicredit, MPS, Banco Popolare and UBI Banca) have carried out impairments of goodwill for financial year 2011 for a total amount of 28.3 billion euros. The incentive to do so came from the Milleproroghe Decree 225/2010 which allows immediate tax savings against



ECB and Euribor 3m interest rates

Euribor-Eoniaswap and Euribor-Eurepo Spreads



Eoniaswap-Eurepo 3m Spread

write-downs of goodwill (these savings would otherwise be spread over eighteen years). The effect in terms of cash flows is similar to that of an injection of liquidity, and analysts estimate lower tax payments for about 2.5 billion euros.

In Greece the outflow of cash continued: panic and distrust have now reached all strata of the population and even retail investors have started to withdraw cash from local institutions for fear of a possible exit from the eurozone. The elections held in June in Athens contributed to maintain high tensions with regards to the euro and even France, albeit in smaller measure, has suffered the contagion effect.

As for the eurozone as a whole, counterparty risk is still high, as evidenced by the spread between Euribor and Eurepo rates and Euribor and eoniaswap 3 months. M3 growth remained between 2% and 3% throughout the quarter and the ECB disaggregated data confirm the following current trends:

- modest increase in transactions between financial intermediaries or having as counterparty the European System of Central Banks;
- Increased funding of fiscal deficits;
- Reduced lending to the private sector.

The growth of monetary aggregates usually observed by the ECB is therefore not attributable to significant improvements in the health of the economy and in some respects may also reflect the reduction in volumes originated and brokered by the shadow banking sector. The deleveraging process is therefore far from its conclusion.

Silvano Fait

Sources:

ECB, monthly bulletin
European Banking Federation: http://www.euribor-ebf.eu/
Euribor-EBF, newsletter

Euribor – Eoniaswap Spread (3m): This measure represents the difference between the 3-month Euribor and the Overnight Swap Rate for a period of 3 months. Breaking down the Euribor into two factors: 1) the average overnight rates expected in the future and, 2) risk factors and subtracting from these the Eoniaswap rate for the same maturity eliminates component 1 (i.e. the market expectations), thereby obtaining a measure of other systemic risk factors (counterparty risk, liquidity risk, etc...)

Euribor – Eurepo Spread (3m): This measure is the difference between the interbank rate for unsecured loans (Euribor 3m) and collateralised loans (Eurepo 3m). The spread allows us to focus our attention on counterparty risk and to understand the level of confidence that banks and financial institutions have in their reciprocal solvency.

The ECB is not the "time bank"

The situation of European economies continues to deteriorate and hence the strains on Government Bonds. The ECB is often called upon to provide support to the various countries, either directly or indirectly (e.g. as a provider of liquidity to new entities such as the EMS). The ECB has already done a lot, so the proposals on the drawing board actually relate to how much more it can or should do. It is not only thought that the ECB will "give time" to the economies to solve their problems, but also that it can even "solve" problems directly. In any case, the ECB certainly has not shied away from the duality of its mandate:

ECB Balance Sheet - Jun 2012 (€ mid)					
Assets			Liabilities		
Lending	1,261	40.60%	Monetary Base	1,783	57.50%
Securities	632	20.40%	Deposits	216	7.00%
Foreign	330	10.60%	Foreign	163	5.20%
Gold	434	14.00%	IMF	57	1.80%
Other	445	14.30%	Other	388	12.50%
			Own funds	496	16.00%
	3,102	100.00%		3,102	100.00%

ECB Balance Sheet - June 2012

In the second quarter of 2012, the ECB has not offered new LTROs, but has maintained an expansive stance. Its balance sheet has grown by €138 billion from last quarter (+4.6%). Against a reduction in open market operations ("Securities" above: -4%), financing operations of the banking system grew by more than 9% (€ 107 billion), which were only partly financed by net increases in the monetary base (€ 26 billion, +1.5%) and the increase in external debt ("foreign" increased by € 72 billion which basically recovered the decline of € 80 billion the previous quarter).
Recourse to the deposit facility by the banks (included in the monetary base) is only slightly reduced and will therefore remain in excess of € 770 billion (more than 2/3 of the monetary base); it is possible that the recent cut of the REFI rate to 0.75%, which dragged to zero the deposit facility rate has played a role in this (in that it remains attractive "only" for its preferential balance sheet treatment).

To this picture must be added the Emergency Liquidity Assistance (ELA), an additional credit line granted by the single national central banks (NCBs) to their commercial banks. Aside from the issuing entity upon which the credit risk falls, the difference between the

ELA and normal refinancing auctions of the ECB is the collateral required: the NCBs have less stringent requirements (and even the ECB now accepts structured securities with ratings of at least BBB). For this reason, the rate required for use of the ELA is higher than that of the normal ECB auctions. From April 2012, these operations are reported in the “other loans to euro area credit institutions” ("Other" in the table above), and their value has increased from € 59.5 billion in March (€ 45 billion in Greece alone) to € 186 billion at the end of the second quarter of 2012. This practically doubles the total credit granted to banks in the second quarter, but it also signals a worsening of the average quality of the individual NCB balance sheets.
Therefore, if in the first three months of 2012 the European banking system loans increased by € 290 billion, in the second quarter the increase of approximately € 107 billion borne by the ECB needs to be added to the more about € 126 billion lent by the NCBs (mostly considered to be loans in Greece and Spain). The total of over € 230 billion is not much less than the previous quarter and without the clamour surrounding the LTROs.

From the above it is clear that the European monetary authorities continue to provide liquidity generously to the system and through channels that are becoming increasingly risky for their balance sheets (refinancing auctions with deteriorating collateral, security purchases, ELA ...). What is all this for?
As noted above, there are those who hope that printing money sorts everything out, and whose only hope is that we can buy time in order to allow various reforms to be enacted. It is useful to consider the words of Mervyn King, Governor of the Bank of England, in his statement in mid-June: “*liquidity is not the issue because after a few months we are back to where we were. The problem is one of solvency. Where there are debtors who cannot afford to repay, there are creditors who will not be repaid. Until losses are recognised... the current problems will drag on.*”
Based on my observations that have been reported in Ideas Have Consequences, it would seem appropriate to agree with King. He was actually referring to the private sector, but it is easy to extend the principle to public accounts: realistically, the ECB is only buying time for the Eurozone countries. But the ECB is not the "time bank", it is only an entity that has the power to print money with which the recipient can - if there are sufficient real resources – plaster over the current financial problems while implementing those reforms that address the real solvency problems. Unfortunately, the current debate is whether these reforms will mean the abdication of power in a given country to some supranational EU entity, with the ECB being presented as a dispenser of easy solutions to exorbitant demands. The real problem is the level of individual sovereign debt, promoted by twenty year’s worth of easy money coming from central banks, but the ECB continues to divert our real wealth to these unreformed debtors (governments and their banking systems).

The ECB is not the "time bank" in the sense that it does not create time; its monetary policy redistributes purchasing power from a given amount of wealth in favour of the recipients of its funding. At the same time it is draining resources from other economic sectors . The other redistribution channel, previously noted in the 2011 Debt Observer, is the pressure on prices fuelled by money creation; it is a tool of Financial Repression which reduces the real value of debt (to the detriment of creditors, of course). If those who suffer from solvency issues – as normally is the case – are among the least productive members of society, this redistribution of wealth ends up weakening the entire economy. What this means is that buying time through the ECB has a real cost, and this cost cannot be sustained forever unless the aim is to support the public sector while the rest of the country falls into a recession. It also means that those who receive liquidity are not so much buying time as appropriating the time of others.

One doesn't need to be German in order to understand the implications of giving a banking licence to the ESM; it should be enough to be a saver.

Leonardo Baggiani

Bibliography

Baggiani Leonardo (2012) *"Draghi: Nuove Scuse per Nuova Moneta"* Ideas Have Consequences 13/08/2012 http://ideashaveconsequences.org/draghi-nuove-scuse-per-nuova-moneta/leo
European Central Bank (2012) *"Consolidated financial statement of the Eurosystem as at 29 June 2012"*, Press Release 04/07/2012.
Commerzbank (2012), *"Concern about the global economy – Is the last pillar of the euro area crumbling?"*, Week in Focus 08/06/2012.
Commerzbank (2012), *"ECB: What happens now Mr Draghi?"*, Week in Focus 06/07/2012.
Mazziero Research (2012), *"Italy 2011: a year of sufferance"*.

Glossary of Terms

Monetary Base: currency issued by the Central Bank through auction procedures(refinancing operations) involving major commercial banks. From an accounting point of view, the amount is a liability of the Central Bank and is broken down in the main forms of employment of banks' liquidity (banknotes in circulation, deposit facility, the minimum reserve account).

Deposit Facility: interest-bearing account at the Central Bank, in which commercial banks can deposit their cash. Created as an instrument of monetary policy and with the scope of managing excess liquidity, to commercial banks it now provides a risk-free alternative to traditional lending operations.

LTRO (Long Term Refinancing Operation): the main long-term financing operation for the European Central Bank - an auction for one and three year terms, put in place to tackle the current economic and financial situation.

Open market operations: the purchase or sale of listed financial securities (typically government bonds, but also some types of bank bonds) by the Central Bank, conducted with the aim of reducing or increasing the money supply in circulation.

Comment by Andrew Lawford

In the battle between complexity and simplicity, businesses and taxpayers will be the losers

Within the context of the European economic crisis there is a battle taking place to decide whether to implement a simple or complex financial system. So far, indications are that complexity will win without much difficulty, especially seeing as almost no one is working to advance the cause of simplicity.

The Financial Times recently published an article written by Wolfgang Schäuble, the German finance minister[1] with the commendable title of "How to protect EU taxpayers against bank failures." The article that followed was an examination of how to develop European banking regulation that takes account of the fact that "self-regulation and light-touch supervision just do not work in the financial sector." Schäuble's statement may seem absolutely true to most casual observers of the current situation, but only because the reason why the current regulatory regime has not functioned is ignored (see below).

Among the few proponents of a simplification of banking regulation is Andy Haldane, an official of the Bank of England who expressed his views at the recent meeting of central bankers in Jackson Hole in the U.S.[2] He pointed out that the Basel rules have grown from 30 pages in the '80s in no less than 616 pages under Basel III (approved in 2010). A recent study by the IMF reported other comments by Haldane that: “(the) number of risk buckets has increased from around seven under Basel I to, on a conservative estimate, over 200,000 under Basel II. To determine the regulatory capital ratio of this bank, the number of calculations has risen from single figures to over 200 million. The quant and the computer have displaced the clerk and the envelope.”[3] We can hardly say that banking regulation is not already quite complicated!

The IMF’s analysis suggests that the current complexity of banking regulation allows greater latitude to the banks themselves when they are valuing their assets and this in turn widens the scope for adopting “optimisation” techniques. A push towards a more strict regulation of the banks will always create more incentive to find "loopholes" (optimisation) in order to escape the attention of banking regulators.

Returning to the subject of why the current system of regulation has not worked, let us

----

[1] http://www.ft.com/intl/cms/s/0/d270a89e-f213-11e1-8973-00144feabdc0.html#axzz25PkJ4Bjd

[2] http://www.ft.com/intl/cms/s/0/8a5e61b2-f34a-11e1-9c6c-00144feabdc0.html#axzz257D0Ehpa

[3] IMF Working Paper – Revisiting Risk-Weighted Assets – Le Leslé & Avramova, March 2012, pagina 21.

consider the consequences for those banks that have been mismanaged. In the worst case, the state pays for the damage and the top management loses some of its privileges! In the case of RBS in the UK, where the state controls 82% of the company, Sir Fred Goodwin, architect of the bank's disastrous collapse, is now known simply as Mr. Goodwin, although he has maintained an annual pension of 350,000 pounds. A little closer to home, one can highlight the fate of UniCredit, where the management of Alessandro Profumo (he also received the Italian version of a knighthood) led to the collapse of the stock, but left him with a golden parachute of 40 million euros, not to mention his "recycling" as chairman of Monte dei Paschi di Siena, another troubled Italian bank.

It is the writer's opinion that a return to the concept of a bank as a private company that is responsible (for better and for worse) for its decisions would obviate the problem of banking regulation severity. If a bank wanted to risk more, it would do so knowing that maybe one day there would be negative consequences.

Usually when confronted with statements like the one in the previous paragraph one hears the experts say that it is necessary to save big banks because otherwise there would be a "systemic risk". The concept of "systemic risk", or, in other words, the belief that a bank is "too big to fail," arises because the last few decades have seen a proliferation of truly international banks. Surely it would be a good idea to reflect on the benefits offered by international banks: banking, in the end, is not very complex if one considers that its main purpose is to provide investors and companies with a safe place to deposit their money and offer loans to those who need to borrow. The problem is that in these times of globalisation and internationalisation it is believed that small banks are no longer capable of doing this work. Perhaps the authorities should reflect on the merits of a return to small banks, but ones which have an intimate knowledge of the area in which they operate. This kind of change of philosophy could satisfy Mr Schäuble's desire to protect us from the failure of banks, while a return to the important work of supporting SMEs could give rise to a real, long-lasting economic recovery.

Andrew Lawford

Bibliography

How to protect EU taxpayers against bank failures – Financial Times 30/08/2012
http://www.ft.com/intl/cms/s/0/d270a89e-f213-11e1-8973-00144feabdc0.html#axzz25PkJ4Bjd
Haldane calls for rethink of Basel III – Financial Times 31/08/2012
http://www.ft.com/intl/cms/s/0/8a5e61b2-f34a-11e1-9c6c-00144feabdc0.html#axzz257D0Ehpa
IMF Working Paper – *Revisiting Risk-Weighted Assets* – Le Leslé & Avramova, March 2012
Moody's Analytics – *Basel III New Capital and Liquidity Standards - FAQs*

Conclusion

Also in this edition of the Italian Debt Observer we have had to note the worsening of Italian economic data in terms of debt levels, inflation and unemployment. There are some weak signs of improvement in the trends of government revenue and expenditure, but at this stage it is difficult to tell whether this will last, given that government revenue depends on taxation, which is already at an extremely high level.
We shall continue to examine the development of the situation and present it in the clearest possible way and we remind all our readers that the contents of this document may be freely distributed, in whole or in part, as long as the source is cited.
In addition, those who wish to follow the other work of the contributors to the Debt Observer should visit **MazzieroResearch.com** (Maurizio Mazziero & Andrew Lawford) or **IdeasHaveConsequences.org** (Leonardo Baggiani and Silvano Fait).

Maurizio Mazziero

Glossary

Italian Debt Issues:

BOT (Buono Ordinario del Tesoro**):** A short-term, zero-coupon security with maturities equal to or less than 12 months.

CCT (Certificato di Credito del Tesoro**):** A 7-year, variable-rate security with coupons indexed to the current 6-month BOT rate.

BTP (Buono del Tesoro Poliennale**):** A long-term, fixed-rate security with maturities from 3 – 30 years at issuance. Also available in inflation-indexed form.

CTZ (Certificato del Tesoro Zero-Coupon**):** A 2-year zero-coupon security.

Italian Economic and Political Terms:

Istat (Istituto Nazionale di Statistica**):** The official Italian statistics institute.

Acquired inflation (inflazione acquisita**):** Acquired inflation is the annual rate of inflation that would result if the remaining months of the year did non register any increase over the last available month's data.

Cassa integrazione guadagni: Or, *cassa integrazione* for short, is a state-sponsored benefit granted to those workers who have been temporarily laid-off, or who have had their working hours reduced. Its effect is to preserve employment whilst lowering the burden of cost on companies facing economic difficulties. It is administered by INPS.

INPS (Istituto Nazionale per la Previdenza Sociale**):** The state pension fund.

Bibliography

Banca Centrale Europea, *Rapporto Annuale 2011*, aprile 2012
Banca d'Italia, *Relazione annuale*, 31 maggio 2012
Banca d'Italia, *Finanza pubblica, fabbisogno e debito*, Supplementi al Bollettino Statistico
Banca d'Italia, *Bollettino Economico*, n. 69, luglio 2012
Banca d'Italia, *Statistiche di Finanza Pubblica nei Paesi dell'Unione Europea*, 17 ottobre 2011
Banca d'Italia, *I bilanci delle famiglie italiane nel 2010*, Supplementi al Bollettino Statistico, 25 gennaio 2012
Banca d'Italia, *Rapporto sulla stabilità finanziaria*, aprile 2012
Banca d'Italia, *Tassi di interesse*, luglio 2012
Bank for International Settlements, *82ma Relazione Annuale*, 24 giugno 2012
CGIA Mestre, *Comunicato Stampa: Famiglie con i conti sempre più in rosso*, 4 agosto 2012
Corte dei Conti, *Audizione in tema di rendiconto dello Stato" – Presidente Luigi Gianpaolino*, 26 luglio 2012

Fitch, *Fitch Downgrades Spain to 'BBB;' Outlook Negative*, 7 giugno 2012
Maura Francese e Angelo Pace, *Il debito pubblico italiano dall'Unità a oggi. Una ricostruzione della serie storica*, Banca d'Italia, Occasional paper n. 31, 2008
International Monetary Found, *Italy 2012 Article IV Consultation*, luglio 2012
International Monetary Found, *Concluding Statement of the IMF Mission*, 16 maggio 2012
Inps, *Comunicato Stampa sulla Cassa Integrazione Guadagni*, 2 agosto 2012
Istat, *Annuario Statistico 2010*
Istat, *Indicatori Demografici – Stime per l'anno 2011*, 27 gennaio 2012
Istat, *Conti Economici Nazionali*
Istat, *Notifica dell'indebitamento netto e del debito delle Amministrazioni Pubbliche secondo il Trattato di Maastricht*, 23 aprile 2012
Istat, *Occupati e disoccupati*, 31 agosto 2012
Istat, *Pil e indebitamento AP anni 2009-2011*, 2 marzo 2012
Istat, *Prezzi al consumo*
Istat, *Stima preliminare del Pil*, 7 agosto 2012
I.stat, *Principali aggregati del Prodotto interno lordo*
Maurizio Mazziero, Leonardo Baggiani, Silvano Fait, Andrew Lawford, *Italia 1 trim 2012: Pil, debito & Co.*, 11 giugno 2012
Maurizio Mazziero, Leonardo Baggiani, Silvano Fait, Andrew Lawford, *Italia 2011: un anno di sofferenza*, 18 febbraio 2012
Maurizio Mazziero, *Italia 3 trim 2011: Pil, debito & Co.*, 13 dicembre 2011
Maurizio Mazziero, *Italia: l'economia al giro di boa del 2011*, 16 agosto 2011
Maurizio Mazziero, *Italia 1q2011: Pil, debito & Co.*, 17 maggio 2011
Maurizio Mazziero, *2010: un altro anno a debito per l'Italia*, 29 marzo 2011
Ministero dell'Economia e delle Finanze, *Documento di Economia e Finanza 2012*, 18 aprile 2012
Ministero dell'Economia e delle Finanze, *Atto d'indirizzo per il conseguimento degli obiettivi di politica fiscale per gli anni 2012/2014*, febbraio 2012
Ministero dell'Economia e delle Finanze – Ragioneria Generale dello Stato, *Rapporto sulle entrate tributarie Giugno 2012*, 13 agosto 2012
Ministero dell'Economia e delle Finanze – Ragioneria Generale dello Stato, *Rapporto sulle entrate tributarie Aprile 2012*, 5 giugno 2012
Ministero dell'Economia e delle Finanze, *Bollettino Trimestrale*, Dipartimento del Tesoro
Moody's, *Moody's changes outlook on the EFSF's (P)Aaa rating to negative*, 25 luglio 2012
Moody's, *Moody's changes the outlook to negative on Germany, Netherlands, Luxembourg and affirms Finland's Aaa stable rating*, 23 luglio 2012
Moody's, *Moody's downgrades Italy's government bond rating to Baa2 from A3, maintains negative outlook*, 13 luglio 2012
Moody's, *Moody's downgrades Spain's government bond rating to Baa3 from A3, on review for further downgrade*, 13 giugno 2012
Moody's, *Moody's downgrades Cyprus's government bond ratings to Ba3 from Ba1; on review for further downgrade*, 13 giugno 2012
Ocse, *OECD Economic Surveys: Euro Area*, 27 marzo 2012
Ocse, *OECD Economic Surveys: Italy 2011*, 9 maggio 2011

Italian Debt Observer
Italy - at the half-way mark in 2012

Authors

Debt Observer
Maurizio Mazziero

Financial analyst, ordinary member of SIAT (Italian Society of Technical Analysis) and expert in portfolio diversification through the use of ETFs and ETCs. Trainer and analyst for banks and industrial companies, helping the latter with hedging strategies and risk management.

In Depth
Leonardo Baggiani

Risk manager for a leading Italian banking group, following a career in finance and credit analysis. Active on various websites dealing with issues of economic theory and current affairs, participating in efforts to raise awareness of the Austrian School of Economics. As an independent researcher has made several publications and is included by Wikibéral amongst the libéraux Italiens.

Silvano Fait

Retail Manager for a leading Italian bank, working as a private financial consultant. Contributor on economics to Chicago Blog, Libertiamo and Linkiesta, actively engaged in initiatives to disseminate and deepen understanding of the Austrian School of Economics. Visiting student at the Foundation for Economic Education, Irvington-on-Hudson, NY (USA).

Andrew Lawford

Financial analyst with over ten years experience in financial markets, working for intermediaries both in the UK and Italy. Main activities include analysis of equity investments and derivative speculations, with a focus on raw materials markets.

Vanzago, 10 September 2012

For further information, please visit:
http://www.mazzieroresearch.com/
http://ideashaveconsequences.org/

Italian Debt Observer is an analysis based on data made available by Bank of Italy, Eurostat, Inps, Istat, Italian Finance Ministry, OECD.