

## Europe's Ticking Time Bomb

Whilst all news media appears to be centred upon the UK and Brexit, the events happening in the European Union (EU) are largely being ignored.

However, these EU events are far more serious to the global economy and the EU, which centres around Italy. The country's banking system is swamped with debt and the Italian Prime Minister, Matteo Renzi, has called a referendum that could see him ousted from power, akin to David Cameron.



If the referendum vote goes against, an Italian exit from the EU could happen - "QuitItaly". The vote centres upon reforms where a reduction in power for the Senate (the Italian Upper House) is proposed. If a loss occurs, Renzi has said he would step aside, and could set Italy on the road to severing ties with the EU, and open the door to power to the Five Star movement who want a referendum on EU membership.

With this referendum, Italy's banking system is under severe pressure, it does not have any capitalisation, and cannot loan money. Shares in Unicredit have fallen by 67% in 12 months, Intesa Sanpaolo by 45%, and Monte Dei Paschi, the world' oldest bank by 90%. The banks have more than £310 billion non performing loans which equates to 20% of total lending. The EU rules state that the EU cannot "bail out" the Italian banks unless the bondholders in these banks take a loss first, which will see their entire money disappear. More than £170 billion of bank bonds in Italy are held by individual private investors, mainly the retired population of Italy. A "catch 22" many have observed, but it is agreed that a large rescue for the Italian Financial system is needed.

Couple this with the economy, the Italian economy lacks growth and is "dogged" by a lack of hope, some stating that it is on the brink of a "permanent recession". A third of under 25's are unemployed. The Italian government wants to inject state funds and the amounts required are huge, but such an injection is against EU rules on state aid.

These are dangerous times for European banks, Italy, and the European Union. Brexit has dominated the media in recent months, but the developing banking crisis in Italy is a cataclysmic economic risk for the EU and needs to be addressed.