

Committee: Group of 20 (G20)

Issue: Resolving the Italian bank system crisis

Student Officer: Jason Patsatzis

Position: Deputy President

PERSONAL INTRODUCTION

Dear delegates,

My name is Jason Patsatzis, and I am honored to serve as a deputy president in this year's ACGMUN's Group of 20. I am 15 years old and I attend the Deutsche Schule Athen. This is my 3rd year of MUN, and particularly this conference, is my third time chairing, and I sincerely hope that you are looking forward to this conference as much as I am. Even though we are currently facing a global health crisis, that has not influenced in any shape or form the way we experience MUN as a whole and even though this conference will be held online, we can still enjoy this conference in the safety of our homes and try to make the most out of it. I look forward to meeting all of you in March and have 3 days filled with fruitful debate.

This year's agenda of the Group of Twenty (G20) provides us with an opportunity to debate and discuss solutions to the banking crisis that are occurring right now in multiple nations. Even though this study guide will guide you down the right path to find solutions for this issue, you shall not base your resolutions and research on this guide. Since we are talking economics and banking issues, there are multiple solutions, here some are provided which you can use as a footing. I personally urge all delegates to go outside of the frame of solutions that is provided within the guide and with solely your own research come up with effective solutions. If any questions come up feel free to contact me at my email address jasonptz155@gmail.com

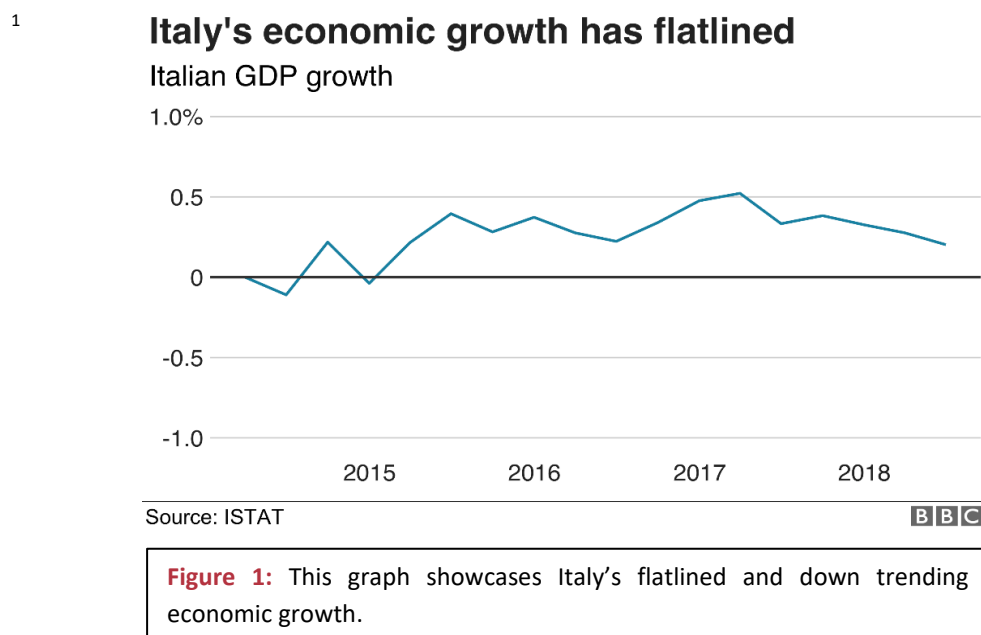
I look forward to meeting you all!

Kind Regards,

Jason Patsatzis

TOPIC INTRODUCTION

Italy could and used to be framed as a perfect economy, it has both a thriving agricultural sector, tourism, and manufacturing sector. Being the ninth biggest export nation in the world it would be reasonable that Italy's economy would be smooth sailing, however as of right now in the light of the coronavirus outbreak Italy's public debt sits at 155% of GDP. To understand how this came to existence it is mandatory that we look at the beginning of this whole crisis. 2008 was the start of Italy's banking crisis, however the fact that 155% of Italy's GDP is debt, is not to be solely blamed on the central banks of Italy. It is also to blame on political instability, poor fund management, overbanking and constant bailouts of banks that shall have met their fate a long time ago. The aforementioned, have greatly contributed to putting not only Italy's economy in jeopardy but as well as all European Central Banks. Even though Italy has seen some progress with bad loans shrinking from 360 billion euros in 2016 to less than 200 billion euros in 2018. The story of the Italian Central Banking Crisis is a prime example of how even the largest economies can sometimes reach breaking points. In addition to this, the Italian Banking Sector sees for the first time its two largest banks (Monte dei Paschi di Siena and UniCredit) avoid on multiple occasions bankruptcy, which after seeing the many failed attempts by the Italian Government to bail them out, for many bailing in these Banks and declaring Bankruptcy seems like the only way to avoid even more damage. Italy its economy and Banking sector is still far away from the road to recovery, from a crisis that severely impaired Italy's political stability, civil rest and as well as banking system.



¹ Walker, Andrew. "What's behind Italy's Economic Turbulence?" BBC News, BBC, 5 Oct. 2018, www.bbc.com/news/business-45751416

DEFINITION OF KEY TERMS

Banking Crisis

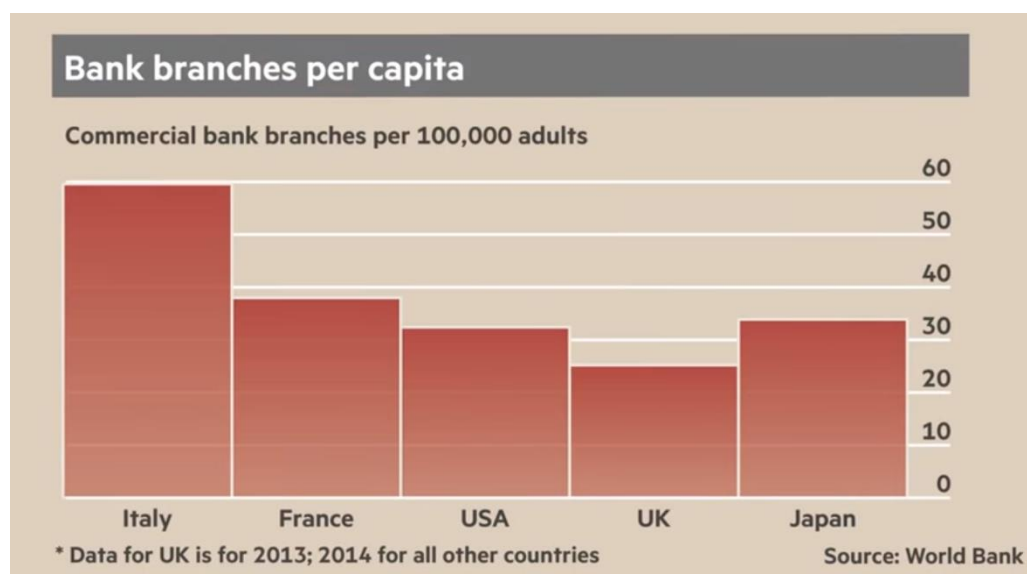
A crisis, which directly affects the liquidity of a bank, this leads to Central Banks being financially paralyzed and not able to repay debts in both public and private sector, as well as continue being profitable by giving out low interest loans, thus leading to the buildup of Non-Performing Loans (commonly known as Sour Loans or NPLs).

Non-Performing Loans (NPL's)

A non-performing loan is a loan that is simply given to someone with no credibility and exceptionally low chances of repaying the loan back. NPL's have a detrimental effect on a bank's profitability, as well as the economy since they bury Central Banks in more debt.

Overbanking

This term is quite simple yet of utmost importance for this issue. Overbanking is an effect which is quite common in Italy, and to be elaborate it is when commercial banks in a nation exceed the amount needed. Thus, this leads to having an overwhelming amount of bank branches which employ people who server no cause, and as a result further decrease a bank's profitability.



2

Figure 2: In this graph the number of commercial bank branches per 100.000 adults in Italy are compared with the number of bank branches in France, USA, United Kingdom and Japan.

² The Crisis in Italian Banking | FT Business. youtu.be/Wbri_I-V4Xg.

Central Banks

In Europe, the most famous central bank is the European Central Bank (ECB), which is solely responsible for monitoring monetary policies. The economy and monetary policies can be influenced by central banks in three ways. These three ways include adjusting capital requirements, short term interest rates by lowering or increasing them, and regulating the money supply on the open market.

Macroeconomics

Macroeconomics is a branch of economy dedicated to the performance and structure of an economy, it deals with high unemployment or high inflation rates in Member States. Macroeconomics has some main key objectives, which include trade balance in free trade, higher standards of living, reducing the false wealth distribution, price stability in nations as well as raising employment rates and GDP growth. It achieves those objectives by adjusting monetary policies.



Figure 3: This picture manifests the main five key objectives that macroeconomics has.

3

Interest Rates

An Interest Rate can be characterized as a percentage that is added on the total sum of money you either save or borrow. Thus, small changes in those rates can be very influential. In the case of borrowing money, by taking out a loan the added amount charged for taking this loan is an interest rate.

Bail Out

A bail-out was a tactic commonly used by the Atlanta Fund with a view of saving Italian Banks of both the central and commercial sector, which were on the verge of

³ "Macroeconomic Objectives and Macro Stability: Economics." tutor2u, 14 Jan. 2021, www.tutor2u.net/economics/reference/macroeconomic-objectives-and-macro-stability.

bankruptcy. With a bail out financial support is provided to a failing business in order to prevent bankruptcy. The con of a Bail out is that it is ensured that creditors and depositors do not take losses. However, bail outs can damage the stocks of the company as well as further bury it in debt, as it happened in the case of Italian Banks.

Bail In

A bail in is the opposite of a bail out, in the case of a bail in a business is required by a financial institution such as a central bank to cancel all debt owed. This strategy expects all creditors and depositors to take losses. The con of this strategy is that it ensures that debt will not rise. However, bail ins are only to be applied in situations where multiple bail outs with no success have taken place, thus leaving no other resort for a business, rather than meeting its fate of bankruptcy.

Public Debt

The amount of money that a government owes to either foreign investors, businesses, and lenders. However usually the term describes money owed to citizens and businesses in the public sector.

Stagflation

Stagflation is one of worse financial situations a nation can find itself in. Simply put, stagflation is when the GDP is low, the economic growth is slow, and both unemployment and inflation is high. This problem cannot be solved with any economical tools, what is to blame for stagflation is a halt on the exports and production of a nation, which usually is caused by civil unrest and political instability.

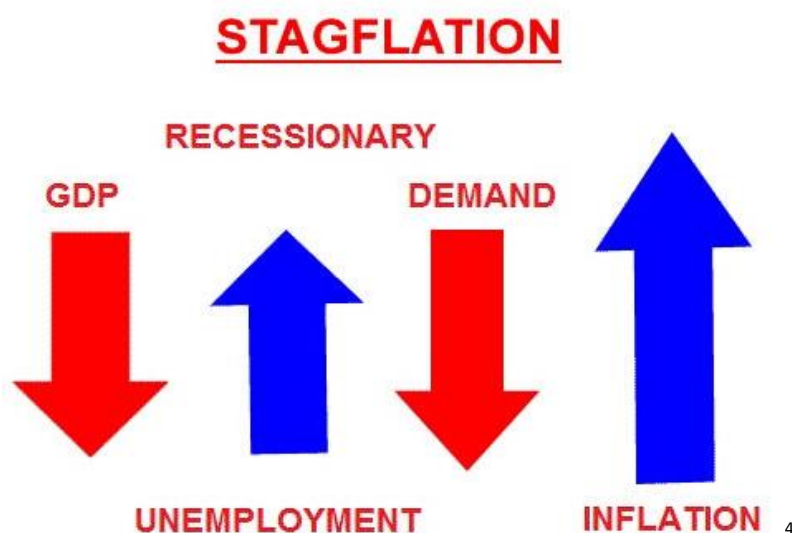


Figure 4: This image shows the basic principles and effects of Stagflation.

⁴ "What Is Stagflation?" Finance for Dummies, 10 Nov. 2017, financefordummies.net/what-is-stagflation/.

BACKGROUND INFORMATION

The Start of the crisis

Italy was not always the economy it is today and to reach that point some history needs to be understood. Italy right after the end of World War 2 started to follow a path similar to the one of Germany regarding its economy. However, it became both during the Vietnam War and the Cold War, USA's hub for production. This revived Italy's economy as it received foreign US aid but also kept its manufacturing sector busy, through the production of US products, which eventually helped Italy's economy thrive.

The first Italian economic recession

This blooming economy, however, would not last for long, since in the following years after, civil unrest took the nation by storm. What sparked this sort of unrest, is that workers in Italy, even though they were all well paid, still believed that in the Soviet Union, which was often referred to as a "worker's paradise" they would be provided with better pay. The workers went on a strike (Autumn Strikes). However, they captured the interest of communist groups seeking to expand their influence by taking advantage of the situations, thus supporting the workers. On the other hand, US agents who were in Italy in order to stop any possible communist revolutions, formed capitalist groups, which they used in order to hinder communist influence and growth. The effect on the economy was detrimental, since workers were striking, factories would not work, thus with economic activity hindered, civil unrest and unemployment rising, Italy was led to a state of stagflation.

The 2008 Crisis

In the following years by combating these groups and ensuring civil rest and security the Italian economy recovered. What followed this era was the production and exportation of cars and other luxury products. This constant production and exportation of products landed Italy in the spot of the ninth largest exporter, thus it skyrocketed Italy's economy as well. This era started around 1990 and continued until the 2000s where Italy's promising economy started facing more problems again. In 2008 when the mortgage crisis occurred in the USA, which spiraled out of control leading to a global recession, it subsequently triggered a domino effect, which eventually reached Italy.

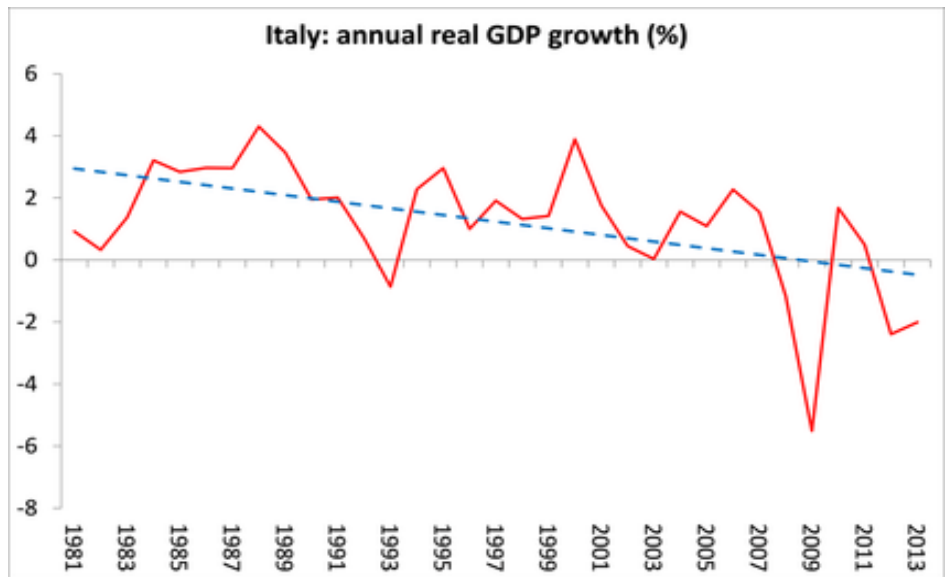


Figure 5: This graph showcases the GDP growth of Italy throughout the years. We see that in the year following the 2008 recession the GDP growth drastically dived to its lowest point since 1971.

The effects of 2008 crisis

It is vital to consider that the European Union was heavily dependent on the United States of America and European Union trade, thus the recession in 2008 took place, a domino effect that started in the US struck the EU and eventually Italy. First things first, Italy being the world's ninth largest exporter, it relied on its exports to the US, however with the light of the recession, demand was severely decreased. This led to Italian both small and big enterprises, which were mostly reliant on production and export, to cut costs down in order to stay afloat, which had the uneventful result of 380.000 people becoming unemployed. The way that the European Union decided to treat those effects of the recession were by allowing interest rates to drastically diminish in order for investments and economic activity to be encouraged. The now low interest rate and high unemployment rates only had a detrimental effect on Italian Central Banks, which suddenly lost their source of income. In the end, the deep unprofitability of Italian banks and the diminished interest rates, declared the beginning of the end for many banks.

⁵ "The Crisis Continous: Greece Still Bust, Spain Depressed, Italy Paralysed." The Socialist Network, 8 Aug. 2013, www.socialistnetwork.org/the-crisis-continous-greece-still-bust-spain-depressed-italy-paralysed

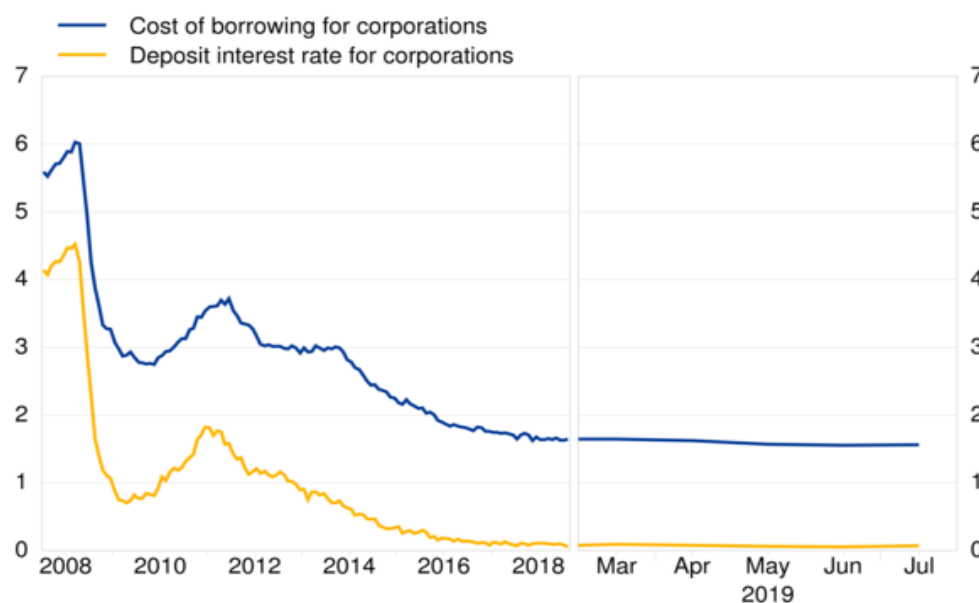


Figure 6: This graph shows the interest rates in EU, as well as the borrowing costs. We can see the free fall of both interest rates and deposit costs following the 2008 recession, in an effort of encouraging economic activity. However, prior to the recession Italy being heavily reliant on interest rates, had higher interest rates.

Non-Performing Loans (NPL's or Sour Loans)

Italy was a nation, whose Central Banks heavily profited off higher interest rates since there was high economic activity and investing. However, when the recession struck in 2008, these banks became unprofitable. In the following years with the EU continuously keeping interest rates at almost zero, the Italian Banking System had no other solution than to give out loans, to people with questionable or even sketchy credibility, who had minimal chances of repaying the money back. This led to a peak of sour loans at around 350 billion euros, which continued burying banks in dept. Eventually, Italian Banks realized the loans would not be paid back, thus they instantly became sour. The Italian Central Banking answer to this issue was selling assets that consisted mostly of these sour loans. However, when these assets were sold, the buyers were a mixture of very few foreigners, non-financial institutions but mostly the European Central Banks and failing Italian banks, which were unable to put capital into their newly bought asset, since simply put, they were not investing into the bank but rather saving it from collapsing. The result was a heavier burden was put on the economy and banks scrambled desperately to collect investments and capital.

With a lack of foreign aid and investment, this attempt to collect capital was detrimentally unsuccessful. This led to NPLs (or Sour Loans) to build up even over the

⁶ European Central Bank. "Euro Area Bank Interest Rate Statistics: July 2019." European Central Bank, 3 Sept. 2019, www.ecb.europa.eu/press/pr/stats/mfi/html/ecb.mir1907~a86424a725.en.html.

years and the peak of 350 billion euros, and even until today they remain at 250 billion euros.

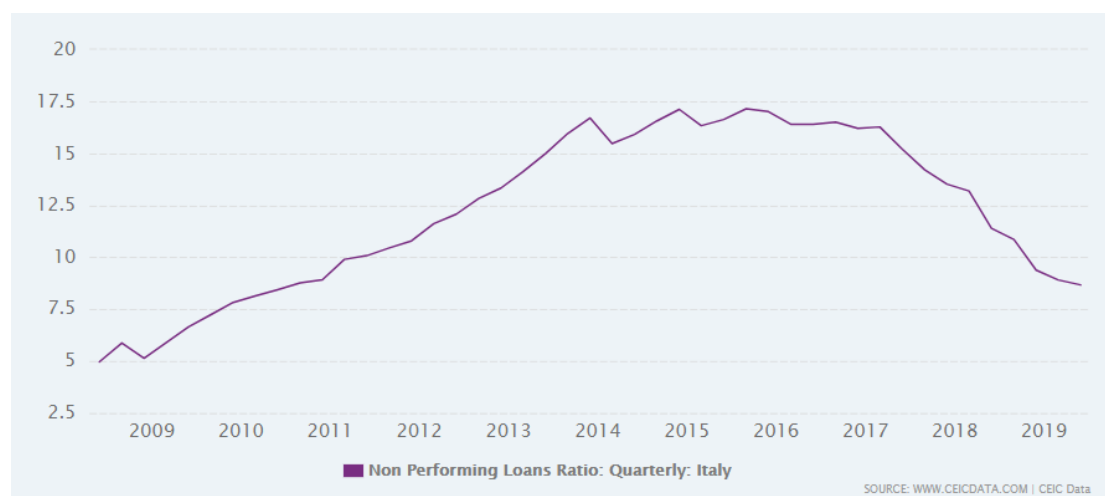


Figure 7: In this graph the ratio of Non-Performing Loans in the GDP is shown and how it is built up during the years, because of the banks already diminished profitability.

Overbanking & Political Confusion

At this point in the study guide what needs to be understood, is that there are more factors that contributed to the unprofitability of banks and led to the dire situation they are in today. As it has been already explained overbanking is when there is an overwhelming amount of bank branches. In Italy there are more bank branches than pizzerias and pharmacies.

These banks are opening windows for job opportunities, they are overstaffed and heavily unprofitable, and serve no cause. A reasonable solution would be to simply put close down branches. This issue was controversial during Matteo's Renzi's term as the 56th Italian Prime Minister, however Renzi in an effort to avoid political backlash, since closing down multiple bank branches would be a death sentence for his political career, Matteo Renzi naively avoided closing down branches, rather he tried to save Italian Banks by further burying them in debt. Italy has had in the last decade 5 different governments and a referendum, which would have been the biggest constitutional reform since the end of Italy's monarchy, which when it didn't pass led to the prime minister's resignation. Political instability, refusal to close banks, which with every single day they operated made Central Banks even deeper unprofitable and brought them closer to bankruptcy is what has led to today.

⁷"[Up-to-Date] Italy Non Performing Loans Ratio." [Up-to-Date], www.ceicdata.com/en/indicator/italy/non-performing-loans-ratio

The curious case of Monte dei Paschi di Siena

The story of Monte dei Paschi di Siena is a story of how one of the oldest banks in the world is hanging by a thread, mostly due to poor management, failed attempts to recapitalize, and political interests influencing the bank's decisions. Based on the beautiful town of Siena, Monte dei Paschi di Siena (MPS) was a Bank that was ranked at a point as the 86th best bank in the top 1000 World Banks, yet it accomplished to become an example to avoid. Before we analyze the current situation of MPS we need to understand its history before the beginning of this crisis. Monte dei Paschi di Siena was an expanding and very profitable bank, with interest rates being high. It had just expanded by buying several Italian Banks and branches in the year 1995. In the next years it continued constant development with high profitability.

8

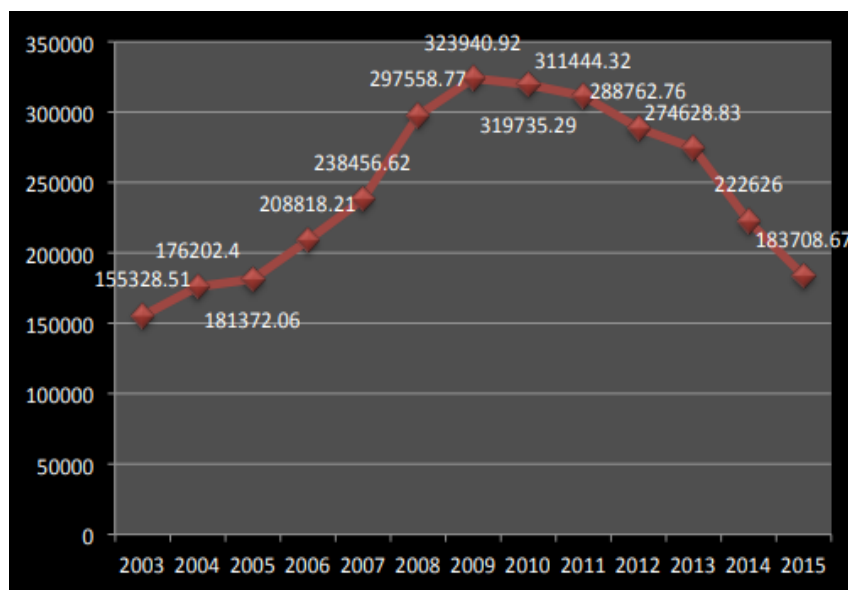


Figure 8: Monte dei Paschi di Siena's total Assets throughout the years. What can be seen is that, before the 2008 recession there was huge economic growth in MSP.

The effect of the 2008 recession on MSP

As can be seen on the graph above, the 2008 recession detrimentally affected Monte dei Paschi di Siena's growth as a whole. Their assets were diminished and what is to blame is that their main source of income, which were loans with high interest rates, suddenly were no longer sustainable. As we have previously seen in the aftermath of the recession interest rates dropped to a point where they were not profitable and like most of the banks in Italy MSP in order not to default, started giving loans to

⁸MSP Case Study. www.sevenpillarsinstitute.org/wp-content/uploads/2017/11/MPS-CaseStudy-Final-EDITED.pdf.

businesses and people with poor credibility. These loans were never paid back, and sour loans started to build up in the company's assets.

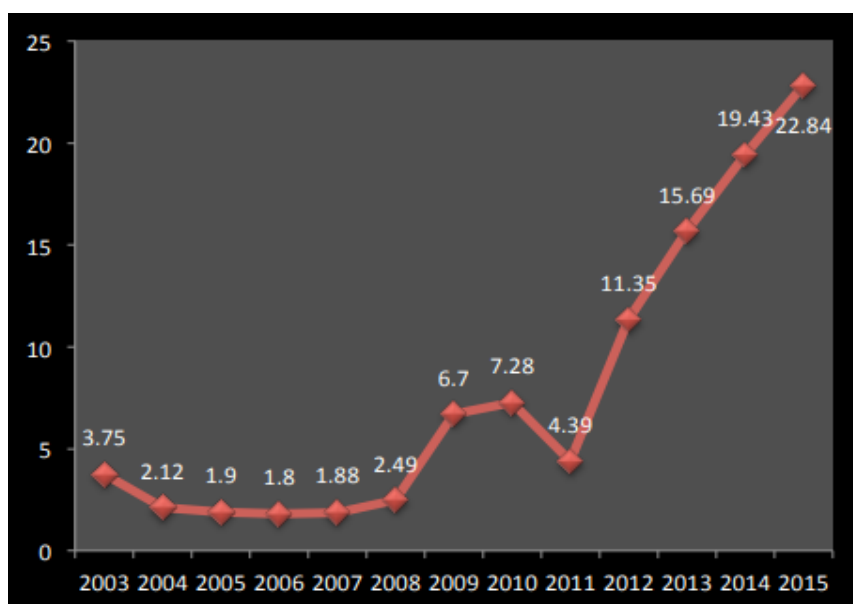


Figure 9: This graph showcases the percentage of Non-Performing Loans in MSP's gross total.

As it can be noticed in the graph MSP started drowning in debt created by the sour loans. In a desperate effort to avoid bankruptcy Monte dei Paschi di Siena tried to collect capital, which failed miserably. It failed because the bank's governing body FMPS which is the largest shareholder of the bank, had no cash flow and the only way it recapitalized the bank is by getting credits from it. This NGO was formed on the grounds that it would use money from the bank to fund scientific research and the infrastructures and people of Siena, however when the bank was in desperate need of capital flow, its largest shareholder was not able to provide it. For most if not all businesses, that would mean declaring bankruptcy, however when assessing the detrimental damage its collapse would have on the Italian Economy, since it is the second largest bank in Italy. It has been recapitalized since, by the Atlanta fund but its situation remains dire even though there was some progress made.

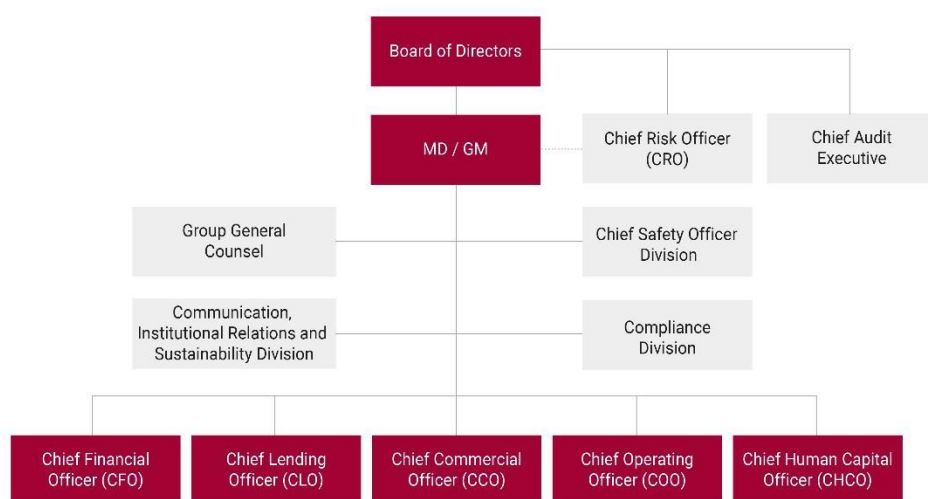
Political Influence and its effect on Monte dei Paschi di Siena

Monte dei Paschi di Siena was a bank with a strong political influence as the country's second largest bank, however it is obvious that when the main executive organ of the FMPS the Dupatazione Generale, the organ that approved business plans for the bank, had its 14 out of 16 members nominated by political institutions, there would be conflict of interest. This conflict seemed to be in the end what also contributed heavily

⁹MSP Case Study. www.sevenpillarsinstitute.org/wp-content/uploads/2017/11/MPS-CaseStudy-Final-EDITED.pdf.

to the bank's current situation. The Dupatazione Generale being heavily politically influenced, only approved politically aspired business plans regarding investments. These plans would only benefit other politicians who would at the end never repay the money back, thus leading to Monte dei Paschi di Siena having to sell and create financial instruments and tools in order to recover the tremendous amount of money they lost in sour loans given away by the Dupatazione Generale. Simply put with a body in the MSP being so politically charged and influenced, the conflicts of interest ensured that most of the time the bank made wrong investments, which at the end led them in this situation. This case of the Monte dei Paschi di Siena is a perfect representation of a problem in the Italian banking sector, which was greatly amplified by the 2008 recession.

ORGANISATIONAL CHART OF THE PARENT COMPANY'S GENERAL MANAGEMENT



10

Figure 10: The general management and Boards of Monte dei Paschi di Siena.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

Italy

As the member state the issue takes place in, Italy holds a portion of the blame. The fact that not one but multiple banks followed down the same path as the Monte dei Paschi di Siena, shows a great error in the banking sector. Firstly, it shows that financial institutions in Italy are greatly politically influenced, which indicates towards possible corruption. Secondly, Banks were not bailed in, even though it was heavily proposed by the European Central Bank (ECB), but still the Italian government decided to constantly bail banks out. All the 5 Italian governments that were in power the last 5

¹⁰ "Organisational Model." Banca MPS – ENG, www.gruppomps.it/en/aboutus/organisational-model.ht

years, constantly bailed the banks out, rather than just bailing them in, only in order to avoid the public backlash. If everything is added up in the end, this topic is more about politics than banking, and specifically in Italy this is an issue. Italy is currently drowning in public debt, especially after being struck by the covid-19 pandemic so it can afford more economical losses.

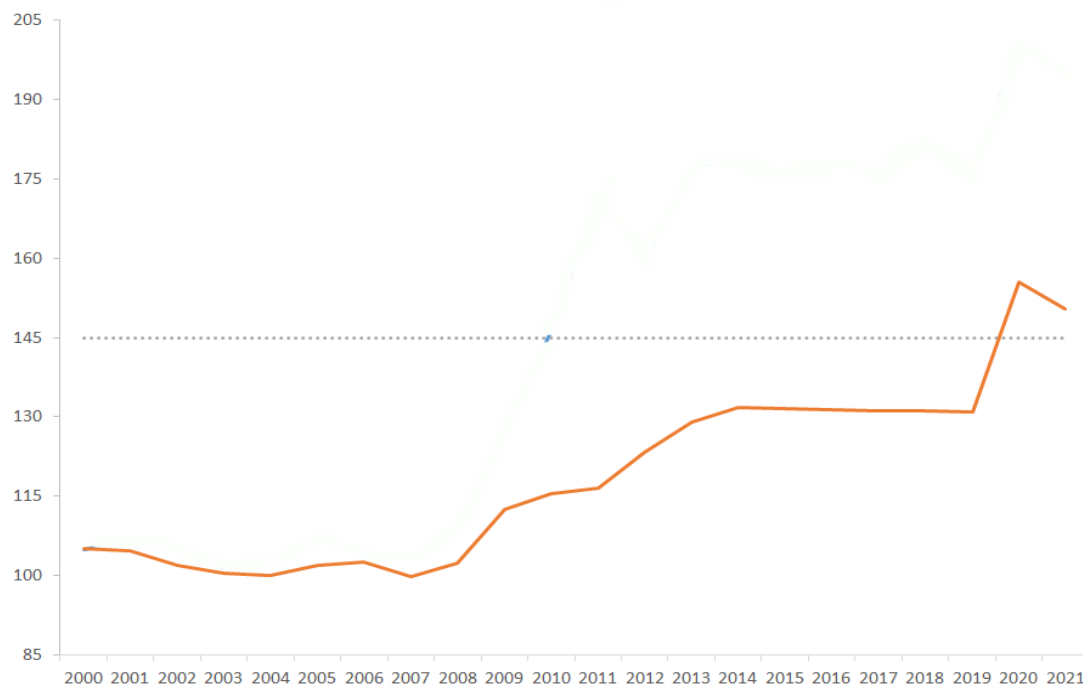


Figure 11: This graph showcases Italy's public debt as percentage of GDP. In the light of the pandemic, we see a sharp incline in the public debt, since the Italian economy suffered a huge blow to both its production and export sections as well as its thriving tourism section of the economy.

United States of America

Probably the biggest trading partner of Italy, which is located outside of the European Union is the United States of America. The Italian and United States of America relations are mostly regarding trading. However, the US has multiple bank branches in Italy, which in the case of a collapse will get heavily affected. Most importantly the US imports many products which have an Italian origin. If a crisis takes place that affects production and exports of Italy, the US will be affected by multiple shortages of products, since simply put they heavily rely on Italy for the importing of them to the US.

United Kingdom

The United Kingdom is one of Italy's biggest trading partners, even though banks in the United Kingdom do not have big exposure to Italian ones, if the Italian Banks

¹⁰Jesper, and Jesper. Rangvid's Blog, 3 May 2020, www.blog.rangvid.com/2020/05/03/Italy-vs-greece/.

collapse however, it will have a devastating effect on all the nations the UK trades with. Especially in the process of Brexit where trading European nations will become significantly harder, the United Kingdom depends even more on nations like Italy to continue trade with it. In the case that these banks collapse, trading will undoubtedly get harder for the UK, since it will lose both its European Union privileges and its trading partners.

European Union

Italy having been one of the founding members of the European Union and adopting the currency in 1999 and formally introducing it in the markets in 2002. Generally, the Union's relationship with Italy has been healthy, with Italy being one of the European Union's (EU's) highest contributors of budget sharing a total 13.57% of EU contribution shares. Additionally, Italy has some of its biggest and closest trading partners regarding Italian exports in the European Union, which includes nations such as Germany, Spain, France, Netherlands, and Switzerland. Italy has close ties with all these nations being historically tied with Germany and Spain. Regarding France, even though the two nations were opponents in the past. As of right now Italy is France's second largest trading partner and that goes for Italy accordingly. Even though relations are close the European Union is constantly trying to desperately avoid an Italian banking collapse, which would detrimentally affect its budget and economy. Banks in the European Union all have been exposed to Italian debt ; thus, a collapse or crisis would affect the EU as a whole.

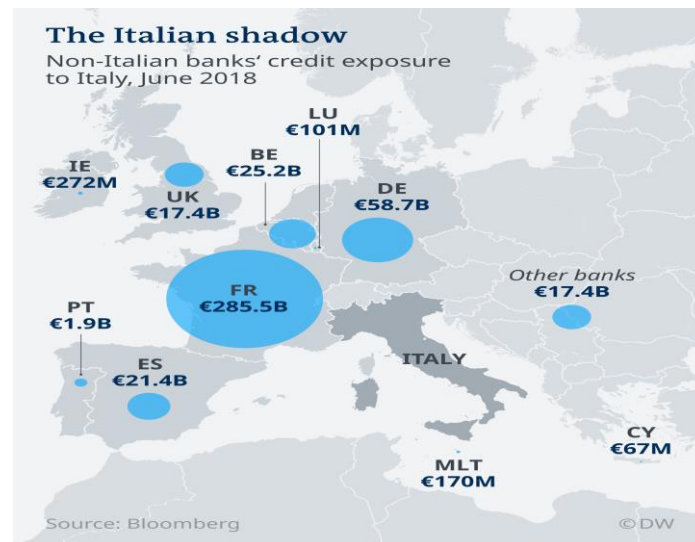


Figure 12: In this image all the banks in Europe are shown which had decent exposure to Italian debt and credit.

¹² (www.dw.com), Deutsche Welle. "Debt and Doom Loops: The Eurozone's Italian Nightmare: DW: 27.08.2019." DW.COM, www.dw.com/en/debt-and-doom-loops-the-eurozones-italian-nightmare/a-50019077.

In addition to this, with both German and French banks having high exposure to Italian banks a possible collapse would be catastrophic for these economies.

13

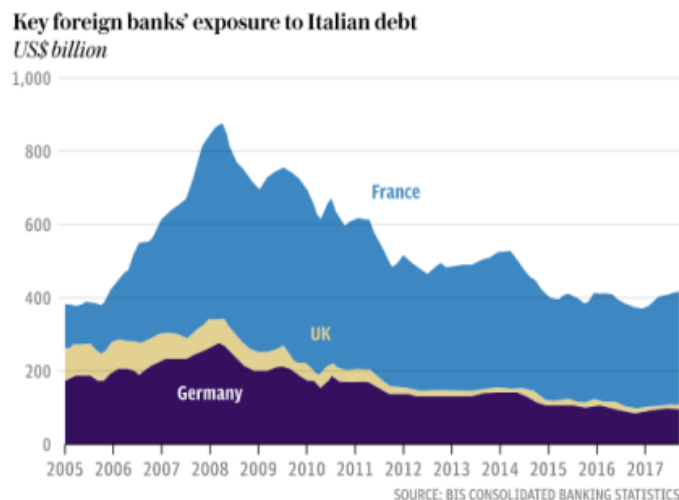
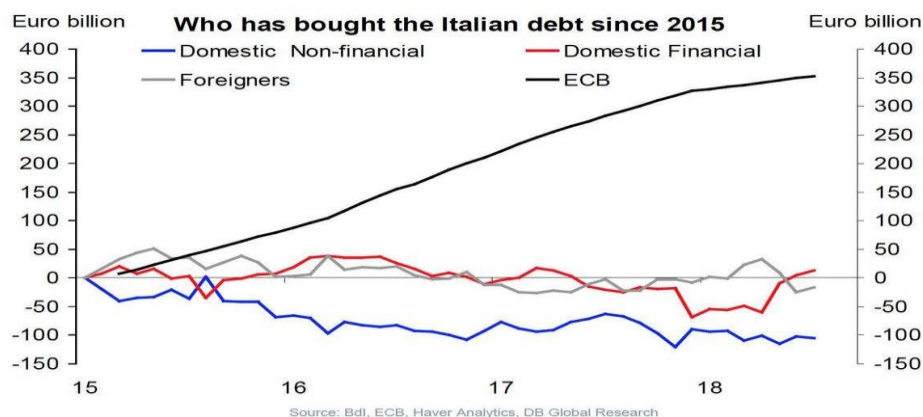


Figure 13: This graph showcases the exposure of European nations to the Italian debt. French banks are exposed to the largest amount of debt. Thus, they would be affected the most, in a possible collapse.

European Central Bank (ECB)

Leading the efforts of saving the Italian Banking sector from collapsing and indirectly the whole European Union economy is the European Central Bank. However, in the case of Italy the ECB plays a very crucial role. Even though the Italian Government desperately bailed Central Banks out, the ECB was opposing and advocating that the Banks were already too costly and unprofitable to bail out that they should be bailed in and avoid any more possible burden on the economy. Unfortunately, the Italian government did not see eye to eye on the issue and continued its worthless resurrections of banks like Monte dei Paschi di Siena and UniCredit. In the end, the ECB cannot enforce a Bail In but when the banks collapse it will be the one of the few affected the most. ECB has provided crucial help to Italy by buying its debt consisting mostly of sour loans.

¹³Chandler-Wilde, Helen. "Bank Crisis in Italy May Spark 'Doom Loop' for UK, Warns Bank of England." The Telegraph, Telegraph Media Group, 2 Dec. 2018, www.telegraph.co.uk/business/2018/12/02/bank-crisis-italy-may-spark-doom-loop-uk-warns-bank-england/.



Picture 14: This graph manifests how the ECB has been buying Italian debt created by sour loans for multiple years.

TIMELINE OF EVENTS

Date	Description of event
1 st of November 1993	The European Union was founded in Netherlands
1 st of January 2002	The Euro currency was introduced in markets
2008	An economic recession starting in the US spreads to the whole of Europe
September of 2011	Standard & Poor's (S&P's) downgrade the ratings of 7 Italian Banks, after their sovereign rating has dropped 2 days ago
7 th of October of 2011	A credit company named Fitch downgrades Italian credit from a A+ rating to the rating of AA-
8 th of November of 2011	At the time Italian Prime minister Silvio Berlusconi promised to resign in the case of his budget reforms not passing, after the nation's borrowing rates had reached record breaking levels.

¹⁴ Buiatti, Cesare, et al. "The Origins of the Public Debt of Italy: Geographically Dispersed Interests?" Journal of Policy Modeling, North-Holland, 14 Nov. 2013, www.sciencedirect.com/science/article/abs/pii/S0161893813001117.

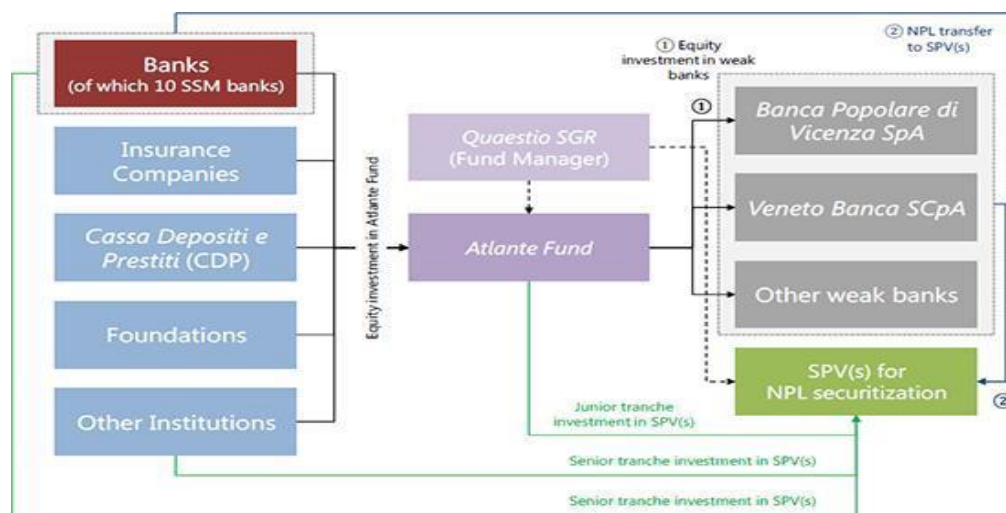
8 th of November 2011	Silvio Berlusconi resigns
11 th of November 2011	Borrowing costs fall from a 7.5% to 6.7% leading to new austerity measures being approved and in the aftermath of Berlusconi's resignation, an emergency government is formed
13 th of January of 2012	Standard & Poor's further downgrades Italy's credit to an BBB rating
9 th of July of 2013	Standard & Poor's remains downgraded at a BBB rating with a negative outlook where it remains until today
Starting from 2014 and lasting until 2019	The economy was starting to slowly recover from the 2008 great recession, with the dept in sour loans lowering from 360 billion in 2016 to less than 200 billion in 2019
21 st of February 2020	The first coronavirus lockdown took place in Italy and it diminished the economy. The public dept percentage of the GDP from being at a stable and down trending 135% in 2019 it skyrocketed to 155-159% of the GDP in 2020. The tourism sector in Italy was hit hard and its exports were hindered so this financial outcome is reasonable

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

The Atlas (Atlante) Fund

Being announced on 11 of April 2016, the Atlas (Atlante) Fund was created by the Italian and funded by Italian banks and other private financial institutions. The purpose of the Atlas fund creation was simple, the sole purpose it served was to ensure that central banks in Italy do not go bankrupt. In an effort to cover up the dept created by sour loans. Raising around 5 to 6 billion dollars, even though the fund was ruled as state aid by the European Commission and it did bail out multiple banks including Monte dei Paschi di Siena, Veneto Banca and Banca Popolare di Vicenza. Even though Banks were recapitalized, the damage was too big to cover up and the 6 billion dollars raised was too little to cover the 360 billion created by Non-Performing Loans. However, even after multiple attempts, this attempt was rated by Fitch Ratings and Financial Times as a fund not big enough to cover a huge issue, and that it could possibly make things worse for larger banks. The Atlante Fund was clearly politically

motivated in order to avoid the inevitable, which is another banking crisis or a possible collapse. Politicians avoided bailing banks, and conflict of interest is to blame.



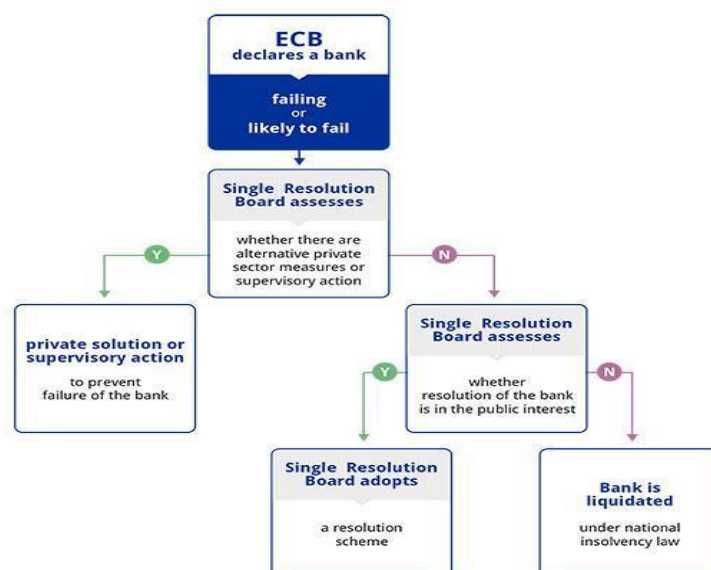
Picture 15: This image showcases the structure and the process behind the Atlante private equity fund, and how it recapitalizes banks in Italy

European Central Bank's Proposal

The ECB (European Central Bank) was from the beginning opposed to Italy's plan to recapitalize, with the reasoning behind the oppose being the fact that the damage had already been done and recapitalization would not be greatly beneficial, when both the public debt and debt created by sour loans has reached that much. Thus, the European Central Bank proposed that the central banks in crisis are bailed in, which directly translates to the shutdown of Italy's biggest banks. The proposal was turned down by the Italian government. Even though the European Central Bank can have some influence over major central banks like the ones in Italy, the proposal was short lived, since at the end it is the Italian government which makes the decisions.

¹⁵ Jobst, Andreas, and Anke Weber. "Profitability and Balance Sheet Repair of Italian Banks1." IMF ELibrary, INTERNATIONAL MONETARY FUND, 19 Aug. 2016, www.elibrary.imf.org/view/IMF001/23641-9781475527513/23641-9781475527513/23641-9781475527513_A001.xml?language=en&redirect=true.

16



Picture 16: This image manifests the course of action to be taken if a bank is considered to be failing or likely to fail. In this case the Atlante private equity fund belongs in the private solution subcategory.

POSSIBLE SOLUTIONS

There are multiple and differentiated solutions regarding a topic of this magnitude and as with every problem opinions are divided. The following solutions can be implemented in Italy; however, they cannot ensure that no further economic damage will be sustained. Italian Banks are in a dire situation, thus the less impactful a solution the less economical risks it runs. Although less impactful and smaller and methodical solutions would be more prosperous, big changes need to be made.

Sour Loans Control

The only way to ensure that Non-Performing Loans (sour loans) continue on their downfall, assets from these banks need to be sold to foreign companies willing to recapitalize these banks. Without the flow of capital into these banks, no change will occur, since simply put the fastest way for banks to recover from such a situation, is a recapitalization. Organizations such as the IMF could get involved into the situation and through a possible bail out deal and surveillance Italian banks can return to their state. IMF and further ECB guidance could prove to be fruitful. If the capital in those banks is managed correctly. Unfortunately, foreign aid will not be enough to help these banks recover, cost will need to be eventually cut down.

¹⁶ Bank, European Central. "What Happens When a Bank Is Failing or Likely to Fail?" European Central Bank - Banking Supervision, 16 May 2018, www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl180516_3.en.html.

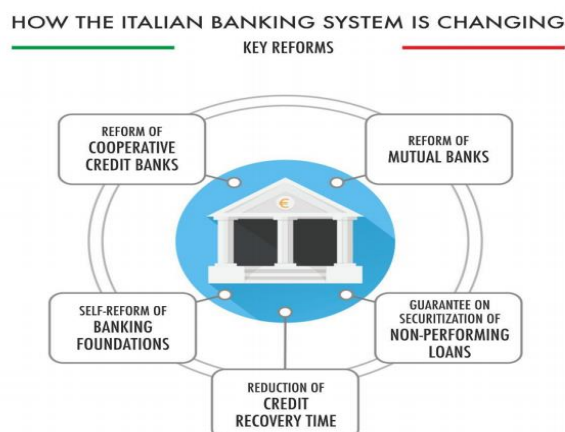
Overbanking

A simple yet controversial solution was ending overbanking. These bank branches in Italy deeply contribute to the Central Banks unprofitability. An especially important aspect, however, is that their shut down will spark backlash from the public, since a considerable number of jobs will be lost. A feasible way to achieve this is to simply put the management of these bank branches to other companies in the private sector. Another way of doing this could be by a European Union and Italian cut back deal on the sector of banking which would include multiple branches that serve no purpose. Lastly, what could be done is by raising the money supply on the market through the central banks, with bigger money supply more economic growth will take place and investments will be greatly encouraged, however in order to avoid hyperinflation banks will make interest rates higher, thus making all these bank branches useful for the many people wishing to borrow money. By sustaining a high money supply and interest rates for a certain time frame great economic activity will be entertained.

Restructure and Reform of Italian Central Banks

As previously mentioned in the guide, what could be held accountable for the outcome of MSP is the governance, and to be more elaborate the political influence and the conflict of interest that took place. A reform and restructure are a necessity if we want to avoid something like this from ever taking place again. The breeding grounds for these reforms should be that financial institutions can govern themselves independently from the government. Governing councils in central banks shall not consist of politicians. This was used as a solution during the Autumn strikes, where stagflation had remarkably high rates in the country. Central Banks cannot be accustomed to being influenced by political interest. They should opt to work with the IMF and World Bank, where they are mostly under their supervision in order for a reform to come to fruition. Another way of achieving a reform is to reform the Bank of Italy, which has for many failed in controlling the crisis, by both being a part of the banks affected and the bank that is supposed to govern all other banks. By making central banks independent, conflict of interest is directly avoided.

17



Picture 18: This image shows the key reforms of the Italian Banking Sector.

ECB Bail In

The last resort if banks are still a burden on the economy, the initial bail in which was proposed by the European Central (ECB), shall be entertained. There are multiple bank branches, which are heavily unprofitable, an economically feasible solution would be to bail banks in and avoid further damage, however what needs to be taken into consideration is the fact there will be a public outcry in return. It is better to bail a bank in once, rather than constantly wasting government and European funds while bailing out. In the case of the Italian Banking Story the three things that brought these banks down were political conflict of interest, bad governance leading in sour loan build-up and avoidance of bailing in banks that were meant to be bankrupt. All of this took place on the expense of the Italian people and business owners.

BIBLIOGRAPHY

General

“2000s European Sovereign Debt Crisis Timeline.” Wikipedia, Wikimedia Foundation, 23 Sept. 2020, www.en.wikipedia.org/wiki/2000s_European_sovereign_debt_crisis_timeline.

Amadeo, Kimberly. “What Is the Public Debt?” The Balance, www.thebalance.com/what-is-the-public-debt-3306294.

¹⁷Italian Banking Sector. www.mef.gov.it/focus/sistema_bancario/ITALIAN_BANKING_SECTOR.pdf.

Bank, European Central. "What Happens When a Bank Is Failing or Likely to Fail?" European Central Bank - Banking Supervision, 16 May 2018, www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl180516_3.en.html.

"Central Bank." InvestingAnswers, investinganswers.com/dictionary/c/central-bank.

Chandler-Wilde, Helen. "Bank Crisis in Italy May Spark 'Doom Loop' for UK, Warns Bank of England." The Telegraph, Telegraph Media Group, 2 Dec. 2018, www.telegraph.co.uk/business/2018/12/02/bank-crisis-italy-may-spark-doom-loop-uk-warns-bank-england/.

"The Economy of Italy." youtu.be/p-XV2XRsu7E.

"Effects of Economic Crisis on Italian Economy." Eurofound, www.eurofound.europa.eu/publications/article/2010/effects-of-economic-crisis-on-italian-economy.

European Central Bank. "Euro Area Bank Interest Rate Statistics: July 2019." European Central Bank, 3 Sept. 2019, www.ecb.europa.eu/press/pr/stats/mfi/html/ecb.mir1907~a86424a725.en.html.

Fonte, Giuseppe, and Gavin Jones. "Bank of Italy Reform in Spotlight after Latest Bank Bailout." Reuters, Thomson Reuters, 20 Dec. 2019, www.reuters.com/article/us-italy-cenbank-reform/bank-of-italy-reform-in-spotlight-after-latest-bank-bailout-idUSKBN1YO1W7.

"France–Italy Relations." Wikipedia, Wikimedia Foundation, 11 Dec. 2020, en.wikipedia.org/wiki/France%E2%80%93Italy_relations#Economy.

"Gross Domestic Product." Econ on Italy 101, econonitaly101.weebly.com/gross-domestic-product.html.

Italy - Credit Rating, tradingeconomics.com/italy/rating.

"Italy Economy: IMF Says Country Has 'Two Lost Decades' of Growth." BBC News, BBC, 12 July 2016, www.bbc.com/news/business-36770311.

"Italy Trade Balance, Exports and Imports by Country." Italy Trade Balance, Exports, Imports by Country 2017 | WITS Data, wits.worldbank.org/CountryProfile/en/Country/ITA/Year/2017/TradeFlow/EXPIMP/Partner/by-country.

Jobst, Andreas, and Anke Weber. "Profitability and Balance Sheet Repair of Italian Banks1." IMF ELibrary, INTERNATIONAL MONETARY FUND, 19 Aug. 2016, www.elibrary.imf.org/view/IMF001/23641-9781475527513/23641-9781475527513/23641-9781475527513_A001.xml?language=en&redirect=true.

Kreijger, Gilbert, and Yasmin Osman. "Monte Dei Paschi: Italy's Banking Bailout." Handelsblatt, Handelsblatt, 23 Dec. 2016,

www.handelsblatt.com/english/finance/monte-dei-paschi-italys-banking-bailout/23543604.html?ticket=ST-3952417-c9jR0MLtCy1GjnSmpObl-ap2 .

Merler, Silvia, and Bruegel. "Italy's Atlas Bank Bailout Fund: the Shareholder of Last Resort." Bruegel, www.bruegel.org/2016/04/italys-atlas-bank-bailout-fund-the-shareholder-of-last-resort/ .

Monte Dei Paschi Di Siena Case Study. sevenpillarsinstitute.org/wp-content/uploads/2017/11/MPS-Case-Study-Final-EDITED.pdf .

Pettinger, Tejvan, et al. "Macroeconomic Objectives and Conflicts." Economics Help, 3 Dec. 2019, www.economicshelp.org/blog/419/economics/conflicts-between-policy-objectives/ .

Segal, Troy. "Nonperforming Loan – NPL." Investopedia, Investopedia, 16 Sept. 2020, www.investopedia.com/terms/n/nonperformingloan.asp .

"Short-Term Interest Rates." OECD Instance, www.oecd-ilibrary.org/finance-and-investment/short-term-interest-rates/indicator/english_2cc37d77-en .

"What Are Interest Rates?" Bank of England, 21 Sept. 2020, www.bankofengland.co.uk/knowledgebank/what-are-interest-rates .

"What Is Banking Crisis." IGI Global, www.igi-global.com/dictionary/early-warning-system-for-banking-crisis/51063 .

Young, Julie. "Bail-Ins During Financial Crisis Helps Financial Institutions." Investopedia, Investopedia, 14 Dec. 2020, www.investopedia.com/terms/b/bailin.asp .

Figures

(www.dw.com), Deutsche Welle. "Debt and Doom Loops: The Eurozone's Italian Nightmare: DW: 27.08.2019." DW.COM, www.dw.com/en/debt-and-doom-loops-the-eurozones-italian-nightmare/a-50019077 .

Bank, European Central. "What Happens When a Bank Is Failing or Likely to Fail?" European Central Bank - Banking Supervision, 16 May 2018, www.bankingsupervision.europa.eu/press/publications/newsletter/2018/html/ssm.nl180516_3.en.html .

Buiatti, Cesare, et al. "The Origins of the Public Debt of Italy: Geographically Dispersed Interests?" Journal of Policy Modeling, North-Holland, 14 Nov. 2013, www.sciencedirect.com/science/article/abs/pii/S0161893813001117 .

"The Crisis Continous: Greece Still Bust, Spain Depressed, Italy Paralysed." The Socialist Network, 8 Aug. 2013, www.socialistnetwork.org/the-crisis-continous-greece-still-bust-spain-depressed-italy-paralysed

Chandler-Wilde, Helen. "Bank Crisis in Italy May Spark 'Doom Loop' for UK, Warns Bank of England." The Telegraph, Telegraph Media Group, 2 Dec. 2018,

www.telegraph.co.uk/business/2018/12/02/bank-crisis-italy-may-spark-doom-loop-uk-warns-bank-england/ .

The Crisis in Italian Banking | FT Business. youtu.be/Wbri_I-V4Xg .

Italian Banking Sector.
www.mef.gov.it/focus/sistema_bancario/ITALIAN_BANKING_SECTOR.pdf .

Jobst, Andreas, and Anke Weber. "Profitability and Balance Sheet Repair of Italian Banks1." IMF ELibrary, INTERNATIONAL MONETARY FUND, 19 Aug. 2016, www.elibrary.imf.org/view/IMF001/23641-9781475527513/23641-9781475527513/23641-9781475527513_A001.xml?language=en&redirect=true .

Kreijger, Gilbert, and Yasmin Osman. "Monte Dei Paschi: Italy's Banking Bailout." Handelsblatt, Handelsblatt, 23 Dec. 2016, www.handelsblatt.com/english/finance/monte-dei-paschi-italys-banking-bailout/23543604.html?ticket=ST-3952417-c9jR0MLtCy1GjnSmpObl-ap2 .

Jesper, and Jesper. Rangvid's Blog, 3 May 2020, blog.rangvid.com/2020/05/03/Italy-vs-greece/ .

"Macroeconomic Objectives and Macro Stability: Economics." tutor2u, 14 Jan. 2021, www.tutor2u.net/economics/reference/macroeconomic-objectives-and-macro-stability .

MSP Case Study. sevenpillarsinstitute.org/wp-content/uploads/2017/11/MPS-CaseStudy-Final-EDITED.pdf .

Walker, Andrew. "What's behind Italy's Economic Turbulence?" BBC News, BBC, 5 Oct. 2018, www.bbc.com/news/business-45751416

"What Is Stagflation?" Finance for Dummies, 10 Nov. 2017, financefordummies.net/what-is-stagflation/ .

"[Up-to-Date] Italy Non Performing Loans Ratio." [Up-to-Date], www.ceicdata.com/en/indicator/italy/non-performing-loans-ratio . European Central Bank. "Euro Area Bank Interest Rate Statistics: July 2019." European Central Bank, 3 Sept. 2019, "Organisational Model." Banca MPS – ENG, www.gruppomps.it/en/aboutus/organisational-model.ht