



Italexit is not a real concern despite the anti-EU M5S winning the elections

Event

- The vote count on the evening of 4 March (Italian time) revealed that the anti-EU political party Five Star Movement (M5S) received the highest percentage of votes cast with 32% while the EU supporting Democratic Party (PD) led former prime minister Matteo Renzi came in the second place with 19% votes. As there is no single party that received more than 40% of the votes, the next step will be to negotiate and form a coalition government.
- Since the global economic crisis in 2008 up to early 2017, the anti-EU movements in Italy and supports for the M5S party has gained increasing traction. This is partly due to the high percentage of bad debt loss related to receivables in the banking sector where the figure is as high as 16% in 2016. Previously, Italy faced a problem with the EU rules when the government was forbidden from using taxpayer money to bail out the banking sector. The EU rule on this issue stated that shareholders and debt holders of a failing bank must take at least 8% loss of total liabilities before the government can bail in. Consequently, some people have lost a lot of money leading to many Italians feeling upset and wanted Italy to leave the EU. Nevertheless, the situation has calmed after the government was able to find a way to rescue said banks and prevent crisis arising from the debt issue.

Analysis

- **EIC views that Italexit is not a risk worth concerning in 2018 despite M5S being able to form a government.** The Italian economy has been growing alongside other Eurozone countries since 2017 which helps to reduce Italian non-performing loan ratio from 16.4% in 2016 to 14.2% in the third quarter of 2017. Subsequently, the growth of the economy and the reduction in worry about bad debts increased Italians' satisfaction with the EU that is reflected in the growing support for the euro currency that risen to 45% in 2017 from 41% in 2016¹. The policy of leaving the EU is also no longer the main campaign agenda of the opposition parties in Italy for the election on 4 March especially for Di Maio, the new leader of M5S, who demonstrated support for Italy to remain in the EU, although a referendum could be held to repair certain issues that are bad for the economy. The increasing confidence on the Italian economy is reflected in the decreasing gap between the Italian bond yields and the German bond yields² that has been occurring since the EU

1 Surveyed by Eurobarometer

2 The decreasing difference between Italian and German bond yields reveals the growing confidence among investors on Italian economy as Germany is currently the strongest economy in the EU.

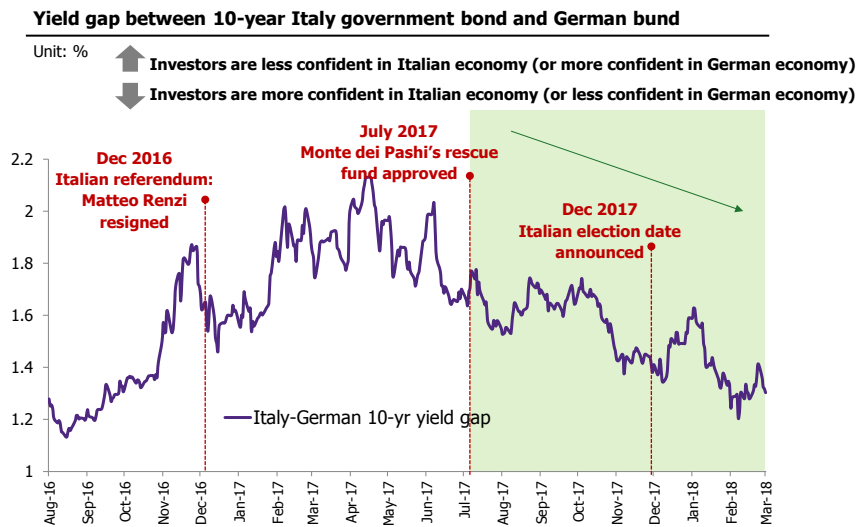
approved the monetary support to help Monte dei Paschi, an Italian bank who suffered the worst from the bad debt crisis (figure 1).

- **Nevertheless, a sudden interest rate increases by ECB may revive bad debts and reignite anti-EU sentiments** The strong economic growth and reduction in political risks in the Eurozone provides means for ECB to increase the interest rates. However, if the interest rates increase is too sudden, the costs of borrowing will rise quickly which will, unavoidably, impact the existing bad debts in Italy. The bad debt issue may reignite the anti-EU sentiment in Italy that could lead to Italexit in the future. EIC expects ECB to end its bonds purchase program in 2018 and to increase interest rates in the latter half of 2019.

Implication

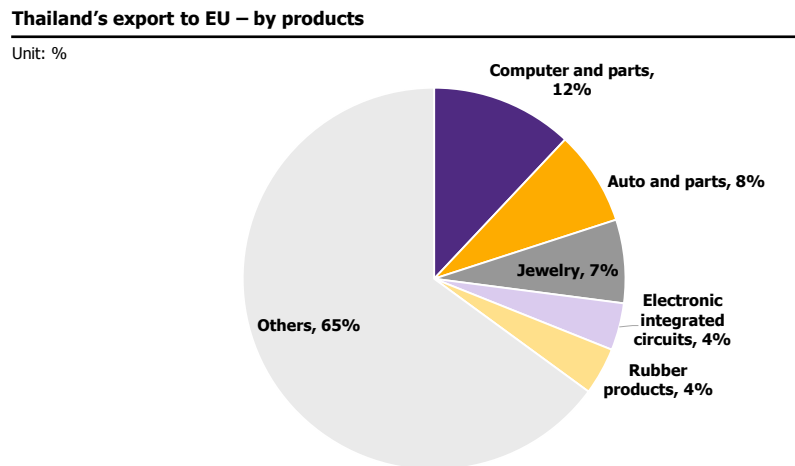
- **Eurozone economy shows signs of steady growth in 2018 following a reduction in political risks in Italy** The relaxation of Italexit worry is an important factor that contributes to the growth of the Eurozone economy. EIC views that the Eurozone economy will grow by 2.3% in 2018 following 2017 that has seen a 2.5% growth. This will lead to the strengthening of demand for Thai products in the Eurozone, a market that accounts for 9% of Thailand's total exports. The main exports products are computers and parts, automobiles, automotive parts and accessories, as well as gems and jewellery (figure 2).
- **The euro currency continues to strengthen in 2018 through economic fundamentals** The Eurozone economy demonstrates a strong growth trend based on a significant reduction in political risks. At the same time, ECB's adjustment on monetary policy in bringing forward the end of the quantitative easing policy supports the appreciation of the euro currency to USD 1.28 per euro by the end of 2018 from the current USD 1.24 per euro. However, Thai baht show signs of depreciation against the euro at THB 39 per euro by the end of 2018 from THB 38.7 per euro currently. This is because Thai baht's appreciation against US dollar is slower than the appreciation of the euro against US dollar.

Figure 1: The steady rise in confidence in the Italian economy since EU approved monetary support to help Monte dei Paschi, the most suffered bank from the bad debt crisis in Italy.



Source: EIC analysis based on data from Bloomberg.

Figure 2: Eurozone economy show signs of continued growth in 2018 which will lead to the growth in demands for Thai products in the Eurozone.



Source: EIC analysis based on data from the Ministry of Commerce of Thailand.

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