

## Italy

### Description

Italy, country located in south-central Europe, forming a peninsula in the Mediterranean Sea, was only formed in 1861 when the regional states of the peninsula, the Sardinia and Sicily island were united and formed the nation-state that we know today. During the first world war Italy joined the Allies side, however, during the second world war, under Benito Mussolini (fascist dictator), Italy fought against the Allied. Since 1946, Italy is under a democratic republic and since then has joined the European Economic Community (EEC), which later became the European Union; it also joined the Monetary Union and is a founding member of NATO.

### Economic Overview

Italy had a sluggish growth throughout 2019 and we see no turning point in the near future. The economy has been severely hit by the industrial slowdown that the Euro Zone is facing, much due to the global trade tensions that have been driving exports away from European countries. Therefore, we expect activity in Europe to stabilize as firms have been reducing their expectations of investing in Capex and it is not yet clear how the outbreak of the corona virus in China is going to affect the export driven European economies. However, we expect it to have some impact, especially in the supply chain as Chinese firms are not operating at full capacity, and consequently not exporting necessary intermediate goods for industrial production.

Recently, the market has been penalizing the Italian government funding costs (government bonds' yield). This is due to the political instability that the country has been facing since mid-2019 when the government was dissolved and the leading party had to negotiate another coalition to avoid early elections. Markets also priced the risk of Italy leaving the European Union since Euroscepticism has been becoming more famous in major Italian parties. Adding to this uncertainty, the country is highly indebted and without any projections of reducing the debt in the near future, presenting government deficits for more than 2 decades consecutively.

**Capital:** Rome



Economic Indicators	
GDP (EUR bn) (2018)	1,765
GDP/Capita (EUR ths) (2018)	29,218
GDP Growth (2Q2019)	-0.03%
Inflation (Dec 2019)	0.50%
Unemployment (3Q2019)	9.10%
Ind. Production YoY (2Q2019)	-1.30%
Debt to GDP (2018)	134.8%

**Analyst:**  
Francisco Cavaco

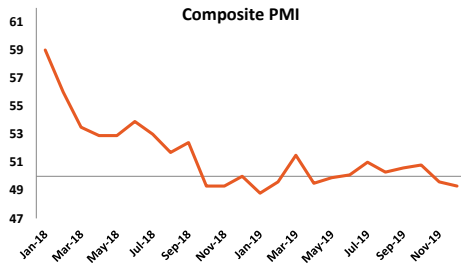
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## ▲ Economic Analysis

### 1. GDP Breakdown

We cannot say that there is a predominant sector in the Italian economy; both the services and the production sector have a significant impact in the growth rate. Construction suffered a lot from the sovereign crisis (2012-2014), and has been recovering in later years, since the second quarter of 2018 the sector has been contributing positively to economic growth (0.17% YoY in 3Q2019). As any developed country, the primary sector is no longer a driver of growth, and that is especially true in Italy, Agriculture, forestry and fishing have been growing at an average of -0.01% since 2014.

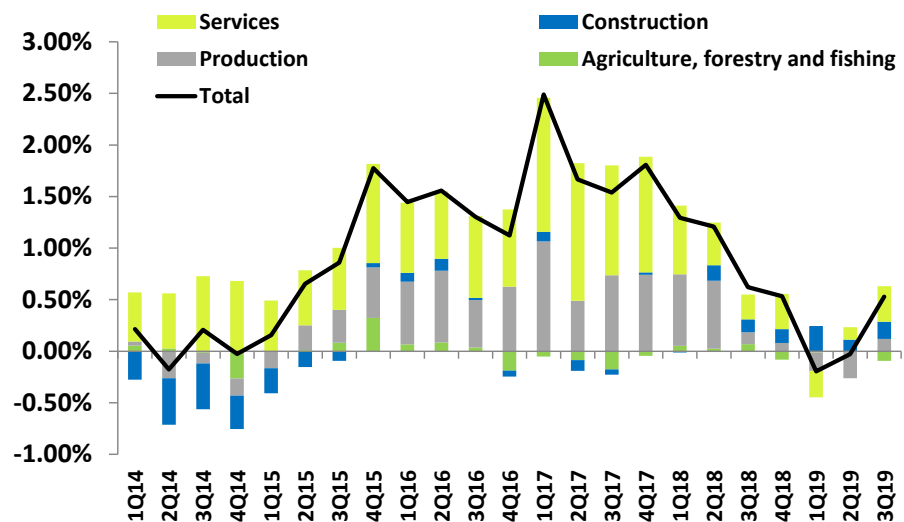


Source: Markit

The services sector has been resilient, and in 2014 it was the reason why the country didn't fall into a recession (negative growth for two consecutively quarters). Its average growth in the analyzed period has been roughly 0.63% YoY which might sound unexciting, however, we need to take into consideration that the total growth rate of GDP was 0.89% YoY in the same period. Currently (3Q2019) the services sector is contributing 0.35% YoY to a total GDP growth of 0.53% YoY.

Production has been less resilient throughout the years, it had a rough year during 2014 where it contributed negatively, but since the second quarter of 2015 it has been one of the major drivers of growth in Italy, only recently it has been losing its boost and it eventually contracted in 1Q2019 and has recovered in the last quarter. Currently it is growing at 0.12% YoY.

### Gross Value Added Growth YoY



Source: Istat Statistics

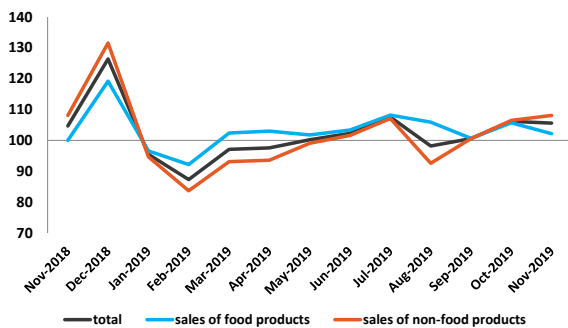
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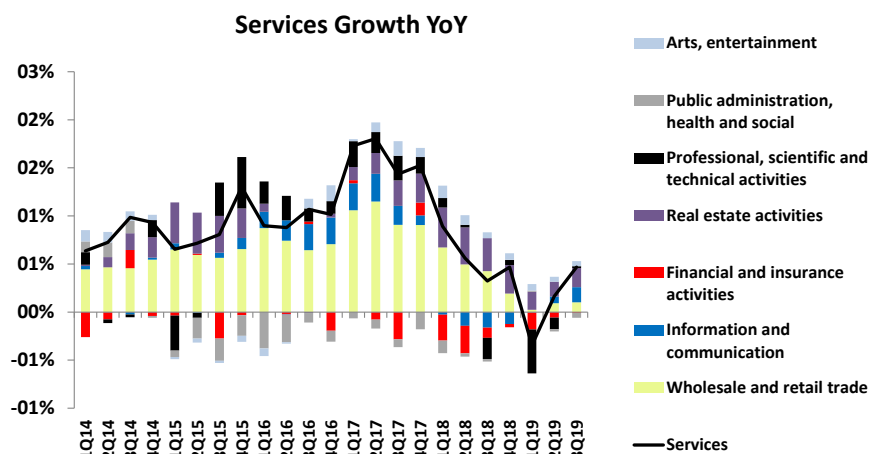
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## 1.1 Services:

The services sector has been exceptionally important in the Italian growth (average growth of 0.9% YoY since 1Q2014); therefore it is only reasonable to think that the evolution of this sector will dictate the country's development. The main segment is the wholesale and retail trade, which grew steadily from the beginning of 2014 until the end of 2018 (contributed to 0.6% YoY of the services' growth). As a consequence of this dependency, when the segment performed badly in 1Q2019 the whole sector tumbled during that quarters. The real estate activities have been consistent during the analyzed period; in fact it only contracted in two quarters (2Q2016 and 3Q2016). Its average growth sits at 0.22% YoY and currently (2Q2019) it is supporting the services sector at positive level with a contribution of 0.2% YoY to a total growth of 0.35% YoY.



Source: Istat Statistics

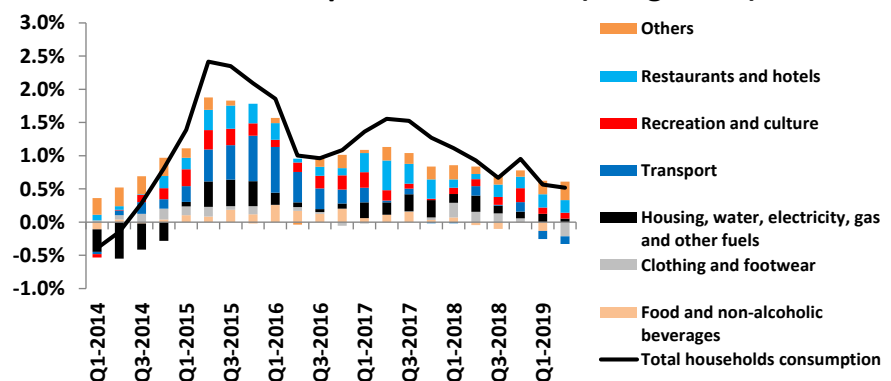


Source: Istat Statistics

### 1.1.1. Private Consumption

To study the most important segment of the services sector, it is essential to look deeply into household's consumption patterns. Consumption is cooling down from its 2015 peak; however, it has kept its positive growth in the last quarters. As of the second quarter of 2019, consumption is growing 0.5 YoY.

#### Final consumption households (YoY growth)



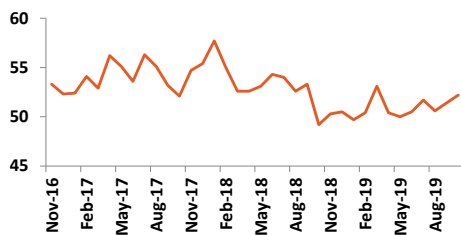
Source: Istat Statistics

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### Italy Services PMI



Source: Markit

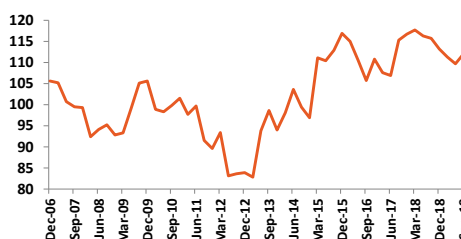
Consumption with transport drove the exceptional growth of 2015/2016, contributing on average 0.4% YoY during those 2 years. Since then it has lost its importance, driving the whole consumption down, and currently it is contracting. Housing expenditure is also very deterministic of the consumption path; during 2014 the bad performance of that segment was enough to bring the whole consumption to negative values during the first 2 quarters of the year. Since 2015 it has been growing at a positive rate, with an average growth of 0.18 YoY. Consumer confidence is still over 100, which indicates a positive outlook for the sector. We should expect consumption to keep fueling the economy.

## 1.2 Industry:

Industry can be both the Italian jewelry and its Achilles' heel; it is highly deterministic of the Italian economic growth. Periods when it performs badly, as it happened in 2014 when the sector contracted, Italy grew 0.055% YoY. However, when productions go through the roof, so does the overall economy (to the extent that a European economy can grow in a given year). In the first quarter of 2017, when the economy was growing at its peak in recent years (2.49% YoY), production was reaching an impressive value of 5.4% YoY. With the US-China trade conflict, Italian industry suffered severely, went from growing at 3.45 YoY in the 1Q2018 to a negative growth during consecutive quarters, reaching -1.3% YoY in the 1Q2019. Besides trade uncertainty, the sector is highly depended on the auto sector (as we can see in the graph, transport equipment contributed positively, with an average of 0.7% YoY on the total sector average of 1.9% YoY), a sector that is going through a structural transformation, which is in the midst of an expensive shift to electric cars.

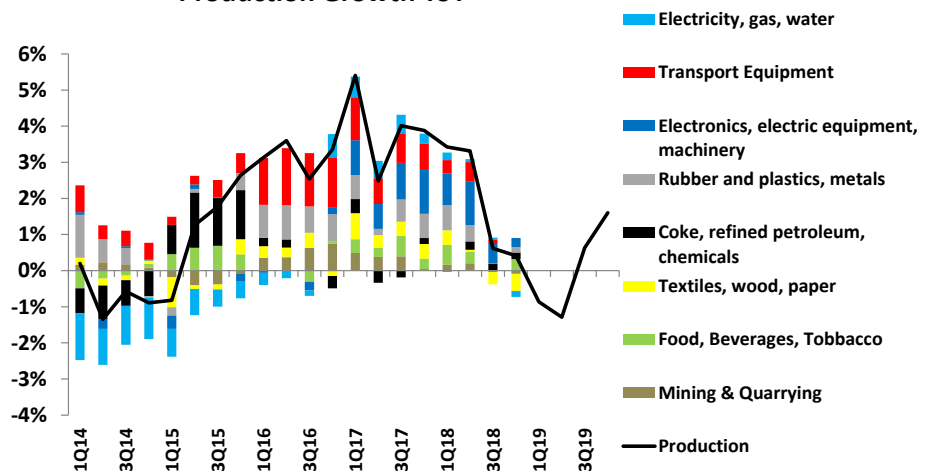
More recently trade tensions have eased, and so businesses are getting back to full capacity, increased investment and overall higher confidence. The production growth is now back to positive territory, growing at a current pace of 1.6% YoY (as of 3Q2019).

### Italy Consumer Confidence



Source: Istat Statistics

### Production Growth YoY



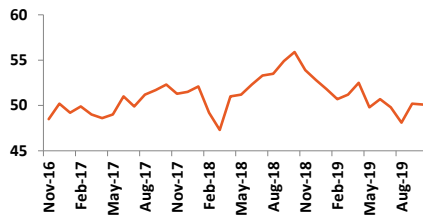
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Italy Construction PMI



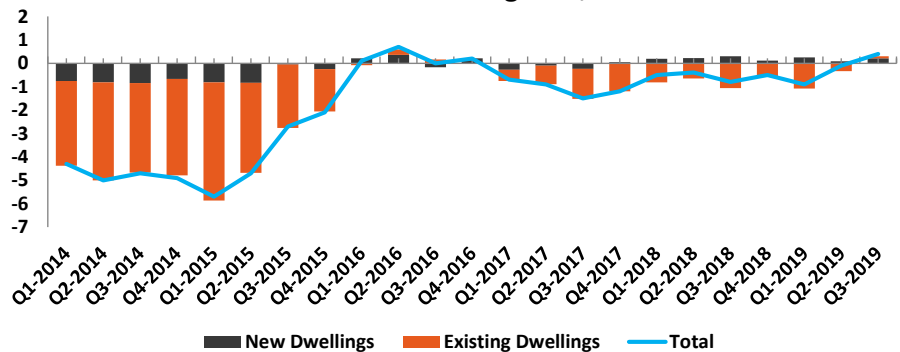
Source: Markit

### 1.3 Construction:

The Construction Sector contracted during 2014 and the first 3 quarters of 2015. During this period it had an average growth of -0.28% YoY per quarter. Since then it has recovered with some periods of positive growth and others of mild contractions, but only since the second quarter of 2018 it has been significantly contributing to economic growth. From the second quarter 2018 to the third quarter of 2019, construction contributed on average to 0.16% of the 0.44% GDP growth YoY.

The bad performance of the sector during 2014 and 2015 resulted from an accentuated drop in the price of dwellings, which fell around 3.9% YoY on average per quarter. This destroyed any expectations of investment in the sector, as no construction firm wants to construct buildings when they know the price will be falling in the near future. Since then, prices have been falling at a slower pace, with some short periods of mild increase.

Price of Dwellings YoY, %



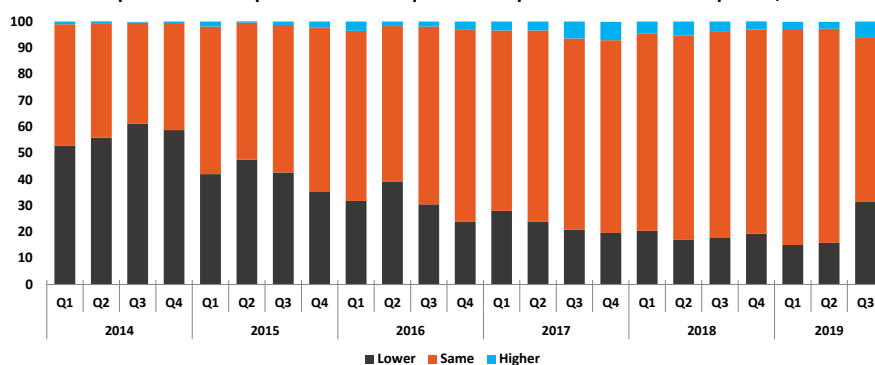
Source: Istat Statistics

Contrarily to countries like Portugal and Spain, Italy does not have the Golden Visa programme for investors purchasing real estate. However, Italy does have a residency scheme which provides permanent residency to applicant that have an annual income of EUR 100 ths or an annual income of EUR 35 ths if an investment (between EUR 300 - 500 ths) in property is done.

In 2017 it was introduced a new programme, the investor Visa for Italy. This programme is directed to non-EU member state residents who intend to make an investment or a donation in Italy. To be eligible, one has to either:

- Invest EUR 2 m in government bonds;
- Loan EUR 1 m to an Italian limited company;
- Donate EUR 1 m to a philanthropic cause;
- Invest EUR 500 ths in an innovative start-up.

Expected level of prices in current quarter compared with reference quarter, %

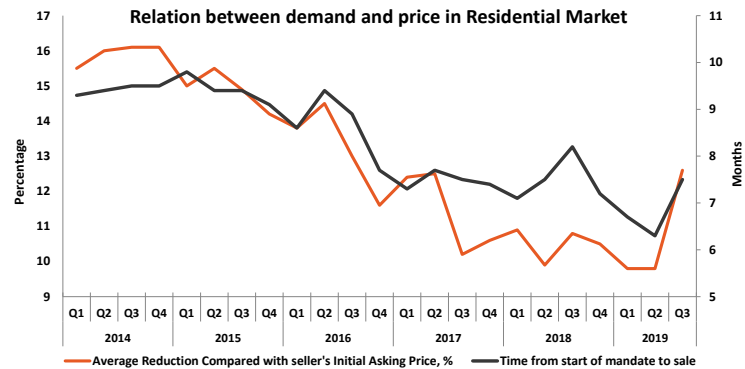


Source: Banca d'Italia

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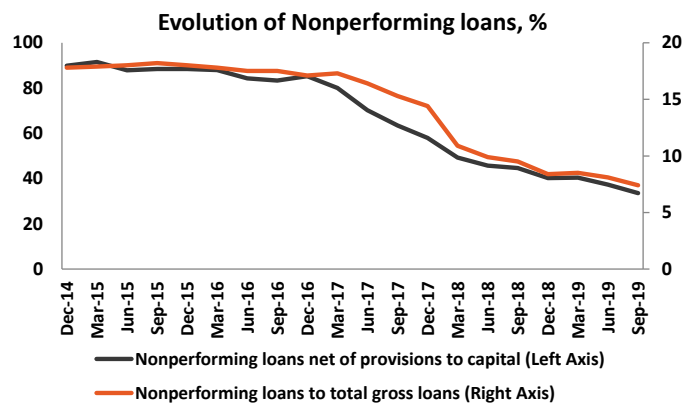
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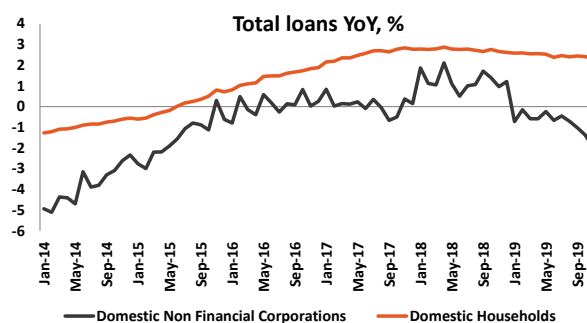
Source: Banca d'Italia

Although the Italian real state sector is not very attractive right now, it is becoming a much safer investment. The ratio of nonperforming loan to total gross loans has been reduced substantially, from 17.8% in December 2014 to 7.4% as of September 2019, which is still much higher than the euro area average (3.55% in June 2019). The reason for this improvement is due to a large increase in provisions from the banking sector. If In December 2014, 89.9% of the nonperforming loans were not covered by provisions; in September 2019 the banking sector was much safer with only 33.6% of nonperforming loans not covered by provisions.



Source: Banca d'Italia

The sounder balance sheet of banks, adding to low overall interest rates has been fueling the growth of total loans, especially loans to households. As of September 2019, total loans to domestic households grew 2.32% YoY. Total loans to Nonfinancial corporations has been more volatile, and currently it is growing at a negative rate in relation to the previous year (-1.95% YoY).



Source: Banca d'Italia

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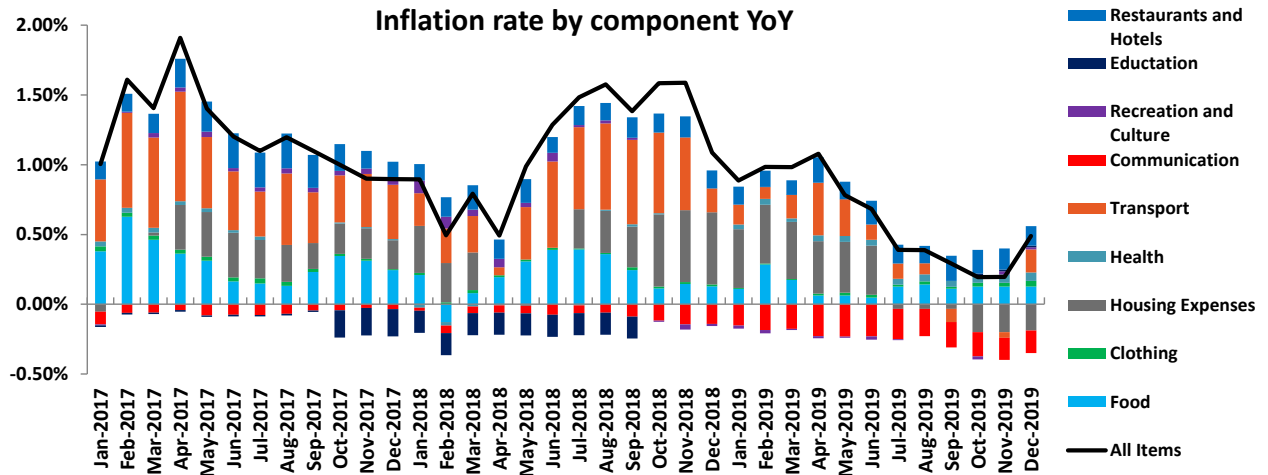
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## ▲ Inflation

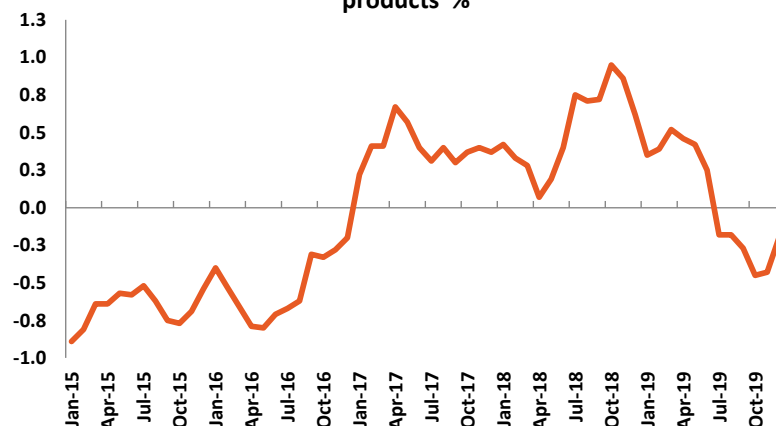
Since early 2019 that prices have been on a descendent path, leading to an anemic price increase of 0.5% as of December 2019, which is way below the Euro zone average of 1.3%.



Source: Istat Statistics

This reduction is primarily explained by the sharp decline in housing expenses and in transport costs. The first phenomenon results from the drop in energy prices that have been felt throughout 2019 all around the globe. The second is more specific to the Italian economy and is a direct effect of the decline in transport costs for both imports and exports.

## Consumer price inflation - contribution of energy products %



Source: Banco D'Italia

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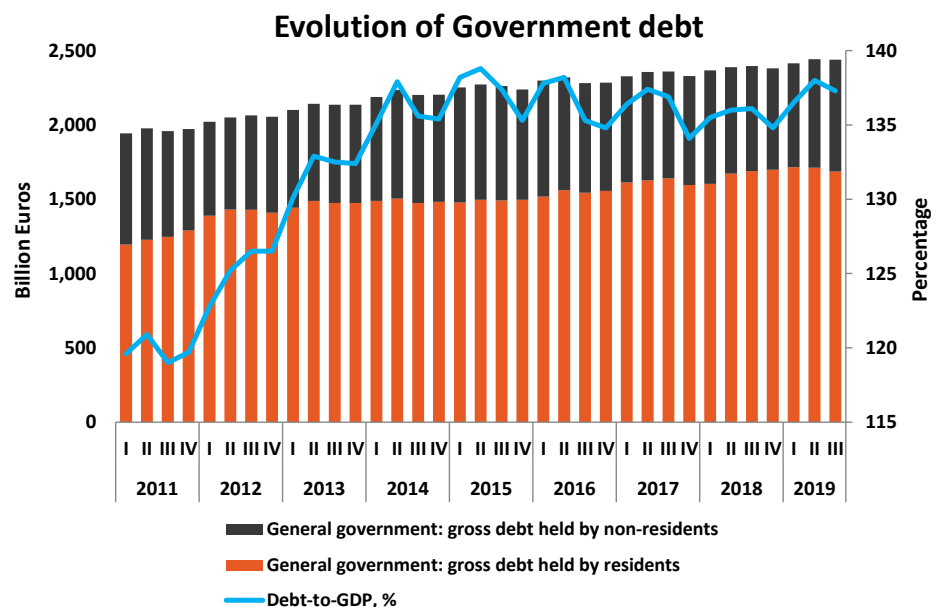
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## Government Debt

Contrarily to other European countries, Italy was already highly indebted even before the financial crisis of 2007/08. Italy was sitting at a total government debt over GDP of around 106% in 2007, which is already considered excessive debt (the stability pact limit is 60%) and way above the European Union average at the time (58.2%). If the picture looked bad even before the crisis, it got much worse after the two consecutive crises that hit Europe (Financial and Sovereign crisis), reaching a maximum level of debt to GDP of 138.8% in the second quarter of 2015. For the following years, the debt level has normalized with variations around the 135-138%.

The level of debt in absolute terms has been following an upward path since the analyzed period. Increasing from EUR 1.94 trillion in the first quarter of 2011 to EUR 2.44 trillion, representing an increase of more or less 26%.



Source: Banco D'Italia, Eurostat

Due to the excessive level of debt, without any perspective of being reduced in the near future, adding to the political uncertainty in the country, the market has been penalizing the price of the Italian debt. If we look at the graph below, we can see that there was an enormous increase in the discount rate from 2016 onward, the 10-Year Bond yield was at 1.19% in the 3<sup>rd</sup> quarter of 2016 and one year later it was at 2.17%. The price of the securities kept decreasing, reaching the bottom in the third quarter of 2018, when the yield was at 3.43%.

Since the announcement that the BCE would restart its asset purchase programme and with the political risk moderating, the demand for Italian debt has been increasing. In a period of very low interest rates throughout the European countries, and with so many institutional investors looking for attractive yields, the Italian debt has been under the spotlight. As a result, its debt has been increasing in value since mid-2019.





Source: Banco D'Italia, Eurostat

## ▲ Government Revenues

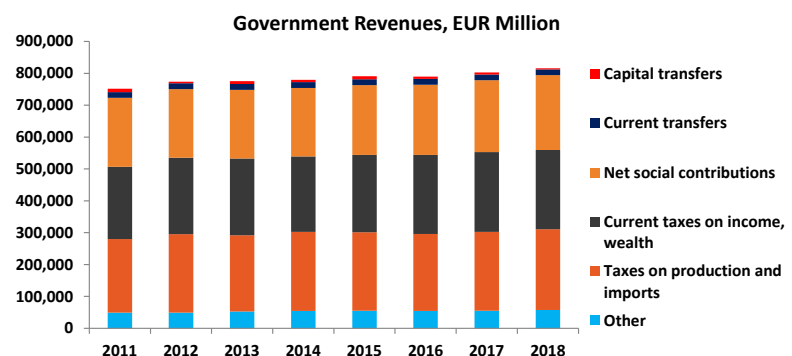
Income Tax (progressive)	
Up to €15,000	23%
€15,001 to €28,000	27%
€28,001 to €55,000	38%
€55,001 to €75,000	41%
over €75,001	43%

Value Added Tax	
Standard VAT	22%
Food, drinks, agriculture	4%
Health services, maritime transports	5%
Electric suppliers, listed drugs	10%

Corporate Income Tax	
Corporate income tax	24%
Regional Production tax	3,9%

Social Contributions	
Social security rate (employee)	10%
Social security rate (employer)	30%

Italian government revenues are somewhat divided into three main components, the social contributions, current taxes on income, wealth and taxes on production and imports. All the three main components have been growing steadily over the course of the analyzed period, and as a result total revenues increased from EUR 752 bn in 2011 to EUR 816 bn in 2018. As of 2018 each of these segments represents around 30% of total revenues.



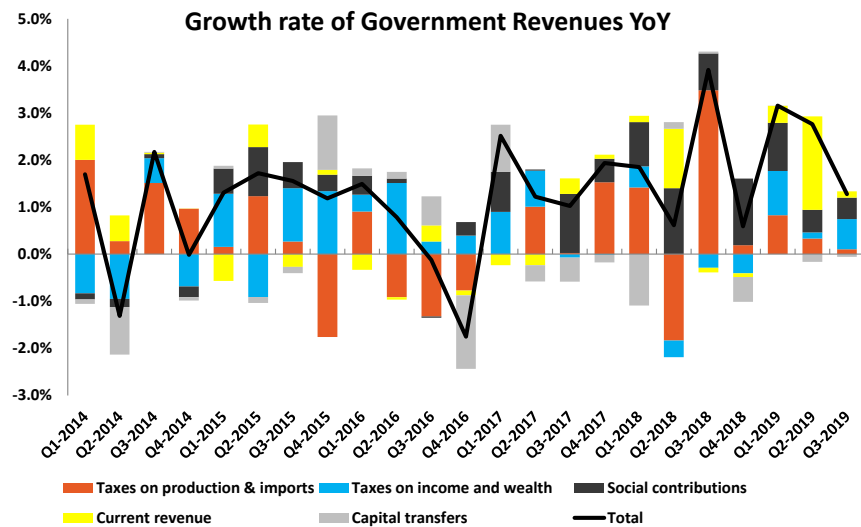
Source: Istat Statistics

Since 2014, total revenues have been growing at an average of 1.3% YoY per quarter. This is good news for the Italian government stability, as the country has been running a deficit for longer than 2 decades. The main contributor to that positive path is the social contributions, which grew on average 0.5% YoY, followed by taxes on production & imports and taxes on income and wealth that grew 0.4% and 0.3% YoY respectively. Throughout 2019, the growth has decelerated much due to the bad performance of the industrial sector which reduced the contribution of taxes on production to 0.1% YoY (as of 3Q2019 when total revenues grew 1.3% YoY).

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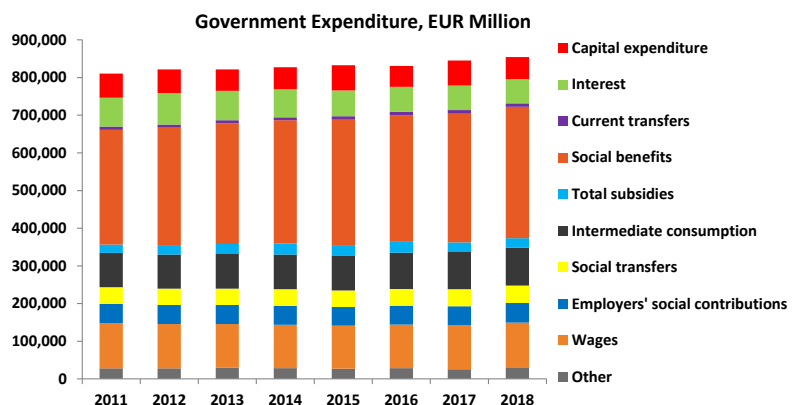
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## Government Expenditures

If the government revenues following a positive trend is good news for the Italian economy, the pace at which the government expenditures are growing are the bad news that the economy (and the European Commission) did not need at the moment, and therefore has been offsetting part of the improvement the government has done in terms of budget balance. From 2011 to 2018 the expenditure grew from EUR 811 bn to EUR 855 bn, and the bulk of the expending comes from social benefits, which represents 41% of the total (as of 2018), followed by compensation of employees (Wages + Employers' social contributions) at 20%.



Government expenditure has been growing on average at 0.9% YoY since 2014, from which 0.8% was coming from the increased spending in social benefits. In a contrary trend is the spending with interest payments, which has been contributing to the reduction of the government deficit by growing at an average negative rate of -0.3% YoY since 2014. This positive development for the Italian budget balance is due to the current low level of interest rate in the

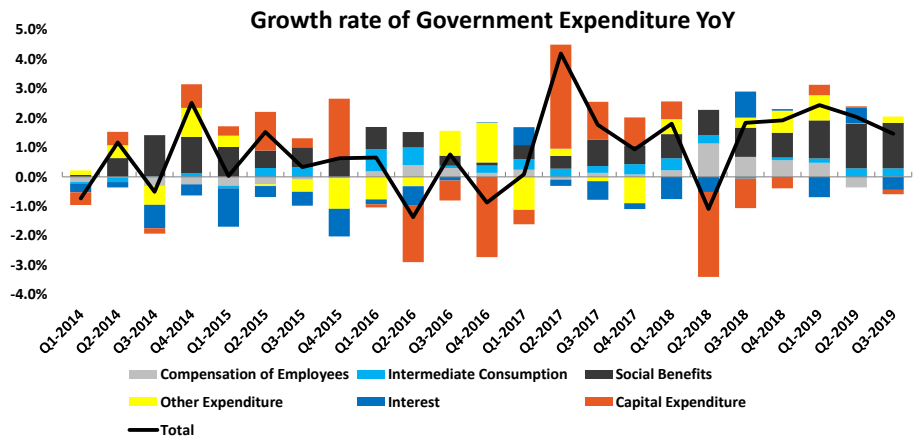
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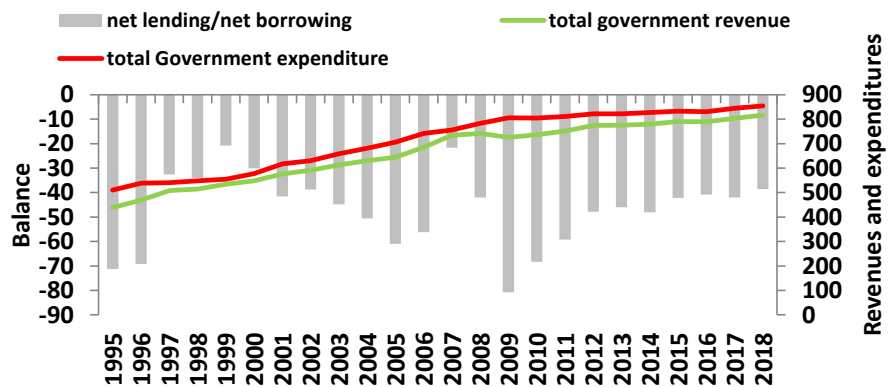
Italian debt, which enabled the government to issue debt at a lower funding cost.

Currently (3Q2019), total spending is growing a higher pace than total revenues (1.5% vs 1.3% YoY), making it harder for the government to stick to the reduction of the debt level.



It is not out of nowhere that the Italian government already had an enormous level of debt even before the financial crisis (103.9% at the end of 2007). We can argue that the public finances suffer from structural problems far more reaching than the external shock that drove the debt of other European countries through the roof. The country has been incurring in consecutive budget balance deficits for many years. In 2018 the deficit was EUR 38 bn (2.2% of GDP).

## Italy Fiscal Balance (EUR bn)



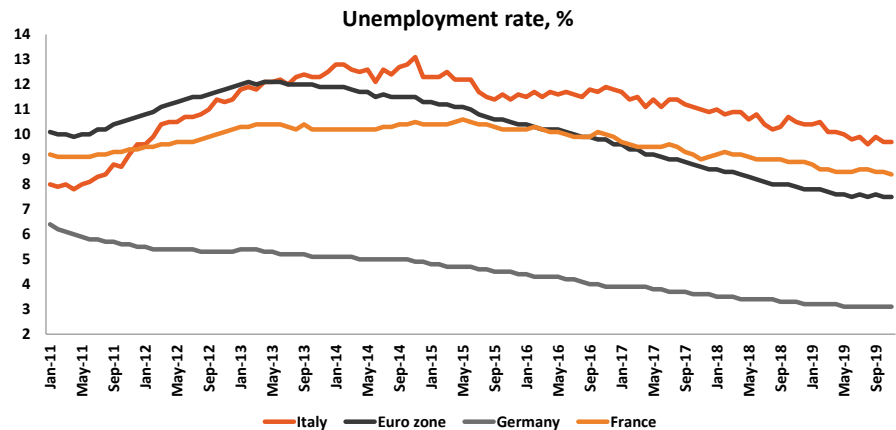
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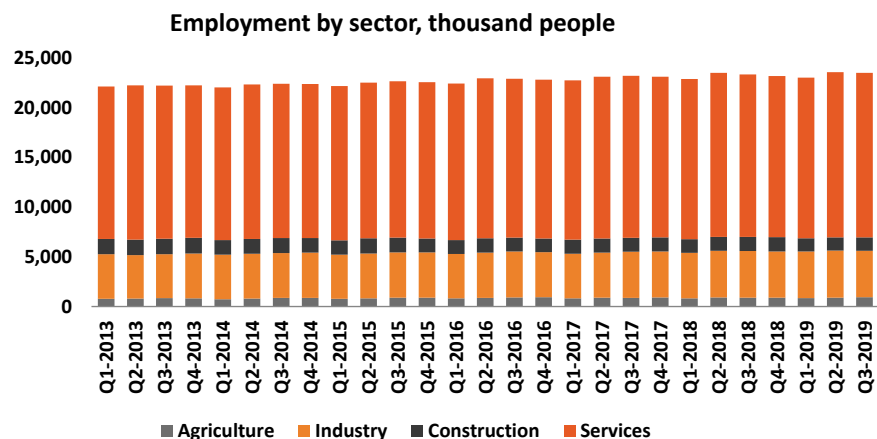
## ▲ Labor Force

Italy has a worrying high rate of unemployment (9.77% as of December 2019) that has most European countries has been on a descending path since it reached its maximum level during the Sovereign crisis (13.1% in November 2014). If we compare Italy labor force with its European peers, the picture gets even worse, as Italy holds a level of Unemployment higher than Germany or France (3.1% and 8.4% respectively) and when we compare it with the Euro Area average (7.5%) it is still way above.



Source: OECD

It comes as no surprise that the majority of Italian workers are devoted to the services sector (remember that the primary contribute to GDP is the services sector). The sector currently employs 16.5 million people (70% of the total employment). As a somewhat industry oriented economy, the industrial sector also absorbs a very significant proportion of the total employed people, around 4.7 million (20%).

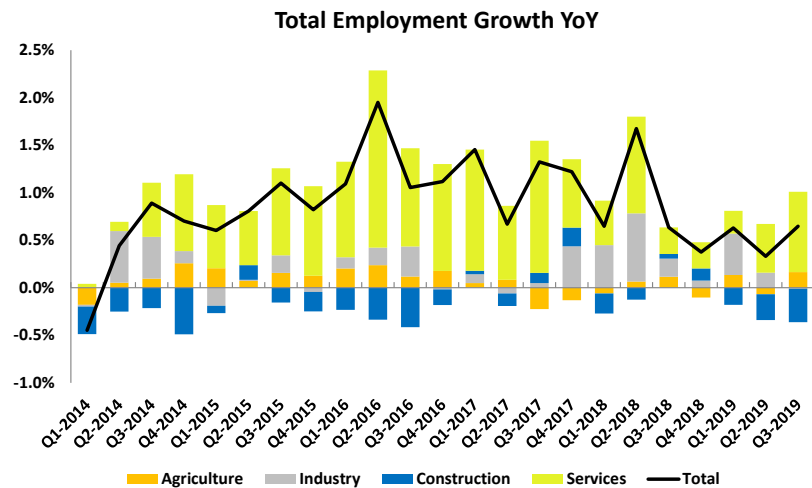


Source: Istat Statistics

To understand what has been driving the growth in employment we analyze the growth rate in employment by sector. The improvement in the labor force has been supported by a resilient services sector, from the average growth rate of 0.83% YoY since the 1Q2014, 0.72% comes from the services sector alone. Industry has also played an important role, contributing to 0.18% of new created

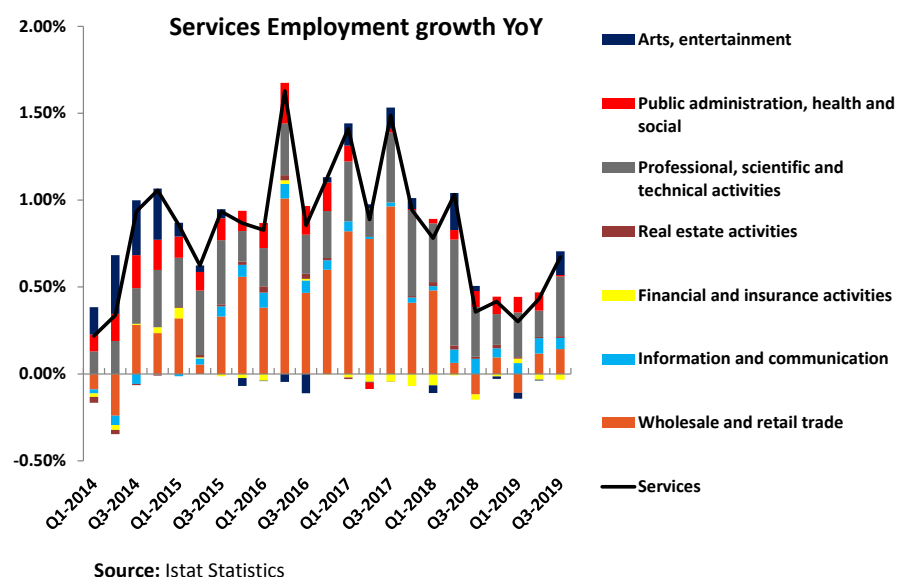
jobs. On the opposite spectrum we have construction jobs growing at an average negative rate of -0.13% YoY.

Currently, as of 3Q2019 the total employment grew 0.6% YoY, from which 0.8% was due to services, 0.2% came from the agriculture sector, production kept unchanged and construction performed badly by growing -0.4%.



Since services are a broad definition, it makes sense to decompose it and study what truly has been fueling labor growth. From most of the analyzed period (3Q2014-1Q2018) the creation of labor in the services sector came from the Wholesale and retail trade, with an average growth rate (in that specific period) was 0.51% YoY, however, it has been contributing less, due to the bad performance of the service sector throughout 2019.

Professional, scientific and technical activities also have an important role in creating jobs, it grew at an average of 0.29% YoY since 2014 and currently (as of 3Q2019) is growing close to its medium term average at 0.3%.



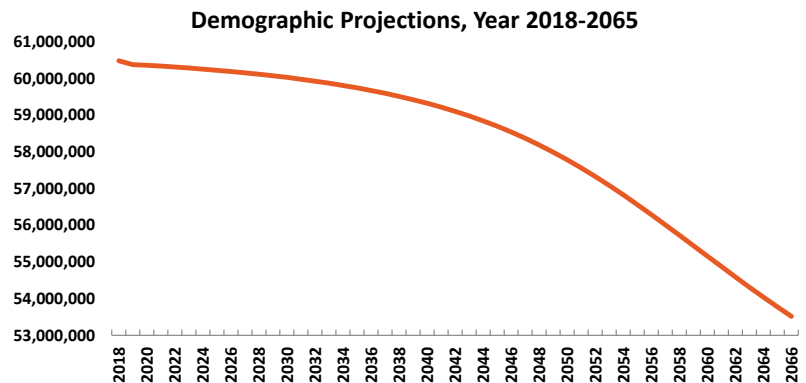
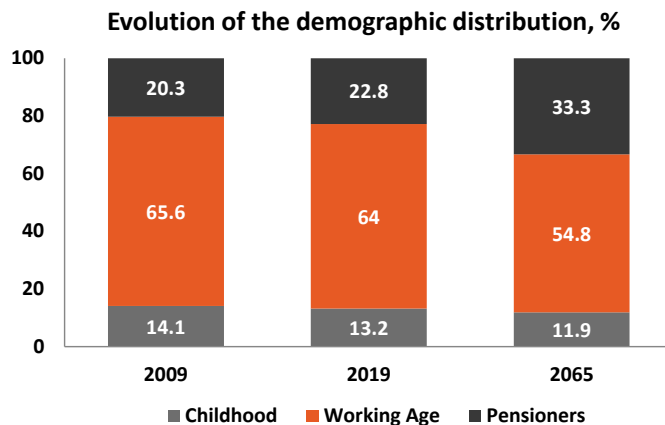
## Population

Indicators (per ths inhabitant)	2019 (estimation)
Birth rate	7.2
Death rate	10.7
Natural balance	-3.5
Marriage rate	3
Net migration rate	2.4
Life expectancy at birth	83
Life expectancy at 65	20.9
Fertility rate	1.29

Source: Istat Statistics

Italy has a population of 60.253 million people as of September 2019. With fertility rate (1.3 births per woman) below the EU's average (1.6 births per woman) and way below the minimum level required to maintain the population (2.1 births per woman).

As most developed countries, Italy also suffers from the aging population phenomenon and consequently, shrinking population. According to projections from the Italian Nacional Institute of Statistics, by the year 2065 the Italian population will be sitting at 53.8 million habitants – a decrease of 6.5 million people in the 45 years – and the demographic distribution will further shift upwards. The old age population (over 65) will represent one third of the population by then (against one fourth at the moment) which will cause deep structural problems in the economy and additionally create sustainability problems for the social security.



Source: Istat Statistics

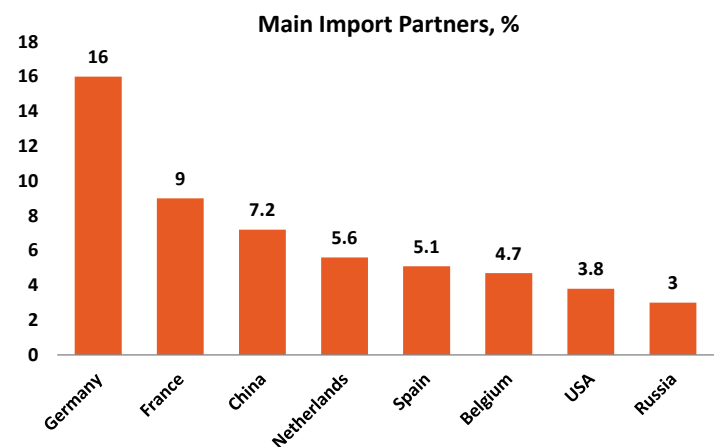
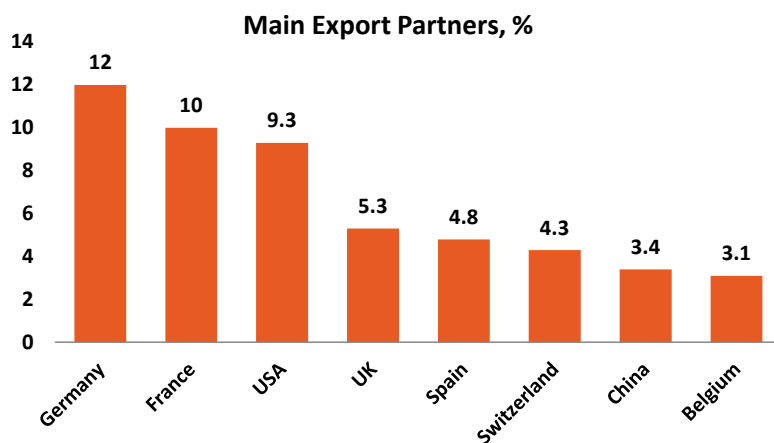
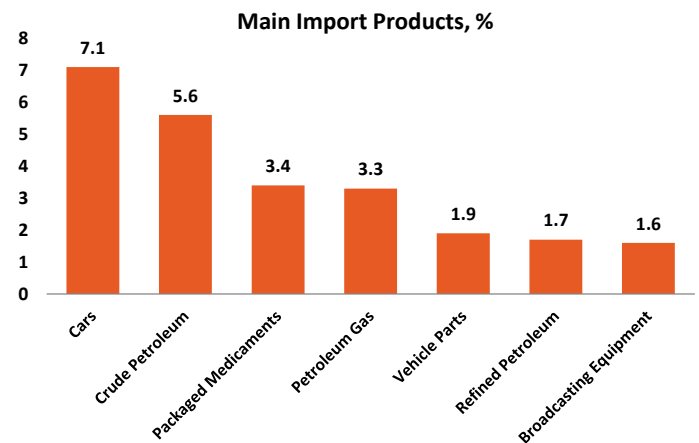
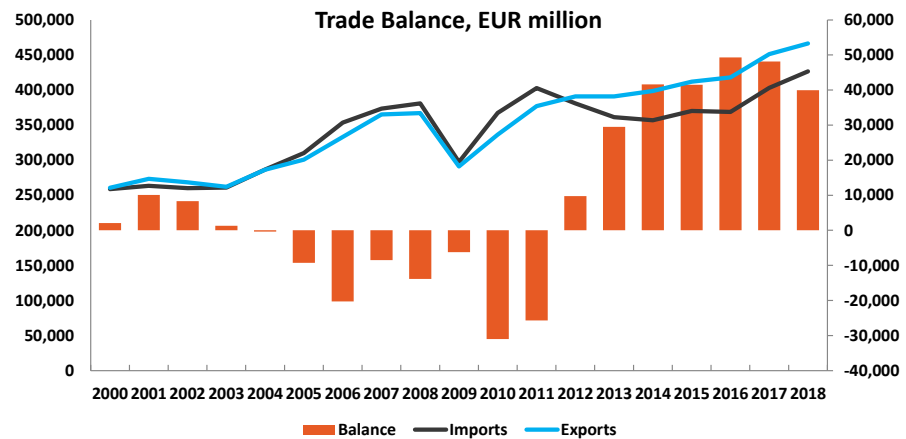
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## External trade

Italy has significantly increased its exports in the last 2 decades, from EUR 261 bn in 2000 to EUR 466 bn in 2018, becoming the 7th largest exporter in the world. This resulted in a positive net position in its trade balance, which currently (2018) equates to more or less EUR 40 bn.



Source: OEC

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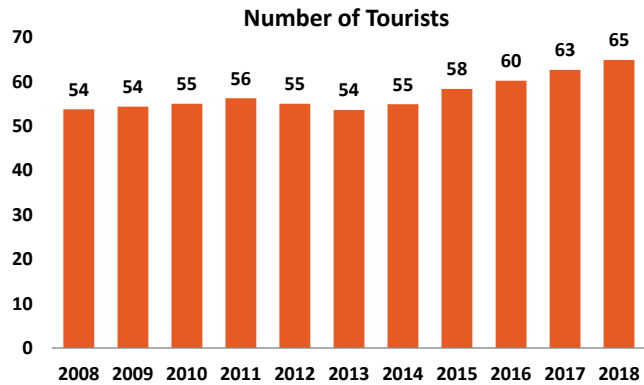
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## ▲ Tourism

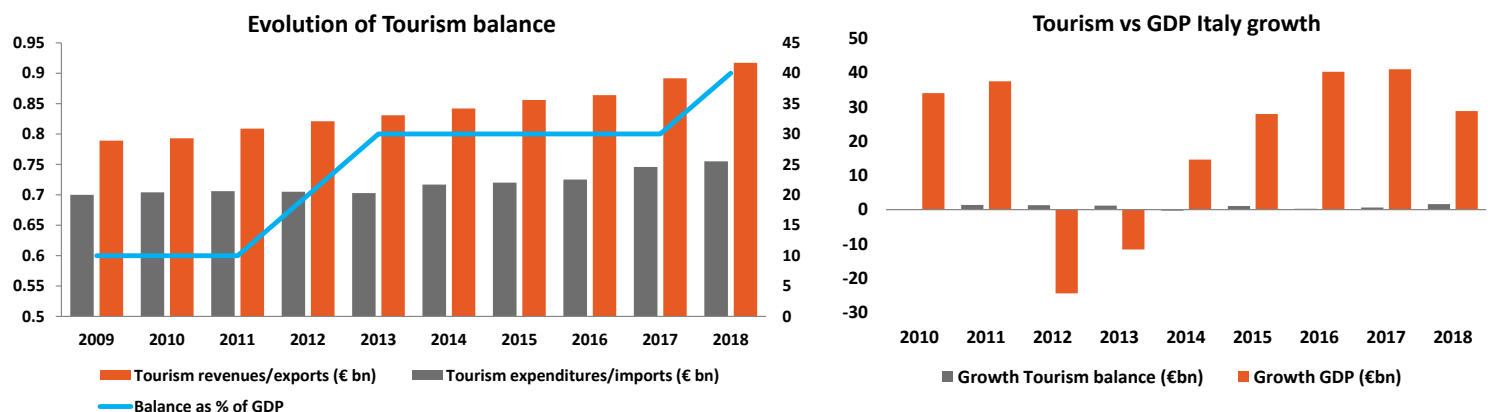
Italy, home of 50 UNESCO World Heritage Sites and innumerable cultural aspects of the Italian life that goes from the Roman Empire to the Renaissance period, adding to the Alpine villages in the north to the Mediterranean coast to the south; is the 5<sup>th</sup> most visited country in the world. The number of tourists has been consistently increasing since the sovereign crisis of 2012-13. In 2018 Italy received 64.9 million tourists.



Source: Istat Statistics

Expenditure of foreign travelers in Italy has been increasing steadily, in fact, it increased by 6.5% in 2018, reaching almost EUR 42 bn. However, in the same year Italians made 65.7 million trips abroad, accounting to an expenditure of EUR 25.5 bn (3.8% higher than in 2017). Even though there is a substantial increase in the number of Italian expenditure with tourism, the tourism balance has been improving and in 2008 it represented 0.9% of GDP.

Even with the tourism industry performing well, tourism is still merely contributing to economic growth in Italy due to the high level of tourism expenditure by Italian residents.



Source: Istat Statistics; Banca d'Italia

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## ▲ Mediterranean Sea

If we want to be rigorous in determining what drives economic growth for Italy, then is essential to study Italy's gateway to its export driven economy. The Mediterranean Sea is an intercontinental sea that divides Europe from Africa, and reaches both the Atlantic sea (on the west) and Asia (on the east).

On the west, the Mediterranean Sea connects with the Atlantic Ocean through the Strait of Gibraltar, creating the possibility of Italian ships to reach critical regions, like the Western Europe and the North America.

Between Egypt and Israel, the Mediterranean Sea connects with the Red Sea by the Suez Canal, which enables the connection with Asian economies. The Suez canal is an artificial sea-level waterway in Egypt, constructed by the Suez Canal Company between 1859 and 1869, and until the mid-20<sup>th</sup> century it was ran by the company. However, in 1956 the Suez Canal Authority (SCA) was established (substituting the former company), which is a public and independent authority of a juristic personality that reports to the Prime Minister. It is the SCA who is responsible to manage, operate, use, maintain and improve the Suez Canal. The SCA Shall impose and levy tolls on navigation and transit through the Canal.

To the northeast the Mediterranean Sea connects with the Black Sea through the Aegean Sea, the Dardanelles canal to the Sea of Marmara and from the Sea of Marmara to the Black Sea by the Bosphorus strait.



Source: Encyclopædia Britannica

## Italian Transports:

Below we analyze the Italian external trade in 2018 by mode of transport, in terms of quantity and value. Considering both imports and exports, maritime transport was the main form of transport (53%), almost two times the volume through road (27%) and much larger than rail transport (12%).

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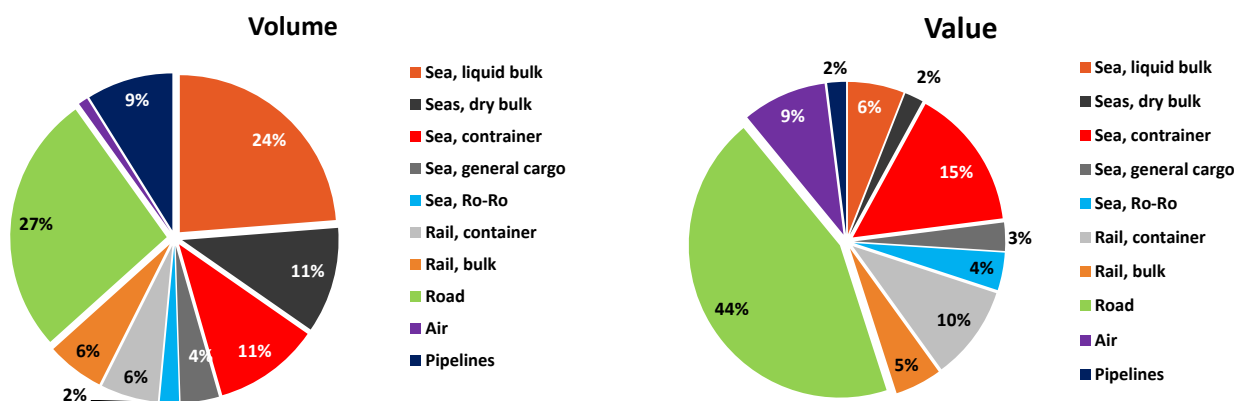
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However, when compared in terms of value, ships are not the dominant type of transport, representing 30% of total value, against 44% for road and 15% for rail freight. Curiously, air transport was only significant in terms of its share of the value of trade, in the opposite spectrum is the pipelines (imports of natural gas), which were only significant in terms of volume.

## Breakdown by mode of transport of Italy's external trade 2018

(Percentage shares, averages of imports and exports)



Source: Banco D'Italia

Italy has positive net position in terms of external trade, however, it imports more in terms of weight than it exports, reinforcing the fact that exports more finalized goods and imports more commodities and intermediate goods. In terms of volume has mentioned above, the maritime transportation dominates in both imports and exports (176.8 and 64.6 million tonnes respectively).

Import and export volumes by mode of transport, million of tonnes										
2018	Sea					Rail		Road	Air	Pipeline
	Liquid bulk	Dry bulk	Container	General cargo	Ro-Ro	Container	Bulk			
Imports	88.3	47.6	23.2	12.7	5	14.9	19.3	61.7	0.5	39.5
Exports	22.4	3.3	26.5	7.7	4.7	11.5	8.2	60.5	0.6	0

Source: Banco D'Italia

Once again, as mentioned before, the value of trade is much larger for road transported goods, both for imports and exports. It makes sense that road and rail have such a large share of trade value (56% for imports and 61% for exports) as Italy's main trade partners are Germany and France, both to the north of Italy and easier access through land.

Import and export values by mode of transport, EUR bn										
2018	Sea					Rail		Road	Air	Pipeline
	Liquid bulk	Dry bulk	Container	General cargo	Ro-Ro	Container	Bulk			
Imports	40.1	13.7	56.2	13.8	14.9	38.2	27.2	172.8	29	16
Exports	12.7	1.2	76.1	18	17.7	47.4	17.1	216.3	51	0

Source: Banco D'Italia

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**▲ Government**

The Italian Republic was formed in 1946 through the result of a referendum on the Monarchy, after the fall of the fascist regime in 1943. The Italian Constitution was approved by the parliament in December 1947 and came into effect in first of January 1948.

The head of the state is the President of the Republic and he is elected by the Parliament in joint session to conduct a 7 year mandate. The Italian legislative is composed by two chambers, the Senate (315 seats) and the Chamber of duties (630 seats) and both houses perform identical functions. Any former President of the Republic has the right to be a senator for the rest of his life. Furthermore, the President can nominate up to 5 citizens to be senators for life as gratification of honoring the Fatherland through outstanding achievements.

**Prime Minister:** Giuseppe Conte, or “Lawyer of the People” as he entitled himself in his first speech as Prime Minister, is currently the Prime Minister of Italy as the head of the coalition government between the Five Star Movement (M5S) and the central-left Democratic Party. Giuseppe was born on 8 August 1964 in Volturara Appula and later moved to Rome where he graduated (with honors) in Law at the Sapienza University of Rome in 1988. In 1992, he moved to the United States where he studied at Yale Law School and Duquesne University. Since then he has done research or lectured in different universities (Sorbonne University in 2000, Girton College, Cambridge in 2001 and New York University in 2008). Conte is currently a professor of private law at the University of Florence and at LUISS of Rome.

**President of the Republic:** Sergio Mattarella was born on 23 July 1941 in Palermo. In 1964 Mattarella graduated in Law at the Sapienza University of Rome with a public dissertation on: “Public Policy Guidelines”. He was a professor of law at the Law School of the University of Palermo until being elected member of the Chamber of Deputies by the Christian Democracy Party from 1983 to 2008. During this period he has held many political positions, however, he became Deputy Prime Minister in October 1998 and Minister of Defense from 1999 to 2001. He was elected twelfth President of the Republic on 31 January 2015.

**Government:** The government of the Republic is made up of the President of the Council (Prime Minister) and the ministers, who together form the Council of Minister (the cabinet). It is the President of the Republic is who nominates the Prime Minister (usually the leader of the majority coalition that won the election) and by the proposal of the Prime Minister, the President also elects the Ministers and the government must have the confidence of both the Senate and the Camera. Currently the government is formed by the coalition between Five Star Movement (M5S) and the central-left Democratic Party.

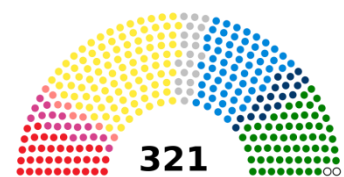


Prime-Minister: Giuseppe Conte

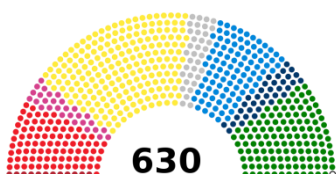


President of the Republic: Sergio Mattarella





Senate	Seats
<b>Government</b>	<b>158</b>
M5S	98
PD	36
IV-PSI	17
Mixed	7
LeU	5
MaiE	2
<b>Supported by</b>	<b>18</b>
Aut	8
Mixed	8
Others	8
Ind	2
<b>Opposition</b>	<b>143</b>
FI	61
Lega	60
Fdi	18
Mixed	4
+ Eu	1
Others	3
<b>Vacancies</b>	<b>2</b>



Chamber of Deputies	Seats
<b>Government</b>	<b>339</b>
M5S	207
PD	88
IV	29
LeU	12
MAIE	3
<b>Supported by</b>	<b>18</b>
Mixed	18
<b>Opposition</b>	<b>272</b>
Lega	125
FI	97
Fdi	35
Mixed	15
<b>Vacant</b>	<b>1</b>

**Senate:** The Senate has a variable number of members, of which 309 are elected from Italian constituencies, from which 6 are elected by Italians living abroad and other 6 are senators for life. Senators must be over 40 years old and are elected by Italian citizens aged 25 or older. The Senate current term is five years but can be dissolved by the President of the Republic before the end of the mandate.

**Chamber of Deputies:** The Chamber of Deputies has 630 seats, of which 618 are elected from Italian constituencies and 12 from Italian citizens living abroad. Contrarily to the Senate, the deputies must be over 25 years old (instead of 40) and are elected by Italian citizens aged 18 or older (instead of 25). The Chamber current term is also five years but can be extend under two circumstances: representatives whose term expired shall continue to exercise their functions until the first meeting of the new chamber, or an extension of the term can be enacted in case of war.

**General Elections:** Every 5 years, the eligible citizens vote to elect both the members of the Senate and the Chamber of Deputies. The electoral system is a parallel voting system (voters participate in two separate elections for a single chamber), with 37% of seats allocated using first-past-the-post voting (the candidate with the most votes wins even without a majority) and 63% using proportional representation (if a percentage of the electorate support a particular political party as their favorite, then a roughly equal percentage of seats will be won by that party).

**Political crisis of 2019:** Before the current coalition, the government was formed by a center-right alliance between the League (led by the controversial Matteo Salvini) and the Five Star Movement (M5S) after the 2018 Italian general election where no single party achieved a majority. The coalition resulted in the so called “government of change” with Giuseppe Conte as the Prime minister, which caused a lot of noise in Europe, to the point where the media named it the Western Europe’s first all-populist government.

The crisis took place in August 2019, when the Deputy Prime Minister (Salvini) announced a motion of no confidence against Conte, after the disagreement between both parties in the Turin-Lyon high-speed railway in which Salvini’s party voted (in the Senate) against an attempt by the M5S to block the construction work. Some believe that Salvini’s move was an attempt to force early elections in order to improve its party power in the Parliament, and consequently, Salvini becoming Prime Minister.

On the 20th of August, Conte resigned his post as Prime Minister, which forced the President of the Republic to start consultations with all the parliamentary groups (the President could either call for early elections or form another government with the current seats), and on that same day (21st of August), the Five Star Movement and the Democratic Party (PD) announced a coalition and on the 29th of August the President authorized the new cabinet.

**Main Italian Political Parties:**

**Anti-Establishment: 5-Star Movement (M5S), leader Luigi Di Maio.** The M5S was founded on 4th of October 2009 by Beppe Grillo, a comedian and blogger, which resulted in some skepticism by some people that considered the party to be populist anti-establishment, environmentalist, anti-globalist and Eurosceptic. Some policies are:

- Universal income support to ensure monthly income of at least EUR 780;
- Raise the budget deficit above 3% of GDP to cut taxes and increase investment;
- Repeal 2011 pension reform to allow earlier retirement;
- Repeal 2014 labor reform to make firing harder;
- Separate banks' retail and investment arms;
- Improve relations with Russia.



**Centre left: Democratic Party (PD), leader Nicola Zingaretti.** The party was founded on 14th of October 2007 after the merger of various centre-left parties. Some policies are:

- Negotiate with Italy's partners to abolish the European Commission fiscal rules that require high indebted countries like Italy to make deep budget constraints;
- Pro-Nato stance;
- Raise the budget deficit above 3% of GDP to cut taxes and increase investment.



**Right-wing: Lega Nord, leader Matteo Salvini.** The Lega Nord was established in 1991 as federation of six regional parties of north-central Italy. Some policies are:

- Try to abolish the Fiscal Compact and Stability Pact;
- Leave the Euro;
- Flat tax for individuals and companies at 15%
- Repeal 2011 pension reform to allow earlier retirement;
- Blocking the entrance of migrant boats and repatriating up to 100,000 illegal immigrants per year;



**Centre Right. Forza Italia, leader Silvio Berlusconi.** The party was founded in December 1993 and won its first general election in the first election after its establishment in 1994. Some policies are:

- Introduce parallel currency for domestic use and keep the euro for international trade and tourism;
- Flat tax rate of 23% for both companies and individuals;
- Increase the monthly minimum pensions to EUR 1,000;
- Block the arrival of immigrants through accords with North African countries;
- Minimum income of EUR 1,000 for everyone.

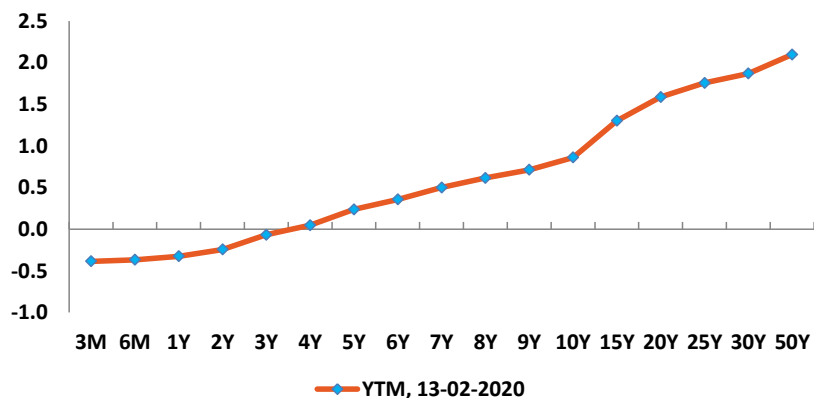
## Market Information

### 1. Public Debt

Below is presented the Yield curve for the Italian government debt. Each dot corresponds to the Yield to maturity received for the bonds of each different maturity. In the short term (until 1 Y) the market has not priced any significant difference between the maturities, which shows that the political insecurity presented in the past months is finally settling. However, when comparing the Yield of the 10-Year bonds with other European countries of similar size (like France or Spain) Italy is paying a high premium. As of 13-02-2020 the Italian 10-Year bond's yield is around 0.86% while for France and Spain is -0.17% and 0.27% respectively.

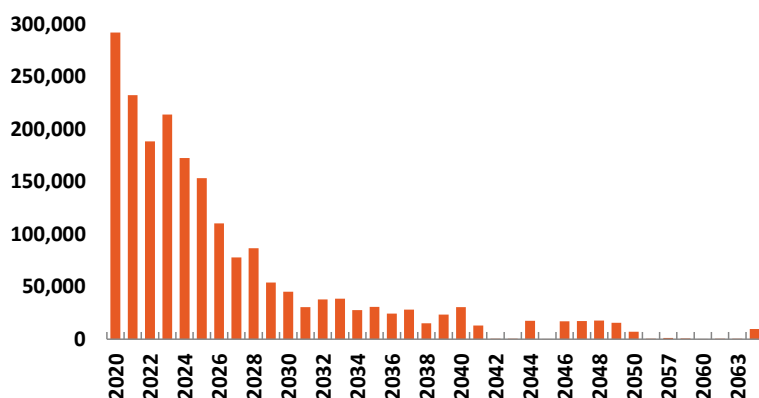
Maturity	Bonds
3M	BOTS 0 04/30/20 Corp
6M	BOTS 0 07/31/20 Corp
1Y	BOTS 0 01/14/21 Corp
2Y	BTPS 2.3 10/15/21 Corp
3Y	BTPS 0.05 01/15/23 Corp
4Y	BTPS 2.45 10/01/23 Corp
5Y	BTPS 0.35 02/01/25 Corp
6Y	BTPS 2 ½ 11/15/25 Corp
7Y	BTPS 0.85 01/15/27 Corp
8Y	BTPS 2 02/01/28 Corp
9Y	BTPS 2.8 12/01/28 Corp
10Y	BTPS 1.35 04/01/30 Corp
15Y	BTPS 3.35 03/01/35 Corp
20Y	BTPS 3.1 03/01/40 Corp
25Y	BTPS 4 ¾ 09/01/44 Corp
30Y	BTPS 3.85 09/01/49 Corp
50Y	BTPS 2.8 03/01/67 Corp

YTM per Bond Maturity, %



Source: Bloomberg

Debt Repayment Distribution, EUR bn



Source: Bloomberg

This year there is a huge proportion (14.4% of total debt) of the government debt that reaches its maturity. This can pose as a concern for the Italian stability, but since there has been a run for yields, the demand of the Italian debt should continue to exceed the supply. So the government should continue to roll over its debt without any limitations.

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## 2. Stock Market

MIB	
Points (13 Feb 2020)	24,628
Market Cap (bn)	556.5
Volume (12 Feb 2020) (Mln)	462.5
P/E	16.3
P/Book	1.18
EV/EBITDA	7.42
ROA	0.9
ROE	8.97
Dividend Yield	4.19

The Italian Stock Index (MIB) is composed by 40 companies, with a total capitalization of EUR 556.5 bn.

The Index is currently at 24,628 points, which is above its average value (24,075) of the analyzed period (2008-2020). The index has a current P/E of 16.3 which has been pressured by a large weight of financial companies in the index (currently financial companies in Europe have low levels of P/E). The index never returned back to its maximum value of 43,755 points in August 2007.

Sectors of MIB Index	Weight by number of companies
Financials	12
Consumer	7
Utilities	6
Capital goods	4
Healthcare	3
Energy	2
Services	2
Technology	2
Transportation	1
Basic materials	1

Stock Index (MIB)



Source: Bloomberg

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