



Platform

22 November 2011 Plexus Asset Management

Independent Insight in an Uncertain World

PLEXUS

Editor:
Luigi Marinus

Tel: (021) 9702400

E-mail:
info@plexus.co.za

ITALY'S ECONOMIC SCANDAL

In 1980 Paolo Rossi, the famous Italian striker, made headlines for allegedly being involved in the 'Totonero' betting scandal involving Perugia, the club he was contracted to at the time. As a result of the scandal he received a ban which immediately meant his place in the 1982 World Cup Finals in Spain would be in doubt. In this football-crazy country where its biggest stars are idolised, this was unthinkable.

Move forward 31 years to 2011 and the people of Italy are once again up in arms. This time not because of a football dilemma but a financial one, and because the economic position of the country as a whole is being questioned. Not even the eccentric Silvio Berlusconi could save his political career in the wake of these concerns, as questions arose regarding whether Italy was following the Greek example.

According to UBS, the public sector debt as a per cent of GDP has risen to 118,4%, making financing of government debt increasingly more difficult. In absolute terms the value of the total outstanding Italian debt has risen to \$2,2 trillion. In addition, the knock-on effect could be catastrophic if the accompanying table showing other major countries' exposure to Italy is anything to go by.

These countries therefore have a vested interest in the well-being of the Italian government's finances. But how close is Italy to actually going into default? To date Italy has not yet asked for a bail-out. However, the size of the Italian debt is of concern as it is much larger than the Greek debt in nominal terms. It is difficult to see how the Eurozone will be able to finance a full Italian bail-out, but with Italian bond yields continuing to increase the risk of this situation becoming a reality is increasing as well. The most common Italian news thread at the moment is that Italy is too big to fail. The question is, firstly, whether this is true and, secondly, should an actual default materialise, how calamitous will it be.

In the wake of Berlusconi's resignation Mario Monti has been appointed prime minister of Italy. He is an economist and an academic, having taught at the University of Turin and having been the rector of the Bocconi University during his career. His CV certainly makes him sound like the right person to attempt to steer Italy out of its current turmoil. He will be faced with difficult decisions like imposing stricter austerity measures at a time when unemployment in the age group 15 to 24 years is already above 28%. The people of Italy certainly have a tough time ahead while trying to dig themselves out of this present debt hole.

Back to 1982. With Paolo Rossi out in the cold for his alleged involvement in a betting scandal, the Italian coach decided to back his player and

selected him for the World Cup squad. Rossi scored the opening goal in the 3-1 defeat of West Germany in the final and ended the World Cup with the golden boot for being the top scorer in the tournament. Under massive pressure, can Italians show the same grit now?

Governments' lending exposure to Italy	
France	\$105,0 bn
Germany	\$51,0 bn
Japan	\$29,8 bn
Belgium	\$17,3 bn
United States	\$14,4 bn
United Kingdom	\$12,7 bn
Spain	\$10,7 bn
Switzerland	\$5,2 bn

Source: Bank for International Settlements