TELEGRAPH.CO.UK

08/06/18

Estratto da pag. 2

Capital flight from Italy surges, pushing Target2 imbalances to danger level

Ambrose Evans-Pritchard 7 June 2018 • 11:19pm

4-5 minuti

The actions of Italy's insurgent Parliament may determine whether or not Germany pulls the plug on the euro

THE Bank of Italy's debts to eurozone central banks rocketed to an all-time high of €465bn (£408bn) in May as anti-euro insurgent parties prepared to take power, a clear sign that foreign investors have begun to pull large sums of money out of the country.

The institution's Target2 liabilities within the European Central Bank's payment nexus jumped by €39bn in a single month. This was almost certainly precipitated by the shock decision of the alt-Left Five Star Movement and hard-Right Lega nationalists to forge a coalition, armed with a subversive "minibot" parallel currency.

The Target2 data is closely watched by analysts as a proxy measure of capital flows. David Owen from Jefferies said foreign funds and banks are rotating money out of Italy and into accounts in northern Europe, typically in Germany, Luxembourg or the Netherlands.

The worry is that Italian households could start withdrawing savings from local banks and join the exodus. This is a risk if the Lega-Five Star alliance goes ahead with budget-busting plans and openly defies the EU. Any deposit flight – essentially an electronic bank run – would have echoes of the Greek drama in 2015.

"If that happens, the picture could become really serious. Italian households have €1 trillion in bank accounts, and roughly €750bn of that is in overnight deposits," he said.

On the other side of the ledger, the Bundesbank's Target2 credits in Germany jumped by €54bn to a record €956bn in May. If the figure blows through €1 trillion in coming months there will be Gothic headlines in Bild Zeitung, Die Welt, and the Handelsblatt. A political storm in Berlin is inevitable given that the anti-euro AfD party is now the official opposition in the Bundestag, and chairs the budget committee.

Professor Marcello Minenna, a Target2 expert at Bocconi University in Milan, said the Bank of Italy's liabilities are heading rapidly towards €600bn. "I fear it is going to become more extreme," he said. "The Target2 imbalances show there is something fundamentally wrong with the construction of the euro. It is a measure of pressure, and if you keep adding pressure, the glass will break at some point."

The question is how long Germany will continue to tolerate the Target2 build-up. A chorus of German economists say the mechanism has degenerated into a backdoor means of financing capital flight from southern Europe. Contrary to repeated assertions by the ECB, the imbalances have failed to correct over time.

"The politics are poisonous. The Germans are feeling very exposed," said Professor Philip Turner, a former monetary official at the Bank for International Settlements and now at the UK's National Institute of Economic and Social Research. "This is lending on a huge scale that no government has approved. It can't go on indefinitely." The Bundesbank extends the credits automatically without a vote in the German parliament. Target2 falls outside any democratic oversight.

Clemens Fuest, head of Germany's prestigious IFO Institute, said

TELEGRAPH.CO.UK

08/06/18

Estratto da pag. 2

Germany should not extend unlimited credits to the bank of Italy if the Italian government is in open violation of EU spending rules. There will have to be some curb on Target2 liquidity. “The ECB will reluctantly have to act,” he said.

The Target2 imbalances are a technical accounting adjustment as long as the euro holds together. The debts and credits become all too real if any country leaves. Mario Draghi, the ECB’s chief, wrote a letter to two Italian MEPs last year stating that the Bank of Italy would owe the full sum to the Eurosystem. It is therefore actual debt, although Italian and Spanish taxpayers were never informed that they were taking on huge liabilities.

Prof Minenna said the relevant contract is under Italian law. “It is covered by the principle of Lex Monetae. The bank could settle the debt in lira,” he said. This would imply huge losses for creditor banks. Spain, Portugal, Greece would probably be forced out of monetary union along with Italy. All would devalue, and probably default as well.