


# How Italy's budget woes could escalate

Brussels has rejected Italy's 2019 budget, setting its governing coalition on a collision course with the commission. Rome has three weeks to submit a new spending plan or face millions of euros in fines

## 1. DEFICIT




Government of **Giuseppe Conte** pledges lower retirement age, basic income for poor, tax cuts. **Deficit will increase to 2.4% of GDP\* – adding some €40 billion to public debt**

## 2. PUBLIC DEBT

Debt from past deficits has reached **€2.3 trillion or 132% of GDP**. EU rules limit deficit to 3% of GDP with public debt no higher than 60% of GDP



## 4. JUNK BONDS



Rating agency Moody's downgrades Italian debt to one notch above junk. **Foreign investors dump €58 billion of Italian bonds in May and June, pushing up yields and borrowing costs**

## 3. TARGET2 DEBT

Bank of Italy's Target2 liabilities – cross-border debt owed to eurozone central banks – hit €492.5bn in August. **Target2 pushes total debt to €2.8 trillion or 160% of GDP**



## 5. BAD DEBTS

Italy's banks are sitting on **€360 billion** pile of non-performing loans

*Sofferenze* – worst category



## 6. CAPITAL FLIGHT

Further outflows of **€17 billion** by foreign investors are recorded in May and June, pushing flight in portfolio investments to **€75 billion**



## 7. EUROPEAN CENTRAL BANK

Eurozone banks can borrow from ECB at zero interest rate, but if government bonds are rated junk, Italy will face high rates.

**Credit crunch: Businesses and consumers can no longer afford credit. People earn less, spend less – tax revenues plummet**



\*Gross domestic product: Value of all goods and services calculated on annual basis