Sales tax rise

Japanese Finance Minister Taro Aso on Saturday pledged to global finance leaders that Tokyo will forge ahead with a scheduled sales tax hike in October, even as weakening global growth darkened the outlook for the export-reliant economy.

Italy's economy one of biggest downside risks to global financial system

By Callum Burroughs*

TONY GENTILE/REUTERS

Italy's ongoing economic problems don't appear to be going anywhere soon. The country's bad debts could — in theory — topple the European banking system and slow global growth.

At a fundamental level, Italy poses a threat to an already unstable eurozone, businessinsider.com wrote.

Italian banks are saddled with billions of euros of bad loans, much of it governmental, and fears of contagion are never far away.

The eurozone comprises the 19 countries that use the euro as a currency, under the auspices of the European Central Bank. The ECB is duty bound to ensure none of its countries defaults.

Italy's debts raise a question, according to analyst Jack Allen of Capital Economics: Why should the healthy economies of Northern Europe, like Germany, continue to support Italian debt that will be technically at risk of default for years or even decades?

"Over the next ten years, we think that Italy's economy will fail to grow because productivity growth will remain weak and total employment will fall. As a consequence, the public debt ratio will probably continue rising and eventually prove unsustainable. This would be a bigger problem than the previous eurozone crisis and could once again endanger the single currency itself," Allen told clients recently.

A recent IMF report indicated that "potential losses on non-performing loans and mark-to-market declines in the value of government bonds could result in a significant hit to capital for some banks."

The country's issues have been much publicized after the arrival of a new populist government last year and the ensuing battle it had with the European Commission to get its budget approved.

Italian banks have some €800 billion in government debt on their books and many are carrying risky loans on their balance sheets. Italian institutions hold around eight percent of Europe's non-performing loans, according to the European Banking Authority figures as of the end of 2018.

After Italy, French banks have the most exposure to Italian government debt with some €285 billion ($323 billion) held in major lenders like Credit Agricole and BNP Paribas. Some $481 billion of Italian government debt was held in non-Italian banks as of June 2018, according to Bloomberg.

It reinvents fears of a so-called 'doom loop' which can see governments struggling to protect banks whose profits are hit by a drop in value of government bonds because of their own inherent weakness.

"A protracted period of elevated yields in Italy would put further stress on Italian banks, weigh on economic activity, and worsen debt dynamics," the IMF added. Attempts by European institutions to stimulate lending have been unsuccessful for Italy.

The country took on an estimated one-third of the €724 billion ($817 billion) of so-called 'targeted longer-term refinancing operations' — a low-interest loan product designed by the ECB to promote lending — but still saw a contraction in loan demand from corporates, according to reporting by the Financial Times.

Things aren't going to improve anytime soon either. The IMF slashed Italy's growth prospects down from 0.9 percent this year to 0.1 percent. The country's stagnating economy and relatively high bond yields put the country in a precarious fiscal position, Oxford Economics wrote in a recent research note.

The country's low productivity growth could lead to Italy's public debt ratio rising further to unsustainable levels. Jack Allen suggested that Europe's economic laggard could find itself in a 'perma-recession', which could have consequences worse than the previous eurozone crisis.

One of the few green shoots for Italy's economy has been the fact that the country's purchasing managers index figures for March reached their highest levels since September 2018, with new orders growing at their fastest pace in six months, according to IHS Markit data.

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Main Indices of TSE

Index	Value	Change	Percent
Total Index	196084.9	882	0.4498
Industry Index	176910.3	932.3	0.527
Free Float Index	220435	1195	0.5421
First Market Index	146501.1	1076.2	0.7346
Second Market Index	380801.2	-248.1	-0.065

Overall Index details on 20190414

First	195202.9	Change end of year(%)	604.12%
High	196085.0	Historical highest	78400.5 (20140105)
Low	194037.7	Historical lowest	100 (1369/1/6)
Close	196084.9	Base Value	100 (1369/1/6)

Industry Index details on 20190414

First	175978.0	Change end of year(%)	862.34%
Max Value	176910.3	Historical highest	73072.6 (20140105)
Max Value	175003.9	Historical lowest	1113.4 (1377/8/25)
Closing	176910.3	Base Value	

Free Float Index details on 20190414

First	219240	Change end of year(%)	
Max Value	220435	Historical highest	95040 (20120105)
Max Value	208129	Historical lowest	
closing	220435	Base Value	

Main Board Index details on 20190414

First	145424.9	Change end of year(%)	704.85%
Max Value	146501.5	Historical highest	67441.4 (20140105)
Max Value	144650.2	Historical lowest	
Closing	146501.1	Base Value	4740.4 (1381/6/2)

Secondary Index details on 20190414

First	381049.3	Change end of year(%)	1265.46%
Max Value	381354.7	Historical highest	181353 (20170522)
Max Value	378188.3	Historical lowest	
Closing	380801.2	Base Value	4740.4 (1381/6/2)

Moscovici: Eurozone budget likely to play stabilizing role

A future eurozone budget will soon have to take on the task of cushioning economic shocks despite current resistance from countries in northern Europe, a top European Union official said on Saturday.

European Commissioner for Economic and Financial Affairs Pierre Moscovici said the setting up of the limited "budgetary instrument for convergence and competitiveness for the euro area", as agreed by EU leaders last December, was only the first step in creating a more developed budget, according to Reuters.

"This is the first step, a foot in the door," Moscovici told Reuters in an interview on the sidelines of the International Monetary Fund and World Bank spring meetings in Washington.

"We need an instrument that is also capable of addressing asymmetric shocks, to create convergence and that can also have a stabilization function," he said.

The design of the limited 'budgetary instrument', with a yet undetermined size and focused on supporting investment and research and development, is to be ready in June. But Moscovici said the EU could be forced to broaden the scope.

"Here at the IMF we are discussing a slowdown, downside risks, a possible next crisis, we are seeing that all our countries struggle with inequalities, that there is a rise of nationalism — we cannot wait for five more years," he said.

"I am quite sure that the economic, social and political circumstances will lead us back to this greater ambition sooner rather than later," he said.

OCTAV GANEA/REUTERS

Growth is slowing around the world, including in Europe, due to a number of factors including trade tensions and the risk of Britain crashing out of the EU without a deal.

"It is always the case in Europe that we act only when there is a sense of urgency, but this urgency might come back," Moscovici said.

Political resistance

Ideas for the stabilization role include the offering of cheap loans to countries hit by an external crisis not of their own making and an unemployment reinsurance scheme. Money could be repaid once economies recovered.

An example often citied by officials as a possible beneficiary of such a stabilizing role could be Ireland, which might suffer an economic shock if Britain leaves the EU without a divorce deal.

But this stabilizing option has been deliberately left out from the design of the future eurozone budget for now, on the insistence of Germany, The Netherlands and their north European allies, even though officials privately agree it is needed.

It is a hard sell politically, because voters in many northern European countries are still reeling from the almost €300 billion lent by eurozone governments to mainly southern European nations during the sovereign debt crisis.

Their appetite for more financial solidarity among the 19 countries sharing the euro currency is limited.

Yet, giving the eurozone budget a stabilization role could mean higher contributions from governments and break with the logic that every country was responsible for its own policies and preparations for difficult times, Moscovici said.

"But if we accept the logic that there are always winners and losers, that logic is a threat to the euro," he said.

Major Currencies

Currency	To USD	Currency	To USD
Turkish Lira	0.1730	Japanese 100 Yen	0.8927
Euro	1.1311	Chinese Yuan	0.1491
British Pound	1.3081	UAE Dirham	0.2722
Australian Dollar	0.7164	Kuwaiti Dinar	3.2787
Canadian Dollar	0.7502	Iraqi 100 Dinar	0.0839

Major Commodities

Crude Oil	$63.76	Silver	$14.93
Gold	$1293.50	Platinum	$895.40
Copper	$2.94	Wheat	$468.50

ECB's Draghi worried about Fed's independence

European Central Bank President Mario Draghi expressed concern on Saturday about the US Federal Reserve's independence, warning that a loss of its autonomy could undermine the credibility of policy.

US President Donald Trump's nomination of two controversial candidates to the Fed's board and persistent calls for rate cuts has raised the specter of government interference, challenging a fundamental tenet of modern central banking, Reuters reported.

"I'm certainly worried about central bank independence in other countries, especially... in the most important jurisdiction in the world," Draghi said about the US.

"If the central bank is not independent, then people may well think that monetary policy decisions follow political advice rather than objective assessment of the economic outlook," he told a news conference.

Governments from Turkey to India and the US have put increasing pressure on their central banks in recent months, igniting a debate about the value of independence.

But some argue that unconventional policy, used widely now, redistributes wealth, so monetary policy makes increasingly political decisions and thus requires increased political scrutiny.

"Within (their) mandate, however, central banks ought to be left free to choose what's the best way to comply with the mandate," Draghi said.

"Because if you don't let them be free, then they're not accountable. That's the central banking framework since the 80s everywhere."

Still, Draghi argued that he saw no similar threat to the ECB's independence given the legal safeguards and he also did not think that cases of interference elsewhere were undermining global confidence.

KAI PFAFFENBACH/REUTERS