Special Report

Italy: Expansionary budget increases medium-term risks and sets up clash with Brussels

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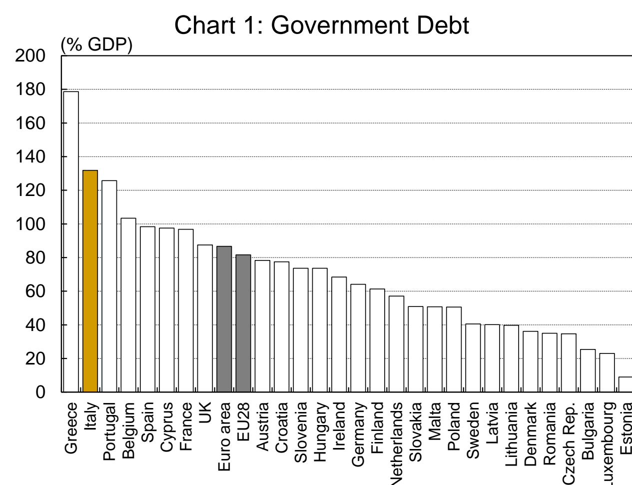
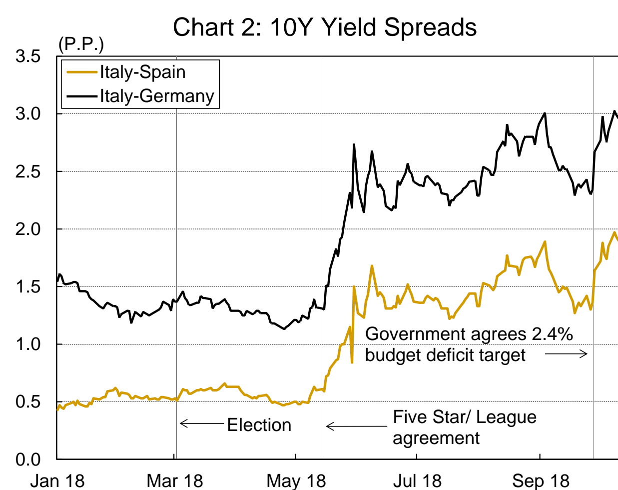
1. Introduction

Italy's new government has announced an expansive budget for the next three years which will do little to reduce the country's high debt (around 130% of GDP, Chart 1). In its plan, the government expects debt will fall to 126.7% by 2021. This is not much of an improvement and has led the European Commission to request a revised version. The current budget deficit target (2.4% in 2019) is considerably above the 0.8% figure that had previously been agreed with Brussels, and it will rely on hopeful expectations for GDP growth. On top of this, there is not much in the way of useful structural reforms to enhance Italy's resilience to the next crisis.

The market response was clear. Bond yields rose sharply (Chart 2), the price on Italian credit default swaps soared and bank shares tumbled. In this report we consider the proposals and their implications for Italy's public finances over the short- and medium-term.



Source: Eurostat, MUFG Bank Economic Research Office



Source: Macrobond, MUFG Bank Economic Research Office

2. The proposals

Italy's new government initially announced plans to run budget deficits of 2.4% of GDP for three years from 2019. The targets were later trimmed to 2.1% in 2020 and 1.8% in 2021

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(Table 1). Even with that improvement, it represents a serious departure from 0.8% of GDP budget deficit target for 2019 previously agreed with the European Commission.

Table 1: Italy's 2019 budget plan

	2017	2018	2019	2020	2021
Budget balance (% GDP)	-2.4	-1.8	-2.4	-2.1	-1.8
Primary budget balance (% GDP)	1.4	1.8	1.3	1.7	2.1
Public debt (% GDP)	131.2	130.9	130.0	128.1	126.7
Real GDP growth (% YoY)	1.6	1.2	1.5	1.6	1.4

Source: Italy's Ministry of Economy and Finance, MUFG Bank Economic Research Office

In fact, the technocratic finance minister, Giovanni Tria, had initially said that the planned budget deficit would be below 2% of GDP. The eventual figures suggest that he is limited in his ability to curb the wishes of Matteo Salvini, leader of the League, and Luigi di Maio, leader of the Five Star Movement. Together, these two populist parties formed Italy's current coalition government in May 2018. Both had made bold – and costly – promises ahead of the 4 March 2018 election. With the equal share of power and little overlap between the manifestos, the first budget was always likely to be expansionary. Five Star staked a lot on a so-called 'citizens' income' during the election, of which some form has made it into the budget proposal. The measure will support the income of those earning less than 780 EUR monthly (subject to certain conditions). Existing pensions will also be raised to 780 EUR monthly. The League, meanwhile, campaigned for tax cuts ahead of the election. This is reflected in the budget plan with a proposal for the introduction of a 'flat tax' for certain individuals and businesses. Furthermore, the planned VAT increase for 2019 (22% to 24.2%) will now be cancelled.

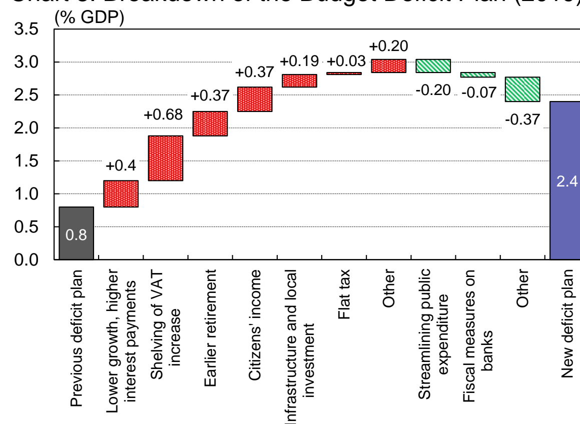
Other measures include plans to boost public investment from 1.9% of GDP this year to 2.3% in 2021, with emphasis on road infrastructure spending. Longer term, the government intends to unwind reforms from 2011 to gradually raise the retirement age. Table 2 briefly summarises the key measures (the government also expects some revenue boosts from streamlined public expenditure, "fiscal measures on banks" and other tax tweaks). Chart 3 uses the government's estimates to show how the measures combine to shift the previous 0.8% to the current 2.4% of GDP budget deficit target for 2019. Note that the previous baseline also "worsens from 0.8 to 1.2 on account of the lower GDP growth and higher interest payments".

Table 2: Key measures at a glance

Citizens' income	Guaranteed income of 780 EUR per month for the unemployed and pensioners (subject to conditions).
Flat tax	First phase of a move to a flat tax system of 15% for most individuals and businesses.
Public investment	Increased infrastructure investment (with a focus on the road network)
Earlier retirement age	The retirement age was due to steadily increase to 68. This is reduced to 62 with sufficient social security contributions.
No VAT increase	The VAT rate was due to increase to 24.2% in 2019 (from 22%). This will be cancelled.

Source: Italy's Ministry of Economy and Finance, MUFG Bank Economic Research Office

Chart 3: Breakdown of the Budget Deficit Plan (2019)



Source: Italy's Ministry of Economy and Finance, MUFG Bank Economic Research Office

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Supported by some fairly optimistic growth assumptions (more on that later), the government thinks that the debt-to-GDP ratio can fall from 130.9% this year to 126.7% in 2021, despite the increase in spending. The initial announcement of a constant 2.4% deficit over the next three years allowed the government to test the water for the reaction of both the bond market and the European Commission. On the former, yields rose sharply. The 10Y yield approached 3.5%, the highest for more than four years (since the ECB expanded its QE programme).

3. The case for spending

Real GDP remains well below the 2008 peak.[1] With monetary policy close to the lower bound, it is worth considering the argument for fiscal stimulus to jolt the Italian economy forward.

[1] See here for long-term charts: www.bk.mufg.jp/report/ecoeu2018e/specialreport_20180124.pdf

The government's economic policy, it argues, is primarily aimed at responding to the increase in poverty since the crisis – especially among younger people and those in the south. Even with elevated public debt there is some justification for spending on these grounds. Eurostat estimates 'severe material deprivation' rates which are a measure of the proportion of people whose living conditions are severely affected by a lack of resources. The rate for Italy increased sharply after the global financial crisis (GFC) and remains higher than its peers. At 10.1% in 2017 it is well above the euro area average (5.8%) and most similar to Croatia, Latvia and Cyprus. Meanwhile, the proportion of young people not in education, employment or training (NEET) is also very high. Unlike in Spain, there has been little improvement in the figures after the sovereign debt crisis.

Italy ranks poorly in the World Bank's latest quality of overall infrastructure assessment at 58th in 2017 (below Greece and all but three other euro area member states), and OECD data suggest relative underfunding on transport infrastructure. The government has announced in the budget plan that public investment for the road network and its maintenance will be increased. The issue was brought into sharp focus with the Genoa bridge tragedy in August this year. Salvini used the disaster to blame the EU's spending rules: "there can be no trade-off between fiscal rules and the safety of Italians" he said.

We are more sceptical of the proposal to reverse the 2011 reform which sought to gradually increase the retirement age. Public spending on pensions (as a percentage of GDP) is already the highest in the OECD. With the proportion of older people in the population set to rise over the coming decades (according to World Bank projections), it looks likely to be an expensive change. The effects will be felt by future governments, but at a time when Italy is in need of reforms generally (and to its labour market in particular), rolling back one of the most sensible changes of recent years does not bode well for more widespread, useful reform now.

On the other key measure, the first phase of a move to flat taxes, we are also unconvinced. The evidence from European countries that have introduced flat tax systems in the recent past – Estonia, Latvia, Lithuania and Slovakia – is mixed. It is hard to disentangle the effects on growth from the boost of accession to the EU and euro area. Perhaps more pertinent for Italy (at least from the European Commission's perspective) is the effect on public finances, and there is some sign that government revenues may be reduced. Slovakia maintained a flat tax

for almost nine years. It then reverted back to a more progressive income taxation system in 2013, four years after joining the euro. Government tax receipts as a percentage of GDP were lower during the period that the flat tax system was in operation, and subsequently increased again once Slovakia moved back to a more progressive system. We note that the numbers for the euro area as a whole, and for individually neighbouring countries, were relatively stable over the same period – even in the wake of the GFC.

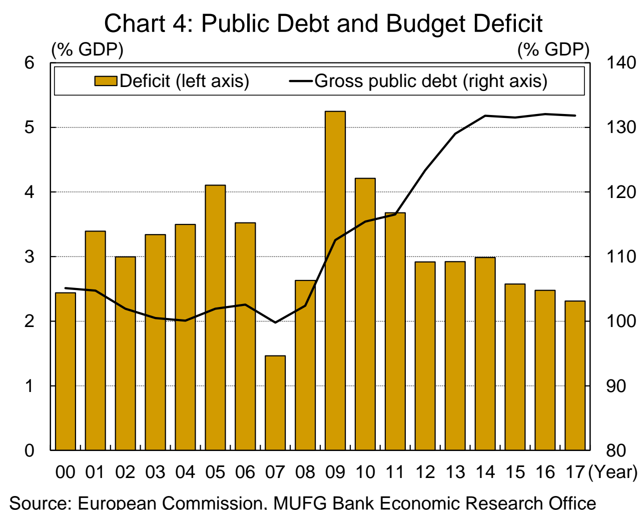
Italy does struggle with low potential growth but we are not sure that a dramatic change to the tax system is the fix that the country needs. Instead, the government's energy may be better directed trying to monitor and enforce levels of compliance with existing tax system. The OECD has reported that "levels of compliance with tax laws are low" in Italy. It is not obvious that a flat tax system would change this – but it may well reduce government tax revenues.

4. What can Italy afford?

Some measures in the government's plans can perhaps be justified on economic grounds more than others. But the budget is particularly contentious due to the current state of Italy's public finances. Chart 4 shows that public debt has remained above 130% of GDP for some time. The budget deficit, meanwhile, has been above 2% of GDP since 2008.

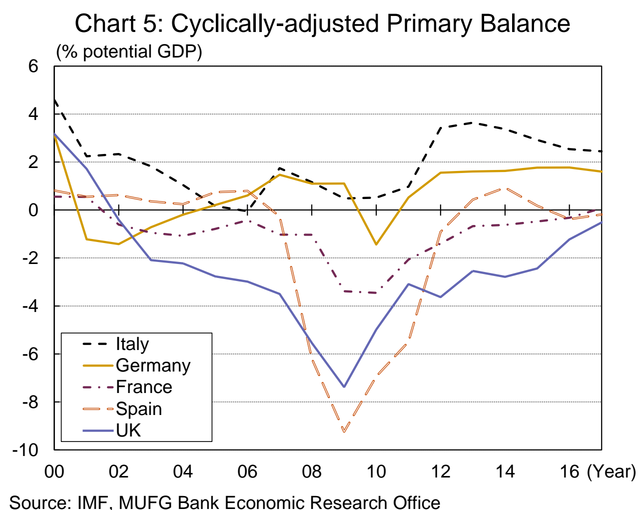
Despite these numbers, fiscal policy in Italy has not been especially loose in recent years. Chart 5 shows the cyclically-adjusted primary balance which is the budget balance excluding debt interest payments and the effects of the economic cycle. This is a good indicator of the current fiscal efforts of the government (although with some caution: estimating the output gap is not a precise science so these numbers are prone to revision). In Italy, the cyclically-adjusted primary surplus is above 2% of GDP and higher than in other large European economies.

Chart 4: Public Debt and Budget Deficit



Source: European Commission, MUFG Bank Economic Research Office

Chart 5: Cyclically-adjusted Primary Balance



Source: IMF, MUFG Bank Economic Research Office

A positive primary surplus suggests there is some wiggle room over the near-term to increase public spending, but, in doing so, Italy will put itself on a collision course with Brussels. The European Commission's Stability and Growth Pact (SGP) is a "set of rules designed to ensure that countries in the European Union pursue sound public finances". The EU's 'excessive

deficit procedure' (EDP) rules require that countries "must demonstrate sound public finances" and meet two criteria:

- their budget deficit must not exceed 3% of gross domestic product (GDP);
- public debt (government debt & that of public agencies) must not exceed 60% of GDP.

For Italy, the budget deficit has been below 3% of GDP since 2011, so that is not the issue. However, Italy's debt is well beyond 60% of GDP. Under the European Commission's rules, the portion of debt above 60% of GDP has to be reduced by 5% a year. For example, 80% should fall to 79% – or, more pertinently, 130% should fall to 126.5%. The Italian government has pencilled in debt-to-GDP of 126.7% in 2021. The EDP pace would imply it should be much lower, around 118% of GDP.

What does this mean? In theory, countries can face an initial fine of 0.2% of GDP by the European Commission for failing to adhere to the SGP rules (rising to 0.5% for "continued non-compliance"). But in reality this is unlikely; no country has ever paid a fine. A crucial precedent was set in 2003 when both Germany and France – the two largest euro area countries – ran excessive budget deficits, but both escaped sanction. The difference now, perhaps, is that members of the Italian government are being deliberately confrontational towards the EU. Salvini recently said "the enemies of Europe are those sealed in the bunker of Brussels. It's Juncker [President of the European Commission] and Moscovici [European Commissioner for Economic and Financial Affairs] who have brought fear and job insecurity to Europe".

In their response to the budget, an initial letter from the European Commission stated that elements of the plan pointed to "particularly serious non-compliance with the budgetary policy obligations laid down in the Stability and Growth Pact". It noted that the difference between the fiscal expansion under the plan and the Council's recommendation for a fiscal adjustment was "unprecedented in the history of the Stability and Growth Pact". But, despite this, the tone seemed conciliatory: "the European Commission seeks to continue a constructive dialogue with Italy in order to come to a final assessment".

This approach is probably wise. Salvini wants to be seen to be taking on Brussels and may actively be seeking a showdown. He may even embrace any eventual SGP sanctions to spin as further evidence of the EU's unfair approach to Italy. Instead, as we discuss later, the EU is probably hoping that bond markets do the talking for them. We note that the initial budget proposal was for a 2.4% of GDP deficit over the next three years. This was pared back to 2.1% in 2020 and 1.8% in 2021, perhaps because bond yields rose sharply on the initial announcement. If markets do prompt Italy to change course then the planned VAT increase looks to be a good target. Going ahead with it would instantly improve the outlook (the cancellation is estimated to cost 0.7% of GDP in 2019). It could even be spun domestically as a direct cost to Italians resulting from Brussels' stringency. Another option could be to delay the rollout of the citizens' income measure, perhaps until mid-2019.

5. The growth outlook remains weak, despite fiscal stimulus

The government's projections for debt-to-GDP are based on relatively high GDP growth assumptions (Chart 6). The Parliamentary Budget Office, the fiscal watchdog, declined to

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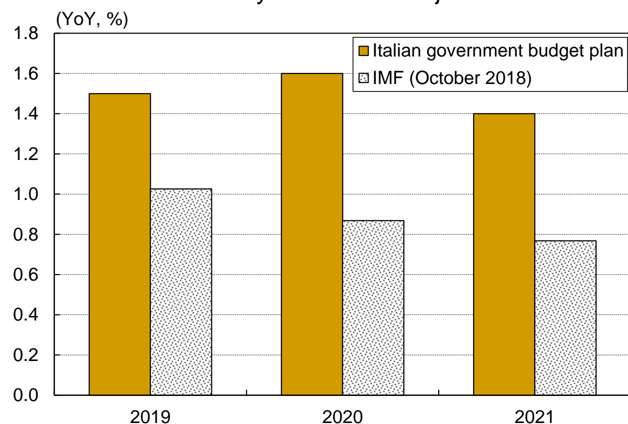
endorse the macroeconomic forecasts contained in the plan. It had doubts over both the short-term outlook for growth and the extent to which the fiscal stimulus would be effective in the face of increased market volatility.

Economic activity in Italy has been muted recently. QoQ GDP growth has been successively slower from Q1 2017, and the first estimate for Q3 2018 was flat. Another unchanged figure in the last quarter of the year would entail just 0.5% YoY growth, leaving Italy worryingly close to recession. However, it does seem likely that parts of the government's plan will boost output over the short-term. Tax cuts and increased transfer payments will support consumption while increased infrastructure spending will also help growth.

External factors give reason to worry, though. Higher oil prices may offset any fiscal boost for consumers from tax cuts and the citizens' income measure. Meanwhile, there was a clear drag from net exports in the second quarter of the year as global trade growth slowed (Chart 7). Four successive quarters of 0.7% QoQ GDP growth in the euro area have been followed by more subdued 0.4% QoQ figures in the first two quarters of the year, and just 0.2% in Q3 2018. We had hoped that European demand could help the Italian economy, which remains the second largest manufacturer in the euro area, but Italian manufacturing surveys (Istat, PMI) are not encouraging. Overall, we expect real GDP growth in Italy of just 1.2% YoY in 2019 which is in line with the European Commission's latest forecast.

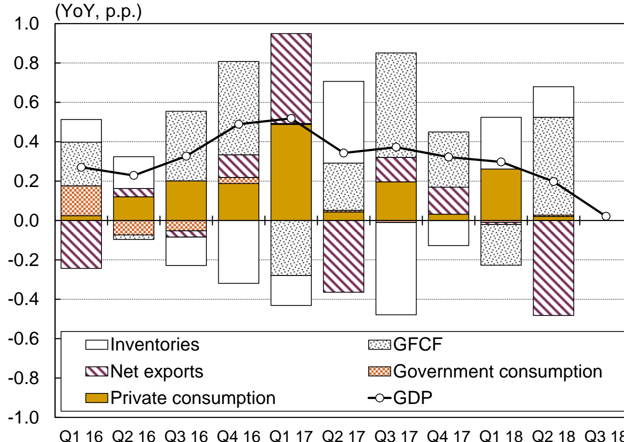
Over the longer term, high structural unemployment and weak productivity growth weighs on Italy's growth prospects. The OECD estimates potential growth at just 0.2% YoY. Again, in this context, the government's projected growth figures appear to be quite optimistic.

Chart 6: Italy Real GDP Projections



Source: IMF, Italy's Ministry of Economy and Finance, MUFG Bank Economic Research Office

Chart 7: Contributions to Real GDP Growth



Source: Eurostat, Istat, MUFG Bank Economic Research Office

6. Public debt is unlikely to fall by much

Compared to the Italian government's plan, we expect GDP growth will be closer to the IMF's projections shown in Chart 6, despite the near-term fiscal boost. Adjusting the budget plan by using the IMF's lower nominal GDP growth path suggests that government debt-to-GDP will be just 1.5pp lower by 2021 (Table 3). Of course, any reduction in the debt ratio is good, but Italy has very little margin for error due to its low potential GDP growth rate. For example, we imagine a risk scenario in which the primary surplus and GDP growth follow a similar path to

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the 2012 recession, and the real interest rate is 350bp above that implied by the IMF baseline from July. In this plausible risk scenario, our models suggest that the debt-to-GDP ratio spirals up above 150% by 2021.

Meanwhile, even the small improvement under the government's plan could fail to materialise should there be any fiscal slippage. We note that the planned budget deficit for the following year has been on average 0.4pp lower than the out-turn figures since 2014. The European Commission's November forecast sees the deficit at 2.9% of GDP in 2019, and 3.1% in 2020.

Table 3: Government Debt Scenarios

	Government debt (% GDP)				
	2017	**2018**	**2019**	**2020**	**2021**
Italian government	131.2	130.9	130.0	128.1	126.7
Italian government plan (with IMF growth projection)	131.2	130.9	130.6	130.2	129.7
European Commission (November 2018)	131.2	131.1	131.0	131.1	-
MUFG Bank risk scenario	131.2	131.0	140.2	149.8	158.0

Source: IMF, Italy's Ministry for Economy and Finance, MUFG Bank Economic Research Office

More broadly, high government debt makes an economy more vulnerable to shocks. It limits the government's room for manoeuvre and forces politically painful policy change. Over the longer-term it can drag down growth (through channels such as increased uncertainty, higher interest rates, lower confidence, reduced public investment and increased precautionary savings). Countries with their own currency and independent monetary policy can, in desperate times, take measures to ease the burden. Inflationary policies, or even a currency devaluation, can help. But, with currency and monetary policy beyond its control, Italy does not have this luxury. This raises the risk of dramatic change: Italy falling out of the euro area. We discuss the threat on the next page.

7. Market pressure may force the government's hand

The spread between Italian and German 10Y government bond yield is currently around 300bp which is the widest since the gap reached over 500bp during the sovereign debt crisis. There are a number of key risks which could prompt renewed selling of Italian government bonds – at a time when support from the ECB's net asset purchases is also coming to an end (see Box 1 at the end of this document). This could put pressure on the Italian government to rein in its budget plans.

(1) Italy's sovereign rating

Moody's downgraded Italy's sovereign debt shortly after the publication of the budget to Baa3, one notch above junk status (but with stable outlook). It cited Italy's vulnerability to a growth shock, material inter-linkages between the sovereign and domestic banks, and the confrontational stance of the government as reasons for the move. On the other hand, the "large size and diversification of the economy" and "substantial current account surpluses" were given as examples of Italy's credit strengths. Italy escaped a downgrade from S&P, meanwhile, which maintained its rating at BBB. However the outlook was changed from stable to negative with concerns aired about the lack of structural reforms.

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These changes were widely anticipated by market participants. But the pressure on bond yields would be considerable if Italy lost its investment grade rating, not least because many institutional investors' funds have limits against holding sub-investment grade debt.

(2) Redenomination risk

Higher yields on Italian bonds reflect both the threat to public finances and an increase in the risk that Italy leaves the euro. Even if growth lives up to the budget plan's confident projections and public debt-to-GDP falls, yields could rise further if the government flirts openly with the idea of leaving the single currency. We emphasise this is still a low risk – but it has been rising.

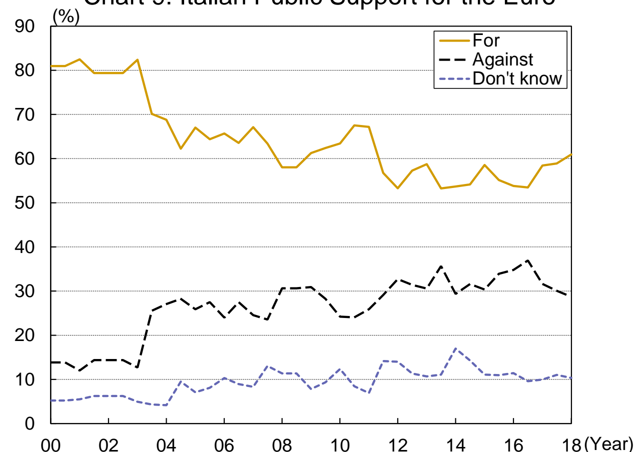
One way of viewing how market participants view the risk is to compare two different vintages of sovereign credit default swap (CDS) contracts which treat the redenomination of debt into another currency differently. Sovereign CDS contracts written with 2014 contract language contain provisions for redenomination risk – while those under 2003 contracts do not. This means that the difference in price can be used as a gauge of the risk. This approach suggests that market participants do think that the risk of Italy leaving the euro area has risen since May (Chart 8).

However, we stress that the risk of Italy leaving the euro – Italexit, if you like – is still low. The European Commission's Eurobarometer surveys do show that support for the euro is among the lowest in the single currency bloc. But, importantly, support has been rising over the last few years, to about 61% (Chart 9). Generally, the surveys show signs of widespread discontent which is understandable after years of stagnant GDP growth (and, in fact, it appears that Italians trust their own politicians even less than those in Brussels).

Chart 8: Spread between 2014 and 2003 Sovereign CDS Contracts

Note: 2014 CDS includes explicit redenomination provisions, while 2003 CDS contracts do not have such language.
Source: Bloomberg, MUFG Bank Economic Research Office

Chart 9: Italian Public Support for the Euro



Source: Eurobarometer Survey, MUFG Bank Economic Research Office

(3) Politics

The next election in Italy is due to be held by the end of May 2023 but we remain wary of a potential clash between the Italian government's uneasy coalition partners ahead of this. The relatively slim majority in parliament, polls shifting in favour of the smaller partner (the League) and very different party structures and values do not inspire a great deal of confidence that this government will be able to endure the full term. The risk of snap elections remains relatively high, in which case bond markets would weigh up the chance of a more market-friendly

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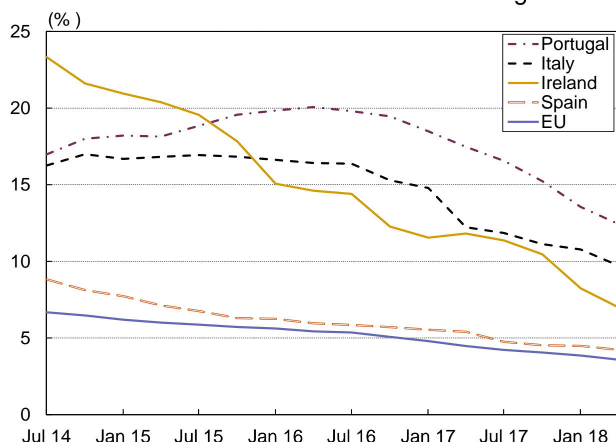
government versus short-term policy uncertainty. In any case, the effects of the budget may endure as the populist measures could be politically hard for future governments to repeal.

(4) The banking sector

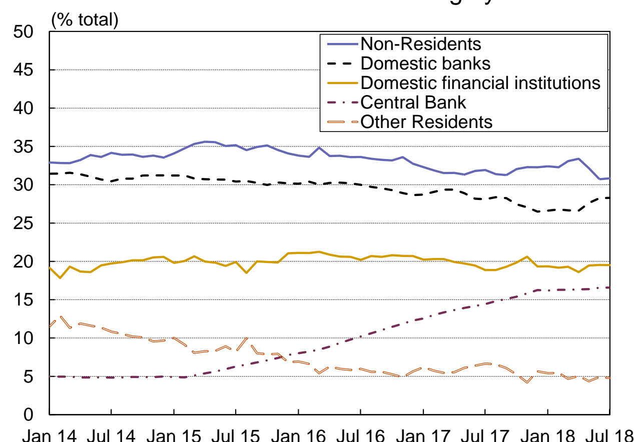
The ratio of non-performing loans (NPLs) in Italy has reduced steadily since mid-2016 (Chart 10) but it remains well above the EU average. A weak bond market poses an additional threat to domestic banks which tend to own a lot of Italian government bonds (over 28% of the total stock according to Bank of Italy data – see Chart 11). This risks a "doom loop" whereby lower bond prices dent already-vulnerable banks' capital buffers, which can then cause a further rise in yields. In turn, this feeds back into the real economy if beleaguered banks reduce credit to the private sector. We do note that banks are likely to have hedged their exposure to Italian government bonds, but the ECB's latest Bank Lending Survey has already showed signs of tightening credit standards on loans to enterprises.

Chart 10: Ratio of NPLs to Total Outstanding Loans



Source: EBA, MUFG Bank Economic Research Office

Chart 11: Government Debt Holding by Sector



Source: Bank of Italy, MUFG Bank Economic Research Office

(5) Contagion

Lastly, we look for signs of any contagion to other peripheral euro area countries (which could, in turn, feedback to Italy). So far the effects appear to be relatively muted for Spain and Portugal. Public finances for these countries appear to be in better shape: government debt is lower and GDP growth is much stronger, and the plans for 2019 look for further improvement (Table 4). On top of this, unemployment is falling and useful reforms will increase Spain and Portugal's resilience to the next downturn. However, both of these peripheral countries would still be vulnerable if the Italian government increase anti-euro rhetoric and raises the risk for the single currency project as a whole.

Table 4: Italy – comparison with Spain and Portugal

	Italy			**Spain**			**Portugal**		
	2013-2015	**2015-2017**	**2017-2019F**	**2013-2015**	**2015-2017**	**2017-2019F**	**2013-2015**	**2015-2017**	**2017-2019F**
Government debt as % GDP (change, pp)	+2.5	+0.3	-1.8	+4.0	-1.1	-2.8	-0.3	-3.1	-7.2
Budget balance as % GDP (change, pp)	+0.3	+0.3	-0.1	+1.7	+2.2	+1.3	+0.4	+1.4	+2.8
Primary balance as % GDP (change, pp)	-0.4	-0.0	-0.2	+1.3	+1.6	+1.1	+0.2	+0.8	+2.2
GDP (average % YoY change)	-0.2	1.1	1.4	1.0	3.3	2.7	0.5	2.0	2.4
Unemployment rate (change, pp)	-0.2	-0.7	-1.4	-4.0	-4.9	-3.4	-3.8	-3.6	-2.7

Source: Draft Budgetary Plans (for 2019 projections), European Commission, MUFG Bank Economic Research Office

8. Conclusion

Italy's government has opted to increase short-term growth through voter friendly initiatives, but at the expense of increased long-term economic resilience. Right now, the country can afford the expansive spending plan for next three years (even if it is based on fairly optimistic growth projections). But, further ahead, the plan appears problematic for several reasons.

First, the high debt-to-GDP ratio is likely to only slightly decrease. This reduces the country's resilience to any external shocks. The increased risk drags on the economy. There are already signs of tightening credit standards by Italian banks, and Italian bond market volatility is likely to continue as markets react to comments from policymakers and rating agencies.

Second, it puts Italy on a collision course with Brussels. Italy could, eventually, face a fine if it fails to comply with the EU's budget rules. This will be a tricky path for the EU to walk – the Italian government would try to spin any action, which would be unprecedented, as further evidence of the EU's unfair practices. So far, Italy has said that it will not budge, but we suspect that a renewed sell-off of Italian bonds could prompt a change of tack (perhaps by choosing not to cancel the planned VAT increase).

There are a series of key dates and potential flashpoints ahead (Table 5). Italy has to submit a revised budget by 13 November. If it does not, then the escalation process could be slow and there may not be further action until after the European Parliament elections in May. But tensions could increase at upcoming Eurogroup meetings, and the ECB's meeting in December looks set to be crucial as any policy changes on reinvestments or TLTROs could help Italian bond prices.

Lurking in the background is one final risk: that Italy falls out of the euro area. This remains very unlikely as public support remains in favour of the single currency. But weaker public finances and increased tensions with the European Commission can only shorten the odds.

Table 5: Key dates

Date	Event
27 September 2018	Italian government agrees to 2.4% budget deficit in 2019
15 October	Italy submits budget to European Commission
23 October 2018	European Commission formally rejects Italy's 2019 budget and requests a revised version.
5 November 2018	Eurogroup meeting
8 November 2018	European Commission economic forecast update
By 13 November 2018	Deadline for a revised budget
3 December 2018	Eurogroup meeting
By 4 December 2018	European Commission publishes opinion on revised budget plan (if submitted on 13 November).
13 December 2018	ECB monetary policy meeting.
13-14 December 2018	EU summit
By 31 December 2018	Italy adopts budget through vote in parliament
23-26 May 2019	European Parliament elections

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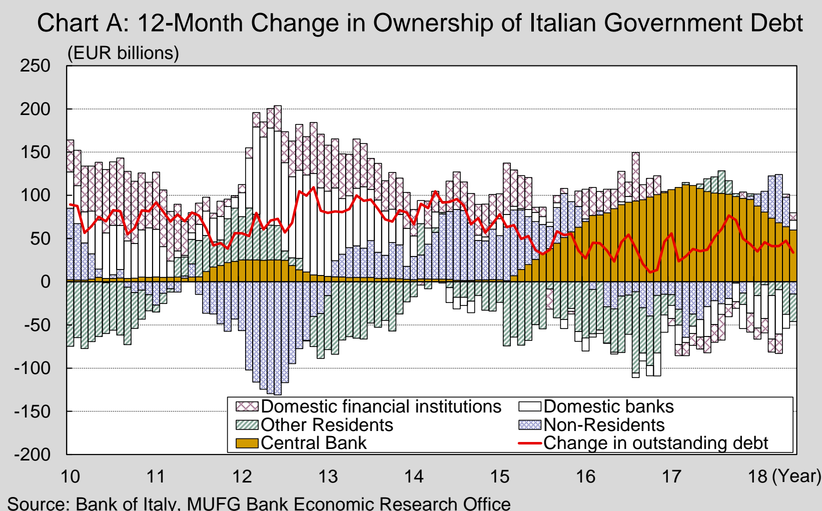
Source: Reuters, European Commission, MUFG Bank Economic Research Office

Box 1: Reduced support from the ECB

The government's expansive budget plan comes at a time when the main buyer of Italian government debt is stepping away. Italy has received 17% of the ECB's 2.1 trillion EUR Public Sector Purchase Programme (PSPP) since March 2015. As a result, the central bank has dominated the market for Italian bonds (Chart A). Now the ECB is gradually winding down its net asset purchases and anticipates that it will cease net purchases at the end of 2018. This means extra pressure on Italian bond prices.



Could the ECB do more to help Italy if bond spreads widen sharply? It seems unlikely. The guidance is that net asset purchases will end in December "subject to incoming data confirming its medium-term inflation outlook", and Draghi recently told the European Parliament that he sees a "relatively vigorous" pickup in underlying inflation. The hurdle to continue with net asset purchases therefore appears to be very large. The ECB would lose credibility and, at any rate, circumstances are very different to the "whatever it takes" period. Only in the case of an EU bailout would the ECB be allowed to purchase bonds under the Outright Monetary Transactions (OMT) framework which was announced during the sovereign debt crisis in 2012. As Draghi said after the October monetary policy meeting, "financing government deficits is not part of our mandate".

However, we do note that the ECB will remain active in markets to reinvest principal redemptions under its asset purchase programme (APP). The details of the reinvestment policy have not yet been announced. We think that the ECB will grant itself extra flexibility in order to smooth the effects on markets – which may support Italian bond prices. Also, Italian banks are due to come under further pressure as ultra-cheap funding received under the ECB's Targeted Long Term Refinancing Operations (TLTRO-II) programme is due to be repaid in mid-2020. The ECB could take some steps to ease the pressure from this.

Lastly, we note that the ECB is set to review its capital key, which guides net purchases on a monthly basis, next year. Italy's share of both population and GDP in the EU has fallen over the last five years meaning the review is unlikely to result in a favourable change.

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