

The NewsLine

December 2, 2016

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

ITALY

Ahead of the vote

Dr. Michael Heise
Phone +49.89.3800-16143
michael.heise@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>

 Allianz Research
<https://twitter.com/AllianzResearch>

The outcome of the Italian constitutional referendum remains open. Polling has already stopped, with a third of voters still undecided. Surveys show that a majority of Italians fundamentally support the move towards a more streamlined political system that the constitutional amendments would entail. On the other hand, the deep-seated dissatisfaction that most Italians express with their country's political and economic situation, and the fact that 60% consider the referendum as a vote on their increasingly unpopular prime minister, Matteo Renzi, imply a high risk of a protest vote.

Polling has already stopped, with a third of voters still undecided. Surveys show that a majority of Italians fundamentally support the move towards a more streamlined political system that the constitutional amendments would entail. On the other hand, the deep-seated dissatisfaction that most Italians express with their country's political and economic situation, and the fact that 60% consider the referendum as a vote on their increasingly unpopular prime minister, Matteo Renzi, imply a high risk of a protest vote.

In case of a No, we do not expect an immediate political crisis or a re-ignition of the euro crisis. Matteo Renzi might resign in case of a landslide against him but would then be replaced by transitional government tasked with unifying the electoral law for both houses of parliament before the next scheduled elections in 2018.

There would be increased market volatility and some spread widening, but given that referendum risk is already priced in to some extent and Italian equities have been underperforming anyway, the impact would be manageable. Also, Italy has a current-account surplus and most debt is held

The NewsLine

December 2, 2016

domestically. The European Central Bank would stand ready to step in to limit fallout and contagion risk. Unlike in the Brexit vote, a No in this referendum would cement the status quo.

We worry more about the medium-term implications of a No, as the focus would return to Italy's disappointing growth rates, high public debt and weak banking sector. A lame-duck government implies at least another 18 months without progress on much-needed reform. Impending bank recapitalizations would be more difficult in an environment of economic stagnation, weak confidence and divided government. Without the reform of the bicameral system, and assuming that a No would be followed by a return to a proportional voting system for both chambers, Italy looks condemned to fragmented and fragile governments for the foreseeable future. If the eurozone's third largest economy is unable to generate growth and implement reforms in the medium term, questions about the sustainability of its euro membership will eventually arise.

The NewsLine

December 2, 2016

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.

This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.