

5 December 2016

BUSINESS INSIDER

Riboldi: "A 'No' vote will damage the economy, not the markets"



Another shock for the markets, but not a catastrophe. "The victory of the 'No' vote is pretty much a sure thing and the stock markets are adjusting accordingly. However, we'll see the problems in the medium term. With a 'Yes' win in the referendum on constitutional reform, Italy would have an opportunity to change pace and resume growth". Luca Riboldi, Chief Investment Officer at Banor SIM, which has assets under management totalling €5 billion, has taken his stance. From a financial perspective he's trying to act as 'fire-fighter' by allaying the sense of alarm expressed by those who fear the country will collapse. "Since the start of the year Italian banks have lost 20% compared with their European counterparts. Securities are heavily discounted, and in the event of a defeat for Renzi Piazza Affari [the Italian bourse] could lose another two or three points and the banks could fall by as much as 7%. But I don't expect disasters in the medium term".

Many analysts are convinced that a victory for the "No" vote would scupper the capital increases of MPS and Unicredit and sink the Italian banking system

"The recapitalisation of MPS will succeed, although it will clearly be more difficult. Indeed, the government will probably need to intervene but the figures on the table will be under €4 billion, not least because some of the institutional investors will convert their bonds into shares. The government may have to invest €2 billion, and might have to cross swords with the European Union, but it certainly won't let the country's third-largest bank fail. The same thing will happen with Unicredit. It will

be complicated, but the recapitalisation will be completed. Of course, by the end of all this we'll find that we've sold off Italy's banks at a cut-rate price, but the real pity is that opportunities are being lost with this vote".

Which ones?

"If the 'Yes' vote wins, Italy will see a very real change of pace. Our problem has always been one of governability, or rather the lack of it. That's a weak point that the markets take for granted because no matter who is in power in Palazzo Chigi [home of the Italian government], they can't do what they'd like to. Renzi's reform increases the powers of the government and makes the work of Parliament faster and more transparent by speeding up the entire reform process".

The problem of the banks remains.

"Non-performing loans are blocking access to credit and holding back the economic recovery. Governments too have a responsibility here: they should have addressed the problem straight away, as the Germans and the Dutch did. Now, with the bail-in, it's all much harder".

How would a "Yes" victory translate in the markets?

"Piazza Affari would open with an increase of 6-7% and the banks would see a rise in the double figures. But that's not the point. Italy has a valuation gap of about 30% with respect to the other European markets, and with a 'Yes' vote we'd be able to close that gap in the space of 12-18 months. Our more international securities are performing pretty well, but a 'Yes' win would give a strong boost to stocks linked to the domestic market, from media to telecoms, by backing the country's economic recovery".

Simply thanks to the constitutional reform?

"Shuttling draft legislation between the Chamber of Deputies and the Senate clogs up the legislative process and obstructs reforms and growth. We've estimated that average annual growth would rise from 0.5% to 1.5%: not much compared with what other western European countries are doing, but the impact on unemployment, for example, would be huge. And we'd at last be able to resolve the debt to GDP ratio, which is around 133%".

Would a quicker legislative process be enough to solve all of Italy's problems?

"No, but speeding up the reforms, from justice to red tape, would act as a magnet to international investment. The 'Madia' reform [of the Italian public sector] is moving in the right direction. Over the last 10 years we've attracted a tenth of the inward investment won by France, which isn't exactly a welcoming country in that respect. Anyone leaving London after Brexit could choose Italy because we have a very high level of skills and expertise, at a low cost: as a result of unemployment, our graduate pay levels are lower than in the rest of Europe".