Italy demands EU abolish 'bail-in' rules

By Elisa Barwick

An uproar over the European bail-in regime has erupted in Italy. The regime takes the form of the Bank Recovery and Resolution Directive (BRRD) enacted by the European Union (EU) on 1 January 2016, which in the event of a bank failure mandates the confiscation of private savings and investments before a public bailout can be conducted.

The brewing storm came to a head on 27 February when Italian Finance Minister Giovanni Tria told the Senate Finance Committee that while in Italy "everyone was against" the introduction of bail-in powers, the government "was practically blackmailed by the German finance minister" that if it did not accept the new regime, "the news would spread that our banking system was one step away from bankruptcy". (Tria's office later stepped back from the use of the word "blackmail", stating that the minister was describing the general situation that would result if they rejected bail-in, not specifically blaming the German finance minister.)

But Tria is not alone; he was responding to comments by Antonio Patuelli, the head of the Italian Banking Association (ABI), who earlier in the day had called for the repeal of the bail-in rule. Patuelli described the precarious situation in Italy, saying the current regime brings a psychology of "anguish to savers". This has developed since 2015 when four regional banks were bailed in, burning many savers, followed by the partial bail-ins of two Veneto banks in 2016, and of Italy's oldest bank, Monte dei Paschi di Siena, in 2017. The bail-in rule has no legitimacy, Patuelli said, and should be repealed and replaced with new rules.

Tria told the Senate committee, "Of course I share the opinion of Patuelli."

Bail-in rules were driven by "convictions that exist mainly in Northern Europe", continued Patuelli, which Italy needed to sign on to in order to have a seat at the table in Brussels. This observation conforms with the thesis of a 2013 JPMorgan Chase report which blasted Southern Rim nations with anti-fascist constitutions for holding up plans for a fully-fledged European financial dictatorship. "The Euro area adjustment: about halfway there" singled out "deep-seated political problems in the periphery"—countries such as Italy, Spain, Portugal, and Greece—because their political systems "were established in the aftermath of dictatorship, and were defined by that experience"; consequently they don't allow for a strong executive or central state, and provide "constitutional protections" such as the right to protest. These countries have been less effective in carrying out the required "fiscal and economic reform agendas", said the report.

On 1 March yet another leading banking figure joined the tirade against bail-in. Head of banking supervision at the Bank of Italy, Carmelo Barbagallo, gave a speech in Modena in northern Italy, saying that bail-in rules were rushed into law and are virtually unenforceable. Echoing both Tria and Patuelli, he said the rules "risk undermining trust in banks and generating instability".

As it stands now, he outlined, the rules concentrate market power in the hands of large banks, to the detriment of small and medium sized banks. Barbagallo called for a revision of existing rules with more regard to fostering economic growth. The flow of bank credit to businesses and households has not recovered since the financial crisis, and alternative forms of finance are required, he stated.

Three men against bail-in: Italian Finance Minister Giovanni Tria, Italian Banking Association head Antonio Patuelli, and Bank of Italy's Carmelo Barbagallo. Photos: Wikipedia, YouTube

Glass-Steagall

A Parliamentary Committee has been set up to investigate the banking crisis, with judicial powers to subpoena witnesses. Like Australia's banking royal commission, this can advance the push for Glass-Steagall banking separation, a key element in solving the crisis, which would prevent retail banks which hold savings from engaging in risky financial speculation. The manifesto of the Italian governing coalition—the Five Star Movement (M5S) and Lega Nord—includes bank separation. When this was revealed in May 2018 the *Financial Times* wrote that "the barbarians are not merely massing at the gates of Rome. They are inside the city walls", indicating the threat it represents to the financial power of the City of London. Such is the support for the proposal that three bank separation bills had been tabled in the parliament within two months of the new government taking office, by non-government parties. In February this year, Deputy Prime Minister Luigi Di Maio restated his government's commitment to approving Glass-Steagall bank separation laws "in the coming months". According to *AAS*'s Italian sources, however, its implementation is being stymied by the opposition of the big banks exerting their influence over the political system.

An important development came on 6 March, however, when Italy's Finance Undersecretary Alessio Villarosa (M5S) announced, "I have opened a working table on an issue which I consider to be a decisive one: Separation between commercial banks and investment, speculative banks." The "table" will include hearings on how to reinstate Glass-Steagall banking separation in Italy, which proceeds, as Villarosa said, "on the basis of a popular and parliamentary mandate. The banking system must go back to exclusively serve the real economy, rigorously avoiding investing depositors' money in speculative financial operations.

"We intend to start our work through an investigation, asking all players in the sector to participate. It is a priority Table, also given the sensitivity of the action which, however, is necessary above all in light of fragilities shown by our banking system in the past", Villarosa stated.

In a speech to the European Parliament on 12 February, Italian Prime Minister Giuseppe Conte confirmed Italy would be taking its own path rather than blindly following the EU, saying that the people of Europe are demanding a "change in method". Conte called for "a radical re-think of the forms and institutions" of the EU. Italy has already been under attack from the EU for expanding its budget deficit to alleviate the impact of austerity measures and provide relief to pensioners, but it appears the fight is just beginning.