

'This newsletter is translated from the Japanese edition distributed on June 22nd.  
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

# Global Risk Watch Newsletter

## Exit from extraordinary monetary easing: the US way and the European way, etc.

Global Risk Watch Vol.39  
29 June 2018

=====

《index》

1. [# Exit from extraordinary monetary easing: the US way and the European way \(Tsuyoshi Oyama\)](#)
  2. [# The Volcker Rule revision would relax regulatory compliance burden \(Shiro Katsufuji\)](#)
  3. [# Europe's returning debt risk? \(Toshikazu Kumagai\)](#)
  4. [Seminars, Conferences & Publications](#)
- =====

### 3. Highlight of Indicator for this Month (Trends & Topics)

#### **# Europe's returning debt risk? (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)**

Concerns are spreading about the newly formed Italian administration. The populist Five Star Movement received the most votes in the March 2018 election and has now formed a coalition government with the far right League party, who also picked up many seats. The new government will move forward with policies like payments to low-income unemployed persons and large scale tax cuts that will greatly increase the country's debt. In response to this, yields on Italian bonds spiked while the sovereign CDS spread also widened significantly.

In recent years the fiscal balance in Italy has recovered thanks to a relatively robust economy and controls on annual expenditures (Figure 1). The scope of the new administrations budgetary expansions has yet to be fully defined. However concerns are mounting that the fiscal health of the country will worsen in the future as frustration with austerity has been building in Italy for some time.

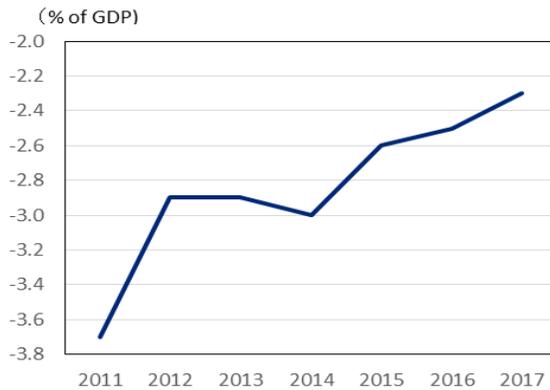
Other potential sources of uncertainty also include the fact that the ECB is reducing its bond buying activities and trends in the business environment itself. At the June 14 ECB Governing Council Meeting it was decided that from the end of September that the bond buying program of EUR 15 billion will be halved and exited completely by the end of the year. Currently about EUR 3-4 billion of Italian debt is being purchased each month via the Public Sector Purchasing Programme (PSPP) (Figure 2). The plan going forward was essentially to reinvest maturing Italian bonds and hold the current balance, but now the ECB's support of market stability will gradually shrink. Looking at who owns Italian debt, we can see that when appropriate financial firms (banks etc.) and insurance firms own Italian bonds. But, over 30% of Italy's sovereign debt is held overseas (this number includes the debt

held by the ECB) (Figure 3). It is difficult to discount the effects of the ECB scaling back its ownership of various country's bond as in Italy's case foreign held debt will only grow even as the ECB's share of that foreign-held debt shrinks.

On top of this, there is also the view that as compared to last year the economic vigor of the EU has stagnated somewhat. Caution is growing when it comes to tax cuts and ballooning expenditures (Figure 4). The business climate is not expected to take a sudden turn any time soon, there is still concern that should the climate deteriorate this may impact the financial sector. They may find themselves with an NPL issue and holding bonds whose value is plummeting.

We can only seek that countries have a fiscal policy that takes into account the response of the market – if only to avoid people's suffering under a financial crisis sparked by populism.

Figure 1 Italy's Fiscal Balance as a percentages of GDP



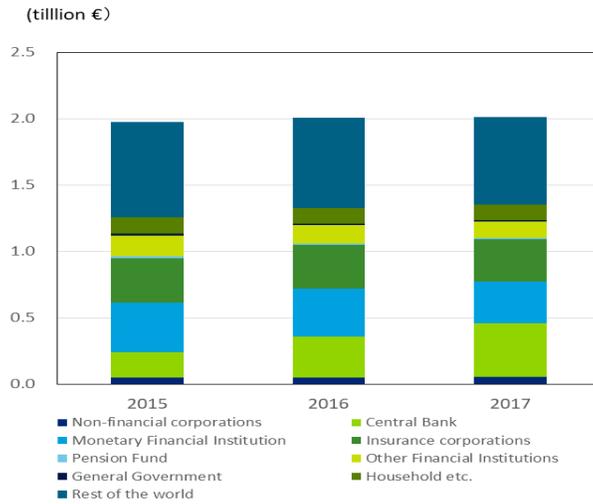
Source: Eurostat, DTT Analysis

Figure 2 ECB Bond Buying Levels



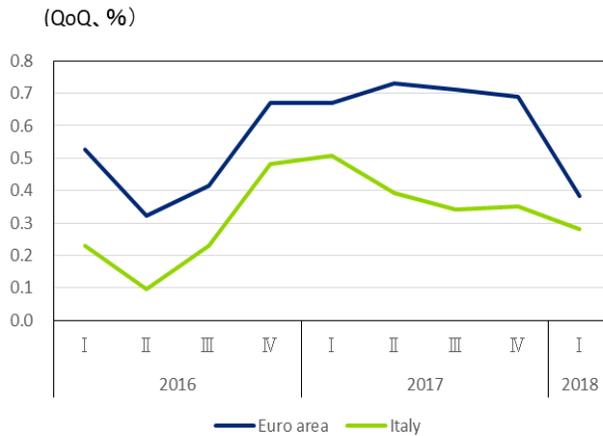
Source: ECB, DTT Analysis

Figure 3 Breakdown of Italian debt holders



Source: Bank of Italy, DTT Analysis

Figure 4 GDP growth rate in Italy and the EU



Source: Eurostat, DTT Analysis

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at [www.deloitte.com/jp/en](http://www.deloitte.com/jp/en).

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of

member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2018. For information, contact Deloitte Touche Tohmatsu LLC.