

Italy Granted “Extraordinary” €150BN EU Bank Bailout Program To Prevent “Panic, Run On Deposits”

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According to an EU official, the liquidity support program includes up to €150 billion (\$166 billion) in government guarantees. The WSJ adds that the commission spokeswoman declined to comment on the amount of guarantees that were authorized, but said that the budget requested by the Italian government had been found to be proportionate. The Italian economy ministry declined to comment.

An amusing sidebar: “only solvent banks would qualify for the liquidity support program, which has been authorized until the end of the year.” The problem is that with €360 billion in NPLs, every bank in Italy is insolvent, which implicitly means that *they will all be found to be solvent* or otherwise nobody will benefit.

Confirming the severity of the Italian fiasco, is that the decision which was taken on Sunday, had not been previously disclosed until the WSJ reported on it and “appears to be a first indication of governments moving to shore up banks in the wake of market turbulence following the Brexit referendum in the U.K.”

In other words, just as we said before, Brexit was nothing more than a Europe-blessed “crisis” ploy designed to achieve two things: unleash more QE, which the BOE admitted will happen (most likely with the involvement of the ECB), and ii) to facilitate the bailout of insolvent Italian banks. [To wit:](#)

Brexit will be just the scapegoat used by Renzi and Italy to circumvent any specific eurozone prohibitions. And if it fails, all Renzi has to do is hint at a referendum of his own. Then watch as Merkel scrambles to allow Italy to do whatever it wants, just to avoid the humiliation of a potential “Italeave.”

And while Angela Merkel apparently shut down the original proposal pitched by Italy, Europe – surely under the guidance of Mario Draghi – has found a way to circumvent her veto power.

“As this decision and other precedents demonstrate there are a number of solutions that can be put in place in full compliance with EU rules to address market turbulence,” the spokeswoman said.

To be sure, Italy’s market has indeed been turbulent: Italian banks have lost more than half of their market capitalization since the beginning of the year, as investors fret about the

lenders' huge exposure to bad loans. That compares to an average decline of less than one third for European lenders. Some Italian banks have seen their shares drop by some 75%.

But what is most stunning is the WSJ's conclusion of what the plan is supposed to prevent - it is not to halt the stock price collapse, it is to prevent a bank run:

A person familiar with the Italian government plans said the cabinet of Prime Minister Matteo Renzi hoped to use a liquidity backstop to contain investor panic, which could result in a run on deposits and affect banks' liquidity.

Needless to say, for Italy's Prime Minister to be contemplating how to avoid "investor panic" and prevent a "run on deposits", then Italian banks must truly be on the verge of collapse.

Finally, for those curious about timing and how soon until it all unravels, we quote the European Commission spokesman who said that "there is no expectation that the need to use this scheme should arise."

What this statement really means, and whether a preemptive plan to bailout Italy's insolvent banks will "boost confidence", we leave up to readers decide.

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