



Italian banks' holdings of Italian sovereign bonds. Based on the latest Bank of Italy data, domestic Italian banks held in total €393bn of securities issued by the General Government. Of this €279bn are BTPs with the remainder primarily made up of BOTs and CTZs (bills), and CCTs (floating rate notes). By our estimates, this means that the banks hold about 20% of outstanding Italian government debt. Since QE started this has been a prudent move for banks, but what happens when the tide turns and the inevitable sell-off starts. It's another factor to consider. If there are ever any doubts about the Government's willingness or ability to pay, the banks will be seriously exposed to a financial crisis.

The reason we don't include an EU/Euro break up as one of our potential crisis triggers is largely because Italy is perhaps the first line of defense to such a scenario. If Italy's problems don't escalate dramatically in the quarters and years ahead, the EU/Euro's survival in its current form is much more likely. So we can assume that if Italy does create a crisis it will likely risk triggering an existential crisis for the economic area as a whole.