

DRAGHI GOVERNMENT COULD BE THE TIMELY TAILWIND ITALIAN BANKS NEED

Piergiacomo Braganti – Director, Research
21 Feb 2021

Entrusting Mario Draghi, former governor of the European Central Bank (“ECB”), to form an institutional Government had the immediate and visible effect of pushing the 10 Years BTP/German Bunds spread below 100 bps, at the lowest level since 2015. It revamped investors’ interest in Italian banks.

Draghi’s credibility matters a lot

The financial markets have a clear memory of the decisive role he played, as President of the ECB, in autumn 2011, when the Quantitative Easing (“QE”) immediately turned off the alarm on Italian Government Bonds.

The subsequent launch, from 2012, of innovative monetary policies such as long-term refinancing and zero or negative rates (ex. TLTRO) helped the country support its debt and Italian banks in more easily disposing of their impaired loans.

Mario Draghi will have to work for an effective and timely use of the Recovery Fund and implement several structural reforms.

Investors believe that Mario Draghi has the experience, credibility, and authority to better manage this process implementation, which will, directly and indirectly, affect Italian banks in a positive way.



Source: WisdomTree, Bloomberg. Data from 17th August 2020 to 17th February 2021.

Historical performance is not an indication of future performance and any investments may go down in value.

- a. The design and implementation of the Recovery Plan should take place with banks' involvement and household savings, which grew further during the pandemic.
- b. If in the short term, it is reasonable to think of an extension of the current State guarantees, in the medium term, the Government could favour the transformation of debts into corporate capital, with the primary involvement of the commercial Banks.
- c. Draghi's experience in the credit sector should also lead the new Government to implement measures that facilitate the transmission of monetary policy to businesses and households and the disposal of bad loans.
- d. Draghi's Govt should push for mergers to increase concentration in the sector, as he did since the ECB time.
- e. The Draghi-led Government's credibility could improve Italy's dialogue and negotiation capability with European partners, especially when the fiscal and stability rules of the credit sector, now somehow attenuated or suspended, will need to be reactivated and reformulated.
- f. The confidence of Mr Draghi's markets is beneficial for Italian banks and insurance, heavily exposed to "sovereign" risk.
- g. Some Italian banks are ready to pay old dividends, approved and not paid, when the restrictions set by ECB, valid until 30 September 2021, are removed. This could happen in the 4th quarter of this year.

Related products

- + [WisdomTree FTSE MIB Banks](#)
- + [WisdomTree BTP 10Y 3x Daily Leveraged](#)
- + [WisdomTree BTP 10Y 3x Daily Short](#)

View the online version of this article [here](#).

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.