

## ARTICLE

For professional investors

October 2016

# Renzi's 'huge gamble' on Italian referendum

- December poll aims to prevent political gridlock in Italy
- PM has threatened to resign if he loses, triggering new crisis
- Italian economic growth remains weak, with lower forecasts

**Italian Prime Minister Matteo Renzi is taking a “huge gamble” on a referendum to reform the country’s political system, says Chief Economist Léon Cornelissen.**

Losing the national vote called for 4 December could bring down Renzi’s government and potentially destabilize the EU if it is replaced with a Eurosceptic-led party, Cornelissen warns. Italian bond spreads have already widened, while investors are also wary of weak growth prospects for Europe’s third-largest economy.

“It seems like an arcane issue in seeking constitutional reform, and not a lot of Italian voters know the nuts and bolts of it, but it is meant to curb the power of the Senate and shift more power towards the lower house of Parliament, the Chamber of Deputies,” says Cornelissen.

“This aims to prevent political gridlock. So this is a once in a lifetime chance for Italy to get a strong and stable executive, which isn’t a bad thing when you bear in mind that they’ve had 63 governments in the last 70 years.”

“However, Renzi has personalized the referendum by threatening to resign if he loses it, and the problem is he’s not that popular because he’s seen as being responsible for EU-imposed



Léon Cornelissen,  
Chief Economist

---

‘They’ve had 63 governments in the last 70 years’

---

austerity, the refugee crisis and the Italian banking problem. He isn't seen as being sufficiently assertive, so it's a huge gamble by Renzi, particularly since the polls are too close to call at 50-50."

### **The young reformer**

Renzi has been Prime Minister of Italy since February 2014 as the leader of the center-left Democratic Party. Elected at the age of 39, he was the youngest national leader in the EU and the G7. He has been the chief architect of the constitutional referendum and has staked his political career on it.



Matteo Renzi

"If he loses, people will basically say that Italy is a hopeless case that cannot reform itself, and it could increase the risk of an alternative government – and possibly one run by the Five Star Movement, headed by former comedian Beppe Grillo," says Cornelissen. "So fears of Italy getting a non-mainstream government which is populist and anti-EU will increase."

"This doesn't have to happen, because it's unclear if Renzi actually will resign, and even if he does, the Italian President has a lot of leeway to make sure there is a caretaker or technocratic government. With new elections scheduled for 2018, the president can play for time."

"It does though make the fall of the Italian cabinet likely, and that's why we've seen the risk premium on Italian government bonds increase to 135 basis points over Germany. By way of comparison, Spain's spread is lower at 100 basis points."

"But then as long as Italy has a government which nominally expresses the will to follow EU policies, the ECB will do nothing less than support the Italian bond market if the need arises. And with the ECB's quantitative easing program firmly in place, there is limited downside on Italian bond spreads."

### **Growth is weak**

Cornelissen says the bigger problem for Renzi is economic rather than political, because the Italian government has lowered its growth projections for 2016 to 0.8% and for 2017 to 1.0%. "This means more trouble ahead; the government would like to present an October budget with some giveaways, but this is now becoming especially difficult due the still-

disappointing growth projections," Cornelissen says. "The lack of growth and lowered estimates is depressing, and isn't of course very positive for EU-friendly sentiment in Italy."

In an attempt to boost growth, Renzi has advocated new infrastructure projects, including a long-cherished dream to build a 3 km suspension bridge between Sicily and the Italian mainland across the Strait of Messina, costing upwards of EUR 6 billion.

"This is an old wish of Italian politicians but has never materialized because of fears of corruption along with the technological challenge of building such a bridge," says Cornelissen. "But I don't think the electorate will be all that impressed."

### **Brexit contagion**

He says another potential worry is any rise in Euroscepticism following the UK's shock June decision to leave the EU. British Prime Minister Theresa May said in early October she will invoke Article 50 of the Lisbon Treaty, which would start the formal process for the Brexit, by the end of March 2017.

"The impact of the Brexit has so far been limited in an economic sense, mainly thanks to the fall in the British pound," Cornelissen says. "The main worry is that this could strengthen Eurosceptic sentiment in Italy, bearing in mind that the Five Star Movement wants a referendum on EU membership."

"Any Italian exit from the EU would have far wider repercussions than the Brexit. Unlike the UK, Italy is a member of the Eurozone and a founder member of the EU itself. Italy has a huge national debt which is 130% of GDP, and a big banking problem, so they are basically heavily dependent on support from the ECB and the Eurozone.

"Therefore, if things escalate with Renzi losing a referendum and possibly an associated new EU crisis, then that would be devastating for the whole Eurozone. But so long as Italy has a government that is prepared to play to EU rules, then the ECB is basically a guardian of the Italian bond market."

### **Spanish inquisition**

The Italian issue comes on top of Spain's continued inability to form a workable government after inconclusive elections last December, though the country has brighter economic prospects, Cornelissen says.

"Spanish economic growth is much stronger than Italy's, and Spanish debt is much smaller," he says. "New Spanish elections are likely in December. There are some political parallels

---

'The ECB is basically a guardian of the Italian bond market'

---

between Italy and Spain, along with a general rise in Euroscepticism and fringe parties, but generally in Spain, politicians get things done, whereas in Italy it's mostly stalemate."

Other upcoming issues include French presidential elections in April 2017 in which there is a risk of far-right candidate Marine Le Pen getting elected, and the lesser-risk German general elections the following September in which the current SPD/CDU government is expected to win through again.

#### **Important Information**

Robeco Institutional Asset Management B.V., hereafter Robeco, has a license as manager of UCITS and AIFs from the Netherlands Authority for the Financial Markets in Amsterdam. Without further explanation this presentation cannot be considered complete. It is intended to provide the professional investor with general information on Robeco's specific capabilities, but does not constitute a recommendation or an advice to buy or sell certain securities or investment products. All rights relating to the information in this presentation are and will remain the property of Robeco. No part of this presentation may be reproduced, saved in an automated data file or published in any form or by any means, either electronically, mechanically, by photocopy, recording or in any other way, without Robeco's prior written permission. The information contained in this publication is not intended for users from other countries, such as US citizens and residents, where the offering of foreign financial services is not permitted, or where Robeco's services are not available

#### **Additional Information for investors with residence or seat in France**

RIAM is a Dutch asset management company approved by the AFM (Netherlands financial markets authority), having the freedom to provide services in France. Robeco France has been approved by the French prudential control and resolution authority (formerly ACP, now the ACPR) as an investment firm since 28 September 2012.

#### **Additional Information for investors with residence or seat in Germany**

This information is solely intended for professional investors or eligible counterparties in the meaning of the German Securities Trading Act.

#### **Additional Information for investors with residence or seat in Italy**

This document is considered for use solely by qualified investors and private professional clients (as defined in Article 26 (1) (d) of Consob Regulation No. 16190). If made available to Distributors and individuals authorized by Distributors to conduct promotion and marketing activity, it may only be used for the purpose for which it was conceived. Therefore, the information set forth herein is not addressed and must not be made available, in whole or in part, to other parties, such as retail clients. Robeco disclaims all liability arising from uses other than those specified herein. All rights relating to the information in this presentation are and will remain the property of Robeco.

#### **Additional Information for investors with residence or seat in Spain**

The Spanish branch Robeco Institutional Asset Management BV, Sucursal en España, having its registered office at Paseo de la Castellana 42, 28046 Madrid, is registered with the Spanish Authority for the Financial Markets (CNMV) in Spain under registry number 24.

#### **Additional Information for investors with residence or seat in Switzerland**

RobecoSAM AG has been authorized by the FINMA as Swiss representative of the Fund, and UBS AG as paying agent. The prospectus, the articles, the annual and semi-annual reports of the Fund, as well as the list of the purchases and sales which the Fund has undertaken during the financial year, may be obtained, on simple request and free of charge, at the head office of the Swiss representative RobecoSAM AG, Josefstrasse 218, CH-8005 Zurich. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. The value of the investments may fluctuate. Past performance is no guarantee of future results. The prices used for the performance figures of the Luxembourg-based funds are the end-of-month transaction prices net of fees up to 4 August 2010. From 4 August 2010, the transaction prices net of fees will be those of the first business day of the month. Return figures versus the benchmark show the investment management result before management and/or performance fees; the fund returns are with dividends reinvested and based on net asset values with prices and exchange rates of the valuation moment of the benchmark. Please refer to the prospectus of the funds for further details. The prospectus is available at the company's offices or via the [www.robeco.ch](http://www.robeco.ch) website. Performance is quoted net of investment management fees. The ongoing charges mentioned in this publication is the one stated in the fund's latest annual report at closing date of the last calendar year.

#### **Additional Information for investors with residence or seat in the United Kingdom**

This statement is intended for professional investors only. Robeco Institutional Asset Management B.V. has a license as manager of UCITS and AIFs from the Netherlands Authority for the Financial Markets in Amsterdam and is subject to limited regulation in the UK by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.

#### **Additional Information for investors with residence or seat in Hong Kong**

This document has been distributed by Robeco Hong Kong Limited ('Robeco'). Robeco is licensed and regulated by the Securities and Futures Commission in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

#### **Additional Information for investors with residence or seat in Singapore**

This document has not been registered with the MAS. Accordingly, this document may not be circulated or distributed directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This information is for informational purposes only and should not be construed as an offer to sell or an invitation to buy any securities or products, nor as investment advice or recommendation. The contents of this document have not been reviewed by the Monetary Authority of Singapore ("MAS"). Robeco Singapore Private Limited holds a capital markets services licence for fund management issued by the MAS and is subject to certain clientele restrictions under such licence. An investment will involve a high degree of risk, and you should consider carefully whether an investment is suitable for you.

#### **Additional Information for investors with residence or seat in Australia**

This document is distributed in Australia by Robeco Hong Kong Limited (ARBN 156 512 659) ('Robeco') which is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order 03/1103. Robeco is regulated by the Securities and Futures Commission under the laws of Hong Kong and those laws may differ from Australian laws. This document is distributed only to wholesale clients as that term is defined under the Corporations Act 2001 (Cth). This document is not for distribution or dissemination, directly or indirectly, to any other class of persons. It is being supplied to you solely for your information and may not be reproduced, forwarded to any other person or published, in whole or in part, for any purpose.

#### **Additional Information for investors with residence or seat in the Dubai International Financial Centre (DIFC), United Arab Emirates:**

Robeco Institutional Asset Management B.V. (Dubai Office), Office 209, Level 2, Gate Village Building 7, Dubai International Financial Centre, Dubai, PO Box 482060, UAE. Robeco Institutional Asset Management B.V. (Dubai office) is regulated by the Dubai Financial Services Authority ("DFSA") and only deals with Professional Clients and does not deal with Retail Clients as defined by the DFSA.