LUISS SCHOOL OF EUROPEAN POLITICAL ECONOMY

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FIVE BULLETS ON THE BAIL-IN AND ITALY'S PUBLIC DEBT

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- The conflict between Rome and Brussels over the regulation of banks' bail-in and public budget flexibility is a consequence of Italy's denial of the European partners' concerns over the wobbly mountain of Italian public debt.

- Those fears prevent the Euro-area from adopting risk-sharing policies, with severe consequences for Italy itself. In fact, as the bail-in application showed, an incomplete banking union–devoid of risk-sharing measures–may be less stable than no banking union at all.

- On the contrary, the bail-in regulation would not be a problem if the two other pillars of banking union–a common deposit insurance and a common fiscal backstop–were in place. The reason why they are not is that other states would rather not share Italy's banking risks because they coincide with its public debt risk, given the amount of sovereign debt in bank portfolios.

- Unfortunately, the alternative to risk-sharing is risk decentralization. Proposals for a concentration rate for sovereign bonds in bank portfolios as well as differentiated risk weighting by country go in that direction and would increase the instability of Italy's debt.

- Until Italy tackles its debt problem, it will oscillate between crises and policies that make it even harder to avoid the next crisis.