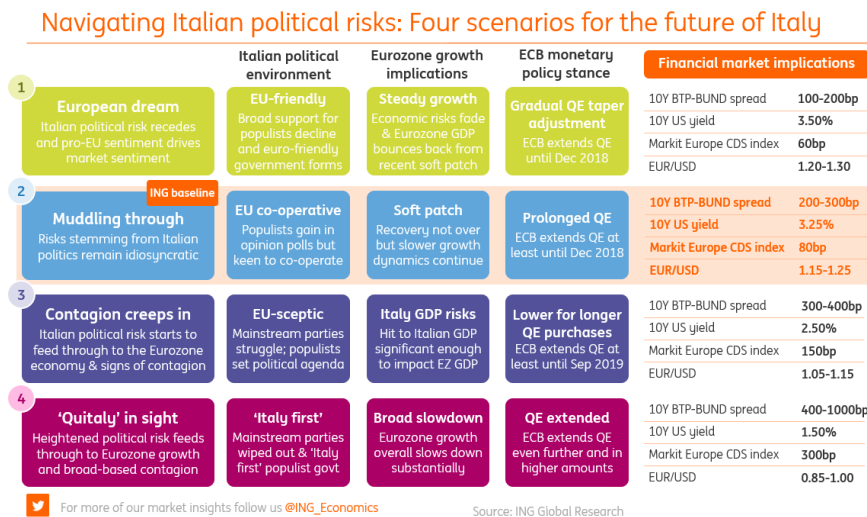


Navigating Italian political risks: What's next?

Although a 5SM-League government will be announced later today, we take a step back and outline four potential scenarios from the benign to severe and their implications for markets



Italy's populist Five Star Movement and the far-right League have sent jitters across markets with their proposals to form a government on an openly euro-sceptic agenda. The President's veto of a proposed Euro-sceptic finance minister at one point threatened a constitutional crisis.

Concerns over mini-BOTs

Concerns that populists might consider the idea of issuing mini-BOTs, a short-term debt instrument often described as a disguised parallel currency, have especially fanned investor fears over Italy, where support for the EU is relatively low.

Fresh elections early next year?

So far a crash in Italian debt markets have pulled populists back from the brink, and at present, their leaders are trying to form a less confrontational government. Yet, the prospect of fresh elections early next year remains.

Brussels' stance matters

The degree to which financial market discipline curtails populist policies – and Brussel's stance to draw the string from populist support – will be key in determining Italy's political path.

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