

How to exit the euro in a nutshell 'Il Piano Savona'

Daniel Gros

Paolo Savona will now become Minister for EU Affairs in Italy's new Lega-Five Star Movement government. He is the main author of a Plan for Italy's exit from the euro. This document, which has now been made public, is briefly analysed here to shed some light on the strategy that has apparently been adopted by the Lega Party, which has insisted on Savona's participation in the government.¹

Eight key points contained in the Plan are presented below, with numbers in bold referring to the number of the relevant slide in his presentation. See also the Annex for excerpts of the Plan (in Italian) referenced in the text.

The Plan

1. *Plan B?* The introduction asserts that Italy needs a Plan B as both a 'deterrent' and a negotiation tool (slide 7) but then proceeds to show that Italy needs a large devaluation in any event. There is no indication of what 'concessions' would be demanded in exchange for shelving the Plan. It looks more like a proposal that would be implemented regardless of any reforms of the euro that might come about.
2. *A curious view of democracy.* In domestic legal terms, the Plan emphasises the *Lex monetae*² as a power of the government. Hence there should be no referendum (unconstitutional for Savona, slide 21). A simple decision taken by the government would be sufficient (a vote in Parliament is not mentioned).

¹ N.b. The original presentation, entitled "Guida Pratica all'uscita dall'Euro" and dated 3 October 2015, can be found on the website of an obscure organisation where one finds mainly 'alternative' facts and views (<https://scenarieconomici.it/il-piano-b-per-litalia-nella-sua-interrezza/>).

² Recognised by most developed jurisdictions, *Lex monetae* is a legal principle stating that a country can determine its own currency and thus also the currency in which debt should be repaid.

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3. *No eurobonds!* The Plan is also opposed to any Eurobonds because they would not be under exclusive Italian jurisdiction (and would thus make default more difficult) (slide 21). This means that the author would also be opposed to any of the many variants of common bonds that have been proposed so far.
4. *Remain in EU.* The introduction mentions in general the need to maintain good relations with EU partners and the importance of Italy remaining in the EU. But this seems impossible given the planned default on official debt (slide 32).
5. *Capital controls.* The operative plan is quite standard: Imposition of strict capital and banking controls with the announcement of the intention to leave the euro area, timed for a weekend with the change in currency following almost immediately. Savona envisages that the exchange rate of the new currency with the euro would initially be 1:1, but it would then depreciate (slide 40).
6. *Default on public debt.* Only public debt would be redenominated in the new currency – which should depreciate by about 15-25% (slide 43) (to establish competitiveness vis-à-vis Germany, not on a weighted average basis). A haircut on public debt should follow in order to bring the debt/GDP ratio to 60-80%. (slide 52). It is not stated in the document, but the (nominal) haircut would have to be about one half in order to reach a debt/GDP ratio of 65 % (today's is over 130 % of GDP). Given that the lower nominal value would be paid in 'new' lira, the overall loss of value for investors would thus have to be more than one half. Savona does not mention that since 2012 all new debt has a collective action clause requiring the agreement of a majority of 3/4th of all creditors to any change in the terms.
7. *Default on official debt and Target2 balances.* The Plan says foreign official creditors (except the IMF) should also accept a haircut, explicitly mentioning Target 2 balances, which should be denominated in the new currency (and be cut). The Plan refers to Sinn's book,³ asserting that the legal basis for enforcing Target 2 balances is weak (slide 55).
8. *Give to the rich, take from the poor.* The Plan explicitly foresees re-distribution of wealth towards the better off: (slides 58,59 & 60). Foreign assets of the private sector (which are substantial) would not be re-denominated, and the gains, which would accrue to the 'medium to upper' levels of the population would not be taxed. But real wages should fall.

In a nutshell

All in all, this Plan seems designed to confirm Germany's worst fears: exit would be accompanied by a massive default on public debt, including foreign official debt, such as Target2 balances. But rich Italians who have considerable assets abroad would be able to keep their euros (and without any taxation).

³ Hans-Werner Sinn, *The Euro Trap: On Bursting Bubbles, Budgets, and Beliefs*, Oxford: Oxford University Press, 2015.

This insistence of a default on foreign official creditors is difficult to understand, given that Italy's net international asset position is almost in balance (net position only minus 8% of GDP). There is thus no objective reason why Italy would need to cut its foreign debt. In the case of Greece, most debt was held abroad. A cut in foreign debt was thus unavoidable. But not even Varoufakis entertained a default on Greece's official debt.

But what is particularly astonishing about Savona's Plan is not the idea that Italy might need a devaluation, but rather the open intention to stick it to the rest of the world – particularly Italy's euro partners – to the benefit of the wealthy part of the Italian population.

Annex

Estratti dal documento

“Guida Pratica all'uscita dall'euro”

Presentato nell'ottobre 2015 a Roma da Paolo Savona

Slide 21

“Occorre infine precisare che l'introduzione della moneta unica è prevista da un Trattato (Maastricht), quindi chi sostiene che l'uscita dall'euro possa avvenire attraverso un **referendum** abrogativo (art. 75 co. II Cost.) commette un errore.”

Slide 21

“L'Uscita dall'Eurozona è un'eventualità che può realizzarsi unilateralmente attraverso la corretta applicazione - nell'intesa nazionale - del principio della *Lex Monetæ* (artt. 1277, 1278 e 1281 co. I c.c.). A tal proposito è importantissimo che l'Italia mantenga propria giurisdizione sulla totalità del debito pubblico (**NO agli Eurobond!**)”

Slide 32

Raccomandazioni:

È bene mantenere buoni rapporti coi paesi U.E.. Il modo migliore per farlo è quello di:

- Onorare i debiti ufficiali, rispettare le leggi ed accordi internazionali e coordinarsi (per quanto possibile).
- Pre-avvertire gli altri governi (ma con minimo anticipo)
- Rimanere all'interno dell'UE.

Slide 40

“ C) Prevenire Fughe di Capitali e Collasso Bancario

Raccomandazioni:

Una volta che è stato fatto l'annuncio dell'uscita dall'euro, chiudere le banche, prevenendo eventuali operazioni bancarie, tra cui prelievo di contanti.

Un drastico aumento dei controlli sulle transazioni e su tutte le istituzioni finanziarie ed operazioni finanziarie, si può evitare, se il D-Day si verifica nel corso di una fine settimana.

Se vi fossero "fughe di notizie" sull'imminente uscita dall'euro, al fine di evitare di dover chiudere le banche per un periodo prolungato, dovrebbero essere imposti controlli sui capitali più ampi."

Slide 43

"Per l'Italia si può ipotizzare una svalutazione dell'ordine del 15- 25% su Euro , ma anche di maggiore entità nel periodo transitorio. "

Slide 52

"Raccomandazioni:

Nel D-Day l'Italia dovrebbe annunciare la ridenominazione del debito pubblico in Lire .

I Bilanci delle Banche dovrebbero essere ridenominati in Lire nella loro interezza.

L'Italia dovrebbe verificare se attuare o meno unitamente all'uscita dall'euro, anche un default. Tale decisione dipende dalla "sostenibilità" del Debito, legata a diverse variabili."

"Se la sostenibilità del debito fosse a rischio (e.g. contesto internazionale di bassa inflazione e crescita, e debito ulteriormente cresciuto), attuare una moratoria sul servizio del debito pubblico fino a quando la riduzione del debito verrà negoziata con i creditori. L'obiettivo dei negoziati dovrebbe essere quello di ridurre il rapporto debito/ PIL al 60-80% (o a valore sostenibile). I creditori ufficiali (tranne FMI) dovrebbe accettare una riduzione proporzionale della loro quota del debito italiano."

Slide 55

"Il sistema Target2 è un sistema imprescindibile per far funzionare l'euro nel suo attuale assetto: l'uscita dell'Italia dall'euro, comporterebbe significative perdite: ai paesi creditori, sia per la ridenominazione in lire, sia perché legalmente ha basi tutt'altro che solide (non esistono regole e Procedure legali nella BCE)"

Ridistribuzione del reddito:

Slides 58/59/60

"Conseguenze sui Salari Reali : i casi storici di "svalutazione" indicano una perdita del potere d'acquisto dei Salari"

"Le fasce 'medio alte' della popolazione guadagnerebbero dalla rivalutazione degli attivi, e questi guadagni non dovrebbero essere tassati."

"Nel complesso Privati ed Aziende ne beneficerebbero in modo netto (in particolare le fasce medio - alte della popolazione)"