

**Italy considers gold  
as an alternative  
to austerity**

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## Context

**With a clear winner failing to emerge from the Italian elections in February 2013, the Italian political landscape has subsequently navigated an uncertain and challenging period. As a way forward has begun to emerge, it is clear that the new government faces several competing priorities.**

**The World Gold Council commissioned Ipsos MORI, the independent research company, to conduct the first independent nationwide poll in Italy following the elections. Surveying 1,009 Italian citizens and 300 Italian business leaders, the purpose was to capture Italian sentiment around key economic issues at a turning point in the country's governance.**

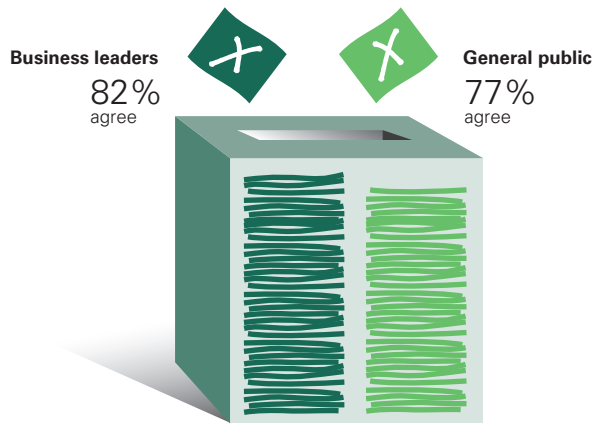
**This report reveals the extent to which the economy was a major factor in voting patterns at the election. It also shows that Italians are demanding a strong growth agenda from any inbound government. In doing so they are also rejecting austerity measures, leaving an incoming government to meet a very challenging brief.**

## Realism and caution: Italian views on the economy

While it is not surprising that economic pressures affected the election outcome, the extent to which Italy's economic environment influenced voting behaviour appears to have been underestimated by external commentators.

Over 77% of Italians and 82% of business leaders cited the current state of the economy as a key factor in their vote. Unsurprisingly, economic concerns were a priority for Italian business leaders. Those in companies of 250 or more employees were particularly influenced by economic pressures – with 89% agreeing it was a key factor in their decision making.

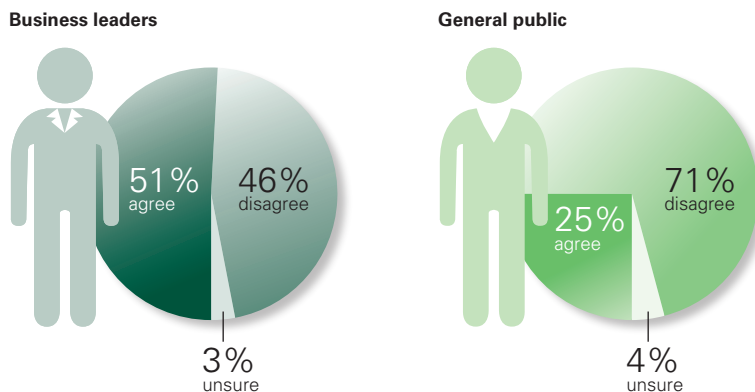
Please indicate how strongly you agree or disagree with the statement: *The current state of the Italian economy has been a key factor in my vote in the political election of February 2013.*



Whether these issues can be solved is another matter. Survey respondents were divided on whether an incoming government would improve the situation. Though there was higher optimism among the business leaders surveyed, 51% of whom were confident a new government would be capable of dealing with the issues at stake, only 25% of the general public expressed confidence.

Overall, a sense of caution pervades: 71% of the Italian general public feel Italy's problems are insurmountable for an incoming executive.

*How confident are you that the incoming government will improve the Italian economy in the near future?*



While domestic priorities are clearly a concern, current EU proposals on the economic governance of the Eurozone are less well understood by the Italian people, with more than a third of respondents saying they didn't know whether the plans would have any positive impact.

Female respondents seemed particularly unsure of the proposals, with 44% unclear. Only 26% of the Italian general public felt EU proposals would impact positively. Clearly, there is an opportunity for further engagement and education if EU policymakers and Italian MEPs are to garner support among the Italian general public.

Italian business leaders were more sympathetic: 60% agreed the EU proposals would be positive for Italy. In particular, it appears senior business leaders hold a more enlightened view on the EU roadmap with support reaching 71% amongst those aged 55 – 64 and 73% among those at board director level. This suggests an important vein of potential support for policy makers within an enlightened, experienced segment of Italian industry.

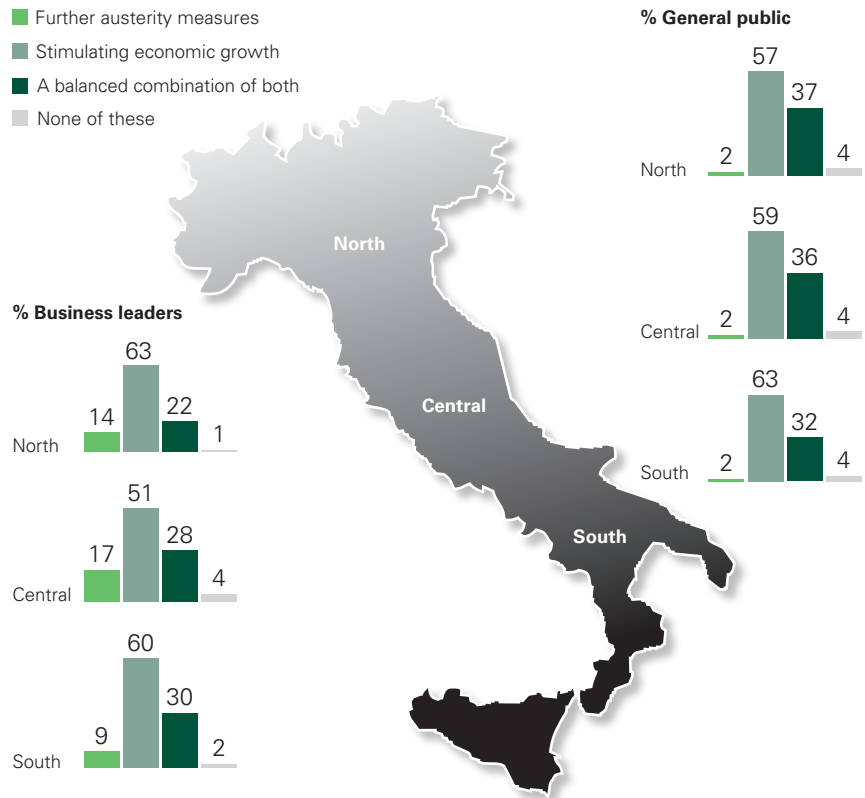
### Ambition and growth: Priorities for a new government

Though pre-election debates questioned the importance of external opinions of Italy, 89% of the Italian general public and 92% of business leaders surveyed agreed improving confidence among overseas investors, business executives and policy leaders was a priority for any future economic policy.

While younger Italians were more likely to rank external opinions as 'fairly important' rather than 'very important', this trend reversed among Italians aged 35 and above. In fact, Italians aged 55 – 70 were the most keen to improve external perceptions and nearly two-thirds of all respondents in this age bracket felt improving perceptions was 'very important'. This was reflected in the business survey, with 97% of business leaders aged 55 – 64 and 94% of board directors rating the improvement of external perceptions as either 'very important' or 'fairly important'.

*Which one of the following do you believe the incoming Italian government should focus on?*

Results by region.



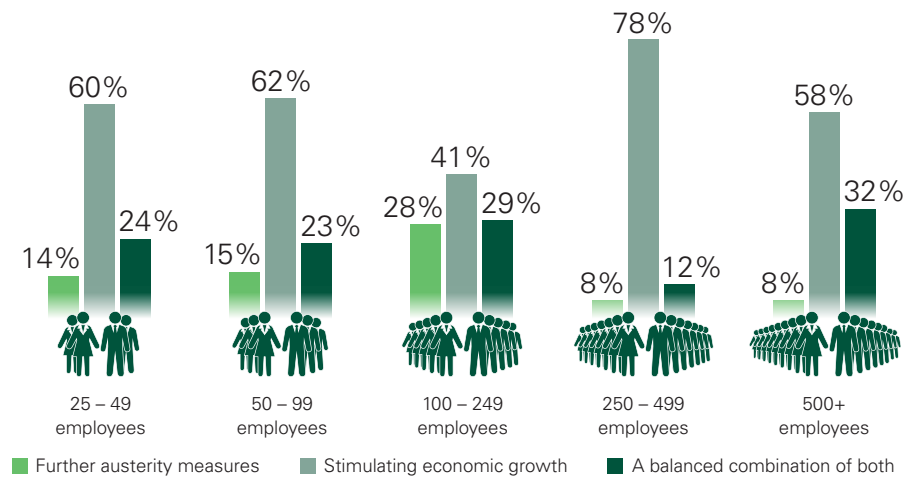
A majority of respondents from the business community felt that greater government stability and some recovery in economic fortunes will be key to fostering this new confidence. Between 70 – 75% of those aged 35 and up prioritised government stability, and over two-thirds of those in companies exceeding 250 employees agreed.

From the results of this survey, it is clear the Italian electorate is adamant growth must be a priority for any new government. An economic policy that focused on stimulating economic growth would be supported by 60% of business leaders and 59% of Italians, while 25% and 36% respectively would permit a policy that blended growth measures with austerity. Regionally, an approach balancing both growth and austerity was more popular in the north of the country. Only 2% of the Italian public and 14% of business leaders would be happy to pursue further austerity measures in isolation.

Italians want their national properties and assets, like shares in public companies and infrastructure, to work for them. 87% of the Italian public and 86% of business leaders are happy to explore this route should it ease Italy's public debt burden and help spur economic growth and employment. Amongst business leaders aged 45 – 64, this number increased to 93%.

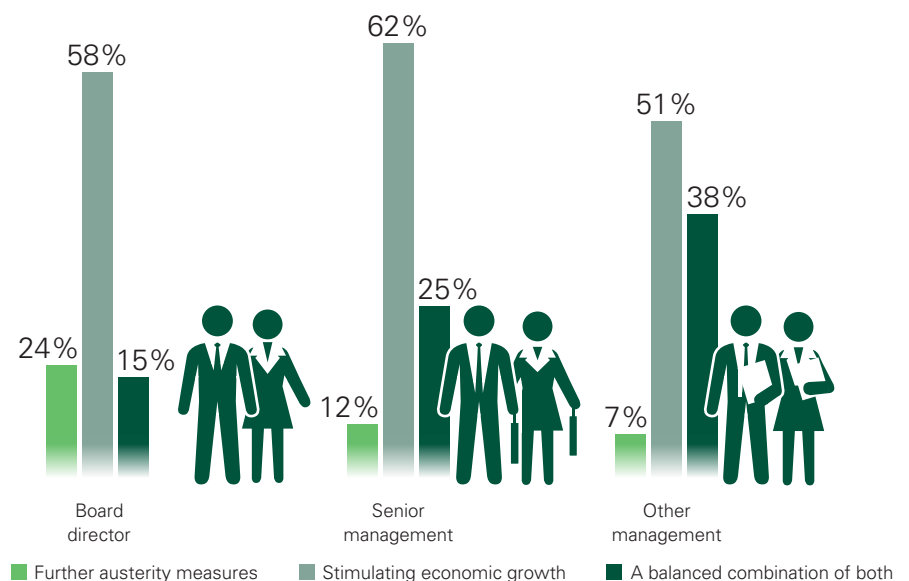
*Which one of the following do you believe the incoming Italian government should focus on?*

Results by company size.



*Which one of the following do you believe the incoming Italian government should focus on?*

Results by role.



## Using gold to meet the challenge

Of the national properties and assets that could be better harnessed to help ease Italy's public debt burden and help spur economic growth and employment, 52% of Italians and 61% of business leaders would endorse using, but not selling, the nation's gold reserves.

In fact, selling the gold would be deeply unpopular: only 4% of respondents would support a sale.

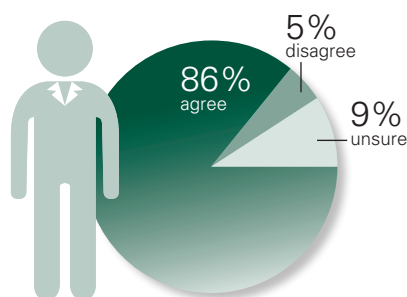
Italian gold reserves are perceived as having an important and positive role to play in Italy's economic recovery, growth and employment. 85% of the Italian public and 92% of business leaders support the view that Italy's national gold reserves should continue to play a key role in protecting Italy's long-term wealth and economic stability.

Public sentiment aside, selling Italy's gold reserves (2,451.8 tonnes<sup>1</sup>) would not be the solution as the proceeds would have limited impact on repayment of the overall public debt position.

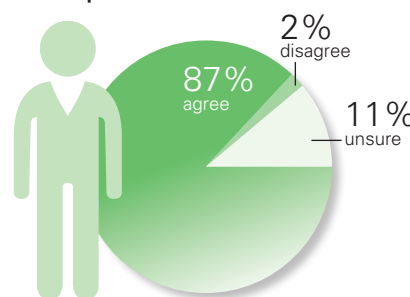
One option is to consider using the gold as security for new sovereign debt issuance. Independent research shows this approach can raise between four and five times the sales value of the gold reserves, while lowering the yield by up to several percentage points. A bond 20% collateralised by gold could raise over 80% of Italy's two year refinancing needs. This would provide Italy with critical breathing space to build its recovery to create a more permanent solution.

Please indicate to what extent you would agree or disagree with the following statement:  
*The Italian government should make better use of national properties and assets (for example: shares in public companies, infrastructure) to ease Italy's public-debt burden and spur economic growth and employment.*

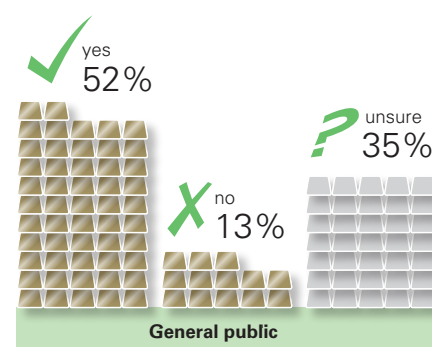
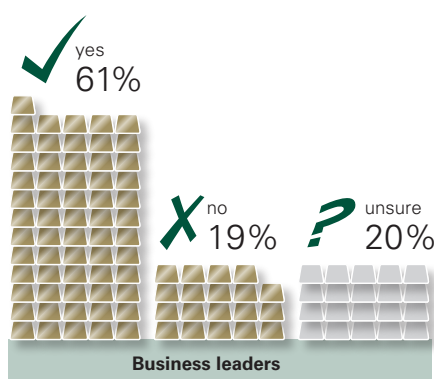
Business leaders



General public



Italy owns more than 2,000 tonnes of gold. If the Italian authorities could reduce the country's cost of borrowing by using, not selling, Italy's gold reserves, would you support this route?



Backing bonds with tangible assets could be instrumental in improving the confidence of investors and leaders abroad in showing the determination of the Italian leadership in forging a new path toward economic reform and recovery.

These gold-backed bonds harness the benefits of gold as collateral to offer an alternative to austerity.

<sup>1</sup> IMF Data, *World Official Gold Holdings*, April 2013

## Gold-backed bonds: An alternative to austerity

With Italy still facing significant financial challenges, national assets – such as gold reserves – present an opportunity to buy some vital breathing space. However, an outright sale of national gold reserves is not the answer. The outstanding debt level far surpasses the value of the gold reserves.

Gold-backed sovereign debt, or ‘gold-backed bonds’, is issued debt that is underpinned by gold collateral. By using a portion of their gold reserves in this way, sovereign states could borrow more cheaply, without selling an ounce.

This use of gold would help sovereign governments to regain the confidence of the bond markets and lower funding costs. Independent research shows that nations could raise between four and five times the value of their gold reserves – a bond 20% collateralised by gold could raise around 80% of Italy’s two year refinancing needs.

This would buy time for growth to take hold. It would lower sovereign debt yields without increasing inflation and would give Italy time and resources to work on economic reform and recovery. Using gold for the purposes of sovereign debt issuance would allow greater flexibility beyond austerity.

## Why gold?

Gold is one of the oldest forms of collateral. To a great extent, this is gold’s purpose.

Gold’s lack of credit risk and counter cyclical tendencies makes it an ideal asset to be used as collateral. We are already seeing this use of gold develop in the private sector for that reason. Clearing houses across the globe for instance are increasingly accepting gold as collateral. In Europe two large clearing houses, LCH.Clearnet and ICE Clear Europe, now accept gold as collateral for the clearing of derivatives contracts. Furthermore, as a real asset, the use of national gold reserves as collateral is not inflationary.

For those countries, like Italy, that have been wise enough to build up substantial reserves of gold, now could be the time to harness the benefit. Gold reserves have served those countries well over the years, not least over the last decade, thanks in part to gold’s unique wealth preservation characteristics.

## Has this been done before?

Gold is one of the oldest forms of collateral and there are a number of precedents for its use in this manner. Italy, for example, received a US\$2bn bail-out from the Bundesbank in 1974 when it put up its gold as collateral. Portugal raised around US\$1bn during the 1975 – 77 financial crisis from the BIS, Bundesbank and Swiss national bank, the bulk of which was secured by pledging a proportion of the country’s gold reserves. Most recently, in 1991 India used its gold as collateral for a loan with the Bank of Japan and others.

## How would a gold-backed bond be structured?

Several options for structuring have already been put forward by eminent European economists, with new ones emerging for consideration.

For example, the bond could simply be partially backed by gold, or a tranche based structure could be developed to appeal to different types of investors.

Unlike monetary interventions, which involve complex chains of causality and many potential unintended consequences, using gold as collateral can be simple, direct, and transparent.

## Further reading

For more detailed information, including independent research papers, please visit [www.gold.org/government\\_affairs/](http://www.gold.org/government_affairs/)

## Methodology

Ipsos MORI interviewed a general population, representative sample of 1,009 Italian citizens aged 16 – 70. The sample was weighted to reflect age, gender, social grade, region, main shopper and working status in Italy. Interviews were conducted online between 5 March and 7 March 2013. In addition, Ipsos MORI conducted 300 interviews with business leaders of Italian companies. This was conducted online between 5 March and 12 March 2013.