

## An uphill start for the next Italian government

A new government will soon take over from Mario Draghi. An increasingly difficult economic environment might force it to adopt an approach inspired by continuity, with very limited fiscal space to deliver on electoral promises, at least in the short run



Giorgia Meloni

### Sufficient majority for the likely Meloni government

The parliamentary elections held on 25 September marked a clear victory for the centre-right coalition, confirming what opinion polls had anticipated. The ability to form an ample coalition was a decisive factor for the centre-right, which managed to win most seats in the first-past-the-post part of the vote and obtained an ample majority in both branches of the Italian parliament (235 seats out of 400 at the House of Deputies and 112 out of 200 at the Senate). Giorgia Meloni, the leader of the right-wing Fratelli d'Italia party, was the uncontested winner within the coalition (26% of votes), leading by a very wide margin over the (now) junior coalition parties (Forza Italia and Lega both at 8% of votes). On the back of such an overwhelming victory, Meloni will very likely be mandated soon (around mid-October) by President Sergio Mattarella to form a new government.

## Draghi government's widespread approval points to some continuity in policies

We believe the electoral outcome to be solid enough to ensure short-term government stability. True, the poor result of the Lega is raising a leadership issue within the party, but we don't believe this will threaten the start of a Meloni centre-right government. Interestingly, opinion polls ran at the end of September (a few days after the polling day) pointed to a growing approval rate for both the government and Prime Minister Draghi himself, an uncommon feature in changeover times. With the appreciation for Draghi extending to the electorate of the centre-right (whose leaders contributed to his resignation), there seems to be a widespread bottom-up call for continuity in policies. We suspect that, against a very complicated geopolitical and economic backdrop, this will be at least partially picked up by the incoming Meloni government. Indeed, the first moves from Meloni's quarters point to an orderly transition with a cooperative approach.

## Still scarce visibility on future fiscal policy

Against this backdrop, we see very little room for substantial short-term deviations from Draghi's line, be it on the geopolitical front or on the economic front. On the first front, Meloni has been keen to reassure international counterparties on the international positioning of Italy, however, when it comes to the future fiscal policy, little is known. We will know more when the list of ministers is announced.

## Uphill start for Meloni, as recession will be drying up fiscal space

For Meloni it will be an uphill start, as she will be taking office at a time when the Italian economy is entering recession territory as the reopening and tourism effects evaporate and inflation eats more deeply into households' disposable income (hitting low-income earners the hardest). As a complete stop to Russian gas cannot be ruled out, it seems likely that at the start of her mandate she will have to prioritise energy-related emergencies. Draghi managed to engineer piecemeal support packages this year without incurring a larger deficit thanks to the combined effect of high tax revenues from GDP growth and rising inflation, but in the short term, Meloni will lose the support of the growth factor. She will thus have to deal with very limited (if any) fiscal room to implement electoral promises.

## Delivering on the recovery plan even more crucial in a recession

In a recessionary environment, the availability of European Recovery and Resilience Facility funds becomes even more relevant. As 2023 is a year when the amount of public expenditure activated by the RRF fund will increase substantially (some €41bn from €15bn in 2022, according to recent estimates by the Italian government), the new government will have to set the implementation of the national recovery plan (and the accompanying reforms) as a top priority. Another forced line of continuity.

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