

Italy: Big victory for the League, big defeat for 5SM

Despite reassuring comments from Matteo Salvini, the extremely polarised result of the European election in principle increases political uncertainty, in our view. The chances that the League could eventually decide to cash in and go for early elections have now increased



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Big win for Salvini, big loss for Di Maio, with gap unmatched by any past opinion polls

The official result of inward-oriented European elections went well beyond what exit polls had anticipated. The League won hands down, getting 34.3% of the vote (from 17% in the March 2018 political election) while 5SM scored a dramatic defeat, receiving only 17.1% of the vote (from 33% in March 2018) and overtaken by the PD party, which came in second with 22.8% (up four percentage points from March 2018). Forza Italia, which reached 8.8% (from 14% in June 2018) and Fratelli d'Italia, at 6.5% (from 4.4%), were the other two parties managing to break the 4% representation threshold.

Temptation to pull the plug grows for League leader Salvini

The election outcome is thus a mirror image of the result of the 2018 political elections, with inverted roles, and the 17 percentage point gap between the League and 5SM has not been matched in any opinion poll published since the 4 March 2018 political election. After such a strong turnout, the temptation for Matteo Salvini, the leader of the League, to cash in and go for early elections has clearly increased. The concurrent poor performance of Berlusconi's Forza Italia de facto eliminates the possibility of a future leadership based around a centre-right alliance including the far right Fratelli d'Italia, which also did well in the polls. The League, Forza Italia and Fratelli d'Italia together scored some 49.5% of votes, a result which would likely yield a new absolute majority in the Italian parliament (allowing for the different electoral system) if confirmed in a new political election. A regional vote in Piedmont, also run on Sunday, where the centre-right ran as a coalition with such a line-up, showed that the formula could be extremely successful, at least in the North.

Salvini to set government agenda, but will the battered ally bite the bullet?

Is time ticking for the current government alliance? This is a distinct possibility, but not in the very short run, in our view. Indeed, in his first public appearances after the vote Salvini did not seem eager to pull the plug yet. Instead, he said he would not try to enforce a government reshuffle. However, by neatly spelling out a list of priorities that the government should now tackle without delay, Salvini has clearly conveyed his will to set the agenda. These range from the Turin-Lyon high speed train infrastructure, to the extension of regional autonomy and the introduction of a flat tax system, all of which had been temporarily frozen due to their incompatibility with 5SM's political line. The fate of the current government seems very much to depend on whether the battered ally will be willing to bite the bullet, irrespective of the apparent unease in its electoral base. If 5SM is willing to bow to Salvini's agenda, early elections could probably be avoided.

A new challenge to European fiscal constraints could also be brewing

Another potential trigger for a crisis might be a revamped conflict with the EU should the ghost of a debt-driven excessive deficit procedure be re-awakened soon. In a press conference, Salvini reminded his audience that Italy is about to receive a letter from the EU Commission asking for clarifications on past increases of the debt/GDP ratio. He added that, after the electoral result, he felt mandated by his fellow citizens to re-discuss old and outdated fiscal parameters with the EU and European partners.

As the letter will be followed on 5 June by the publication of the country recommendations and, possibly, by that of a new report on Italian public debt (ex Art126/3 of the Treaties), a first test of whether the vote has actually changed the dynamics of the government coalition might happen very soon. Should discussions deteriorate, the risk of re-opening an excessive deficit procedure against Italy could increase very quickly. True, the current Commission is ending its mandate by the end of October and might prefer to leave the decision to its successors; however, the new Commission emerging from a more fragmented but still pro-euro European Parliament is unlikely to guarantee more fiscal leniency from the beginning.

Should the first test be passed, a more formidable one would loom on the horizon: the next

budget. As both Salvini and 5SM's Luigi Di Maio have pre-committed to sterilising some €23 billion of VAT increases, the new budget would start with a heavy funding handicap, leaving little room for new expansionary measures as foreseen by the government programme (or contract, as it is more often referred to). A frustrating budget season, similar to that seen in autumn last year, might potentially emerge as a powerful trigger for a government crisis targeting fresh political elections.

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