

Italy: League/5SM government take 2, this time for real

The impasse has ended. Italian president Sergio Mattarella has given the populist League and 5 Star Movement the green light to form a government after agreeing to a different candidate for the role of finance minister



Markets likely induced the final twist

Italian politics is not boring! After several attempts, accelerations, cross vetoes and, ultimately, hints of an institutional clash, a government is now set to be formed. Market developments over the last few days likely played a key role in convincing the Italian president Sergio Matarrella that a neutral government under Carlo Cottarelli, without political backing, could have left Italy too vulnerable to the risk of spreading confidence crises. The Cottarelli attempt was thus put on hold to explore once more the possibility of a coalition agreement between the League and 5SM. As the stumbling block had been the choice of the finance minister- Paolo Savona- the indication of a different candidate for the role, professor Giovanni Tria, proved enough to get the green light from President Mattarella. Savona will remain in the roster as the minister of European affairs.

A new finance minister the game changer

The new finance minister, Giovanni Tria, is an economics professor in Rome with strong experience

in public administration matters. He is close to the centre-right and has often been critical of how European governance has been managed, highlighting the persistent German trade surplus as unsustainable. In the past, he has advocated the concession of more fiscal leeway for productive public investment. On the tax front, he has recently expressed positive views about a flat tax, saying that it should be introduced in a gradual way in order not to create a fiscal gap. He also added that this could be partially financed by letting the safeguard clauses kick in (i.e. VAT rates to increase in 2019 and 2020).

Ministries allocation reflects stakeholders' strengths

With the exception of the finance minister, the new list of ministers is very similar to that drafted a few days ago: prime minister Giuseppe Conte will have as vice-PM Luigi Di Maio, the leader of the 5SM and Matteo Salvini, the leader of the League. The allocation of the ministries between the two coalition partners reflects their respective historic strongholds. The League, which has built a good part of its political success on the migrant issue, gets the crucial Interior Ministry (with Salvini himself in the role), the Agriculture Ministry, Regional Affairs and that of Public Administration. The 5SM gets the powerful compound economic development, Labour and Welfare Ministry (with Di Maio in the role), and those of Justice, of the South, of relationship with the Parliament and direct democracy and that of infrastructures. The key Foreign Minister will be Moavero Milanesi, an experienced diplomat with ministerial experiences in the Monti and Letta governments.

Quick and riskless installation expected

The new Conte government will be sworn in today at 4:00 pm CET, and will be submitted to a confidence vote in both branches of the Italian parliament within 10 days. We believe the government will get the confidence without problems in both houses.

Governance issue to be soon tested at the end of June EU Summit

After almost 90 days from the elections, Italy will have again a fully empowered unprecedented non-mainstream political government. It had an unconventional genesis, and has a governance which has yet to be deciphered. We see a risk that an almost unknown prime minister might have very little room for manoeuvre, ultimately ending up as an executor of the will of its main stakeholders rather than an autonomous decision maker. Should divergences emerge among the two backing parties on key issues, this could become a relevant problem for government activity. The end of June European Summit will offer the first significant test for the new Conte government. The way Conte and, even more importantly, its two vice-PMs, will approach the meeting on potentially divisive issues such as migrants and the European budget might already shed some light on its potential shelf life. Markets will be monitoring very closely.

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