Italy: More clarity on what the new government does not want to do

Reassuring messages by Finance Minister Tria last weekend have muted confusing communication on economic issues by other members of the government. A welcome step as softening growth might soon call for clear directions on how to increase potential growth

Finance Minister Tria sounded reassuring on Euro membership and fiscal discipline

Last weekend Finance Minister Tria released his first official interview since he took up the role. It served to provide a much awaited clarification on some open issues which had fuelled investors' concerns about how economic governance would develop under the new League/5SM administration. Minister Tria sounded reassuring, with a clear focus on euro-related issues. He stressed that the position of the government is clear and unanimous, and that there is no discussion whatsoever about leaving the euro, affirming that the government is determined to prevent any emergence of market conditions that would lead to leaving the euro. On pension reform, or, better, on its dismantling, another key point of the programme, he sounded extremely cautious, clearly stating that any improvement to the existing law would be done in terms of short- and long-term public finance sustainability.

Interestingly, Minister Tria added that the government is not aiming to re-vitalise economic growth through deficit spending, and that this would instead be done via structural reforms. He recalled that debt reduction remains a target with an intrinsic value, and should be pursued also without EU pressure.

Seeking mutual trust in relationships with the EU and partners, with a bias for the French reform plan

On the relationship with the EU, he warned that Italy will not threaten a debt crisis, but at the same time will not be threatened. The goal is to enforce Italy's national interest that coincides with Europe's general interest. This is a matter of mutual trust, according to Minister Tria. On the related issue of EU governance, he said he was backing the French proposals and said that he was happy with the monitoring role played so far by the EU Commission. He added that an eventual extra monitoring from the would-be European Monetary Fund would overlap, which would risk introducing measures that could unintentionally cause financial instability. A clear message to Germany, without naming it.

Mini-BOTs not a solution

Another sensitive point he touched upon was the eventuality of paying the State's commercial debt by issuing mini-Bots. Once again, he sounded dismissive, saying that they would not solve the issue, and that efforts to deliver on-time payments in cash should be sought instead.

A well picked list of "what will not do", with first moves likely cost conscious

Professor Tria's interview was clearly meant to let the widest possible audience (and investors in the first place) know what the new government would not do rather than sketching a clear picture of the next actions. The lack of references to the citizenship income might mean that this could indeed be among the priorities for the new government, particularly for the Economic Development and Labour Minister Di Maio. According, to statements made over the last week, even this would be approached in a piecemeal way, firstly re-designing the structure of public centers for employment and only after that starting the process for the relevant disbursements under the scheme. This is a process that will take time and would forsee limited outlays of money in the short run. Interior Minister Salvini, on his side, is also trying to score some political points on his preferred migrants theme. The controversial decision to block access to Italian ports to a NGO ship which had rescued wrecking migrants off the Lybian coast, was his first official move in his new role. A very visible way, at no financial cost, to raise the issue in view of the end-of-month EU Summit. Political visibility with almost no budgetary impact thus seems the name of the game in these early days of the new government. Minister Tria himself confirmed in his interview that fiscal targets for 2018 will be kept as they were set. Short-term fiscal discipline might not be enough to meet them should the batch of soft economic data extend further.

A growing risk of a deceleration of growth might soon call for a list of "what we will do" to revive potential growth

Industrial production data released on 11 June was weaker than expected. The 1.2% monthly contraction in April was mainly driven by the energy component (-4.8% MoM), with consumer goods (-1.3% MoM) and intermediate goods (-1.1% MoM) also in negative territory, with investment goods alone in expansion territory (+0.7% MoM). As it follows a batch of softish confidence data for April and May, along with poor retail sales numbers, the case is building for a further deceleration of GDP growth in 2Q18 to 0.2% QoQ (from 0.3% in 1Q18). Minister Tria might soon be called to tell us more about how the government plans to do to revive growth while meeting the same budget constraints.

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