

Article | 24 May 2018

ITALY

Italy: Conte gets a challenging mandate

After 80 days of stalemate, President Sergio Mattarella has mandated Giuseppe Conte to form a government. But the choice of the finance minister will tell us more about how challenging the 5SM/League alliance will be for Europe



Source: Shutterstock

On Wednesday evening, President Sergio Mattarella gave Giuseppe Conte, a professor of law and a civic lawyer the mandate to form a new government backed by the anti-establishment Five Star Movement and the right-wing League. Professor Conte, who had been confirmed earlier in the day by Luigi di Maio, the Five Star leader and Matteo Salvini, the head of the League as their preferred candidate, accepted with reservation.

An attempt to strike a balance between incompatible objectives

In a brief press statement, professor Conte made his debut saying he was conscious of having to confirm Italy's European and international position. He clarified that his government would be a government of change, as the country is expecting answers and proposed to be the defence attorney of the Italian people. He added that he would submit a programme based on the agreement reached between the 5SM and the League and concluded that over the next few days he would prepare the list of ministers for President Mattarella's approval.

The extent to which Conte will have a say in the choice of ministers will be somewhat revealing of whether he will be an executioner of the 5SM/League program or a leader of the future government

Unsurprisingly, Conte's short speech wanted to strike a difficult balance between the need to reassure the role of Italy on the international stage and that of reiterating the message that Italy and Italians will come first.

As meeting both goals completely looks almost impossible, a mid-way solution would call for compromises that the two leaders of the 5SM and the League have so far been unwilling to make. The full implementation of the program (AKA contract) that they agreed upon would push the Italian deficit/GDP ratio easily to the 5-6% area violating European rules and is likely to be met with stern opposition from both the EU Commission and European partners.

Special focus on the choice of finance minister

The next step in the process of forming a new government will be a list of proposed ministers.

Here, the choice of the finance minister will be of paramount importance. According to the Italian constitution, this task should be a matter for the candidate PM, but following the local debate, it seems that choice is very much in the hands of the leaders of the two parties supporting the government. The extent to which Conte will have a say in this will be somewhat revealing of whether he will be an executioner of the 5SM/League program or a leader of the future government.

Over the last few days, the League has strongly backed Paolo Savona for the role of the finance minister, an experienced economist with an impressive CV that boasts being a minister of industry in the Ciampi government, working at the Bank of Italy and being a university professor.

Savona was initially pro-euro but soon turned into a harsh critic of the euro and the constraints that EU membership imposes on Italy. Over time he has been notably critical of the hegemonic role of Germany in European governance since the birth of the euro. He would surely be a technically qualified candidate but at the same time a strong statement that the 5SM/Lega ticket government want to start in a challenging mood.

EU Commission sits on the fence, waiting for a budget draft

For the time being, European institutions have kept away from the domestic political debate. In the country recommendations released yesterday, the EU Commission took a neutral

stance on public finance developments, preferring not to add to the additional short-term pressure.

While not deemed in breach of the debt rule in 2017, Italy was reminded that a 0.3% structural adjustment is needed in 2018, with no possible delay, and that a 0.6% additional adjustment will be required in 2019. The Commission recommends Italy to complete judicial, public administration, and labour market reforms and given Italian demographics, more pension savings should be sought.

This will be food for thought for the next government, whose real test will be the next budget law, which will be presumably sketched soon in a reworked DEF and drafted after the summer.

Installation likely a fast process

The timeline for government formation foresees Conte running a round of consultations with the parties to check whether a majority can be reached in parliament. If so, Conte will complete the list of proposed ministers and will submit it to president Mattarella while definitively accepting the mandate. The president will then have to issue three decrees, marking the official nomination of the prime minister, the nomination of ministers, and the acceptance of the resignation of the outgoing caretaker Gentiloni government.

After these, the new government will be sworn in and will officially take office. Within ten days of installation, the new government will have to undergo the confidence vote in both branches of the parliament.

In our view, the installation part will be quick, possibly by the weekend.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or

THINK economic and financial analysis

misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.