

Italy: PM Conte's Five Star-PD government ready to begin

After being sworn in this morning, Prime Minister Giuseppe Conte's government will undergo confidence votes in both branches of Parliament over the coming days. We expect it to pass them but it will soon face a more meaningful test: construction of the 2020 budget draft



Italian Prime Minister,
Giuseppe Conte

Having got rid of the remaining stumbling blocks...

The road to the formation of a new Conte government backed by the 5SM and the PD parties now looks smooth. The two remaining stumbling blocks, the dilemma of the twin vice-PMs and the online consultation of 5SM activists about starting a 5SM/PD coalition, have now been cleared.

On the former, after some arm wrestling, it was decided that the two vice-PM roles would no longer exist. Such a move should, in principle, augment the degree of autonomy (and responsibility) of PM Conte in driving the agenda of the future government action. No more a notary, but the leader of a government which will share the same programme. On the latter point, the online consultation showed 5SM activists were overwhelmingly in favour (79% of the 73K voters) of starting a Conte government together with the PD.

...PM Conte fully accepted the mandate and submitted his list of ministers

Having won the blessing of both parties, PM Conte decided yesterday to accept his mandate without reservation and submitted to President Sergio Mattarella his proposed list of ministers. The new finance minister will be Roberto Gualtieri, a PD MEP who has so far been chairing the Economic and Monetary Affairs Committee of the European parliament. No doubt, his choice represents a clear pro-European statement from the new coalition, and was immediately endorsed by Christine Lagarde, the next head of the European Central Bank. Another delicate choice was that of the Interior Minister: after media overexposure under the tenure of the League's Matteo Salvini, PM Conte decided to turn to Luciana Lamorgese, a technocrat with no political affiliation. Luigi Di Maio, the leader of the 5SM, has left the Economic Development and Welfare ministries to take up the role of Minister of Foreign Affairs.

The choice of Gualtieri as new finance minister confirms new constructive approach to Europe

Cross checking the proposed list of ministers and the succinct government programme in its latest available five-page version, we can draw a few tentative conclusions. The new Conte government under the 5SM/PD flag will likely have a much more constructive approach to the European institutions than the former one. While re-iterating the need to promote amendments to the existing European fiscal rules, the document suggests that this will have to be done in a non-disruptive way, in cooperation with other member states.

Scarce visibility on 2020 budget in the brief government programme

The programme gives no other specific detail of the content of the next budget for 2020 but a commitment to fully sterilise the budgeted increase of VAT and excises, within an expansionary economic policy framework. It remains to be seen how this promise will be matched to that of not jeopardising fiscal equilibria. Against the current economic backdrop, we suspect that even a very mild fiscal expansion would be deemed enough to consider the box as ticked. Also, this idea might be backed by the assumption that some form of fiscal flexibility in exchange for reforms could be possible and that the projected interest rate bill will be lower than originally budgeted, courtesy of tighter spreads.

Progressive tax system confirmed, no mention of flat tax

Based on the programme, the projected distribution of the tax burden looks set to change. Specific reference is made to sticking to a progressive tax system, with no hint whatsoever to any extra move towards a flat tax system. Also, the planned reduction of the tax wedge seems to be fully aimed at benefiting workers and not employers. If confirmed, this could raise many eyebrows in the business community.

A Green New Deal in sight: can it effectively restore growth?

On industry, which has been suffering from a lack of growth and productivity, the government's programme endorses its current structure. In other words, we sense a bias in favour of SMEs over

big industry. The virtues of small companies could be overplayed, particularly at a time when the ability to operate in complex international environments and innovate effectively are increasingly recognised as winning factors. The government seems to believe that Italian SMEs could take advantage of a Green New Deal to put environmental protection and biodiversity at the heart of public investment programmes and as new additional pillars of the Italian constitution. This might be true for some, but we suspect that this would likely prove difficult for many nano firms.

After the parliamentary confidence votes Conte will soon face the test of the 2020 budget

Nearly a month after Salvini decided to pull the plug from the 5SM/League government, Conte under the 5SM/PD flag will be sworn-in this morning and will undergo confidence votes in both branches of the Italian parliament over the next few days. We believe these will be passed, corroborating the positive attitude of markets which have been pricing in a dramatic reduction in the risk of an Itexit. Whether the new coalition will be set to last is yet to be seen. We will soon have a meaningful test with the drafting of the 2020 budget, which will also prove a testing ground for the new EU Commission.

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