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Italian politics has always been an arcane subject. A handful of specialists and enthusiasts love to talk of its Machiavellian intricacies for hours on end, but most people, especially north of the Alps, not only do not understand it, but see no reason why they should bother to understand it. Today there are at least three reasons why they should. First, in Italy the crisis of the political establishment that is now evident in many advanced democracies began a quarter century ago. This means that the country is further down the road of the democratic malaise – it is a laboratory and a bellwether. Second, Italy is the first country from within the historical core of the European community to be governed by anti-establishment parties. Third, its politics represent the greatest threat to the stability, or possibly even the existence, of the common European currency.

Founded in 2010 in a University that has a very strong international vocation, the Luiss School of Government aims to facilitate the connection between Italy and the world outside of it. It aims to prepare the future Italian public elite for the complexities of an ever more integrated planet, and to provide first-class education to non-Italian students in Italy's capital city. SoG professors have often helped non-Italian journalists and newspaper readers understand Italian politics. Thus, it seems only natural to me that, in light of the recent European elections, the Luiss SoG should offer a monthly report on Italy that provides an interpretation of the country's recent political events, and makes an educated guess about what happens next.

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1. Politics and Policy

a. Government

Budget law. Tension is rising in the second Conte government, even if less than two months has passed since it came into office. There is symmetrical convergence within the majority: Zingaretti, the secretary of the PD, is now Conte's best ally; while Di Maio has been going back and forth with Renzi. The programme of the Prime Minister and the PD is aligned: both favour higher taxation on consumption, the self-employed and SMEs in favour of more spending for environmental and social policies (e.g. the minimum wage and lowering taxation on low earners). On the other side, Di Maio and Renzi have converged to avoid selective, increasing taxation on consumption (VAT) and then to save the flat-tax on micro-enterprises and the self-employed introduced by the previous government of the League and the Five Star Movement. The two political leaders are aiming to defend themselves and their party from the opposition's attack on tax increases and for this reason they are questioning Conte's programme. Moreover, they are negotiating with each other: Renzi proposed to abolish the "quota 100" pension reform, but Di Maio opposed him; in return, Renzi got a small tax decrease on low wages. However, there is no room for an expansive budget law and the parties are arguing on the details, aiming to defend some lobbies and interests group. The government is focusing on micro-reforms rather than designing a wider plan of reforms to implement in coming years.

Party bosses and the Prime Minister. Renzi, who summonsed his new party Italia Viva in mid-October, outlined his plan: the legislature has to go on, in order to elect the new President of the Republic in 2022. The former Prime Minister alluded to "the legislature", not "Conte's government". Indeed, considering the strong frictions within the majority we cannot exclude Di Maio and Renzi opening up a window, in 2020, for a new governmental crisis. In this case, it is likely it will not be to capitalize consensus with a snap election but to get rid of Giuseppe Conte as Prime Minister.

For different reasons the two leaders are now the real powerbrokers of the government. Di Maio still leads the largest parliamentary force by far, while Renzi controls enough MPs to pull the plug on the government when needed. Conte is not in a comfortable position, his leadership had been supported more out of contingency than conviction by the political parties. It will not be easy in coming months for Conte to deal with the different requests of the parties in the majority.

In broader terms, there is a problem of leadership within the Conte-bis. Conte has institutional leadership, but he does not have his own party; Di Maio's leadership of the Five Star Movement is perceived as weak and eroded by the change in the government's composition in the summer; Zingaretti, the secretary of the PD, is not part of the government and he is not visible in the media; on the contrary, Renzi is very present in the media, but his leadership suffers problem of credibility and trust among most Italian voters.

Different political positions within government. Meanwhile, Renzi came back into the media with his new party. He was in a TV debate with the leader of the opposition Matteo Salvini and he is taking centre stage, shadowing his former party colleague Zingaretti. The polls are not very encouraging for Renzi, Italia Viva is scoring around 3.5-5.5%, but the leader is in the spotlight and he is attempting to manoeuvre to impose his agenda on the Cabinet. If this is a good news for Renzi, it might be not a positive note for the coalition. Renzi's protagonism could destabilise the coalition. Renzi is betting on a centrist platform, with a more moderate and free-market programme compared to his allies. In the future, he will try to distance himself further from his former party, establishing a stronger centrist movement, and becoming freer to consider a wide choice of alliances in coming years. At the same time, Di Maio is aiming to defend the anti-political position of the Five Star Movement, arguing for tightening the legislation against tax fraud, reforming the judiciary system to combat corruption more effectively and defending the policies his party achieved during the first Conte government. The leader of the Five Star Movement is doing everything possible to avoid a transformation of the movement into a moderate left-wing party, rebalancing the position of the Prime Minister Conte, who is perceived as closer, both in terms of his network and ideology, to the Democratic Party. Zingaretti is playing out his strategy in the background. He is not arguing with Conte over the government agenda. On the contrary, the PD secretary is trying to set the basis for a further alliance with the Five Star Movement at local level and, looking forward, at national level. Indeed, Zingaretti has in mind a bi-polar political scene with the PD and the Five Star Movement allied to challenge Salvini and the centre-right. It is the only possible strategy in order to return to government in the future and to marginalize the centrist ambition of Renzi. However, the political system remained fragments and the majority as well. The real glue keeping it together is the strength of Salvini and his coalition in the case of snap elections and the opportunity to elect the new President of the Republic in 2022.

Letter from Brussels. Soon after the submission of the draft budget law to Brussels, the European Commission wrote to Rome underlining that the draft does not respect the recommendation on the fiscal structural balance (0.6% deviation). In short, the government is spending more than agreed with the Commission and the financial cover for some policies is still unclear. This is a classic for Italian politics, but for a very pro-European government it is perceived as more embarrassing. Conte 2 was created with a strong international and European endorsement, the new government promised to avoid the errors that the previous government made and to "save the country" from Salvini's euroscepticism. However, the draft budget is delivering more of the same in terms of economic policy. Conte promised to the Italians, and legitimized the agreement with the PD to form a new government, that removing the League would mean obtaining more financial flexibility from the European Union, but facts show a different story. The EU Commission has proven coherent, applying the same recommendation to any government. A dynamic that is risky for the Prime Minister and for the parties of the majority because the electorate's disillusionment with Conte's narrative could be just around the corner.

Immigration. In September the government took part in a meeting in Malta with France, Germany and Malta. The countries agreed on a scheme to reform the Dublin Treaty. The aim was to involve as many European countries as possible in a mandatory relocation of immigrants rescued by NGOs and military ships. The government presented the meeting as a success and as a sign of the restored political clout of Italy at European level, but the following meeting in Brussels was a failure, indeed only a few

member-States showed any interesting in finding a common resolution on immigration and Germany has gone cold on the agreement. The search for a European solution on immigration marks a set-back for the government in the pursuit of its European strategy.

Umbria's electoral catastrophe. At the end of October the citizens of Umbria, a small region at the heart of Italy, voted to renew their region's governing bodies. Umbria was traditionally a "red region", dominated by the left, which until nine years ago won more than 55% of votes. In recent years the left-leaning parties had suffered major defeats in some important cities in the region. In the election of 27 October the presidential candidate of the centre-right achieved an impressive win, capturing 58% of the electorate. This was not good news for the majority. Indeed, **in Umbria's election for the first time PD and the Five Star Movement were allies presenting a common presidential candidate. The experiment was a disaster, the coalition achieved only 37%, recording a humiliating loss.** The Five Star Movement got 7.5% and the PD obtained 22%. The regional elections of Umbria were important for several reasons: to test the electoral alliance between PD and the Five Star Movement; to assess the shape of Salvini and its allies; to analyse the vote in an middling region, and not only in geographical terms but also in socio-economic terms. It is clear that the League (38%) and the Brothers of Italy (11%) completed very successfully the metamorphosis of the region from red to blue. The expansion of Salvini to the centre and to the south, despite the loss of the government, is booming.

b. Opposition

The comeback of the centre-right. There have been two major events for the opposition this month: the gathering of the centre-right parties in Rome and the regional elections in Umbria. The meeting of the three parties in Piazza San Giovanni was a success, a sign of unity and compactness. Salvini was crowned leader of the coalition; Giorgia Meloni, founder and leader of Brothers of Italy, played as outsider and Silvio Berlusconi represented continuity with the past. While during the League-Five Star government there had been some friction within the centre-right coalition, now the power is more balanced. The League remains the main party of the alliance, but Salvini has put aside the ambition to govern the country alone. Brothers of Italy is rising, but it is far enough from the League to avoid tougher and more problematic competition. Forza Italia is declining, but Berlusconi is still convinced that remaining in the alliance is the best choice.

A successful scheme in Umbria's regional election. The centre-right got a great win in Umbria, with a wider margin than that forecast by the polls. Until a few weeks ago many analysts were arguing that the League might enter into a descendant phase after the creation of the Conte-bis government. Salvini could be perceived as the loser of the summer campaign, when he failed to obtain snap elections. The data from Umbria, indeed, show that the League is in a good shape. Moreover, according to the last national polls Salvini's party is close to 34%, back to European election levels. The decline in the League's consensus lasted only a few weeks. Probably the new government's programme is perceived by right-wing voters as worse than Salvini's mistakes.

Giorgia Meloni is winning over former Berlusconi voters and the support for her party has risen at every election. Meloni is conservative on values and moderately free-market in economics, euro-sceptical but not in favour of leaving the eurozone. This is good news for the coalition because it shows

that voters are floating, but within the centre-right area. In this phase, it is very hard to imagine right-wing voters voting outside the coalition, for example for Renzi or for the Five Star Movement.

c. Public Policies

The government is preparing to correct the 2019 budget and to draft the 2020 budget law. Moreover, it should take some decisions on infrastructure. Here are the main policies under discussion:

- The war against tax evasion. The government is pursuing new policies against tax evasion. Tougher rules and incentives for electronic payments are entering decrees and the budget law. However, the amount of money the executive will get back from this initiative is still not clear. The fight against tax evasion is a strategy for increasing government's revenues instead of cutting public spending. Moreover, the government has abandoned the League's policy to reduce taxation for the self-employed on income between 65,000 and 100,000 euros. The measure is a risk in political terms, the productive part of the country might consider the government's rhetoric aggressive and worrying.
- Environment. The government promised a green new deal when it came into office two months ago. In practice, the new budget law will increase taxes on plastic and fuel. Owing to budget restrictions, there are no new substantial incentives for the green economy. There is not a deal, but the imposition of new taxes to orient consumption toward green activities. The risk is to disappoint some sectors and categories at political level without tangible benefits for the economy.
- Tax reduction for wages. The budget law established a three-billion euro cut in taxes on lower-middle wages between 2020 and 2021 - a small tax cut in continuity with previous policies designed by PD-led governments. Probably too little to boost consumption and to gain strong support from the middle-class.
- Immigration more of the same. Salvini is not minister of Interior anymore, but the policy of the Italian government is not changing. As we reported, the negotiations to reform the Dublin Treaty are not taking off at European level and as a consequence continuity is prevailing. The new minister Largesse is applying the same "closed ports" policy enacted by Salvini and the disputed security decrees made by the first Conte government are still effective.

d. Forecasts

Probability of snap elections:

Elections within Q3 2019: **10%**

Elections within 2020 (spring): **70%**

Election after 2021 or at the end of the legislature (2023): **20%**

Analysts are wondering how long the new government will last. There are two main causes for concern: Matteo Renzi's ambition to grow in the polls with his new party and the internal divisions of the Five Star Movement. Renzi is part of the majority, but his media strategy is to oppose the other parties in the majority. Indeed, the former Prime Minister founded Italia Viva to compete with his previous party, the Democratic Party (PD). He is pursuing a moderate and centrist platform in opposition to the socialist line of the PD and to the radical and anti-political programme of the Five Star Movement. Renzi is looking at the centre and he is aiming to seduce Berlusconi's voters, the ones frightened by Salvini's hardline, and to drain all the moderate consensus from the PD. To achieve results he needs to be ambiguous in being part of the government, but counter-balancing the harsher policies pursued by Conte on taxation and environmentalism. This strategy is obviously undermining the government's cohesion and strength, because it seems like the government is continuously being attacked from the inside. **The question is: how long Renzi can support the executive?** The strength of the former prime minister should not be overestimated, because he is still weak in the polls (3-5%) and to face an election he probably needs more time both to gain consensus and to enter into negotiations to get a more proportional electoral law which he would take advantage of. However, Renzi is increasing tension within the government and he could create the grounds for a break-up of the coalition by exasperating his allies. **And here we come to the Five Star Movement.** A faction of the party is not enthusiastic about the Conte-bis, some MPs are disappointed by governing with Renzi and the PD, and they regret the previous alliance with the League. If the government's internal tensions rise again, the upcoming regional elections in Emilia-Romagna and Calabria will see a fall in party consensus and the national polls will fall again, the Five Star Movement could collapse and split. In that case, the government will be doomed.

The results of the next regional elections will probably be essential for the life of Conte-bis. If the parties of the majority lose by a clear margin in January in Emilia-Romagna and Calabria, it would be increasingly difficult to govern. In particular, the regional elections in Emilia-Romagna could be very important. The region is the third richest and the largest one in Italy and it is considered the stronghold of left-wing parties. Since the regions were established, the left has never lost a regional election in Emilia-Romagna. Moreover, the Five Star Movement too used to be very strong here up to 2015. **In the case of a centre-right victory, it would be a very bad sign for the majority.** In that scenario, the governing parties will increase the level of infighting to defend themselves from the decline in consensus.

What might happen then? Most of the MPs in the current majority have no incentive to return to the polls. Their parties are declining in consensus and in September the Parliament voted a constitutional law to reduce the number of parliamentary seats. As a consequence, it is likely that most of the MPs will not be re-elected if new elections occur. **Today the most probable scenario is that, even in the case of a government crisis, the legislature will continue.** In this case we might have a reshuffle, as a sign of a new pact between the majority parties, or a new government, with Conte thrown out of Palazzo Chigi. However, **we cannot exclude that an internal crisis could be so severe as to make it impossible to avoid snap elections.** For example, an eventual split within the Five Star Movement would be very difficult to repair in order to form a new government or in the case Renzi and his party opt for snap elections.

Bi-polarism at risk? The lessons from the regional elections is that Italy is coming back to a bi-polar system, between centre-right and centre-left. **However, the bi-polarism is lop-sided. While the parties of the centre-right coalition are more homogenous and united, the centre-left is split by divisions.** The Five Star Movement are reluctant to consider themselves as a left-leaning party, Renzi is looking at the centre, the PD and other minor left-wing parties aim to control the centre-left coalition. Fragmentation is rising both within the government and at electoral level. **The lesson from Umbria is that an unnatural alliance on the left between the populist anti-political party (Five Star Movement) and the traditional left-wing party (PD), cannot guarantee avoidance of sharp electoral defeat. Both Renzi and Di Maio dismissed the alliance soon after the results.** This asymmetry and fragmentation on the left will probably have an impact on the electoral law. Indeed, with the current law (Rosatellum) it is very likely that without a left-wing alliance between PD and the Five Star Movement the centre-right will win all the single-member constituencies (1/3 of the seats). **In coming months the majority will probably attempt to reform the electoral law, making it more proportional, in order to have more room for manoeuvre when a new general election occurs and to limit the power of Salvini and his coalition.** Indeed, a proportional law will make it more difficult to obtain a stable and strong majority. The current majority will probably prefer to sacrifice governability for protecting parliamentarism and political fragmentation.

e. Mapping risks

There are three major risks at the moment for the Italian political system:

- **A weak budget law.** The government is striving to respect Brussels' recommendations and, in contrast with 2018, is avoiding tension with the Commission. However, **the budget law is weak because it is focusing on micro-policies and unambitious reforms.** The discussion is focused on tax expenditures, fiscal evasion, small variations in the level of taxation and welfare benefits. The government is not discussing pro-growth and pro-productivity measures. It confirmed the pensions policy and the citizens' income that occupied most of the expenditure allowed. Policy continuity and immobilism are prevailing, despite the change in the majority. This risk is that the pro-European orientation is perceived by voters as a mere status quo, which might further delegitimize EU institutions and the pro-European message.
- **The mortification of producers and the self-employed.** However there is a fundamental change with the previous government: **Conte bis is felt to penalize small-medium enterprises and the self-employed.** The measures against fiscal evasion and the repealing of the extension of the flat tax for self-employed and SMEs with income below 100,000 euro, a measure established by Salvini, are perceived by these categories as a punishment. Disappointment against the executive might explode in coming months, particularly in the centre-north where most of them are located. **It could become very difficult to govern with the opposition of the most productive part of Italy.**
- **Political instability and confrontation with Brussels.** In these conditions there is no safe harbour for the government. The tensions within the majority are increasing, there is a lack of leadership in the government and PM Conte is now weaker than ever. The Five Star Movement

could divide and collapse or Matteo Renzi could engineer harsher confrontation and exasperate tension with the other parties. **Neither the government nor the legislature can be considered completely safe and stable.** Moreover, it is likely that the opposition will win most of the forthcoming regional elections, an event that will put the government in trouble, both in political and administrative terms. Moreover, considering the influence of the European Union in the creation of the government it is not implausible to imagine a resurgence of friction with Brussels in 2020. **It would be very difficult for the government to face another budget law with such limited fiscal space, while avoiding a final collapse in consensus for the majority.** As a consequence, we could expect increasing confrontation on the deficit with the Commission in coming years, even if a pro-European government remains in charge.

2. Public Opinion Trends

a. Polls

After more than one month since the formation of the yellow-red government and in the aftermath of the regional election in Umbria, which marked a resounding defeat for the governing parties and a remarkable success for the centre-right coalition, the repercussions in terms of voting intentions within the electorate are still rather blurred. **The League remains firmly in the lead with 32.5% of votes. Although the crisis in August triggered by Matteo Salvini resulted in a loss of votes for the League in September, this slight electoral decrease of the party seems to be more physiological, rather than structural.** This is confirmed by the fact that, as we shall see, in the last regional election in Umbria – a region historically led by centre-left political parties - the League achieved a remarkable electoral performance.

Interestingly enough, the votes lost by the League in September, were not absorbed by its most direct competitors, namely the Five Star Movement (M5S) and the Democratic Party (PD). The two parties in fact continue to orbit around an electoral performance of 20%. The electoral performance of Italy Alive is also decidedly stable. A few weeks after its formation, Matteo Renzi's party still gets a result slightly below 5%. If the electoral performance of these parties has remained quite stable in the last two months, the trend regarding Brothers of Italy (FdI) is very different. Indeed, Giorgia Meloni's party has been growing steadily since the general elections held in March 2018. In those elections, the party obtained 4.4% of the votes. In the European elections of May 2019, FdI grew by two percentage points. Today the party polls around 8%, thus approaching the 10% threshold and outstripping Berlusconi's party (Forza Italia or Go Italy). Therefore, in the right-wing camp the radical right (the League and FdI) maintains broad electoral support, pushing the coalition towards a more clearly defined ideological profile.

	Polls last week of October	Polls of September	Polls last week of June	May 26 European elections	Polls last week of March	Polls last week December	March 4 elections
League	32.5%	32.4%	36.2%	34.3%	33.1%	32.9%	17.3%
Five Star	18.7%	19.7%	18.0%	17.1%	21.3%	26.3%	32.7%
PD	19.6%	20.9%	23.4%	22.7%	21.0%	17.6%	18.7%
FI	6.8%	6.7%	7.4%	8.8%	9.6%	8.7%	13.9%
FDI	8.0%	7.2%	6.7%	6.5%	4.5%	3.8%	4.4%
+EU	1.9%	2.3%	2.8%	3.1%	2.9%	2.5%	2.6%
Italy Alive	4.8%	4.6%					

Table 1: Electoral trends in recent surveys

b. Regional elections

In this context, a regional election was held on Sunday 27 October in Umbria, a traditionally leftist region. Although not representative of the overall national electoral trends, the results in this region represents a first test to assess – based on real electoral data – the electoral (mis)-fortunes of the main Italian political parties. Also, and most importantly, this is the first election since the formation of the new yellow-red coalition government.

Table 2 reports the results in the most recent political, regional, and European elections in Umbria. **The first interesting figure relates to the turnout. This is a growing figure: 55.4% of eligible voters went to the polls in 2015, while on Sunday the percentage rose to 64.7%.** Umbria is a region that has always been characterized by a strong tradition of electoral participation. However, four years ago there was a sharp decline. The reasons now for this increase in participation are probably to be found in the national implications of the vote, particularly in the re-mobilization by national political forces -in particular by Matteo Salvini’s League - which framed the Umbrian vote as politically relevant at the national level.

	Regional 2015		General 2018		European 2019		Regional 2019	
	A.V.	%	A.V.	%	A.V.	%	A.V.	%
Eligible voters	705,819		672,313		687,192		703,596	
Turnout	391,210	55.4	525,978	78.2	465,177	67.7	455,184	64.7
Parties								
Left parties	16,233	4.6	26,469	5.2	16,428	3.7	14,278	3.4
PD	125,777	35.8	126,856	24.8	107,687	24.0	93,296	22.3
Minor allies of PD								
Other centre-left parties	14,119	4.0	13,809	2.7	19,908	4.4	5,975	1.4
Centre parties	5,172	1.5	7,087	1.4	3,334	0.7		
FI (PDL)	30,017	8.5	57,368	11.2	28,828	6.4	22,991	5.5
Minor allies of FI (PDL)	9,285	2.6						
FDI	21,931	6.2	25,146	4.9	29,551	6.6	43,443	10.4
League	49,203	14.0	103,056	20.2	171,458	38.2	154,413	37.0
Right parties	3,598	1.0	8,827	1.7	2,768	0.6		
M5S	51,203	14.6	140,731	27.5	65,718	14.6	30,953	7.4
Others	25,158	7.2	1,930	0.4	3,394	0.8	52,528	12.6
Total	351,696	100	511,279	100	449,074	###	417,877	100

	Regional 2015		General 2018		European 2019		Regional 2019	
Poles								
Left (alternative to PD)	9,833	2.6	26,469	5.2			8,330	1.9
Centre-left coalition (PD)	159,869	42.8	140,665	27.5			166,179	37.5
Centre			4,584	0.9				
Centre-right coalition (FI/PDL)	146,752	39.3	188,073	36.8			255,158	57.6
Right	3,761	1.0	8,827	1.7				
M5S	53,458	14.3	140,731	27.5				
Other			1,930	0.4			13,676	3.1
Total	373,673	100	511,279	100			443,343	###

Table 2: Electoral results of single parties and coalitions in Umbria in the last national, European, and regional elections (Note: AV= Absolute values)¹.

Let us now turn our attention to the electoral results, comparing the results of the last regional elections with the results in previous regional, general, and European elections. The Democratic Party (PD), which got 36% of the votes in 2015, clearly lost electoral support. This negative result was already anticipated by the poor performance of the party in the general elections of 2018 -when the party obtained 25% of votes- and the European election of 2019 -when the party reached 24%. The Five Star Movement (M5S) is indisputably the loser of the regional electoral competition. This is particularly visible if we compare the result in Umbria -just over 7%-, with the electoral exploit in 2018, when the M5S was the first party in the region with 27.5% of the votes. The dramatic decline of the M5S is also apparent when the results of the regional elections of 2015 and the regional elections of 2019 are compared: indeed, the electoral support for the party halved, moving from 14.6% in 2015 to 7.4% in 2019. Paralleling the negative trend of the PD, the decline of the electoral support for the M5S was also glimpsed a few months ago: in the European elections, Di Maio's party obtained - in percentage terms- the same electoral result as at the regional elections held in 2015 (15%).

¹ In the upper part of the table the proportional results are shown (for the general elections of March 2018, the votes expressly assigned to the parties are reported, before the assignment of the votes to the only supported candidate in the district); in the lower part majoritarian results are used.

In the upper part of the table, each row adds the results of the related parties, regardless of the coalition of which they were part. The 'Left parties' category includes: PRC, PC, PCI, PAP, SEL, SI, MDP, LeU, RC, PCL. The category 'Other centre-left parties' includes: Insieme, PSI, IDV, Radicali, +EU, Verdi, CD, DemA. The 'Centre parties' category includes: NCI, UDC, NCD, FLI, SC, CP, NCD, AP, DC, PDF, PLI, PRI, UDEUR, Idea. In the 'Right parties' category are included: La Destra, MNS, FN, FT, CPI, DivB, ITagliiT.

In the lower part the results of the candidates (single-member districts) are added, classified according to the criteria indicated below. For the regional elections in 2015 and 2019, we considered as the votes of candidates the votes received by the coalitions (supporting a governor). 'Left alternative to PD' brings together all the candidates supported by at least one among PAP, RC, PRC, PCI, PC, MDP, Leu, SI, SEL, PCL, Insieme, PSI, + EU, CD, DemA, Verdi, IDV, Radicali - but not by the PD. The 'Centre-left' is made up of candidates whose supporting coalitions include the PD; the 'Centre' brings together all the candidates supported by at least one among NCI, UDC, CP, NCD, FLI, SC, PDF, DC, PRI, PLI (but neither by the PD nor FI / PDL). The 'Centre-Right' is made up of candidates whose supporting coalitions include FI (or the PDL). The 'Right' brings together all the candidates supported by the League, FDI, La Destra, MNS, FN, FT, CasaPound, DivBell, ITagliiT - but not by FI (or the PDL).

Within the centre-right camp, with the exception of Go Italy, all parties got positive results, confirming the positive trends already recorded in the general and European elections. Brothers of Italy (FdI) doubled in percentage terms compared to 2018, moving from 5% to 10%, thus confirming the growing trend in the region. Matteo Salvini's League, which obtained 14% in the previous regional elections and just over 20% in the general elections of 2018, considerably increased its electoral support, resulting the most voted party in the region (37%). Moreover, the League, alone, has almost managed to reach the same percentage as the entire centre-left coalition (extended to include the M5S). An expected and predictable result, if we consider that in the region the party got 38% of the votes at the European elections of May 2019.

Looking at the data relating to the polls, it is possible to observe that the centre-left coalition, which unusually included the M5S in this election, reached 37.5% of the votes. Clearly not sufficient to challenge the electoral performance of the centre-right coalition. The now structural alliance between the League, FdI, and Go Italy reached 57.6% of the votes, growing both with respect to the previous regional elections -where it obtained 39% of the votes- and with respect to the general elections -when it resulted as the first coalition in the region with around 37% of the votes.

The Umbrian vote expressed a clear winner. **What is not clear are the possible effects of this regional vote on the national arena and, most importantly, on the fragile governing coalition between the PD and the M5S. In the aftermath of the regional elections in Umbria, it is clear that the M5S-PD alliance at the regional level failed.** The leader of the M5S immediately made it clear that he does not want to replicate the Umbrian experiment in other key regions, where elections will be held in the coming months. This casts serious doubts about the possibility that the marriage of convenience at the national level between the PD and the M5S may turn into a structural alliance between the two parties. Furthermore, there is another element of potential instability for the government. The loss of the PD in Umbria, a region that has always been governed by the centre-left, puts Zingaretti's party in serious trouble. In January 2020, in fact, regional elections will be held in Emilia Romagna, which has also always been a region governed by a centre-left coalition. If this region too was to fall into the hands of the centre-right led by Matteo Salvini, then the very survival of the government would clearly be in danger. Could the PD remain in government while a relative minority force in its historic strongholds?

3. Economic Scenario

After a slow decline in the last three quarters of 2018, the global economic growth rate has weakened significantly. One of the sectors that has contributed most to the current economic situation is manufacturing, which has reached the levels of the past global financial crisis. From a geopolitical point of view, tensions over global trade have played a crucial role in increasing uncertainties about the future of the world trade system, affecting business confidence, investment decisions and, more generally, the consolidation process on closer international cooperation. Meanwhile, the European Central Bank, by strengthening its expansionary stance, has managed to alleviate, at least for the time being, the impact of these tensions on the financial markets.

In this context of high global uncertainty, **Italy registered low economic growth in the second quarter of 2019, both in economic and structural terms, at 0.1%. In addition, in mid-October, the Bank of Italy announced its growth projections for the third quarter, which, as for the current year, are expected to be zero.**

At the cyclical level, all the main aggregates of domestic demand are increasing, with growth at 0.1% in private and public consumption and at 0.4% for gross fixed capital formation. Imports and exports grew by 0.9% and 1.2% respectively. Finally, the contribution of net foreign demand was positive at 0.1%.

The weakening in the domestic demand of the Italian economy was one of the causes of the estimated zero increase in 2018. Private consumption, starting from the temporary recovery during the final quarter of last year but now in progressive decline, is currently growing by 0.3% and is expected to end with a negative rate next year. This negative trend is due to the increase, now structural, in the saving rate, which will also affect the increase in VAT (although for the moment the danger seems to be avoided). A continuous gradual decrease in the growth rate of private investment is expected in 2019 and 2020, already emphasized by the sharp decrease from 2.7% to 0.4% (cyclical growth) in, respectively, the first and second quarters of 2019.

In August, employment in the labour market was broadly stable in the monthly comparison. Compared to July, the unemployment rate in August fell for all age groups, with a monthly change of -3.4% compared to the first quarter of 2019 and a much more substantial -7% compared to August 2018. Finally, there was an increase in the number of inactive workers in August (0.6%, +73,000, age group 15-64).

In September, the ISTAT index, which summarizes consumer confidence, increased by 0.3% (from 119.9 in August to 120.2 in September). In detail, there was an improvement in the personal and future climate index, from 107 to 107.8 and from 115.5 to 116.8, respectively. The current climate index remains unchanged from the August value, while the ISTAT economic climate index shows, in line with the gradual decrease in private consumption, a decrease from the value of 127.7 in August to 127 in September. Furthermore, according to ISTAT data, a continuous decline in private consumption is expected, from 0.3% in 2019 to 0.2% in 2020, due also to an increase in the saving rate for households.

Moving on to the productive sectors of the economy, in August the industrial production index recorded a slight increase of 0.3% compared to the previous month, -0.3% compared to the average of the previous three months, and -1.8% compared to August 2018. Moreover, there was a trend inversion for industrial orders, interrupting the negative cyclical course, going from -2.8% in July to 1.1% in August. According to ISTAT surveys, the index that summarizes business confidence slightly declined, from 98.8 in August to 98.5 in September. The biggest drop was in the retail sector, from 109.9 to 107.6, in which the component of current sales opinions most affected the index's negative result. Another sector that was greatly affected globally is manufacturing. Consistent with these dynamics, the confidence index decreased from 99.6 in August to 98.8 in September. In the services sector there was an improvement with the index rising from 97.4 in August to 98.5 in September. The largest increase was in the construction sector, rising to 143.2 from the previous value of 140.4. The Purchasing Managers Index (PMI) basically reflects the trend of the ISTAT surveys. In fact, the manufacturing sector recorded a further deterioration of new orders received, and therefore of production, for the fourteenth consecutive month. Overall, the PMI was 47.8 in September, down from 48.7 in August, with the level of investment goods causing the sector to contract, while only that of consumer goods improved in September. Consistent with the performance of the building industry confidence index, the PMI Construction Index reflected a change in performance, rising from 48.1 in August to 50.2 in September. The main reason for the return to growth of Italian construction was the faster increase in new orders in five months. Finally, the tertiary sector, given the increased flow of new orders, rose from 50.6 in August to 51.4 in September, with domestic demand driving the biggest expansion. In fact, the increase in new orders in September was modest but faster than August. Finally, in line with the instability of international trade, foreign sales indicated a third consecutive monthly contraction.

Although the Italian economy has been stagnating for more than a year, public accounts are not affected. In fact, the deficit is improving thanks to a job market that has led to an increase in tax revenues, lower interest expenditure - as of mid-August, the yield rates of government bonds were at historical lows - and finally to the savings on the Quota 100 Pension Scheme and the Citizenship Income (2.6 billion euro for this year, 0.1% of GDP, and 3.4 billion by 2020, 0.2% of GDP). In fact, Citizenship Income is not producing the expected benefits since the applications accepted (560,000, compared to the 800,000 submitted) were less than half of those estimated for April 2019 (1,200,000). In the following months, the flow of applications submitted gradually decreased and the acceptance rate decreased. The biggest damage will be the smaller impact on consumption, especially that expected for 2019.

With the Update to the Economic and Financial Document introduced at the beginning of October, the new government, limiting the total budget to approximately 30 billion euro, fixed the deficit objective for the upcoming year at 2.2 percentage points of GDP. The fundamental pillars of the Update are the sterilization of the safeguard clause provided for by the last Budget Law (costing 23 billion euro), the reduction in the tax wedge (a commitment of 2.7 billion euro for 2020, and 5.4 billion euro for 2021, which correspond respectively to 0.15 and 0.3 percentage points of GDP), and, finally, the incentives for using digital payment systems and the fight against tax evasion, for which it is estimated that the government will obtain 7 billion euro (0.4% of GDP). Overall, the government is said to be satisfied because, in a particularly complex public finance framework, it has managed to draw up an expansive fiscal budget. In contrast, with the deficit trend (that is, in the absence of fiscal adjustments, net of the increase in indirect taxes, as provided for by the safeguard clause) estimated at 2.7% of GDP, the net deficit expected for 2020 would indicate that the Update presented at the beginning of October is a budget that is far from being expansive, but rather one that is restrictive by 0.5 percentage points of GDP (about 8 billion euro).

Achieving the planned deficit for 2020, 2.2% of GDP, will be very problematic (but not impossible) because half of the savings specified in the Update are estimates of measures for combating evasion (by definition, they are uncertain). Therefore, Italy would need a budget that would deliver a great structural (not temporary) result in the fight against tax evasion. In this case, not only would it have the coverage it needs, avoiding fresh debate on the Italian public accounts with the European Commission, but it would re-establish confidence in the markets for the executive-in-charge, which previously was minimal, thus helping to lower interest rates. Having estimated the deficit-to-GDP ratio to be identical for three consecutive years, despite the reduction in interest expenditure in 2020, a great benefit would be from the sharp reduction in government bond yields, as Italian government debt in 2018 turned out to have increased to 134.8% from 134.1% in 2017. **There is therefore a very high risk that the debt-to-GDP ratio will not fall in the coming years, however, it is also very likely that if this budget does not bring satisfactory results in the fight against corruption, Italy will find itself with a debt-to-GDP that is stable, at best.**

The European Central Bank (ECB) is still concerned about the deflationary spiral. On September 12 it decided to intervene on one of the three reference interest rates, reducing the interest rate on deposits by 10 basis points to -0.5%, without defining a precise range within which the rates will remain at these values. At the same time, the ECB, following the examples of Switzerland and Japan, introduced a new measure called “tiering”, which aims to mitigate costs related to negative deposit rates for eurozone banks. In detail, the so-called “tiering” exempts euro area banks from paying the interest rate on deposits until the reserves exceed six times the minimum allowed by European bank regulations, and beyond this threshold, the excess part will be taxed for 0.5%. This would encourage banks with reserves at the ECB beyond the defined threshold to mobilize them and, if necessary, to borrow in other countries, or wherever in the euro area the demand for liquidity becomes apparent. Together with this measure, the Targeted Longer-Term Refinancing Operations (TLTRO) are renewed to provide low-cost loans to eurozone banks, which could, however, encourage financial intermediaries with reserves at the ECB lower than the tiering threshold to increase the reserves to the limit for which no cost is incurred, without increasing the loans. This is of course

one of the many possibilities, and we must be patient about the outcome of this ECB manoeuvre and make assessments on the basis of the data that will be available in the future.

The decision to further cut the deposit interest rate was taken to counter low inflation below the ECB target despite the expansionary measures in place. In fact, the inflation index rose by 0.8% year-on-year, down from 1% in August. It should be noted that much has depended on the contraction in energy prices (-1.8%), with the overall core index (without energy, food, alcohol and tobacco) registering an increase of 1% per annum, up from 0.9% in August. Although the fall in price growth may be temporary, the market measure of inflation expectations to which the ECB particularly refers (inflation swap rate 5y-5y), which with its price indicates the inflation expected for the 2024-2029 period, fell to an all-time low in October. Thus, the ECB's biggest concern to date is anchoring inflation expectations to a level between 1% and 1.5%, below the desired 2%, as inflation expectations are the main factor in price dynamics. In addition, the ECB Governing Council has agreed to resume net purchases under its asset purchase program (APP) at a monthly rate of 20 billion euro from November 1.

The reduction of the interest rate on deposits at the ECB has caused some concern for the Governor of the Bank of Italy Ignazio Visco, who during the annual general meeting of the Institute of International Finance in Washington, while defending the actions of the ECB, showed his concerns about the negative impact that this unconventional monetary policy choice could have on banks' profitability, since overly low profits for financial intermediaries would lead to a contraction of credit, unless these costs are translated into customer deposits at negative rates. In this regard, in mid-October UniCredit CEO Pierre Mustier launched the possibility of taxing bank deposits, as negative rates do not appear to be temporary (now they are rather structural elements). Such a business choice should not worry many people, since today it is expected that negative rates for deposits below 100,000 euro will not be considered.

Finally, **at the end of the month there will be a new ECB president and fortunately, we can count on the continuity of the bank's monetary policy choices.** In fact, the succession of Executive Board members is done in such a way that they are not changed all together, so that the board led by Christine Lagarde will still be composed, for a long period, of various members appointed (by the EU Council) during the Draghi presidency.

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