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Political Economy

Monthly Report on Italy

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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 care 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 has begun 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 represents 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 at easing the connection between Italy and the world outside it. It aims at preparing the future Italian public elite to the complexities of an ever more integrated planet, and at providing 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, also in preparation of the coming 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

Coalition. Every time the government coalition has to make a substantial policy decision it seems on the verge of a crisis, but in the end it resists. The relationship between the two parties is becoming increasingly complicated because we are entering into a phase of political imbalance. The League has been polling over 30 per cent for months, while the Five Star Movement is steadily losing its electoral appeal and they are now recorded as very close to PD, at around 20 per cent. The three regional elections of the last two months have confirmed this scenario.

The imbalance of performance at the polls is conditioning governmental action. Salvini aims to maximize his magical moment by taking control of the political agenda and promoting the League's main policies. On the other hand, Di Maio is trying to defend the Five Star Movement's flagship proposals making agreement with its partner more difficult. Moreover, the leader of the Five Star Movement has to protect himself from the radical faction of the party, which would like a more clearly left-wing programme. To address this problem, Di Maio made the proposal for introducing a minimum wage for workers this month and he introduced new public investment for technological start-ups.

The Five Star Movement has to defend itself on the left, for both internal (the radical faction) and external (the resurgence of the centre-left) reasons, while the League is eroding part of its electorate in Southern Italy. The coalition is resisting because there are no alternative political paths for the two parties at the moment, but its solidity is being sorely tested as the months pass. In the first six months of its life the government was symmetrically divided on domestic policies, with an equal distribution of competences between the two parties, but it was united in its confrontation with the European Union and international powers. Now the domestic policy agenda, as we noted before, is becoming asymmetrical and the two parties are showing some misalignment also on foreign policy.

Basilicata. Late this month the centre-right won regional elections in Basilicata, a traditionally left-leaning region of the South. The centre-right got 42%, the centre-left 32% and the Five Star Movement 20%.

The victory was important for Salvini because it proves, after the victories in Abruzzo and Sardinia, that the League's grand strategy to conquer Southern Italy is working right now. Indeed, the League nearly tripled its votes in the Region and it overtook Berlusconi's Forza Italia within the coalition. Forza Italia used to be by far the biggest party of the centre-right coalition but now it is second and some way off Salvini's party. The centre-left registered an improvement, at least if we compare the result of the 2018 national elections with this regional vote. However, as shown by other regional elections held in the last few months the PD plunged to 8% and the coalition is increasingly relying on local and civic lists and small leftist parties. The Five Star Movement continued its crisis of consensus

at local level. They got 20% in Basilicata after obtaining 44.4% of votes in the 2018 national elections. However, in the 2014 regional election they got 13.2% in the same Region. How should we interpret these results? The Five Star Movement used to be traditionally weaker in local races than in the national one. For this reason, we should be cautious in considering the gravity of their crisis, which might be less severe than the regional elections are showing. However, losing more than 20% of their support, albeit in different elections, is not a sign of good health.

TAV. The government discussed the Turin–Lyon high-speed railway (TAV) this month and the two parties were profoundly divided; for the moment the match finished with a tie. The final decision has been postponed and it has to be taken within six months. However, while the League is broadly in favour of building new and large infrastructure, the No-TAV position has been an historical battle for the Five Star Movement. Once again the postponement of the decision does not benefit Di Maio and his colleagues, who seem ineffective in delivering what they had promised in the electoral campaigns of recent years. Moreover, Salvini is benefitting from his pro-development approach which is useful for the League, especially to gain support in the South where unemployment is higher and infrastructure is considered a vehicle to create new jobs.

China. The two parties have also clashed on foreign policy and, particularly, on a Memorandum of Understanding with China to improve the commercial relationship between the two countries. The agreement triggered the diplomatic reaction of the United States, Italy's strongest and longest-standing ally since 1945, which raised concerns over the deal.

This event brought a foreign policy issue into the domestic debate.

Five Star ministers and government officials showed themselves more prone to defend the partnership with China, while the League aimed to narrow the scope of the agreement. Deputy Prime Minister Matteo Salvini said on Thursday he would firmly oppose any Memorandum of Understanding (MoU) with China if he considered they compromised national security.

Prime Minister Giuseppe Conte defended the agreement to become part of China's giant "Belt and Road" infrastructure plan which was signed during Chinese President Xi Jinping's visit to Rome.

The United States, which fears China's growing international clout and penetration into strategic areas such as telecommunications, has raised concerns about its allies' participation in the Belt and Road scheme. The European Union is meanwhile wary of Chinese takeovers in critical sectors.

As a consequence, the President of the Republic Sergio Mattarella summoned the government on this issue. The Head of the State asked for assurances that the MoU would not jeopardize national security and strategic infrastructure, such as the building of 5G network.

The government, mostly through the League's official statements, corrected its enthusiasm for the forthcoming signature of the MoU with China and Salvini ensured that the agreements would not compromise national security and telecommunications networks.

In the end President Xi met Italian authorities in late March. The two countries signed 29 agreements for a value of 2.5 billion euros to strengthen commercial ties and infrastructure investments. The government was compact in defending national security infrastructure from the Chinese strategy, but the two party leaders had opposite reactions: Di Maio had enthusiastic words for the signature of the

agreements, while Salvini proved to be more sceptical on closer economic integration with China in coming years.

Immigration. Moreover, immigration remains a hot issue for the Italian government. This month an Italian NGO ship was escorted into the port of Lampedusa by police after rescuing 49 Africans in the Mediterranean, with Interior Minister Salvini calling for the crew to be arrested. The judicial authority opened an investigation into the crew, members of an Italian NGO, making allegations of aiding and abetting human trafficking. The boat has been impounded. Salvini considered this event helpful for his anti-immigration campaign and the government has repeatedly accused NGO rescue ships of being complicit with people smugglers, who charge large sums to help migrants get to Europe. Keeping up the pressure on immigration is part of the League's strategy which, according to the polls, has doubled its supporters mostly due to tightening immigration policy.

Salvini and Europe. Matteo Salvini this month said that he is organising an event in Milan to bring together all European allies of the League to "propose a reform of the European Union". Salvini will invite about "20 movements to propose a new Europe of nations". The leader of the League is projecting himself as the leader of the Eurosceptic group. After the European elections Salvini might become the leader of the largest Eurosceptic party in the European Parliament. At domestic level the leader of the League is outpacing his governmental ally. Indeed, the Five Star Movement are still looking for new alliances within the European Parliament, but at the moment they have not yet signed any strong partnership with other populist parties. If this scenario persists, it might influence the European elections. While Salvini is promoting himself as a European leader and the League as a leading far-right party, the Five Star Movement cannot do the same. They are looking increasingly isolated and without a clear position on European Union reform.

b. Opposition

Might the rise of a new global environmentalism rekindle the flame of the Italian centre-left, whose leaders joined the global protest against climate change? The numbers of the protests held this month were impressive; however, it is still too early for an assessment of the real political potential of the environmentalist message. Firstly, because in Italy most environmental protest has been intercepted by the Five Star Movement, which is declining in the polls but is still a big political force. Secondly, because the message might be appealing for disappointed left-leaning voters, but the policy implications might be much more complicated to manage in political terms as the case of the gilet jaunes in France has demonstrated. Thirdly, a set of policies and international protests might be very helpful, but they are not enough to restore political credibility and ignite new leadership.

Then we have to ask what the weight of the PD will be in the centre-left archipelago. Indeed, there are different parties which might join the coalition, but today their participation in the coalition is not guaranteed and we have no indications of their real electoral capacity. For example, we do not know if the centrist +Europa and the leftist Potere al Popolo, which are both polling between 2 and 3%, will agree to be part of the centre-left coalition in the future. This is important in order to understand how competitive the centre-left alliance might be and what the role of the PD in the coalition will be. With an electoral law which is a mix of the proportional and the first past the post systems, the larger the alliance is, the stronger the coalition is. The PD should act as a glue for the different islands of the archipelago, but an obstacle might be the traditional litigiousness of these groups and the

fractiousness within the PD itself. The risk might be increasing strength in the polls, related to the Five-Star's decline, but very precarious unity within the centre-left alliance.

On the other hand, Silvio Berlusconi is increasing his criticism of the government. The Cavaliere has continued to target only the Five Star Movement and its policies. The leader of Forza Italia aims to gather the centre-right and to form a new government in the following months. He recognizes the leadership of Salvini, but he is playing a subtle game: to attract voters who are disappointed by the League-Five Star coalition and, at the same time, to put pressure on Salvini by asking him to torpedo the Conte government and come back to the centre-right alliance. Berlusconi knows that currently Forza Italia is too weak to run alone, without an alliance with the League, and that the government will not fall at least until the European elections. After this, he might become even more critical toward Salvini and his ally. The problem for Forza Italia is that the polls show voters shifting Berlusconi to Salvini. The League might become strong enough to not need to pay much attention to Forza Italia's attacks.

c. Public Policies

TAV. A dispute in Italy's coalition over the future of a high-speed rail link with France escalated in early March and raised the risk of a government collapse, with one party chief accusing his partner of acting irresponsibly.

The Alpine rail line is backed by the League but is fiercely opposed by the 5-Star Movement, which argues Italy's share of the funding would be better spent upgrading existing roads and bridges. After League leader Matteo Salvini said in an evening television interview that he would not back down and his party would "never sign" a decree to block the project, 5-Star chief Luigi Di Maio accused him of threatening to bring down the government

Tensions between the two sides had escalated ahead of a deadline for the company overseeing the project, TELT, to launch tenders to carry out works on it, threatening to bring down the government.

Sblocca-Cantieri. After the quasi-victory on the TAV Salvini relaunched his political action on public works. The government is drafting a decree to streamline procedures for public works and tenders. However, attrition occurred on public works too within the coalition and the decree has been delayed amid disagreement between the League and the Five Star Movement.

Once again the League wishes to streamline procedures for public procurement and to rapidly reduce the red tape for construction companies, but the Five Star Movement is more sceptical and fears such simplification might pave the way for more corruption. Salvini is taking a pro-business and pro-mega-infrastructure position, while Di Maio is more concerned about small infrastructure, legality and anti-corruption controls. The coalition must work more on rules to find agreement. A compromise might be found, but we expect that delays might occur on this piece of legislation.

A new flat-tax? The League and the Five Star Movement have launched a new flat-tax formula for the 2020 budget. In 2019 the government introduced a flat tax of 15% for self-employed tax payers earning up to 65,000 euro annually. This month the Deputy Prime Ministers Salvini and Di Maio proposed to introduce a 15% flat-tax for all taxpayers with household income below 50,000 euro. League officials

estimate the cost of the measure at around 13 billion euro, however the budget coverage remains undefined at this stage. It will not be easy for the government to find resources to fund it.

Immigration policy. New arrivals to Italy have collapsed since Salvini took office last June, with just 348 migrants coming so far this year, according to official data, down 94 percent on the same period in 2018 and down 98 percent on 2017. Critics are accusing Salvini of being ineffective in implementing the repatriation policy for illegal immigrants because the Ministry of Interior repatriated slightly fewer immigrants than his predecessor, Marco Minniti (PD), and Italy is not signing new agreements with immigrants' home countries to ensure an effective repatriation policy. According to the latest data available, there are still 530,000 illegal immigrants in Italy and only a very small fraction of them (17,000) were sent back to their native country. Moreover, Salvini is accused by the centre-left of being disinterested in developing a working integration policy, while most of the illegal immigrants have been living in reception centres for a long time or are living illegally on the streets.

d. Mapping of risks

Public debt. Italian public debt, the largest in the Eurozone, is rising again and currently there are no significant measures such as a spending review and privatizations or other strategies to reduce it. The issue is rather marginal on the political agenda. Moreover, the government's approach is to bring the State back in some sectors such as, for example, airlines where it is examining a possible nationalization of Alitalia, which is already heavily subsidized by the State.

Fiscal uncertainty. The government has to neutralize 23 billion euro of safeguard clauses to respect EU rules in the next budget law. There is no clear set of options on how to manage the fiscal constraints. We might well see an increase in VAT and other indirect taxes and/or the government might increase taxation on private assets.

Red tape. The government is aiming to streamline procedures and simplify rules in order to speed up public works and to attract more investment. However, with a Cabinet divided between the pro-business orientation of the League and the anti-corruption orientation of the Five Star Movement the risk is inconsistent results. Competition might be weakened by both derogations to accelerate public works and cumbersome legal procedures to prevent corruption. Italy needs a coherent framework to reduce red tape, increase national and international competition in awarding public auctions and a clear plan for developing new infrastructure. These objectives are difficult to realize with such a diversified coalition.

e. Forecasts

- Probability of snap elections:
- Election between Q3 2019 (Autumn) and Q2 2020 (Spring): 40%
- Election after 2020 or at the end of the legislature (2023): 60%

Italy is becoming a tripolar political system: centre-right, centre-left and the Five Star Movement. However, this system is asymmetrical: the centre-right coalition is polling around 45%, the centre-left around 30% and the Five Star Movement around 20%.

The main question is how Salvini might capitalize his advantage over his competitors in order to gain the premiership. It seems very hard to find an answer. Analysts consider three scenarios.

The first is the collapse of the coalition and a snap election which ends with an absolute majority gained by the centre-right. But when might an early vote be held? There is a timing issue. Salvini could provoke a government crisis in June and, if President Mattarella does not find an alternative majority, the new elections would be held in late September-early October. However, in Italy elections have never been held in that period and, in those weeks, the Cabinet should present a draft budget law. If the government crisis occurred later on, in late summer or early autumn, there would be a timing issue in any case because it would happen during the drafting of the new budget law. Such a situation might drag Italy into a financial storm. For these reasons it is improbable we will see a government crisis until the end of 2019 and, in this context, the most probable scenario remains a snap election not before spring 2020 or even later. We consider this scenario far more likely.

A second scenario is related to the consensus crisis and factionalism within the Five Star Movement. If the European elections become a Waterloo for the Five Star Movement, e.g. polling under 20%, an internal war could begin and lead the party to a secession between the government and the radical faction. In this case, Di Maio and his faction will remain in government with Salvini while the radical faction will move to the opposition. Consequently, the coalition would need to be widened and the two other centre-right parties, Forza Italia and Fratelli d'Italia, might join it. In this scenario Salvini would aim to form a new government, composed of the centre-right coalition and the moderate faction of the Five Star, and to become Prime Minister himself. Is it a plausible scenario? Tension is rising within the Five Star Movement but it does not seem so critical as to imagine a party split. Analysts should continue to monitor the relationship between the different factions within the Five Star Movement, but this second scenario seems today far less likely than others.

The third scenario considers the Five Star Movement's reaction to its consensus crisis. The answer from Di Maio and other members could be to break with the League and to call for a snap election. The electoral campaign might revitalize the Five Star Movement and take it away from the League's stranglehold. In this case it is likely that after the election the Five Star Movement would return to opposition against the centre-right. The government would be sacrificed but the haemorrhaging of consensus would stop. We are sceptical about this scenario. It is true that the Five Star Movement is in trouble, its consensus is shrinking, and the European elections might confirm it. Its incentives to go to the polls are very thin, though. Nobody wants to force a vote when their polling is very bad, particularly not a party like the Five Star Movement most of whose MPs are inexperienced and not well organized in the constituencies. Moreover, Italian history teaches us that voters traditionally punish the party which torpedoes a government and calls for elections. For these reasons we do not consider it a very likely scenario, at least in coming months.

2. Public Opinion Trends

a. Polls

Two months before the European Parliament elections of May, polls suggest that the League is still above 30% and thus the top Italian party in terms of potential votes. While the party led by Matteo Salvini maintains robust electoral support, the electoral strength of the Five Star Movement continues to decline: in the last month the party has lost 2 percentage points, which can be added to the two points lost two months before and one point lost in January. Overall, if compared with the results of the general election in March 2018, the data reveals a loss of more than 11 percentage points. Looking at the political parties in opposition, the PD has gained more than 3 percentage points in the last month, now equalling the Five Star Movement in terms of potential votes. On the contrary, the support for leftist-parties alternative to the PD has either remained stable (PaP) or slightly decreased (LeU). Stuck on a meagre 9.6%, the party led by Silvio Berlusconi continues to be under 10%, which, remarkably, is lower even than the electoral results of March 2018. Quite stable, instead, is the performance of FdI (4.5% in March, as compared to 4.6% in February)..

	Polls last week of March	Polls last week December	March 4 elections
League	33.1%	32.9%	17.3%
Five Star	21.3%	26.3%	32.7%
PD	21.0%	17.6%	18.7%
FI	9.6%	8.7%	13.9%
FDI	4.5%	3.8%	4.4%
+EU	2.9%	2.5%	2.6%
LeU (MDP and SI)	2.8%	2.1%	3.4%
PAP	1.8%	2.0%	1.1%

Table 1 – Vote intentions based on most recent surveys

b. Regional elections

In the last two months three regional elections were held, respectively in Abruzzo, Sardinia, and Basilicata. The latter was the last region to go to polls and, most importantly, it represented the last electoral test before the European Parliament election of May. Exactly as happened in Abruzzo and Sardinia, in Basilicata too the centre-right coalition (including FI, Lega, FdI, plus other smaller

political parties) easily won the elections, with the League being the pivotal actor in the coalition (Table 2).

	General Election 2013		Regional Election 2013		General Election 2018		Regional Election 2019	
	V.A.	%	V.A.	%	V.A.	%	V.A.	%
Voters	476,020		575,160		462,768		573,970	
Turnout	330,812	69.5	273,794	47.6	329,087	71.1	307,188	53.5
Parties								
Leftist parties	27,471	8.9	13,073	5.5	24,171	8.0	25,032	8.7
PD	79,631	25.7	58,730	24.8	49,603	16.4	22,423	7.7
Minor allies PD			51,873	21.9			24,957	8.6
Other centre-left parties	9,317	3.0	38,502	16.3	6,905	2.3	25,964	9.0
Centrist parties	34,928	11.3	9,801	4.1	14,860	4.9	12,094	4.2
FI (or PDL)	59,171	19.1	29,022	12.3	38,183	12.6	26,457	9.1
Minor allies of FI (or PDL)	6,125	2.0	847	0.4				
FDI	7,397	2.4	12,033	5.1	11,372	3.8	17,112	5.9
Lega (Nord)	382	0.1			19,339	6.4	55,393	19.1
Right-wing parties	4,530	1.5			1,968	0.6		
M5S	75,260	24.3	21,219	9.0	133,039	43.9	58,658	20.3
Other	5,924	1.9	1,370	0.6	3,448	1.1	21,240	7.3
Total valid	310,136	100	236,470	100	302,888	100	289,330	100
Poles								
Left (alternative to PD)	10,422	3.4	16,281	6.5	24,246	7.7	12,912	4.4
Centre-left coalition (PD)	105,997	34.2	148,696	59.6	61,547	19.6	97,866	33.3
Centre	34,928	11.3	1,300	0.5	1,875	0.6		
Centre-right coalition (FI/PDL)	76,404	24.6	48,370	19.4	79,665	25.4	124,716	41.9
Right	1,201	0.4			2,051	0.7		
M5S	75,260	24.3	32,919	13.2	139,158	44.4	60,070	20.5
Other	5,924	1.9	1,917	0.8	5,177	1.7		
Total valid	310,136	100	249,483	100	313,719	100	295,564	100

Table 2 - Electoral results of single parties and coalitions in Basilicata in the last national and regional elections

The League won 19.1% of votes, contributing decisively to the electoral success of the coalition (which got 41.9% of votes). This result is even more relevant considering that the party did not run in the regional election of 2013 and that in the general election of March 2018 obtained ‘just’ 6.4% of votes. Once again, the nationalization strategy of the party led by Matteo Salvini has proven to be electorally rewarding and allowed him - for the first time in its history - to win in a region which was traditionally a stronghold of the centre-left coalition.

The centre-right coalition has been followed by the centre-left coalition (including the PD and other smaller allies). Although the coalition obtained a honourable 33.3%, it is worth noticing the decline of the PD. In the regional election in 2013, the PD obtained 24.8% of votes; in the regional election held in March 2019, the support for the party plummeted to a meagre 7.7%.

As for the Five Star Movement, the electoral results confirmed the significant hurdles this party has always encountered at local level. Lacking the solid structures of a traditional political party and adopting an electoral strategy that excludes the possibility of coalitions, the party has never been able to replicate at local level the great electoral performances obtained at national level. In Basilicata the party got 20.3%, more than halving its electoral support if compared to the general election of March 2018 (when the party obtained 43.9% of votes). Notwithstanding this, the electoral support for the Movement increased, if compared with the regional election of 2013, when the party obtained just 9%.

These dynamics clearly emerge when we look at the regional party (coalition) performance relative to the national performance (Table 3). This indicator intends to provide a measure of how the party (coalition) performed at local level compared with the electoral performances of the party (coalition) at national level. The measure is obtained as the ratio between the votes obtained by the party (coalition) at local level and the votes obtained in the last general election.

Groupings	Regional performances after the general election of March 2018					Performance in Basilicata 2019
	Molise	Friuli - Venezia Giulia	Trento	Abruzzo	Sardinia	
	Apr. 2018	Apr. 2018	Oct. 2018	Feb. 2019	Feb. 2019	
Centre-Left (PD and allies)	95%	116%	123%	178%	186%	169%
Centre-Right (FI/PDL and allies)	147%	133%	120%	135%	154%	166%
Five Star	86%	48%	30%	51%	26%	46%

Table 3 - Regional performances in Basilicata and across regions. Note: With the result in the general election equal to 100, percentages indicate the regional performance of each grouping.

Analysing the performance of the major groupings across different regional elections held in 2018 and 2019, the main figure that emerges is the growth of the centre-right coalition, which has been able to progressively strengthen its regional performance (in Basilicata the regional performance of the coalition was 166%). This was not the case for the Five Star Movement which has suffered a clear decline in its performance over time, after a peak of 86% in Molise. Finally, the centre-left coalition has confirmed, in almost all the regions, its capacity to obtain better electoral results at the regional level rather than nationally. With the sole exception of Molise, the regional performance of the coalition has remained consistently high over time and it reached 169% in Basilicata (a value that is lower compared to the performance in Abruzzo and Sardinia, but considerably higher compared to Trento and Friuli).

Overall, the results of the regional election in Basilicata seem to suggest that the electoral growth of the centre-right coalition (and of the League in particular) has not stopped yet, that the decline of the Five Star Movement is still ongoing, and that the PD has not benefited yet from the election of a new secretary.

These are the trends emerging two months before the European election. The next regional election will be held in Piedmont, the same day as the European election in May. It will then be interesting to understand whether the dynamics that emerged in these last regional elections will be confirmed and, in this case, what effects the vote will have on the stability of the government.

3. Economic Scenario- Household uncertainty and risks to financial stability are increasing

The increasing gap between Italian economic growth and that of other eurozone countries demonstrates Italy's greater vulnerability to international dynamics, which in this period have a less positive influence than in the past. The recession remains the key element in the main economic forecasts for Italy in the course of 2019. The consequence is that, a unique case in Europe, the costs of financing Italy's public debt, as in 2018, are likely to remain above the nominal growth rate, making every attempt to contain the growth of public debt an arduous task.

Although in January there was a positive change in the Industrial Production Index compared to December (+1.7%), for February the Confindustria Study Centre reported a decrease of 0.5%. This unstable dynamic reflects a clear contrast between weak domestic demand, especially for investments, and foreign demand, which is still more buoyant in spite of everything. The slow growth in consumption, which represents around 60% of Italian GDP, reflects the continuing deterioration in consumer confidence. For the month of March, all the components of the index appear to be decreasing, with the current climate and the economic climate recording the largest falls, respectively from 109.4 to 107.8 and from 126.4 to 123.9. There are lower declines for the personal and future climates, which have fallen from 108.2 to 106.8 and from 116.9 to 115.9, respectively. This general pessimism, apparently in contradiction with the entry into force of the Citizenship Income and the Quota 100 pension program, is easily explained by the fact that families are expecting higher taxes in the future (the risk is that the safeguard clauses that provide for significant increases of VAT in the case of overruns in the public accounts will come into effect). The increase in taxes may be transferred from businesses to households, that is, to consumers, through higher prices. In such a case, families would see their purchasing power reduced. Finally, if we consider the great uncertainty in the prospects of the economy and of the public finances, even the positive effects expected from the government's expansionary fiscal policies, designed to result in higher disposable income for families, will probably be inferior to what we hope for and consequently families will be forced to increase their savings, instead of consumption, in the course of the year.

As regards the use of the economy's productive factors, the two main indices of the Purchasing Managers' Index (PMI) are signalling opposite directions. Despite the deterioration of the national and international demand for services, with a drop in new orders for the first time in four years, the PMI for the services sector rose from a value of 49.7 in January to 50.4 in February, reflecting the attempt to stimulate demand on the part of the suppliers. The latest data of the PMI index for the manufacturing sector continue to highlight the worsening of production and new orders, with a slight drop for February, down 0.1% from 47.8 in January, staying below the neutral 50 threshold for the seventh

consecutive month. Weak domestic demand continued to affect the orders received, although orders received from the United Kingdom and Germany increased. Overall, confidence in the industry for the next 12 months has improved mainly due to the hope of recovering domestic demand. These dynamics are confirmed by the latest data published at the end of March on the confidence climate in companies, with an increase from 98.3 to 101.1 for the services sector, from 135.5 to 140.3 for construction and a decline in the manufacturing sector from 101.6 to 100.8.

In view of weak global demand, political (and therefore economic) uncertainty, both internal and external (Brexit), as well as with the fears of trade wars, the European Central Bank has cut growth estimates for the Eurozone for 2019 to 1.1% (-0.6%). Despite the downward forecasts, the ECB continues to regard the economic slowdown as temporary, relying on the reassuring labour market data. To address the lower growth estimates, on March 7 ECB President Mario Draghi announced a new series of loans to the banking sector. With these new operations (Targeted Longer-Term Refinancing Operations III), perhaps the last significant intervention of his presidency, Draghi intends to stimulate growth in the Eurozone by keeping the cost of credit low. By doing so, it seems that he is also trying to help Italy, one of the main players in the Eurozone and the only one that is currently in recession. In fact, Italian banks, together with the Spanish ones, were the main beneficiaries of the past TLTRO, and it is possible that they will again take advantage of this new opportunity. One of the possible problems is the nature of the intervention of the ECB, which, as mentioned, would like to stimulate economic growth by keeping credit costs low. However, the success of the stimulus may be linked not only to the supply of credit, but also to the response from the credit demand side. Italy is in fact in a historical situation characterized by high political and economic uncertainty that is not directly linked to the availability of credit. In fact, the problem of the slowdown of the Italian economy, and, in general, the Eurozone, seems to be linked to a lack of demand for credit, as confirmed by the consumer confidence indices. Families' concerns are also confirmed by the Bank of Italy data, which show that in 2018 there was an increase of 2.2% (+32 billion), compared to 2017, in liquidity deposited in Italian bank accounts, a sign of a preference for savings rather than for consumption.

Eurozone banks have also shown a significant increase in their willingness to purchase public debt securities, believing that the major central banks (ECB, the BoE and the FED) might start raising interest rates by next year. Italy and its financial institutions manifested a net increase of € 11 billion in the purchase of public debt securities. In particularly delicate circumstances or in times of recession, increased domestic participation in underwriting public debt may be a factor of stability. However, when the banking system holds a large amount of government securities in its financial statements, besides taking away resources from businesses, there is the risk that a political crisis could cause increases in the yields of such securities. Losses in the market value of banking portfolio securities can have serious effects on bank balance sheets and the stability of the banking system as a whole. In extreme cases, as happened in 2011, there can also be a very damaging impact on families and businesses.

This framework of instability is also faced with precarious budgetary forecasts. Recently, Italian Economy Minister Giovanni Tria reiterated his conviction that he can achieve the goal of a 2% deficit-GDP ratio for 2019. This is an optimistic position that will have to address the most recent economic growth and public expenditure forecasts. In fact, this objective, which arose from the budget law adopted in November 2018, had been calculated with growth prospects that were significantly higher than the current values. Furthermore, in the course of 2020, in the absence of alternative corrections, there will be increases in ordinary and reduced VAT rates of about 3 percentage points, as required by the safeguard clauses. The increase in taxation will clash with the simultaneous effort to cut taxes through the introduction of a general flat tax. The net result is difficult to foresee.

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