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Monthly Report on Italy

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Foreword

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

Regional elections:

1. **Abruzzo.** This month the centre-right coalition won the election in Abruzzo. The election was seen as an important test ahead of May's European elections.

Marco Marsilio is the new governor of Abruzzo after the centre-right candidate won almost half of the vote in regional elections in the central Italian region. The centre-right had 48.04% of the vote, followed by the centre-left coalition with 31.43%. The 5-Star Movement (M5S) was third with 20 per cent.

Deputy Prime Minister and Interior Minister Matteo Salvini's League party ran with its traditional allies in the centre-right, including ex-prime minister Silvio Berlusconi's Forza Italia (FI) party, while its coalition partner in central government, M5S, ran alone.

The election result was interpreted as a major victory for Salvini and as a defeat for M5S. The League scored almost 28 per cent of the vote in Abruzzo against the 13.9 per cent it took in the March 2018 national election. M5S trailed third, taking 20 per cent and far below the 40 per cent they won in the region in last year's general election. As for M5S we must recall that, from an historical perspective, Di Maio's party usually performs worse in local elections compared to national ones. **Since it was founded the Five Star Movement, in comparative terms, has achieved its best results in general elections then in regional and municipal.** For this reason, we should consider the result **not as a signal of an unavoidable and universal fall for M5S**, but as a noteworthy setback.

The third pole, the centre-left alliance which had governed the Abruzzo Region since 2014, was second but its main party, the Partito Democratico, gained only 11%, a few points down on the 2018 general election.

2. **Sardinia.** The centre-right obtained a large victory also in the regional elections in Sardinia, which were held in the last weekend of February. The coalition led by the League got 47.8 per cent of vote. The League senator, Christian Solinas, was elected Governor of the island. The coalition, an alliance among 11 lists, was fundamental for the League to win the race. Within the centre-right coalition Salvini's party got a little under 12%, a slightly better result than in the national elections, surpassing Berlusconi's Forza Italia with its 8%. Once again, local and civic electoral lists proved crucial to winning the election: especially the Partito Sardo d'Azione, which scored almost 10% and in the 2018 general election was allied with the League.

The centre-right coalition was followed by a centre-left coalition led by Massimo Zedda with 33 per cent. Zedda is a young, independent and leftist politician, mayor of Cagliari, the capital of Sardinia, but he is not member of the Democratic Party. In this case too, local leadership and civic lists played an important role in winning a percentage of vote which was far higher than the average the centre-left recorded in the national polls.

M5S won only 11 per cent of the vote in Sardinia, far less than the 42.5 per cent it achieved on the island in the national elections last year. **The election has been seen as a mini-Waterloo for M5S' leadership and as an unquestionable sign of crisis for the movement.**

After the defeat criticism arose from the radical wing of M5S and some MPs contested Di Maio's leadership. The dissidents considered the government's political agenda as too moulded by the ally

Salvini and the voice of M5S too weak on issues such as corruption, immigration and environmental policy.

In reaction to this, the Deputy PM announced a **restructuring process for the movement**. M5S will create a new political secretariat to extend the decision-making process to the most influential party members and it will strengthen the connection with local representatives. The Movement is undertaking an institutionalization process and is becoming much more similar to the traditional parties.

Scenario. Some analysts argued that this electoral distance between the League and M5S might open up a government crisis. Indeed, Salvini's party is growing rapidly at the polls while M5S is polling nearly 10 percentage points below its ally. In this context there are two possible scenarios: 1) **the tension between the League and M5S becomes intolerable because M5S adopts a rigid position on the government's political programme in order to restore its electoral consensus**. In this case the negotiation between the two parties on their respective flagship policies would become dysfunctional and cumbersome. Consequently, after the European election, **the two parties might opt for a divorce, thus opening a government crisis**; 2) on the contrary, **the decline in the polls might make M5S more flexible and the coalition more favourable to Salvini's policies**. In this case M5S are afraid of a new general election and they would prefer to keep their place around the Cabinet table, even if they will have to succumb to the League on some policies.

We consider this second scenario far more likely.

Moreover, rumours in Rome report **rising tensions within M5S itself**. Some analysts are considering the possibility of a **divorce between the radical wing and the "responsible" wing in the long run**. If the electoral decline of M5S continues in the next round of regional, municipal and European elections, we cannot exclude something happening. It could consist in a leadership and balance of power change within the party or the radical wing might secede and found a new movement, positioned to the left. However, the secession scenario, if anything happens at all, may take a long time to come to fruition. Since it was founded ten years ago M5S has proved to be unexpectedly solid and stable when compared to the traditional fractiousness that characterizes Italian political parties.

No trial for Salvini. M5S leaders decided earlier this month to use an online vote among the membership to deal with a hot political issue for the party: whether to protect Salvini from prosecution for preventing a migrant-laden vessel from entering Catania harbour last year. Prosecutors need permission to continue an investigation into alleged abuse of power and kidnapping. **Salvini has asked for parliamentary immunity, saying the case focuses on decisions taken by the entire government in pursuit of a national interest.**

M5S MPs would have the deciding vote on his fate, putting them in an awkward position in the eyes of their radical supporters, who would prefer to send Salvini to trial. For this reason, M5S decided to appeal to direct democracy among party members, organizing a Yes/No vote on their e-democracy platform.

Party members voted by 59 per cent to 41 per cent to block a legal case against its coalition partner Matteo Salvini. The consequence of this vote is that in Parliament M5S will vote to deny the trial against the League's leader.

Luigi Di Maio, M5S leader, argued the case against Salvini was different to others as his colleague had been acting for the government in his role as interior minister. Di Maio also stated the coalition acted together on the issue, meaning Salvini was not solely responsible for blocking the migrant boat.

With this decision taken by M5S activists the government is safe and **the League's influence on government politics is increasing because its ally fully recognized and defended Salvini's governmental action on immigration policy**. A faction of M5S and the media close to them expressed disappointment at the results of the online vote and they opposed Di Maio's commitment to guarantee Salvini's immunity. In these weeks M5S appears weak and divided, while Salvini is setting the political agenda, campaigning on immigration policy results and tax reform.

Savona appointed as President at Consob. This month the government nominated Paolo Savona, who had previously served as minister for European affairs, as the new president of Consob, the Italian public authority responsible for regulating the financial markets. Mr Savona, a Eurosceptic and veteran economist, was last year blocked as the coalition's first choice as economy minister by Italian President, Sergio Mattarella. Savona preferred to leave the government and to move to the presidency of an important authority. **This event might be interpreted as signal of disappointment by the former minister**. Indeed, Savona's proposals in the Cabinet were to focus on public investments and the flat tax and to open tougher negotiations with the EU institutions. The two political leaders, Salvini and Di Maio, decided to concentrate instead on pension reform and citizen's income, ignoring the economist's suggestions. For these reasons he opted for a soft exit from the Cabinet.

b) Opposition

The **Democratic Party (PD)** held its Congress to elect the new Secretary in early March. **Nicola Zingaretti, the governor of Lazio, won leadership of the party**. Zingaretti is more to the left than his predecessors Renzi and Martina and he could gain support from voters disappointed by the Five Star-League coalition. **He is considered open to dialogue with M5S to build an alternative to Salvini's centre-right when new elections or a government crisis occur**. He is a less divisive leader than Renzi and he aims to **unite the cente-left coalition, opening it to all movements and parties on the left**.

The regional elections have given mixed signals to the Italian centre-left. Indeed, while the PD is polling lower compared to the previous regional elections, the coalition is establishing itself as a "second pole" overcoming, at least at a local level, M5S. **The "liste civiche", electoral lists made up of people who are not affiliated to parties, and smaller parties have formed a coalition with the PD at local level and they are helping the centre-left to regain ground**.

This situation offers a clue to the future of the centre-left: the PD will become weaker and smaller, but new opportunities will arise for small parties and local groups allied with the democrats. The PD will transform itself from the catch-all party it aimed to be in recent years into a coalition party. **The centre-left is likely to become organized as an archipelago. The PD will stay as the major island but surrounded by small leftist groupings**. However, at the national level this arrangement does not seem strong enough to snatch victory from the centre-right.

On the other side, **Berlusconi is not as weak as seems at first glance**. The Cavaliere is playing a double game: **opposition at national level and coalition with the League at local level**. Driven by the League's results the centre-right is winning many races at the regional and municipal level and Forza Italia is participating in the division of power. At the national level, Berlusconi is mainly attacking M5S without breaking the relationship with Salvini. If in coming months the new EU Parliament majority is formed by the European People's Party, of which Forza Italia is a member, and far-right groups, the alliance between Berlusconi and Salvini might become even stronger. If

not, Berlusconi will remain safely in opposition aiming to intercept voters who are ultimately disappointed with the League.

c) Public Policies

TAV. The controversial TAV – Turin-Lyon high-speed rail link – has a negative cost-benefit balance of around seven to eight billion euros, according to a new analysis that the minister of infrastructure published this month. **The analysis stated that, even with the option of the so-called mini-TAV, the project would have a negative cost-benefit balance of between -6.138 billion and -7.093 billion.**

The government said that the analysis will have a bearing on whether it decides to press ahead with the project or not. M5S Transport Minister Danilo Toninelli and Deputy Premier Luigi Di Maio have long opposed the project due to its cost and environmental impact. **But Matteo Salvini has said the TAV should go ahead and the League launched the initiative to hold a referendum on it.** The analysis argued that, if the project were stopped, the penalties and reimbursements the State would have to pay out would be around 4.2 billion euros at most. It said that going ahead, on the other hand, would cost the State between 10 and 11.6 billion euros in investment and administrative costs.

The government is openly divided and the positions of the League and M5S are difficult to reconcile on this issue. Probably they will **postpone their decision on the TAV to as late as possible.** A sign of this strategy was the decision to discuss the project in Parliament rather than decide through a governmental decree. The discussion will take time. **After the European elections, whether or not the balance of power within the coalition changes, the Cabinet will probably make its decision on the high-speed rail link.** If the League makes significant gains in the polls while M5S falls back, the probability of realising the TAV should significantly increase.

Attack on the Bank of Italy. The coalition is increasing tension with the Bank of Italy and other independent authorities. Matteo Salvini said the central bank and Consob should be “reduced to zero, more than just changing one or two people”.

The Minister for Economy and Finance Giovanni Tria aimed to stamp out the flames by stating that the independence of the Bank of Italy “must be defended”. Luigi Di Maio also attacked central bankers alongside Mr Salvini over the weekend, speaking to an audience of former stakeholders in two rescued Italian banks.

Last month Salvini harshly criticized the role and the disproportionate independence of the European Central Bank.

The coalition is targeting central banks for two reasons: 1) the Bank of Italy issued **more pessimistic economic growth forecasts** for this year compared with the numbers underpinning the government’s budget; 2) the **populists’ leaders are using an anti-technocrat rhetoric to defend their domestic policies and to legitimize their politics against the current EU establishment.**

These criticisms might imply calling into question central banks’ independence in the long run. It seems likely, also considering the slowdown in the European economy, that populists and nationalists will criticize the ECB mandate in the forthcoming European legislature.

Regional differentiated autonomy. A new issue has entered Italian public debate: a **wider regionalism and a further step toward federalism.** The demand for institutional change came from some regions that are calling for differentiated autonomy, a solution which implies a wider

devolution of administrative functions to the regions without changing the Constitution. **The request came from the three richest and most industrialised regions of the North** (Veneto, Emilia-Romagna and Lombardy) which are aiming **to take more functions and fiscal resources from Rome**. The project to expand regional autonomy was part of the League's programme and the Cabinet approved a new decree this month to move some functions from the central government to the regions which had requested the differentiated autonomy. Some criticisms have been raised by ministers from M5S, which achieved its best electoral results in Southern Italy. Critics say the request by the three northern regions could sound the death knell for national solidarity as well as creating second-class citizens. However, a further five regions, all of them in the centre-north, are preparing to apply for differentiated autonomy. Vincenzo De Luca, the Governor of the Campania Region, one of the largest in the South, wrote to Prime Minister Giuseppe Conte to request autonomy for his region. Moreover, we have to consider that under the 1948 Constitution there are already some more autonomous regions in Italy, called the Regioni a Statuto Speciale, both in the north (Valle d'Aosta, Trentino Alto-Adige, Friuli Venezia Giulia) and in the south (Sicily and Sardinia). Furthermore, in 2001 the Constitution was reformed in order to expand the federalist framework of the Italian State. **These are signs that regional autonomy is becoming a long-term issue.**

For these reasons, the plan for new devolution and further "regionalization" of the Italian State might become a cross-party and national issue introduced by the League into the Italian political debate. **If Salvini succeeds in introducing differentiated autonomy, he might consolidate his consensus in the centre-north.** Indeed, autonomist pressure is growing, and further devolution might be perceived as a sign of positive reforms carried on by the leader of the League.

Flat tax. The political impact of Salvini's flat tax might have been underestimated by analysts with a view to the forthcoming European election. When he became Prime Minister, Matteo Renzi implemented the "80 euro" tax cut on personal income and his party unexpectedly won more than 40 per cent of the votes at the 2014 European election. Moreover, when we look back we can see that Silvio Berlusconi won many elections over the last two decades by promising or effectively reducing taxes on small and medium enterprises and the self-employed.

In 2019 the government has adopted a 15% flat-tax on self-employed gross income below 65,000 euros and in 2020 it will add a 20% flat-tax up to 100,000 euros. **The measure is a flagship policy of the League and it will cover 80% of the self-employed in the country, which potentially means millions of voters for Salvini.** Indeed, the self-employed in Italy number 5.4 million, 23.2% of the total workforce, a much higher number than the EU average which is 15.7%. In the past **Italian commentators have underestimated the influence of tax cuts on this part of the electorate that is very sensitive to tax reform because the self-employed are those who suffered most in the economic crisis and with low growth.** The flat-tax policy might attract people who used to vote Forza Italia or M5S. Analysts should not neglect its possible political effect.

d) Forecasts

Snap election probability:

Election before or together with European Elections (by May 2019): 5%

Election between Q3 2019 (Autumn) and Q2 2020 (Spring): 35%

Election after 2020 or at the end of the legislature (2023): 60%

A new general election before or together with the European election is becoming an implausible scenario today. The coalition is compromising on divisive issues and it is very likely that the government will survive at least until the vote to renew the European Parliament in May. Then the League, which is currently polling over 30%, might be tempted to break up the coalition and call new elections if polling data is confirmed by the European vote.

However, **there are three factors which are making the scenario more complex**. First, an early vote cannot be taken for granted even if the League were to withdraw its support for the Conte government. **President of the Republic Sergio Mattarella, under his constitutional powers, must look for an alternative majority in Parliament before holding new elections**. It is not implausible that he might find another majority under the pressure of the economic slowdown. Second, there is a **time issue**. In this case Salvini would open the government crisis in June and, if Mattarella does not find an alternative majority, the new elections will 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 of the new budget law. On the contrary, if the government crisis occurred later on, in late summer or early autumn, there would be a time issue in any case because it would happen during the drafting of the new budget law. For these reasons it is improbable we will see a government crisis until the end of 2019 and, in this context, **the most likely scenario remains an election in spring 2020 or later on**. Third, **M5S are in trouble**, their consensus is shrinking, and the European election might confirm it. Their incentives to go to the polls are becoming very thin. **Nobody wants to vote when their polls are very bad**.

Obviously, the length of government will be influenced by the **new balance of power in Brussels**. Indeed, if the far-right joins a governing coalition with the EPP it will become more difficult for Salvini to go to a vote in the midst of the formation of the new European Commission (autumn 2019) where he might be one of the main partners. However, a coalition between EPP and far-right groups to govern Brussels today is not the most likely outcome of the European elections. Moreover, in **spring 2020 the government will appoint the new boards and CEOs of the three largest State-owned companies** (ENI, ENEL, Leonardo) and the two parties might decide to go ahead with this government until that date in order to use their power of patronage and get their hands on the governance of strategic companies.

e) Mapping of risks

No economic plan against recession. Italy has entered a technical recession, but the government has not drafted a plan to address the economic slowdown. The Minister for Economy and Finance has excluded the possibility of an amendment to the 2019 Budget Law in coming months. Moreover, the real impact on GDP of some measures is not clear, such as citizen's income or the "flat tax". Meanwhile new measures for growth are locked away in government desk drawers and they have not been presented to the public.

Public debt. Italian public debt, the largest in the Eurozone, remains high and currently there are no significant measures such as a spending review and privatizations or other strategies to reduce it. The issue is not part of the political agenda, except marginally. Moreover, the government approach is to bring the State back in some sectors such as, for example, airlines where the government 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 have an increase in VAT or higher taxes on private assets.

Excessive expectations for the next European elections. The two parties of the coalition are both euro-sceptical and the government has already been at loggerheads with Brussels during the drafting of the new budget law. Luigi Di Maio and Matteo Salvini are promising that the European Union will change after the European elections owing to the increasing support for euro-sceptical parties across the EU. However, European politics rely more on national governments than on the European Parliament and Commission. And the national interests of the member-States would not change in an election. Moreover, populist and nationalist parties tend to exacerbate national culture and traditions and their success might imply an increasing distance between central and northern European countries and the Mediterranean states, and among these Italy in particular. Whether the far-right gains consensus in the next elections and changes the balance of power in Brussels or not, there is no guarantee that fiscal and budget constraints will be loosened or European public investment increased as Salvini and Di Maio are envisaging.

2 Public Opinion Trends

a) Polls

The **honeymoon period** between voters and those political parties supporting the Conte government **has not come to an end yet**. According to polls, the League and the Five Star Movement (hereafter M5S) still enjoy robust public support, reaching together almost 60% of voting intentions (Table 1). **While public support for the governing coalition has remained relatively stable over time, power relations within the coalition are slightly changing.** After the impressive growth which followed the general elections in March last year, support for the League is still consistently above 30%. Also, looking at survey data collected at the end of January, the party gained one percentage point, in fact returning to the level of support already enjoyed at the end of December (32.9%). As for the other partner in the coalition, it is apparent that popular support for M5S is plummeting. Compared with the results of the general elections last March, the party has plunged from 32.7% to 23.2%, losing almost 10 percentage points in one year. As for the major political parties in opposition, it looks like they have not been able to re-mobilize their voters after the disruptive results of the general elections. In particular, support for the Democratic Party (hereafter PD) has not changed in the last few months and is still below the historic low of March 4, stable at 17.7%.

Tab. 1 – Vote intentions based on recent surveys

	Polls last week of February	Polls last week of January	Polls last week of December	March 4, 2018 elections
League	32.9%	31.8%	32.9%	17.3%
M5S	23.2%	25.3%	26.3%	32.7%
PD	17.7%	17.7%	17.6%	18.7%
FI	9.9%	8.4%	8.7%	13.9%
FDI	4.6%	4.0%	3.8%	4.4%
+EU	3.0%	2.8%	2.5%	2.6%
LeU (MDP and SI)	3.5%	2.7%	2.1%	3.4%
PAP	2.0%	2.2%	2.0%	1.1%

b) Regional elections

In this context, two regional elections were held in February, respectively in Abruzzo and Sardinia. Although not representative of overall national electoral trends, the results in these two regions represent a first test to assess – based on real electoral data – the electoral (mis)-fortunes of the main Italian political parties. Furthermore, these two regional elections open a long electoral season, which will eventually culminate with the European Parliament elections at the end of May.

Tab. 2 – Electoral results of single parties and coalitions in Abruzzo and Sardinia in the last national and regional elections (Note: entries are percentages)ⁱ

	Sardinia			Abruzzo		
	Regional elections 2014	General elections 2018	Regional elections 2019	Regional elections 2014	General elections 2018	Regional elections 2019
Turnout	52.3	65.5	53.8	61.6	75.3	53.1
Parties						
Left parties	7.2	4.5	8.0	5.4	4.4	2.8
PD	22.1	14.7	13.5	25.4	13.7	11.1
Minor PD allies	8.5		7.9	12.2		12.1
Other centre-left parties	4.6	2.5	1.4	6.4	2.8	3.3
Centre parties	7.6	2.5	9.8	6.0	3.9	4.2
FI (or PDL)	18.5	15.0	8.0	16.7	14.7	9.0
Minor allies of FI (or PDL)	14.9		7.9	3.7		3.2
FDI	2.8	4.1	4.7	2.9	5.1	6.5
League (Nord)		11.0	11.4		14.0	27.5
Right parties		0.9	9.9		1.5	0.4
M5S		42.3	9.7	21.4	39.6	19.7
Other	13.7	2.5	7.7		0.3	
Total	100	100	100	100	100	100
Polls						
Left (alternative to PD)		4.7	0.6	3.1	4.5	
Centre-left coalition (PD)	42.4	17.7	32.9	46.3	17.6	31.3
Centre		0.7			0.7	
Centre-right coalition (FI/PDL)	39.7	31.0	47.8	29.3	35.5	48.0
Right		0.9			1.5	0.5
M5S		42.5	11.2	21.4	39.9	20.2
Other	17.9	2.6	7.5		0.3	
Total	100	100	100	100	100	100

In both Abruzzo and Sardinia, the results of the elections were more or less in line with expectations, and quite similar to each other, although some remarkable exceptions emerged (Table 2). The centre-right coalition (including Forza Italia, the League, Fratelli d'Italia, plus other smaller political parties) won easily, getting close to a majority of the votes in both cases. The electoral success of the centre-right was mainly led by the League. In Abruzzo, the party led by Matteo Salvini ranked as the first political party in the region, getting a remarkable 27.5% of the votes. In Sardinia, League results were less brilliant, where the party got 11.4%. However, there as well its results were still impressive. The party was running for the first time in the regional elections in Sardinia and it ranked as the first party of its coalition and the second party in the whole region (just 2 percentage points behind the PD).

Surprisingly enough, the centre-left coalition (including the PD, plus other smaller political actors), after the collapse at the general elections last March, achieved an honourable second place in both regions with again very similar results: its candidate won 31.3% of the popular vote in Abruzzo, while the results were even better in Sardinia (32.9%). The centre-left coalition was not able to compete with the centre-right; however, it was able to preserve general and broad support at local level, clearly surpassing the M5S. After the success in the general elections in March 2018, expectations were high for the electoral performance of the M5S. However, the Movement (as has often happened in its recent history) struggled to replicate at local level its brilliant electoral results at national level. In Abruzzo, where it was thought to have one of the most suitable candidates to win the elections, the M5S got 20.2%, falling behind the centre-left coalition and almost halving the percentage obtained in the general elections of March. This dynamic was replicated more recently in Sardinia, where the M5S got 11.2%, thus losing more than 30 percentage points in comparison with the last general elections in 2018. It is true that it might be problematic to compare results for national elections with results of local elections. However, even adopting the regional elections of 2014 as a benchmark, the performance by M5S was clearly negative, at least in Abruzzo. Unfortunately, we cannot make the same comparison in Sardinia, where M5S did not compete at the regional elections in 2014.

Many might be tempted to read these results as reflecting a more general trend unfolding at the national level, a trend in which the League appears to be strengthening over time at the expense of its partner in government, the M5S. **It is certainly true that the League has by now become the pivot of the centre-right coalition. The nationwide strategy of the League (although still formally the Northern League) has been – at least for now – electorally rewarding, and the party is capitalizing on its experience in government. However, it would be a mistake to take the political decline of the Five Star Movement for granted.** In its electoral history, this party has always encountered significant hurdles at local level. Indeed, it lacks the solid structure of a traditional political party and only in recent times has it started to penetrate the local electoral arena. In addition, the party has always preferred to run in elections alone, refusing to be part of any coalition. This is something that at the local level might negatively affect (and might have negatively affected) the overall electoral performance of the party, because of the significantly lower number of candidates for local positions running their own electoral campaigns, thus mobilizing voters for coalition candidates.

How to interpret these data? And how to combine the evidence emerging from the regional elections with survey data reporting the level of support for the main political parties at the national level? It is clear that the government experience has not been equally rewarding for the

political parties supporting the Conte government. **The leap forward by the League is paralleled by the crisis in support affecting M5S.** This trend clearly emerged from the results of the two recent regional elections in Abruzzo and Sardinia. The increasing imbalance in terms of public support between these two parties might well be reflected in a shift in power in the government experience. However, this is not likely to happen immediately, but rather in the future. Indeed, despite the decline in public support, M5S still holds a key position in the Italian political arena, with polls still revealing widespread support for the party at above 20% nationwide. In this perspective, whether or not M5S will be able to preserve this broad base of consent in the European elections in May will be crucial in redefining the political balance within the yellow-green government majority.

3 Economic Scenario - a long standing stagnation

Italy has begun the new year with most economic indicators suggesting a **prolonged shutdown in economic activity**. If we do not see any significant turning points, it is expected that much of 2019 will be characterized by a stagnant economy. Considering the trends in the last few years, a change in scenario toward a sudden resumption of economic activity is seen as unlikely. In fact, the data on the GDP growth rate has not exceeded 0.5% of the cyclical variance since 2010 with a slightly negative value for the last quarter of 2018 (-0.2%). **Even less promising is the trend growth rate, which, almost unchanged in the last quarter of 2018 (0.07%), would confirm the worrying dynamics in Italy's economy.** In this context, the ultra-optimistic growth estimates made by the government in its Budget Law cannot be maintained even by the executive itself. At the beginning of 2019, the growth estimates for Italy's GDP are rapidly approaching those (referring to the trend variation) suggested by the European Commission and by the Bank of Italy, 0.2% and 0.6% respectively.

It is particularly useful to analyse the new February data concerning the "supply side". **In particular, the PMI (Purchasing Managers Index) for services decreased by 0.8 points from December, reaching a rate of 49.7 in the month of January. This decline is due to the prolonged contraction of international demand for services, which has affected Italian companies.** For the manufacturing sector, the PMI, at a rate of 47.8 and down from 49.2 in December, reveals a contraction phase, which is also influenced by the fall in new orders with a consequent rapid decline in production. The negative scenario for the PMI is due to the reduction of exports by 2.3% in December, with a subsequent impact on expectations for Italian companies.

Finally, the expectations at play in the economy are a key factor in Italy's economic analysis. It is therefore interesting to analyse the confidence indicators that ISTAT published on February 27. **Noteworthy is the negative trend in consumer confidence that has existed since last June, with some fluctuations.** In February a decline in consumer confidence is estimated, falling from 113.9 to 112.4, with all the components of the index decreasing. As for companies, the confidence index is in line with the negative trend of the economy. In particular, the services sector reflects the same problems highlighted by the PMI, with a drop from a rate of 96 in January to the current 94.6. In line with the services sector is the construction sector ratio, down from 139.2 to 135.5. The confidence index for the trade sector is running counter to the trend, with an increase in value in January from 102.9 to 105.4. Finally, according to the PMI, the manufacturing sector shows a slight deterioration in the confidence index, which went from 102 to 101.7. Overall, Italian firms' reduced confidence is such that in 2019 we should expect a fall in investment, while consumers' reduced confidence, with families increasing savings at the expense of consumption, will result in a further slowdown in economic activity, together with a decline in investments.

The latest data available for the labour market (December 2018) do not show significant changes compared to the previous month, with the unemployment rate down by 20 basis points. Also, broadly unchanged are the data regarding the employment rate, which grew by 0.1%, with the female component increasing and the male component declining, and the inactivity rate also in slight decline (by 0.1%).

Comparing the changes recorded at the end of 2018 to the previous quarter, the employment rate does not show any particular change (0.1%), but **there are noteworthy differences concerning the unemployment rate, which increased by 1.6%, and the inactivity rate, which decreased by 0.8%.**

Equally interesting is the comparison with the previous year, in which the employment rate grew by 0.9%. In detail, the increase derives from the 15 to 24-year-old age group and, even more, the over-50 age group, with a decline, instead, in the 25-49-year-old age group. In addition, the trend in the unemployment and inactivity rates is inclined negatively, with trend changes in December of respectively, -4.8% and -1.5%.

The government's recent measures regarding fiscal policy will also have a significant impact on the economic framework. There is widespread concern that the expected reform in direct taxation (flat tax) and social inclusion (citizen's income) risk worsening the economic situation, both in the present and in the future. The major concern is that the ever-increasing public debt to GDP ratio, which is already over 130%, is likely to further aggravate the risk seen in the prices of government securities, with the consequence of undermining the stability of the banking system, and with direct consequences both for families and for companies.

A particular uncertainty derives from the future regime that **will be applied with the so-called safeguard clauses, i.e. the increase in VAT to cover any excessive deficit in the budget balance, in the absence of alternative corrections.** Moreover, it should be noted that the sole fact of having to raise VAT as a contingency plan could influence the behaviour of Italian families and companies by changing their expectations. **The strategy of correcting the budget through public spending cuts or review, rather than tax increases, to ensure compliance with the commitments made for coming years, seems not to have been taken into consideration.** Also the political implications of a VAT increase are significant: on the one hand, an increase in the standard VAT rate would let the government avoid the difficult choice of where to cut public spending (a process that has serious political costs, especially when it concerns the cost of welfare). On the other hand, the increase in the price of consumer goods makes the impact on the income of citizens and businesses much more dramatic. Finally, empirical evidence shows how the use of austerity measures implemented by tax increases has a more recessive effect compared to cuts to government spending. If we then consider that tax increases would be implemented when public accounts are in crisis, in periods of uncertain economic prosperity, we will have to expect an even more severe recessive effect.

With regard to the more expansionary aspects of the fiscal policy envisaged by the Budget law, an important element will be determined by the timing of the possible **positive effects of the "flat tax"**. The government's hope is that the expansionary effects become evident before the markets raise doubts about the fiscal sustainability of the government's policies.

Finally, **concerning the "citizen's income", it is very likely that the time needed to see its benefits is longer than expected.** In fact, some structural limitations in implementing a measure that requires high levels of organization and transparency on the part of employment centres, and honesty on the part of applicants, may have a major influence. In particular, the efficiency of the public administration faced with an unprecedented task of significant scale raises concern.

A positive effect for the Italian economy could indirectly come from the revision of the growth expectations for the euro area expressed by ECB President Mario Draghi at a press conference on January 24, according to which we are faced with a long slowdown. Because of lower growth in the euro area, and despite the termination of the quantitative easing program, **monetary policy will continue to be accommodative throughout the year, in line with the general trend of growth in the euro area.** A related positive element for Italy's economy is the maintenance of interest rates on refinancing operations at the current levels at least until the summer of 2019 or at least in line with the main target of the European Central Bank. In fact, the annual inflation rate (the Harmonized Index of Consumer Prices) for Italy, as for the euro area average, is below the ECB

target, 0.89% and 1.39%, respectively, therefore the ECB's monetary policy will act to support the price level, in line with Italy's needs.

4 Foreign Policy

During the last month Italy had to continue to deal with the long wave of the international problems that affected the country previously. **The most important dossier is still relations with the European institutions.** The European Commission released a report clearly stating that the Italy is, along with Greece and Cyprus, **under special surveillance by the Commission.** The main reason for this hard line is that Italy is now viewed in Brussels as a **key source of concern for the stability of the Eurozone.** Italy will be under the strict evaluation of the Commission, which postponed the decision on potential sanctions until after the results of the European elections. **The Italian government has had to make a commitment in the negotiations with the EU Commission to express its willingness to comply with the Commission's expectations.**

Another source of concern is in the problematic relationship between Rome and other European capitals, namely Paris and Berlin. **Tensions with France are apparently over: the decision of the Elysée to send the French ambassador back to Rome has put an end to the diplomatic crisis. This does not mean, however, that Franco-Italian relations have improved.** At the same time, Rome and Berlin are very far apart on a number of issues. Italy seems to be isolated from the main partners of the European Union and a source of concern is that the other EU members are establishing partnerships on strategic issues. What is most striking is the absence of Italy from the so-called G3, i.e. the strategic partnership between France, Germany and Spain. This partnership is larger than the Franco-German one and envisages cooperation on issues of strict interest also for Italy, migration above all.

The divergence between Italy and other EU members has been confirmed on a few occasions. **The decision of the Italian government to have a neutral position towards the crisis in Venezuela and not to explicitly support Guaidò was met with suspicion by other EU countries.** A few days ago the **Italian Parliament voted against ratification of the Global Compact for safe, orderly and regular migration, the UN framework strategy to address the migration crisis.** The Parliament approved a motion presented by the party Fratelli d'Italia opposing the adoption of the document. In the discussion on the Global Compact M5S did not take a united position, thus highlighting the existence of different positions in the largest party now in parliament. **The opposition to the Global Compact goes against the position of other EU members, namely France and Germany, thus underlining the distance between Italy and its traditional EU allies.**

of parties and movements.

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ⁱ 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 district) are added, classified according to the criteria indicated below. For the regional elections in 2014, we considered as the votes of candidates the votes received by the coalitions (supporting a candidate, premier or 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).