

Flash Note

Italy: politics

In the final stretch

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We are in the final stretch of the Italian electoral campaign before voting on 4 March.

The new electoral law and the high number of undecided voters make forecasts particularly hard.

According to the latest opinion polls, no political party or coalition will obtain a majority after the election. A hung parliament, at least initially, is a distinct possibility.

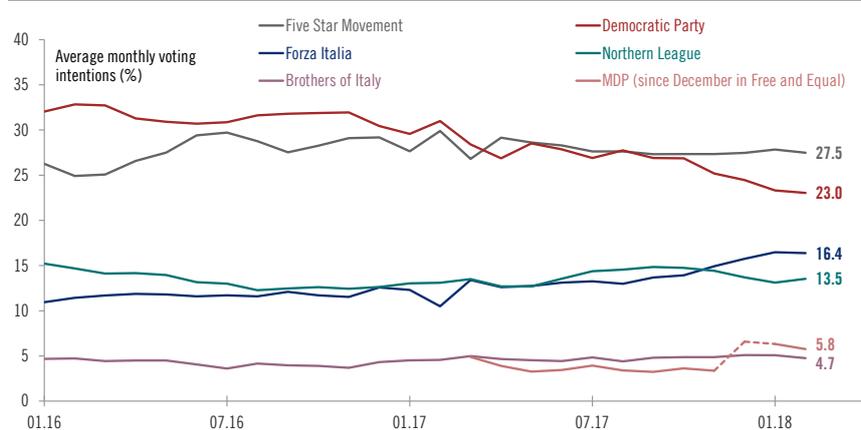
Another possibility is an outright majority for the centre-right coalition. While the position of the coalition is well established in the North and the Centre of Italy, the situation in the South is more open and could provide the centre-right with the seats necessary to form a majority.

While this general election is among the most uncertain in Italian history, whoever manages to form a government is unlikely to show any eagerness to tackle the root problems that Italy faces.

The Italian general election campaign is in its final stretch before voting on 4 March. The election will take place under the new electoral law (*Rosatellum bis*), which allocates 37% of parliamentary seats via the principle of "first-past-the-post" and 61% via proportional representation, with the remaining 2% reserved for overseas constituencies (see our previous [Flash Note](#) for further details).

According to the last polls published before the blackout period (Italian law prohibits poll publication during the two weeks preceding elections) **no single party or coalition was projected to win an outright majority** (see *Chart below*). But the centre-right coalition formed by Forza Italia (FI), Northern League (LN) and Brothers of Italy (FdI) was seen as close to obtaining an outright majority. Within the coalition, the more moderate FI was seen as beating its right-wing and Eurosceptic ally LN, but the gap remained small, according to the polls. Meanwhile, Five Star Movement (5SM) remained the single largest party, according to the pollsters, but it was still far from achieving an outright majority, while the decline in support for the Democratic Party (PD) seemed to have stopped.

Italian polls on voting intentions (next general election)



Source: Pictet WM - AA&MR, Various Polls

That being said, the **new electoral system** and the fact that 37% of seats are to be allocated on a 'first-past-the-post' system **make projections particularly hard**. Moreover, **the number of undecided voters remains high** (still around 1/3 of potential voters, according to the latest polls). But if the opinion polls are correct, no political party or coalition will obtain a majority in the 4 March

AUTHOR

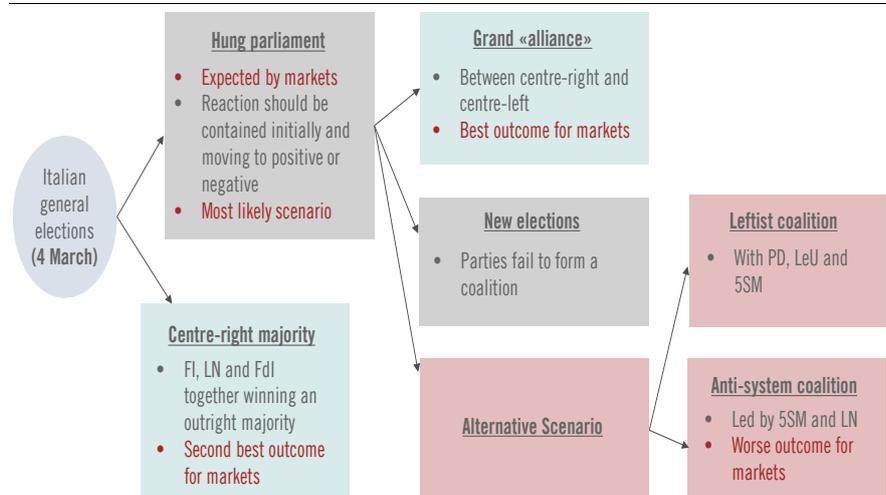
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election. Thus, a **hung parliament, at least initially, is highly possible** (see *Diagram below*). If this happens, President Sergio Mattarella will call on parties to negotiate to form a government. Months of talks will probably follow before some sort of agreement is found. A grand alliance between Forza Italia and the PD (with support from smaller centrist parties) could emerge from this process.

Another possibility could be **an outright majority for the centre-right coalition**. The last opinion polls suggested that the centre right was just 20-30 seats short of an outright majority. While the position of the coalition is well established in northern and central Italy according to a [recent analysis](#), the situation in the South is still open and could conceivably help the centre-right coalition achieve a parliamentary majority. Should this happen, the key question will be who will lead the coalition. There is an informal agreement that the party winning most support gets to pick the prime minister. Former Prime Minister Silvio Berlusconi is ineligible because of his conviction for tax fraud. He has indicated that he would like Antonio Tajani, the current president of the European Parliament, to take the role. The choice of prime minister will be followed closely by markets, with a coalition led by the moderate and pro-Europe Antonio Tajani likely to be preferred to a government led by Matteo Salvini, leader of the Northern League. Although the centre-right parties have agreed a common political platform, Berlusconi and Salvini's pronouncements have diverged on several topics.

Post-election political scenario



Source: Pictet WM - AA&MR

Election manifestos: let's spend some money

Italy is going into elections in good cyclical shape, but while near-term risks seem to be contained, **medium-term challenges are likely to be a key focus for investors**. Compared with its euro area partners, [Italy's potential growth](#) is low, and youth unemployment (persons aged between 15-24 years old) is at about 35%, among the highest in Europe. The country has the second-highest debt load in the euro area after Greece (132% of GDP). Over the past few years, Italy has endeavoured to address certain structural issues, but more steps need to be taken to lift the Italian growth rate to a sustainably higher level.

Whatever Italy's next government looks like, the chances that it will push through long-term structural reforms to improve economic performance or to tackle the country's public debt appear low. Based on election promises, the situation could even worsen. **All parties are pledging significant expansionary policies** (see *Table below*). Cutting tax is an important part of the programmes of the centre-right parties, with LN and FI proposing a flat tax. Repealing the 2011 Fornero pension reform features prominently in both the centre-right and 5SM manifestos. Such policies would likely put Italy on course for a confrontation with the European Commission over fiscal consolidation and deficit reduction targets at some point. Already, Italy is not in compliance with EU fiscal rules. Unless there are compromises (which is the most likely), the Commission could be forced to open a procedure against Italy in the coming months (Italy is to present an update on its fiscal situation in April-May). Rising tension with the EU and fiscal slippage could further heighten market concerns about Italy's debt sustainability.

Significantly, **Italian parties have dropped proposals to hold a referendum on the euro**.

Bottom line: while this general election is among the most uncertain in Italian history, whoever manages to form a government is unlikely to show any eagerness to tackle the root problems that Italy faces. Thus, while near-term risks seem contained, investors are likely to become less sanguine about the medium-term outlook as monetary and external tailwinds are likely to wane gradually.

Electoral manifestos

	Free and Equal (LeU)	Democratic Party (PD)	Five Star Movement (5SM)	Forza Italia (FI)	Northern League (LN)
Fiscal policy	Abandon austerity	Stick to the Maastricht criteria of a budget deficit below 3% of GDP	Reduce debt to GDP ratio by 40pp in 10 years, but also abandon austerity	Manifesto does not mention figures	Manifesto does not mention figures
Europe	Pro-European but critical on EU fiscal rules	Pro-European but critical on EU fiscal rules	Pledge to hold euro referendum has been abandoned	Heavily critical of EU austerity /immigration policies. Stay in the euro. Revision of EU treaties. Prevalence of Italian Constitution	Anti-EU/anti-euro . Want an orderly break-up. Revision of EU treaties. Prevalence of Italian Constitution
Taxes	Reduction of medium-low incomes tax rate. Abolition of corporate production tax (IRAP)	Reduction of corporate tax rate and income tax for households	Personal income tax cuts and reduce brackets from 5 to 3. Tax reduction for SMEs. Abolition of corporate production tax (IRAP)	Flat tax on corporate and households (at 23%). Abolition donations, inheritance taxes and car registration duties	Flat tax on corporate and households (at 15%)
Pensions	Bulk of the reform left unchanged . De-link pension criteria from life expectancy	No change in the pension reform . Allow more flexibility in entering retirement	Revise pension reform . Universal pension of €780/month and €1170/month for couple	Raise minimum pension to €1000/month . Revise pension reform	Raise minimum pension. Repeal of pension reform
Labour market	Cancel the Jobs Act reform	Complete the Jobs Acts Reform. Minimum wage €9-10 per hour	Reduction of youth unemployment with investments in technological innovation	Foster active labour market policies	Foster active labour market policies
Immigration	Pro-immigration	More cooperation with South Mediterranean countries	Revise Dublin Treaty, quicker procedure for deportation	Revise Dublin Treaty. Regain border control	Revise Dublin Treaty. Regain border control
Other	Abolition of public university tuition fees	New benefits for families with children	Scrap compulsory vaccinations		Scrap compulsory vaccinations. Reopen Italy's brothels and tax them

Source: Pictet WM - AA&MR

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