

Italian Election Monitor

Edging closer to a Five Star-PD deal?

Italian government talks are finally gathering some pace, after the inconclusive election result on 4 March and continuing political impasse (see *Italian Election Monitor: Eurosceptic shift*). As Senate leader Elisabetta Casellati has failed to broker a deal between the centre-right bloc (Forza Italia, League and Brothers of Italy) and the Five Star Movement (M5S) last week, President Sergio Mattarella has now given Lower House leader Roberto Fico (M5S) a mandate to ‘test the water’ for a Five Star-PD coalition (see post-election timeline).

So far, developments have been more encouraging than expected, with party leaders of both PD and M5S yesterday saying that they are open to discussing a programme for such a government. Importantly, M5S leader Luigi Di Maio said his party has ended talks with the League after weeks of negotiations, a pre-condition set by the PD for starting talks with Five Star. This is important, as it reduces the probability of a eurosceptic M5S-League government, which would be the worst outcome from a market perspective (see *Italian Election Monitor - The good, the bad and the ugly scenarios for Italy*). That said, we currently only attach a 40% probability to a Five Star-PD government emerging, due to the significant policy differences (see table next page) and inherent suspicion between the two parties following a hard-fought election campaign. Should talks succeed nevertheless, there is a fair chance that the programme would be relatively pro-European with a clear PD signature, given the PD’s position as kingmaker and Five Star’s weakened position after losing an important regional election last weekend (another to follow on Sunday). Both Five Star and the PD will now debate internally which stance to adopt. We do not expect any progress before next week.

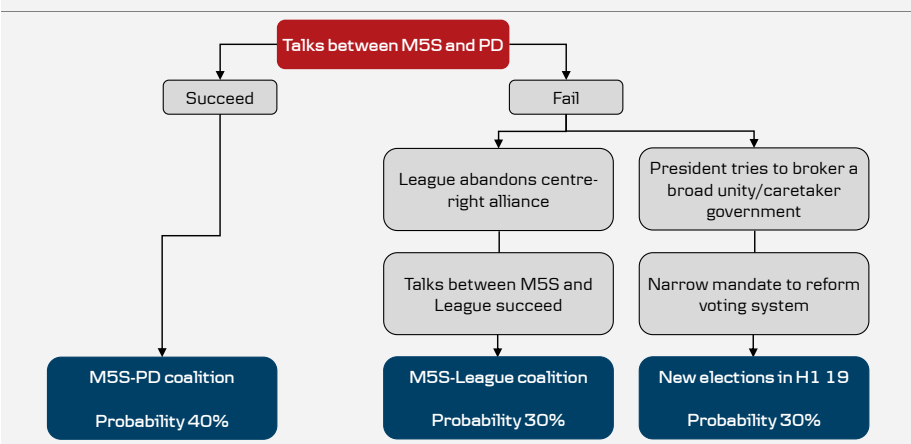
Should the talks fail, a Eurosceptic coalition between M5S and the League remains a possibility, in our view, but it will depend on the League’s willingness to abandon the centre-right alliance and become a junior partner under M5S. Alternatively, the president could try and broker a broad unity government between the major parties with a technocrat or consensus candidate as head, which would have a very narrow mandate to reform the voting system in H2 18 and take the country to new elections in H1 19 (see below).

Post-election timeline – government formation talks drag on

- 4 March 2018**
Election day
- 24 March 2018**
M5S and League strike a deal for Parliament speaker election:
Senate: Maria Casellati (FI)
Lower House: Roberto Fico (M5S)
- April 2018**
Inconclusive talks between party leaders and President Mattarella
- 18 April 2018**
President gives exploratory mandate to Senate leader Casellati for a deal between centre-right and M5S
Talks fail
- 23 April 2018**
President gives a new exploratory mandate to Lower chamber leader Fico (M5S) for a deal between M5S and PD
Mandate runs until 26 April

Source: Bloomberg, Danske Bank

The way forward: eurosceptic coalition and new elections remain a possibility



Source: Danske Bank

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What do the different parties want to achieve?

	Democratic Party (PD)	Five Star Movement (M5S)	Forza Italia (FI)	Northern League (NL)
Economic and fiscal policy	<ul style="list-style-type: none"> • New benefits for families with children • Minimum wage 9-10 € per hour • Lower business taxes to 22% (from 24%) • Reduction of labor costs by 1 pp per year and lower contribution rates • Investment in transport, schools, digitalization of the public administration • 10-year plan for debt reduction to 100% of GDP • Abide by rules of Fiscal Compact 	<ul style="list-style-type: none"> • Productive investments of EUR 50bn (innovation, broadband, electric mobility etc.) • Commitment to cut public debt by 40pp of GDP in 10 years • Abolish Fornero pension reform. • Minimum pension of EUR780/month. • Create an Italian Public Bank for investment • Raise revenues through tighter rules on tax evasion and corruption 	<ul style="list-style-type: none"> • Flat tax of 23% for households and businesses (exempt low incomes) • Abolish Fornero pension reform • Increase minimum pensions • End austerity policies • Investment in transport, schools, digitalization of the public administration 	<ul style="list-style-type: none"> • Flat tax of 15% for households and businesses (exempt low incomes) • Abolish Fornero pension reform • Increase minimum pensions • End austerity policies • Investment in transport, schools, digitalization of the public administration
Europe	<ul style="list-style-type: none"> • Pro-EU stance ("United States of Europe") • European unemployment insurance • Euro area finance minister 	<ul style="list-style-type: none"> • No euro exit (referendum only as a last resort). 	<ul style="list-style-type: none"> • No euro exit • Revise EU treaties • Reduce payments to EU budget 	<ul style="list-style-type: none"> • Pro euro exit - renegotiate EU treaties • Reduce payments to EU budget

Source: FI, M5S, PD and League programmes, Danske Bank

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