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## MACRO NEWS

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### ITALY: DRAGHI TO THE RESCUE

#### Berenberg Macro View

**Here comes “Super Mario”:** After two failed attempts to revive Italy’s centre-left coalition, Italian President Sergio Mattarella will meet the former European Central Bank President Mario Draghi at 11h GMT today to ask him to form a broad-based government, bringing in parties beyond those that made up the outgoing centre-left coalition of Giuseppe Conte. We expect Draghi to succeed. It will not be easy, though. While small Italia Viva, which had brought down Conte, backs Draghi, the biggest party of the previous coalition, the Five Star Movement, has so far insisted that the popular Conte should be Prime Minister again. Draghi’s high profile gives him clout. As all three main parties of the previous government and some other smaller groups in parliament would likely do badly in potential snap elections, chances are that Draghi will be able to form a new government eventually. As before, Mattarella seems determined to avoid snap elections. In a statement last night, he cited the need to steer Italy through the pandemic, to distribute the EU support funds and to reform the country as reasons to avoid new elections. Nonetheless, with the failure of the attempts to revive the old coalition, the prospect of new elections in June looms a little larger than before.

#### The reasons behind the political crisis

The current political instability is the direct consequence of a power struggle between Conte and former prime minister Matteo Renzi, who had walked out of the Conte government with his small Italia Viva party on 13 January. Before pulling out from the coalition with the Five Star Movement and the centre-left Democrats (PD), Renzi had loudly criticised the way the government was dealing with public finances and the increasing influence of the state on the economy. Rather than looking for a new general election, Renzi’s decision to no longer support Conte seems to have been first and foremost an attempt to continue to play a key role in Italian politics and to be in position of strength at the bargaining table to form a new coalition government. Last night, the speaker of parliament, Roberto Fico, informed President Mattarella that he has not been able to bridge the difference between the former coalition partners.

Three main parties had backed the Conte government until 13 January: the Five Star Movement (92 seats in the Senate), the centre-left Democrats (35 seats) and Renzi’s breakaway group Italia Viva (18 seats). Some smaller groups also supported Conte. Together with these smaller allies Conte was left with 143 out of 321 seats in the Senate after Renzi had pulled out. The Senate is the more relevant of the two chambers of parliament in this political crisis as it is the chamber in which Conte had lost his majority.

#### THREE SCENARIOS:

##### Broader coalition under Draghi including at least Forza Italia

In the past thirty years, two technocratic governments have been formed in Italy: the Lamberto Dini’s administration in 1995-1996 and the Mario Monti administration in 2011-2013. Their main tasks were to bring political stability and to introduce a wide range of reforms. By officially bring-



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ing in former ECB president Draghi as a potential leader in a critical period of the pandemic, Italy seems poised to return to the model of technocratic government. The new government could consist of a grand coalition of main parties, including at least the centre-right Forza Italia of ex-prime minister Silvio Berlusconi. Forza Italia has been vocal in favour of Draghi – but personal animosities remain between Berlusconi and Draghi dating back to the euro sovereign debt crisis. It would send a positive pro-European message, reassure financial markets and probably give an immediate boost to the BTPs.

### **Renewed centre-left, possibly including a few small groups in addition to - or instead of - Italia Viva**

The key hurdle to build a centre-left/centre-right coalition including Forza Italy under Draghi could be the Five Star Movement, which had started out as an anti-establishment force. Working with Berlusconi's party and under Draghi will not be easy to swallow for many members of the Five Stars. Another option on the table would thus be to renew negotiations to set up a centre-left coalition that could potentially include Italia Viva and/or other smaller parties, including a group of some senators from the centre-right. However, it would imply to bridge the difference between the Five Stars and Italia Viva on issues that have previously derailed the negotiations. Apart from the question who should lead the new government, Renzi's party wants Italy to apply for a €36bn credit line with ultra-light conditionality from the European Stability Mechanism to pour additional resources especially into the health system.

### **New elections**

Mattarella made it clear yesterday evening that early elections are not the way out of Italy's problems in the context of the pandemic. And no one in the outgoing coalition government, not even Renzi who triggered the current political crisis, seems to be seriously considering this option. Opinion polls suggest that this option would be very costly for Italia Viva, which is scoring merely some 2.5-3% in the polls but also for other parties from the coalition, too. A new election could hand victory to an alliance of centre-right and right-wing opposition parties, with the populist Lega, the right-wing Brothers of Italy and the centre-right Forza Italia currently garnering together around 45% of the voting intentions. But if attempts to form a new government ultimately fail in coming weeks, Italy may have to hold snap elections in June. On balance, the most likely scenario seems to be that Draghi will succeed to build a broad coalition.



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