

## The 'Flailing G-7' Series: ITALY slides again towards government dissolution

June 26, 2020



Unwilling to become the domestic political scapegoat for the bleak economic outlook and for any harsh economic reform measures that the EU may demand in exchange for approval of \$80bn COVID-19 European Recovery Fund, Prime Minister Giuseppe Conte's center-left government is likely to collapse in coming months, the current majority (and possibly Berlusconi's Forza Italia) moving to support a government led by a figure such as former European Central Bank Chief Mario Draghi instead. The EU post-covid 19 plan for a 'Next Generation EU', proposes a total of €500 billion in grants and €250 billion in loans. According to the Commission's estimate, Italy would be the one country benefitting the most from the plan, netting €81.8 billion in grants alone. Even if these funds are disbursed it is unlikely that Italy will be able to use the grants effectively. Italy has historically had difficulties in effectively putting to use EU funds, wasted in bureaucratic complications, pointless micro-projects and disputes between the central and regional governments. It can be expected that similar problems will emerge with the funds from 'Next Generation EU'.

Nevertheless, and despite commentators recognising the historical nature of the proposal, it is still far from certain that the plan will be adopted in its current form. A group of countries including Austria, the Netherlands, Denmark and Sweden, for instance, are advocating for the economic response to rely entirely on loans. In this sense, the main variation has been Germany's shift towards a more largesse-driven attitude; nevertheless, given the need for unanimous consensus between the EU27 this may not be enough.

Sebastian Spio-Garbrah,  
Chief Analyst  
Toronto, Canada  
+1 647 808 9671  
[Sebastian@daminaadvisors.com](mailto:Sebastian@daminaadvisors.com)

Alex Wark,  
Partner, Business Development  
London, UK  
+ 44 7779 656 878  
[Alex@daminaadvisors.com](mailto:Alex@daminaadvisors.com)

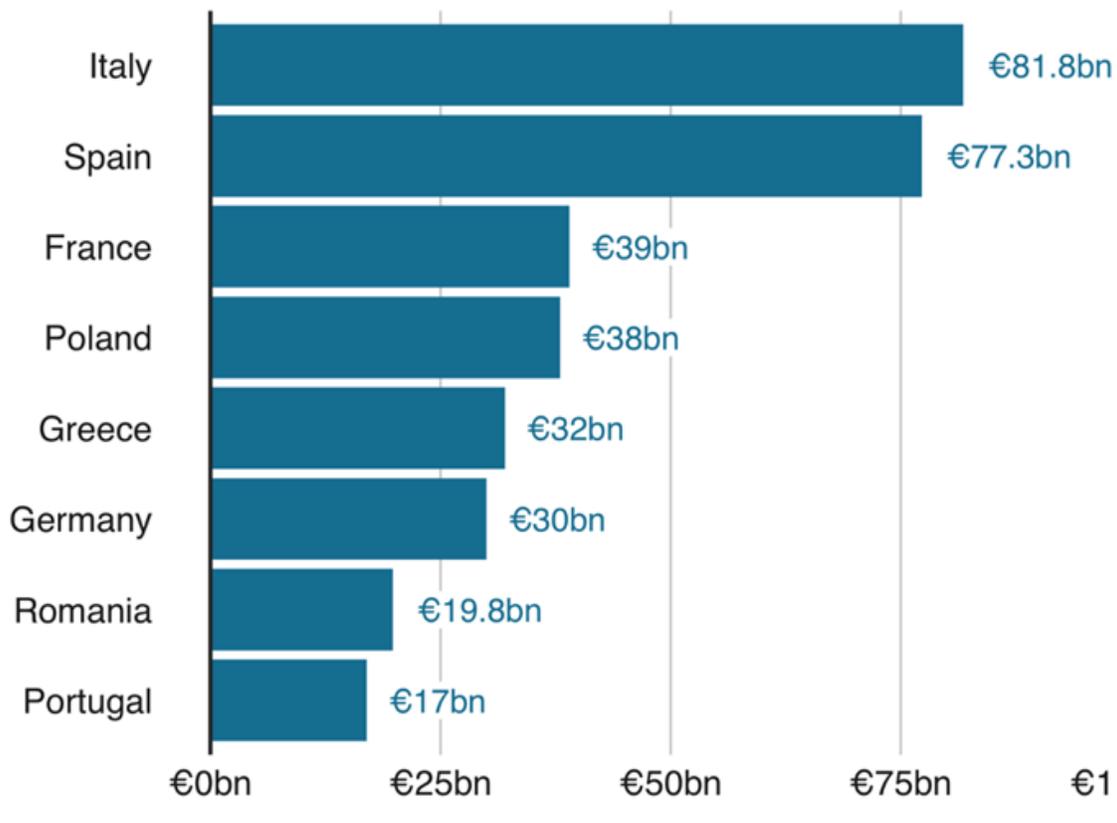
Michele Boaretto  
Analyst, Euro area  
London, UK  
+ (39) 370 371 5620  
[mboaretto@daminaadvisors.com](mailto:mboaretto@daminaadvisors.com)

Evan Rolfe  
Associate Director  
London, UK  
+ 44 779 4633 673  
[Evan@daminaadvisors.com](mailto:Evan@daminaadvisors.com)

Elliot Chapman  
Associate Director  
London, UK  
+44 753 8960 826  
[Elliot@daminaadvisors.com](mailto:Elliot@daminaadvisors.com)

# EU stimulus for members' economies

## Grants by country



Source: European Commission

The Conte Cabinet has had trouble enforcing a number of key policies, as ministers frequently went back on their word – including cracking down on tax evasion or implementing plastic and sugar taxes. Currently, the main parties of the coalition government find themselves in disagreement over whether or not to borrow from the European Stability Mechanism’s lending programme. The economic response to COVID-19 has also been uncertain and confusing, the government mostly relying on a plethora of small-impact measures without a coherent, overall plan. Finally, the government seems to have taken advantage of the relaxing of European fiscal rules to implement measures such as the nationalization of the Italian flag carrier Alitalia, a company which has been operating at a loss for about thirty years.

Conte and his allies might believe that it would be politically suicidal to remain in power and be forced to adopt unpopular measures, or even simply to be held accountable for the inevitable economic downturn. At the same time, they will do everything in their power to avoid new elections. As things currently stand, the Eurosceptic, right-wing alliance composed by the League and Brothers of Italy holds approximately 40% of the consensus, which under the current electoral system is deemed to be the ‘magic threshold’ necessary for an outright parliamentary majority. Given the fact that the current government was formed for the very purpose of avoiding a landslide victory by the League by two parties which were previously sworn enemies, it is more likely that they will look for alternative measures.

Much like what happened in 2011, when the Berlusconi Cabinet was replaced by a technocratic government led by Mario Monti, it is not unlikely that a Draghi led government will be in power by the Winter of 2020. A new Draghi government would likely enjoy expanded parliamentary support through Berlusconi's Forza Italia (FI).

Draghi is currently one of the most esteemed public figures in Italy, largely credited as the main responsible for the Italian and European recovery after the debt crisis. Opposition leader Salvini himself once put him forward as a viable candidate to be the next head of state, and more recently as Prime Minister instead of Conte. Not unlike Monti, if in power he would have to face the significant obstacle of a parliamentary majority unlikely to implement 'radical' measures, and his government would probably stick to unpopular measures such as raising taxes or cutting social spending in order to fix the state budget.

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**Contact DaMina for a more detailed briefing from our risk analysts:**

Alex Wark,  
Partner, Business Development  
London, UK  
+ 44 7779 656 878  
+1 647 808 9671

[Alex@daminaadvisors.com](mailto:Alex@daminaadvisors.com)  
[research@daminaadvisors.com](mailto:research@daminaadvisors.com)

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