



30 April 2013

Italy: a new political Government (finally) in place

Overview

On 30 April 2013, after two months of political stalemate, the Italian Parliament confirmed Prime Minister-designate Enrico Letta's new Government. Formed by a **"Grand Coalition"** of three parties - the centre-left Democratic Party, the centre-right Berlusconi-led People of Freedom, and the Centrist Monti-led Civic Choice – the newly appointed Government is a **political Government** (as opposed to a technical executive that no-one welcomed) and it marks a clear **change from the traditional adversarial and bipolar system** that has characterized Italian politics over the last twenty years.

President Giorgio Napolitano – recently re-elected for an unprecedented second mandate as President of the Republic – has played a crucial role in urging the splintered centre-left Democratic Party to agree on a power-sharing coalition, wielding his personal authority and stretching his powers to their constitutional limits to swiftly establish a Government.

The anti-establishment **Five Star Movement**, the third largest force in Parliament that won a quarter of votes in the February general elections, will be the largest opposition party, joined by former left-wing allies, the Democrats (SEL) and centre right party Fratelli d'Italia. It remains to be seen what position the right-wing Northern League party will hold.

Ministers

The delicate division of ministerial powers between the major parties resulted in the Democrats leading 9 (mostly secondary) ministries, the People of Freedom were allocated 5 ministerial posts, the centrist Civic Choice, led by caretaker Prime Minister Mario Monti, 3 posts, and the remaining 4 ministerial positions were allocated to technocrats. With 7 women on board (i.e. one third of the Ministers), the average age of the Cabinet is 53 years old. These are exceptional figures for Italy. Below is a biographical overview of Prime Minister Enrico Letta and key members of his Cabinet.



Enrico Letta – Prime Minister

Letta's European credentials are solid, both as a former member of the European Parliament (from 2004 to 2006 he was an ALDE Member of the European Parliament, sitting on the ECON Committee) and through a network of contacts built over the years as a strong supporter of a roadmap towards the realisation of a more federal Europe. He is also widely considered to have close ties to the United States and is firmly committed to the trans-Atlantic partnership. Domestically, he has held the position of Minister for European Affairs, Minister of Industry and Undersecretary of State in several previous centre-left governments.



Angelino Alfano – Vice Premier and Minister of Home Affairs

Alfano is Secretary of the centre-right People of Freedom party. More importantly he is Berlusconi's right-hand man and declared successor. Although the People of Freedom party campaigned under an anti-austerity and populist programme, Alfano represents the moderate wing of the party. However, he was severely criticised during his previous position as Justice Minister for creating several *ad personam* laws to favour Berlusconi.



Emma Bonino – Minister for Foreign Affairs

Former ALDE MEP and Health and Consumer Protection Commissioner, Bonino is a committed European, a dynamic force in EU politics for many years and NATO supporter. She is likely to be a heavyweight in European foreign policy when taking her place at the Foreign Affairs Council. She also has ministerial experience as Former Minister of International Trade and European Affairs.



Enzo Moavero Milanesi – Ministers for European Affairs

Milanesi represents an element of continuity from the previous Government, being re-appointed as Minister for European Affairs for the Civic Choice's group. He has gained solid experience in the EU institutions, mostly under Monti's patronage. Between 2002 and 2005, Milanesi was Deputy Secretary General at the European Commission, after which he was Director General of the Bureau of European Policy Advisors of the European Commission until the end of April 2006. Previously he has held positions as Director in the Antitrust Service (2000-2001), Head of Cabinet of the member of the European Commission in charge of Competition (1999-2000) and Head of Cabinet of the Commissioner in charge of Single market, financial services and taxation (1995-1999).

Priorities of the new Government

Prime Minister Letta laid out a very ambitious work programme, centred on growth, political and institutional reforms, and commitment towards Europe.

Growth:

- Consolidation of public debt and reduction of fiscal pressure will be key priorities of his mandate. The aim is to end austerity, leaning towards economic growth.
- Industrial policy: investment in R&D, digital agenda, multiannual plan financed by project bonds and complement of market coupling.
- Labour reforms and youth policies: reduce fiscal pressure on labour costs and encourage youth employment through fiscal incentives.

Institutional reforms:

- Reduction of the costs of the political system including the public financing of the political parties.
- Revision of the existing electoral law, which has led to the current stalemate.
- Revision of the current parliamentary bicameral system so as to diversify the powers of the two chambers and make the decision-making process smoother.

Europe:

- Letta set the tone of his speech in reinstating Italy's commitment towards Europe: *"we do not exist without Europe, only Europe will allow us to make our dream of development come true"*. He has already planned trips to Berlin, Paris and Brussels.
- *"More Europe"* to be obtained through a federal Europe, truly European parties and direct election of the European Commission's President.
- Recognition of the need for a genuine Banking Union to complement a monetary and political union. This is an important commitment in light of the upcoming final decisions on key financial regulation and taxation files.



Fabrizio Saccomanni – Minister of Economy and Finance

Saccomanni's previous role as Director General of the Bank of Italy made him the most obvious candidate for a key role in upcoming Finance Ministries and Eurogroup meetings. Experienced technocrat and monetary policy expert, he will bring prestige and competence to the table when negotiating with his EU counterparts on the relaxing of fiscal austerity constraints, the exclusion of public investments from budgeting financing rules and developing the next pillars of Banking Union.



Flavio Zanonato – Minister for Economic Development (energy and telecoms)

Member of the centre-left Democratic Party with a communist background, Zanonato represents a break from the mold of his predecessor Corrado Passera, ex-banker and member of the Italian business establishment. Energy, telecoms and international trade are the priorities of his ministerial mandate. Albeit strongly in favour of renewables energy, he does not have strong views against nuclear energy and is sensitive to the high energy costs that Italian firms have to bear. He may, therefore, support strategies to reduce these energy costs.



Maurizio Lupi – Minister for Transports and Infrastructures

Member of Berlusconi's political party and previously Vice-president of the House of Deputies, Lupi strongly supports large infrastructure such as the long-discussed "TAV" project to connect Italy and France by high-speed rail.



Mario Mauro – Defense Minister

He has been an MEP for 3 mandates, recently one of the Vice-Presidents of the European Parliament and among the most active and influential Italians in the Brussels political scene.

Impact at EU Level

A Government with a strong pro-European profile:

While the European Union has been criticized by some candidates in the course of the electoral campaign, a renewed, clear and strong pro-European trend has emerged since President Napolitano's re-election speech, when he stressed the importance of being part of the integration process for a stable and dynamic European Union.

The new Government confirms this trend: the Prime Minister himself is a keen Europhile and some of the key Ministers are pro-European too (as outlined in the biographies above, some have served as Member of the European Parliament and the European Commission). Italy's new political leadership understand the European Union, its values and the mechanism and dynamics of how a member state can impact the EU decision-making process. We can therefore expect to see a better equipped and more influential Italian delegation in Brussels. If this proves true, a possible knock-on effect will be that the wider Italian business community will understand the importance of early engagement at the EU level and contribute more consistently and comprehensively to the EU legislative process.

A stable and long-lasting Government?

After two months of uncertainty, it seems that Italy might finally enter a phase of stability with the new Government.

In theory, according to the Italian Constitution, the Government should last 5 years (but this has almost never happened in the history of the Italian republic). In reality, no one expects a 5 year Government but commentators are already predicting a more plausible 2-3 year timeframe in which key reforms such as the electoral law can be achieved. PM Letta has stated that in 18 months' time, he will reassess the progress that has been made and consider whether it is appropriate to continue under the current Government.

A full term Government would obviously be beneficial for Italy itself. Furthermore, given Italy's prominence at the EU level, a stable and established Government during the transitional phase through which the EU is about to pass in 2014, would be welcomed in Brussels. In order to achieve such stability, the two main coalition parties need to put aside their historical divide and work together on much needed reforms for Italy.

Interestingly, the second half of 2014 represents a key milestone for Italy at the EU level as Italy will be holding the rotating Presidency of the EU. A stable country will be essential to guide the EU.

Positive reactions from EU and international leaders:

So far, key EU leaders have expressed warm and positive support for the new Italian Government. In particular, the President of the European Union, Herman Van Rompuy, welcomed the new Government stressing that it will have the full support from the European Institutions. President of the European Parliament, Martin Schulz, welcomed the priorities that the new Prime Minister has set, namely support to SMEs, recovery of the credibility of the Italian politics and the focus on employment. President of the United States, Barak Obama, and Secretary of State, John Kerry, commented saying that PM Letta is "a good and trusted friend of the United States who has demonstrated a firm commitment to our trans-Atlantic partnership throughout his career". Mr. Obama looks forward to working with him on Transatlantic trade, employment and growth.

Positive reactions from the markets:

Markets have welcomed the appointment of the new Government. Bond yields and borrowing costs have dropped their lowest level since October 2010. The Italian stock exchange also reacted very positively, with share price unexpectedly rising.