

ITALY: Revise/resubmit, but Rome is likely to maintain a defiant attitude

The European Commission (EC) has on 23 October asked Italy to revise and resubmit its draft budgetary plan (DBP). The EC had already identified serious non-compliance with Italy's budgetary obligations, making today's request to revise the DBP almost inevitable. Now that the relevant letter has been sent, Rome will have three weeks to revise its spending plans and resubmit them to Brussels.

Barring a marked acceleration of market pressure on Italian assets, the M5S-League coalition is unlikely to make any meaningful amendment to the DBP. If the Italian government refuses to revise the DBP, the EC could decide to put additional pressure on Rome under the preventive or the corrective arm (better known as excessive deficit procedure) of the EU fiscal framework. In any case, the EC is unlikely to enact sanction procedures until next Spring (when final fiscal data will be available) and only if it secures the political imprimatur of the European Council to undertake such a move.

All in all, given how much it has politically invested in the budget and with the 2019 European elections looming, the government is likely to maintain a defiant attitude towards the EU/EZ over the next few months. As a result, volatility in the Italian markets is set to remain elevated in the foreseeable future.

In this regard, the Italian government's timid signs of overtures are essentially meaningless and unrealistic given the complicated intra-coalition dynamics. Rome has made vague hints that some measures could be implemented later in 2019 to reduce the related financial burden and that it would intervene to correct the mismatch should the deficit overshoot planned levels.

Leaving aside the budget and the related [tussle](#) with the EC, the next test for the government is represented by the

parliamentary approval of the so-called "Salvini decree" on migration and security. The parliamentary proceedings could stir some tensions within the coalition government as many M5S lawmakers are uneasy with the hardline decree as indicated by the 81 amendments they have submitted. League leader and Deputy PM Matteo Salvini has already stigmatized this by arguing that M5S was behaving like an opposition party.

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