Good Luck, Professor Draghi!

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Piergiacomo Braganti
Director, Research

On Friday 12th, February, Mario Draghi accepted the mandate to become Prime Minister and announced his Government Team, based on 23 Ministers. 8 of them are high-profile technicians and professional experts. The other 15 are politicians.

The political ministers are representative of 6 different Parties: 1) M5S (4 Ministers, with Luigi Di Maio confirmed as Foreign Minister), 2) PD (3 Ministers, including Luigi Guerrini confirmed as Defence Min.), 3) Italia Viva (1 Min.), 4) LEU (1 Min.), 5) the right-wing Lega (3 Ministers) and 6) Berlusconi's Forza Italia (3 Ministers).

The list of technician/experts includes a few well known professionals:

1.Enrico Giovannini, former Chairman of Istat (National Statistics Ins.), Minister for Infrastructure.

2.Daniele Franco, Bank of Italy top manager, Ministry of Economy.

3.Roberto Cingolani, Chief Innovation Officer at listed defence Group Leonardo and founder of the Italian Institute of Technology, for the newly created Minister for Ecological Transition.

4.Vittorio Colao, ex-Vodafone's CEO, Ministry for Innovation and Digital Transition.

Right-wing Fratelli d'Italia is the only large political Party opposing Draghi's appointment. The Government can rely on a wide majority at both the Lower & Upper House and should be governing until the natural end of the legislature in March 2023.

However, the Five Star Movement, which holds the largest number of seats in both houses,is said to be split in an internal debate, with a sizeable number of representatives unwilling to give their support to the new Government in the forthcoming confidence vote.

Mario Draghi already elaborated on the priorities of his Government. These include 1) Structural reforms, 2) Digital transformation, and 3) the Green Transition. Italy must also accelerate the Covid-19 vaccine campaign to speed up the economic recovery and to favour corporates' investments while preventing any disruption of social cohesion.

Employment is another crucial topic, with the labour market still artificially sustained by direct subsidies and the ban on layoffs. Trade unions are obviously pushing for an extension of the ban on layoffs beyond the current expiry date, set at the end of March 2021, as a key element to preserve social cohesion. The labour market could be enhanced by a fiscal reform aimed at reducing inequality and favouring hiring of young and skilled staff.

Structural reforms will necessarily regard the Public Administration (Otherwise known as the "legendary" Italian bureaucracy) and Justice. These are seen by European partners as a huge obstacle to Italian economic growth and competitiveness.

The program for investing the Eur 209bn of the Recovery Plan will be modified, if not rewritten, to increase investments in the Green Transition and Digital Transformation, thus improving productivity and sustainability. Many analysts and well recognized research organisations estimate the potential additional positive effects on GDP from the implementation of the Recovery Plan to be around 3%.

A clear and more robust pro-EU approach is also envisaged as an occasion not to be missed to improve the Country's international credibility.

The new Government headed by Mr Draghi will soon have to cope with the dilemma on whether to extend the financing of the "Cassa integrazione", a state-financed temporary lay-off assistance scheme, also expiring at the end of March 2021.

In spite of not being the current hot topic, the risk for deterioration of Italy's public finances is still very high. Fiscal rules regarding public debt management have been relaxed in every European country, but one can be sure it is not going to last forever.

Mr Draghi's appointment as PM could play favourably, helping the Country to receive greater attention from Europe. If Italy benefits in term of credibility, growth capability and productivity, it's also possible that the country's risk perception could substantially improve.

So far, so good. Since the announcement of the Mandate given by the President of the Republic last Feb. 3rd, the BTP-Bund spread has dropped by some 25 bps to 90bps - the lowest in 5 years, and the yield "paid" by a 10years BTP is now at its all-time low, below 0.5%.

Some see even more room for further reduction in BTP yields, while others look at this level as the natural base for a perspective bounce towards more lucrative yield levels.

Good luck, Professor Draghi!

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