

Flash Note 04/04/2018

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Latest news from Italy

- Italy's Five Star leader Di Maio lays down conditions to form a government.
 - Di Maio has proposed a German-style governing contract with two of its rivals: League and PD (formal talks aimed at seating a government began on Wednesday).
 - Di Maio wants:
 1. Northern League leader Salvini to break with Berlusconi
 2. PD must abandon Renzi's line
- **Meanwhile, Italy revises up 2017 deficit**, debt due to bank bailouts (ISTAT reported that the deficit now amounted to 2.3% of GDP versus 1.9% target). Current PM Gentiloni's has targeted a deficit of 1.6% in 2018, but it seems like an ambitious goal given the spending pledges of those parties positioning to govern.
- **Italy's pension reform at risk:** Italy's pension reform laws that were put into place in late 2011 are at risk from a populist government. In 2011, Italy shifted workers to a defined benefit scheme, stopped indexing pensions above a certain level and increased the retirement age to 67. Now, both Five Star and Northern League have vowed to dismantle the pension reform laws. The FT pointed out yesterday that this could cause alarm among EU policy makers and investors in Italian debt due to the fiscal cost of such a move.

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