

Flash Note 12/11/2018

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The Italian's determination to stick to its spending plans has left the EU executive with little choice. The implications

The Italian stance

- Italy's Economy Minister Tria is looking to revise down the budget's growth forecast for next year (from 1.5% to 1.2%, more in line with the Commission's forecast) to try to reach a deal with the European Commission over fiscal policy. (La Repubblica reported Tria was considering cutting the 2019 estimate for 2019 GDP growth even more, to 1%).
- Nevertheless, there have been no gestures from Italy in terms of bringing the deficit in line with Brussels's objectives: Italian Finance Minister Tria said Italy will stand by the main pillars of its budget despite the EU Commission's request to review it. "The government is committed to respecting a maximum deficit of 2.4% of GDP in 2019 and that the economic slowdown made an expansionary budget even more necessary".
- The Italian Deputy PM Salvini's words yesterday don't help either. He said that "Italy can block EU budgets in dispute on migration". "The Italian government could halt European Union budget decisions and other policies if the bloc's partners continue to show disrespect to Italians".

The European stance

- The European Commission is ready to escalate its budget battle with Italy, with officials in Brussels ready to kick start a disciplinary process to tackle Italy's unprecedented challenge to the EU budget regime unless the government in Rome delivers a last minute U-turn in its spending program.
- Italy has until tomorrow (Tuesday) to send in a fresh budget (with lower deficit objectives), but the Italian administration's determination to stick to its spending plans "has left the EU executive with little choice" (according to sources in Brussels).
- Constancio also highlighted that there would be no help of any kind until Rome submits to the EU bail-out machinery (ESM) under strict conditions and pointed out that Italy cannot win against the market.

The Investor's stance

- Meanwhile, European investors take a deep breath as action against Italy approaches. Why? You simply have to listen to what some ECB members say.
- **Former ECB member Constancio said, "there is no mechanism to force Italian budget compliance other than a blow-up in the bond markets".**
- As things stand, and without an unexpected turn that changes the postures, the course of events leads us to a frontal crash. By the time this happens there could be serious financial blood on the floor, with revived fears of redenomination risk.

Best