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A harsh reaction from the EU against Rome as a central scenario?

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Italian daily La Repubblica writes today that the European Commission could open a procedure against Italy's public accounts, following Brussel's rejection of Rome's budget plans.

Sources close to EU officials told us last week-end that Brussels has very little room for manoeuvre after a 2.4% deficit target was decided by the anti-establishment government, since it represents three times the deficit agreed with the previous administration.

You just have to consider EU's Vice President Dombrovskis to have an idea of what can happen. He said that Italy's plans for next year's budget "did not appear to comply with EU fiscal rules", and that "the Commission will have a formal reaction after the Italian draft budget is submitted to Brussels". He also reiterated that "Italy has the highest debt servicing costs in the EU".

A harsh reaction from the EU against Rome is, in my humble opinion, a central scenario. If the EU compromises now with this budget, after having done it for 3 years in a row, it would establish a dangerous precedent, not only in the face of future budgets in Italy, but with other culturally procrastinating countries.

Sending the budget back to Rome? Uncharted Territory

As of now, officials in Brussels still hope that market forces will convince Italy to change its budgetary plans (fiscally expansive) before they are formally submitted in the next days to the EU commission.

If Rome finally decides to go ahead with its plans and ignore the EC's recommendations, the standoff between Rome and Brussels would likely cause an escalation of the financial troubles in Italy.

In addition to the harmful effects of the market itself (due to the deterioration in the country risk perception), we must expect open sanctions proceedings and disciplinary decisions against Rome that could aggravate the already severe situation.

Any chance of Rome to going back on any of its commitments?

Tria sought in vain to persuade the government to ease off its spending plans, but now argues that “better economic growth would eventually help Italy bring its debt ratio down”.

This is his new speech after his particular defeat in Rome, suggesting that the only remaining orthodox politician in Rome will not continue to fight with the government to try to redirect the budget towards the path of austerity

I am worried that, even with the support of Mattarella and Conte, it has not been possible to impose some fiscal sanity.

Bad moments for Italy