



**Trend** – M5S consolidates the advantage on the PD while the centre-right and its lists are largely confirm the percentages previously set. The Bonino list is close to 3%.

**Politics** – The electoral campaign is going to close with the risk that none of the possible coalitions will obtain a majority. The hypothesis of a “President’s government” gains credibility.

**Economics** – Italy consolidates its growth helped by exports. On the EU front, the procedures that in 2019 will bring the renewal of the mandate of Mario Draghi and others ECB’s board directors.



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This issue of Osservatorio was closed on February 26<sup>th</sup> 2018

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## The wait for March 5

By Antonio Polito, published *iCorriere della Sera*,  
Friday, February 16<sup>th</sup> [\[link\]](#)

A parliamentary democracy without a parliamentary majority is a fine mess. If the outcome projected by Pagnoncelli and other polling institutes becomes reality, we will indeed have to be prepared for the fifth consecutive government not chosen by voters but built in Parliament. It is not only the constitutional solution, but also the wise one, when there is no alternative. However, it still remains proof of a serious weakness of the political system, a glitch in the mechanism that should transform the will of voters into parliamentary representation. The risk is that this will further consume the already difficult relationship between those who elect and those who are elected, and that in the long run will spread sentiments of rejection towards the very exercise of democracy. But if what's needed is to stay afloat, then it should be said that our political system is adequately equipped for an emergency water landing and that for once, the much-deprecated fragmentation of the political system might turn out to be useful: more "small" groups will enter in the Parliament, wider will be the political middle ground in which alchemies are performed and opposites are merged [...]. The answer we should give is: we will make it. On the other hand, the rest of the world has seen Brexit win by a hair, Trump elected President with less popular votes than his rival, inconclusive elections in Spain and Germany and an inability to produce a majority even in the hyper-majoritarian United Kingdom. We really aren't the only ones facing a severe crisis of representative democracies. It's just that perhaps ours started earlier.

## Europe is the main winner of the Italian elections

By Jacopo Barigazzi, published on *Politico.Eu*  
on Thursday, February 22<sup>nd</sup> [\[link\]](#)

Not so long ago, Italian politicians were moving between criticism for the European Union and complaints about the constraints imposed by the single currency. The angry comedian Beppe Grillo, until recently leader of the anti-establishment M5S party, was calling for a referendum on the permanence of Italy in the eurozone – a battle cry taken up also by the Lega Nord. Three-time former Prime Minister Silvio Berlusconi, 81, was indicating his latest resignation as head of the Government as a coup led by Germany. Even Matteo Renzi, Prime Minister until late 2016 and leader of the normally EU-friendly Partito Democratico, seemed beating the anti-Brussels drum [...]. But as a general election approaches on March 4<sup>th</sup>, Italy's leaders have gradually softened their stance. Some spoke of a Macron effect. But the ultimate reason for the turnaround in political rhetoric may be the voters they are courting: according to research published by the Jacques Delors Institute, "Italy ranks among the highest in considering that more decisions should be taken at the EU level." At least 61% of those who were surveyed agreed.





The Shepherd Gate Clock is mounted on the wall outside the gate of the Royal Greenwich Observatory in Greenwich, Greater London. The clock, a prime example of electric clock, was a slave mechanism controlled by electric impulses transmitted by a main clock inside the main building. The master and slave watch network was built and installed by Charles Shepherd in 1852. The clock near the gate was probably the first to show the average Greenwich time to the public and it is unusual to use the 24-hour analogue dial.



## 01

## Observatory Trend

### Voting intentions

At the end of the survey diffusion, the picture of the available data showed the centre-right coalition confirming its lead over the centre-left with 36.4% of the vote against 28.3% for the Partito Democratico and its allies. Nonetheless, **the Movimento 5 Stelle has consolidated its lead among the lists** (27.8% of votes), progressively regaining the decimal points lost in January and leading the Partito Democratico by over four points. The democrats have managed to contain the vote loss that began in the last months of 2017, but they are seeing the steady rise of Emma Bonino's PiùEuropa, which seems very close to reaching the 3% threshold necessary to be admitted to the proportional repartition of se-

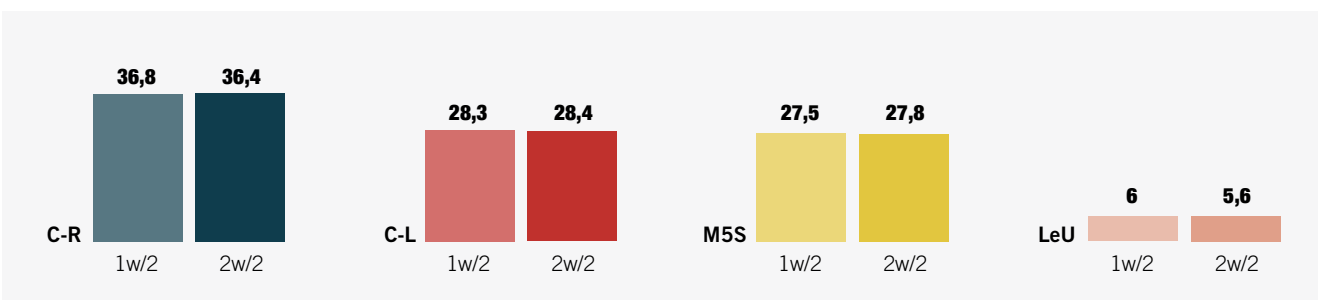
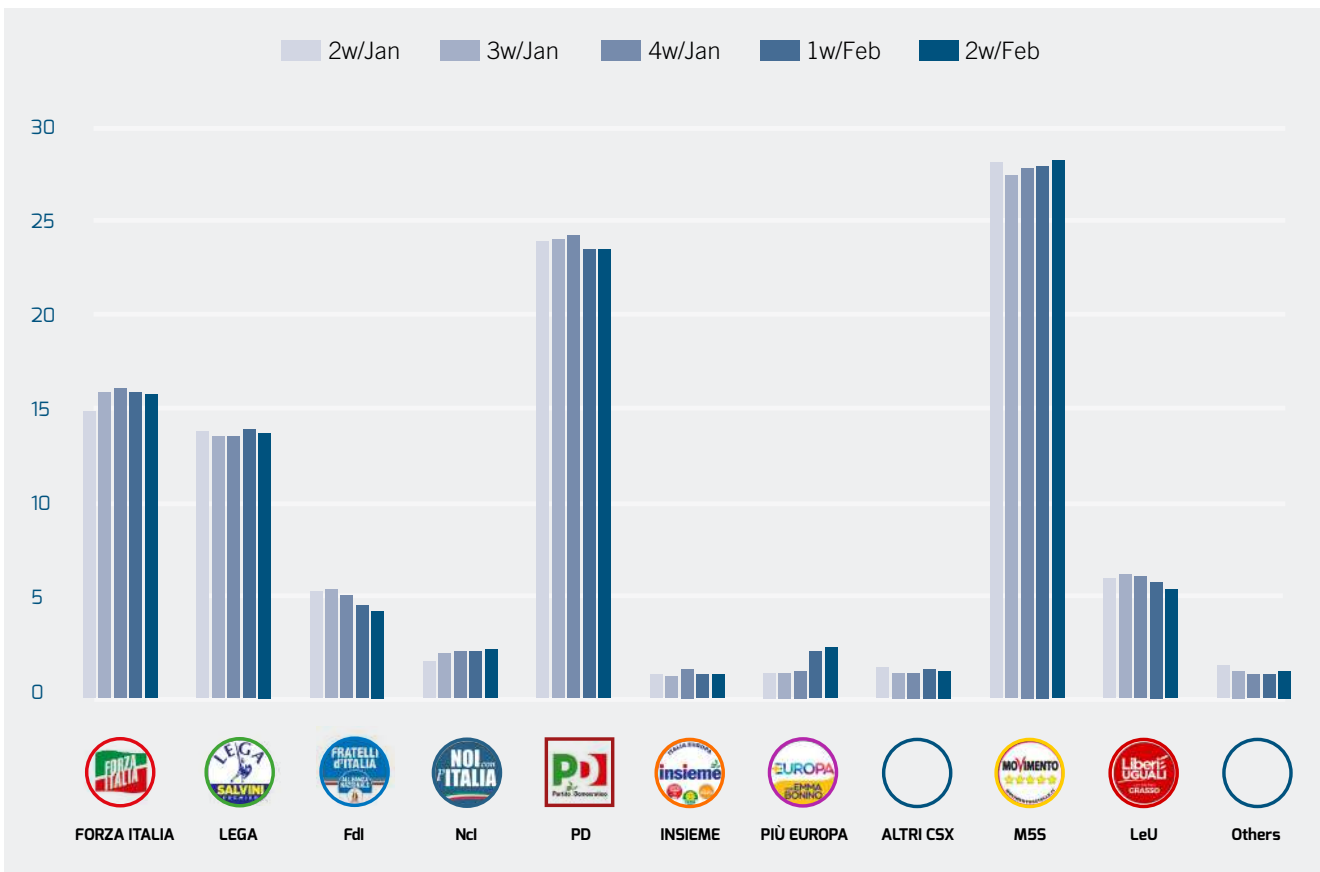
ats. If the threshold is met or surpassed, the votes for this list would not contribute to increasing the number of seats assigned to its coalition partner, the Partito Democratico. In the centre-right, according to the latest polls, support for Lega is stable at around 13%, while Forza Italia is still close to 16%. If these distances would be confirmed, it is unlikely that Matteo Salvini will hardly succeed to recover in the final sprint the gap that separates him from the leadership of the coalition. Consensus seem to be in contractions instead for both Fratelli d'Italia and Liberi e Uguali. Since the beginning of the campaign, both Giorgia Meloni's party and the list led by Pietro Grasso saw their respective percentages shrink almost steadily, despite both leaders being positive that they will be able to pass the above-mentioned proportional threshold. Less likely is the

hypothesis that the threshold could be met by Noi con l'Italia, the so-called "fourth leg" of the centre-right, while Insieme and the other lists allied to the Partito Democratico remain very far. **An update on these voting intentions will be made specifically for CZ & Co. from YouTrend in the days immediately before the vote.**

### Confidence in leaders

In the latest survey on confidence in leaders before election day, **Paolo Gentiloni is still the most popular politician, with his approval ratings growing two percent,**

**PARTIES VOTING INTENTIONS AND THE COALITIONS SCENARIO**  
 (Source: Elaboration CZ&Co. based on data by EMG and SWG on the latest public surveys)



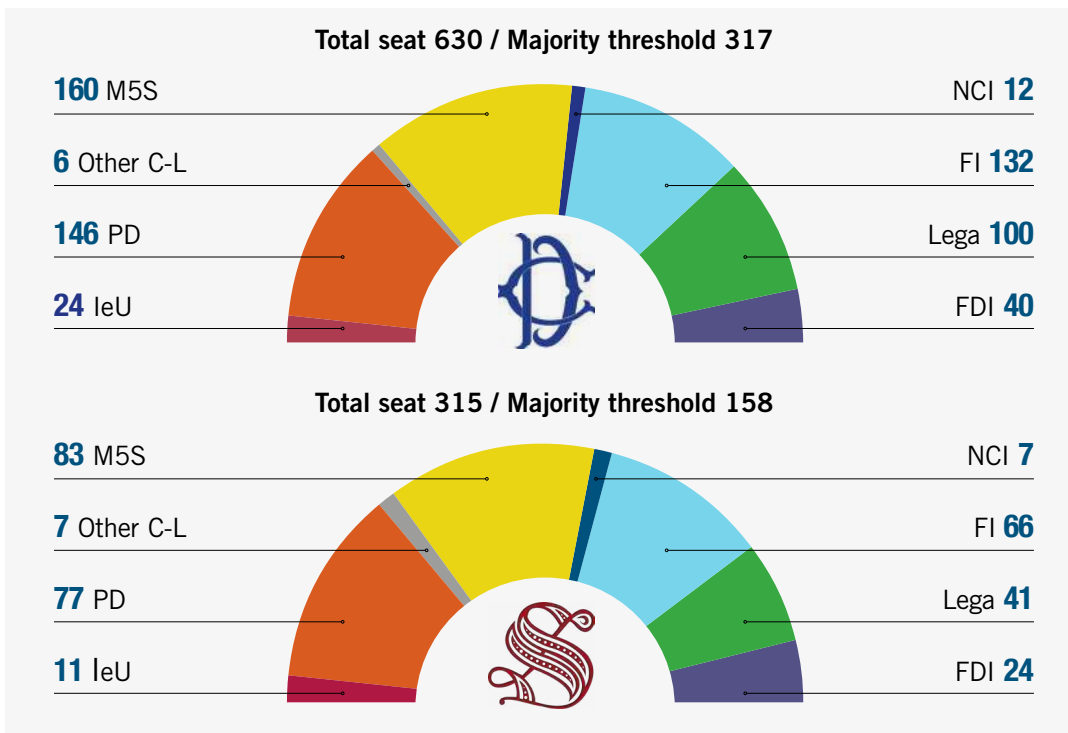


granting him a seven point lead over Luigi Di Maio, who comes in second. Stable at 25% for the third consecutive month is Matteo Salvini, followed in third place by Giorgia Meloni (24%, in a slight gain), Silvio Berlusconi and Matteo Renzi. Specifically, Renzi was able to turn around the descending slope of approval recorded in the past months, gaining 3 percentage points compared

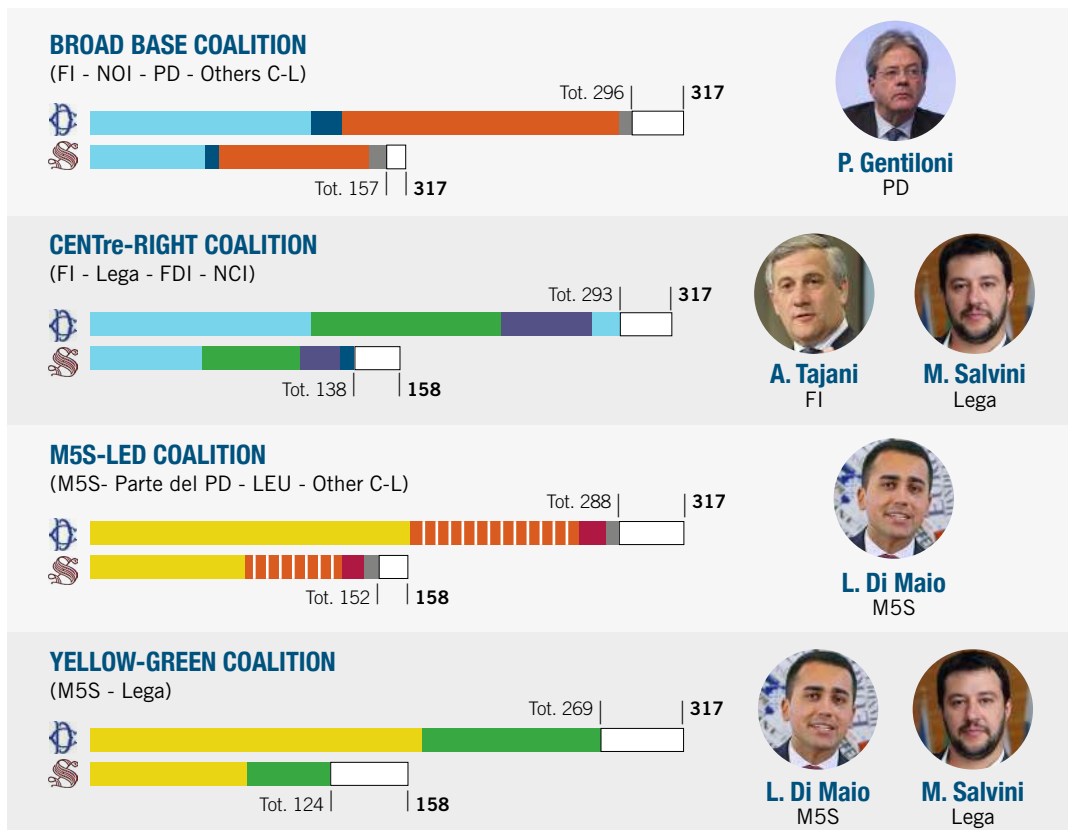
to the results published in January. Pietro Grasso, on the other hand, was unable to invert the negative trend in his ratings: the President of the Senate is approved by 22% of Italians, a rather small percentage if we consider he was at 28% in November 2017. The bottom spot is held by the founder of the Movimento 5 Stelle, Beppe Grillo, who has an approval rating of 21%.



**SIMULATED SCENARIO OF THE CHAMBER OF DEPUTIES AND SENATE AFTER MARCH 4<sup>TH</sup>**  
 (Source: Elaboration CZ&Co. based on data by Quorum/Youtrend on the latest public surveys)



**HYPOTHETICAL COALITIONS AND PRIME MINISTERS**  
 (Source: Elaboration CZ&Co. based on data by Quorum/Youtrend on the latest public surveys)







## 02

## Political Observatory

### Di Maio concludes the electoral campaign and regroups the Movimento 5 Stelle

The electoral silence that will start on the morning of Saturday, March 3<sup>rd</sup>, will mark the end of a campaign that saw parties face great uncertainty regarding the possible political outcomes that will follow election day. For the M5S, February was marked by a succession of critical moments that monopolized media attention. The accusations of plagiarism in the redaction of the Government program were followed by a much more relevant investigation on parliamentary reimbursements that to date has involved to date thirteen Deputies and

Senators of M5S, including the party leader in the Senate, Buccarella. Although this immediately translated into Luigi Di Maio's promise to dismiss any of the accused who are reelected, the scandal worsened and shed light on pre-existing fractures within the M5S. One of these fractures is the contrast with the party hardline minority led by Fico, who was not pleased by Di Maio's numerous openings to the possibility of transversal alliances with other parties. Another fracture is marked by the **progressive abandonment of the political scene by some of the iconic figures of M5S**. On top of Alessandro Di Battista's decision not to run for a second term, came the decision of David Borrelli, one of the guarantors of the Rousseau platform, to leave the

Movimento 5 Stelle group in the European Parliament, openly criticizing M5S and announcing his intentions to start a new political venture. Last but not least comes Beppe Grillo's decision to step aside and leave room to the new leaders in the management of the blog from which he had begun his political creation. Nonetheless the founder of the Movement did not abandon Di Maio, whom he defended at the height of the "reimbursement-gate" and whom he will be joining in Rome on the final night of the campaign. Grillo's presence will serve to reunite the M5S in the eyes of the electorate, which in any case seems unaffected by these internal difficulties.

### Gentiloni obtains the endorsement of the M5S-left

If in the Movimento 5 Stelle the campaign was marked by media and on-the-ground activism by the candidate Prime Minister, in the centre-left, efforts were distributed among the main political leaders of the Partito Democratico and members of the Government still in charge. Matteo Renzi sought, but didn't obtain, a television debate with his electoral opponents and he tried to turn around the negative trend recorded by the polls in the past months, promoting a program with measures like the extension of the 80 euro bonus to the self-employed and investments in culture and security. Nonetheless, **press and media attention progressively focused on Paolo Gentiloni**, who played the double role of actual Prime Minister and political candidate. The former Minister of Foreign Affairs took an active role in his campaign for a parliamentary seat in the Rome constituency while keeping up with a government agenda that took him to delicate territories both in Italy – with the visit to Macerata – and abroad. He met Angela

Merkel in Berlin, and promised her that Italy will come out of these elections with a stable Government devoid of populisms. He welcomed Emmanuel Macron in Rome, following up on a road map that will lead to the signing of a French-Italian agreement of strategic cooperation in autumn. He blamed Jean-Claude Juncker for his statements on the political stability of Italy. He attempted, albeit failingly, to secure the heads of the secret service. Last but not least, he obtained endorsements for the continuation of his Government mandate from Ministers Minniti and Calenda, Emma Bonino, former President of the Republic Giorgio Napolitano and former Prime Minister and Ulivo leader Romano Prodi, who has nonetheless decided to vote for *Insieme* instead of Partito Democratico, the party of which he was founding President.

### Berlusconi monopolizes the centre-right stage

In the centre-right, the past weeks were instead marked by statements and proposals by Silvio Berlusconi, constantly present in the press and on television. The four-time Prime Minister signed a pact with Italians on live TV, vowing to relaunch the economy and employment, but he also took part in the debate on security, proposing drastic immigration measures in an effort to court the conservative electors close to Salvini. The rivalry with the leader of Lega Nord, the proposal – later retracted – to welcome the Senators and Deputies who will be rejected by the Movimento 5 Stelle, and the decision not to sign the so called "anti-mess" pact promoted by Giorgia Meloni gave way to tensions within the coalition. Moreover, Berlusconi's hard line on the choice of the candidate Prime Minister, a name which he intends to personally reveal on television right be-

fore the vote, did not contribute to a climate of cooperation with his allies. Whatever the outcome of that decision, it will be necessary to take into account the result of the election; as Matteo Salvini stated on several occasions, the premiership will be chosen by the list that will obtain the most votes on March 4<sup>th</sup>.

### Obstacles to the formation of the new Government

Regardless of the effort spent at local level and in the media by the main political players, the outcome of the ballots may result in **a parliamentary geography that would make it extremely complicated to form a majority** to support the new Government. According to data by Youtrend/Quorum, if the current polling projections were confirmed, the center-right coalition would need about twenty parliamentarians in each of the two chambers in order to reach the governing threshold. This would explain Berlusconi's opening to the so-called "rejects" of the M5S, but at the same time one must consider his continuous calls for new elections in the event of no

clear majority after the vote. If on the one hand Berlusconi can't underestimate the possibility of an alliance between Salvini and Di Maio – despite the fact that this partnership is far from the required thresholds – on the other he must face the fact that a grand coalition government with PD has become less politically convenient. An alliance between Forza Italia, centre-left and the so-called "fourth leg" of the centre-right seems the closest to what would translate into a stable political majority, but the drop in support for Renzi's party has made it less likely that PD will be confirmed as the largest group in Parliament. Consequently, democrats may find it politically inconvenient to enter a government majority that wouldn't be endorsed by their base and from which they would only obtain minor representation in the Government. Similar obstacles may stand in the way of an eventual alliance between the Movimento 5 Stelle and Liberi e Uguali – supported by Pietro Grasso – with the support of PD or, more realistically, of part of PD. This outcome is openly supported by Michele Emiliano who, with Andrea Orlando, is one of the leaders of the party minority of PD.



## THE ROAD TO THE NEW GOVERNMENT

(Source: Elaboration CZ&Co.)

### SUNDAY MARCH 4<sup>TH</sup>

National and regional elections (Lombardy and Lazio)

### FRIDAY MARCH 23<sup>RD</sup>

First reunion of the new Chambers and election of their Presidents

### THURSDAY, MARCH 29<sup>TH</sup>

Resignation of Gentiloni Government

### FRIDAY, MARCH 30<sup>TH</sup>

Beginning of party's auditions by the President of the Republic\*

### APRIL / MAY

Designation, oath and confidence vote of the new Government

### MAY

Creation of the new parliamentary committees

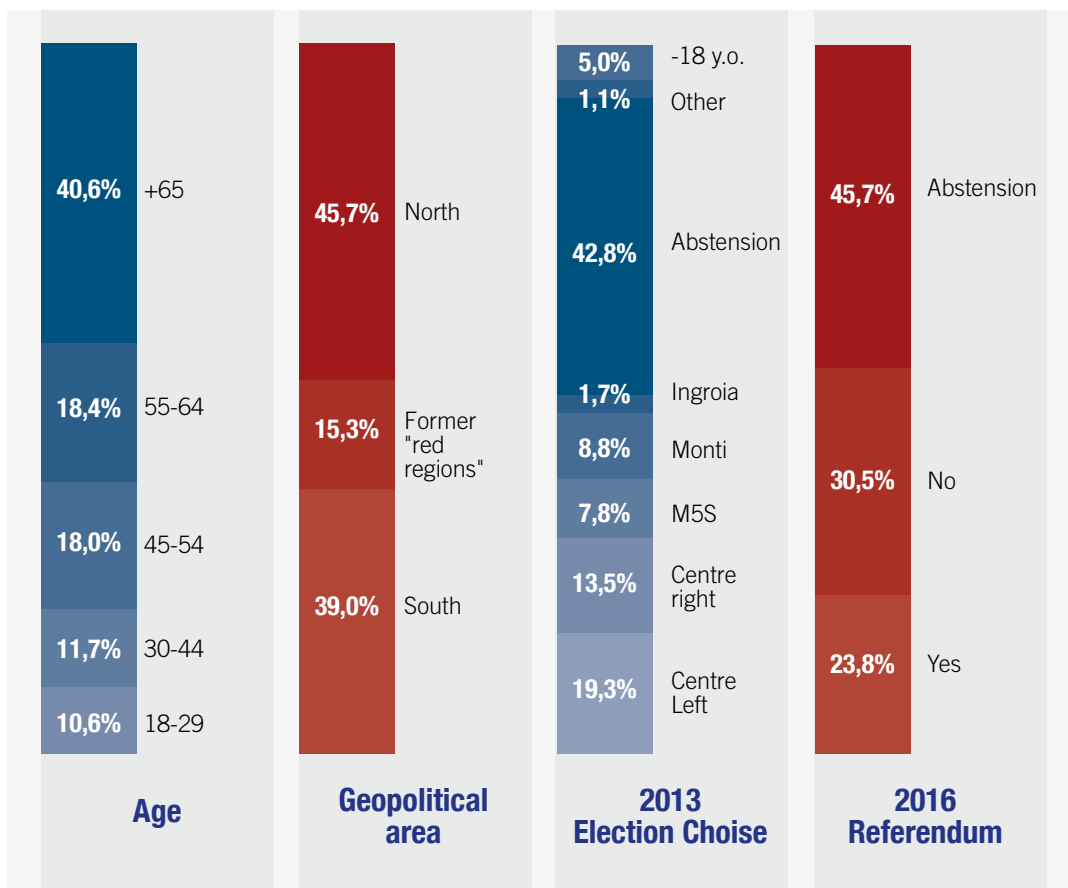
(\* Usually the auditions last no more than a week. However, like in 2013, the possible lack of a certain parliamentary majority may change the timetable)

## The hypothesis of the President's Government

In this challenging context it's not surprising that, according to rumors, the President of the Republic is working on a post-vote deal meant to set up a new government gathering all the players that may be open to collaboration with the Head of State. **Not a technical government, but an objective-led political executive with the mandate to fulfil internal and external financial obligations** – with reference to the probable corrective measure requested by Brussels for the spring and the annual budget law to be approved in autumn

– but also to find a solution for a reform of the electoral law, as publicly hoped by Romano Prodi. If this last goal were to be reached, it would be feasible to call for new elections in the first months of 2019. However, this remains an option of last resort that the President of the Republic may choose in the absence of valid alternatives. Indeed, considering the margin of uncertainty surrounding polls, a major role could still be played by the large part of the electorate that hasn't yet decided who to vote for: a percentage of possible voters of considerable dimension, made up of senior citizens mainly living in the South, which may turn out to be decisive for the many single-majority seats still up for grabs.

### POTICAL AND SOCIAL GEOGRAPHY OF THE UNDECIDED VOTERS (Elaboration CZ&Co. based on data by Quorum/Youtrend)







## 03

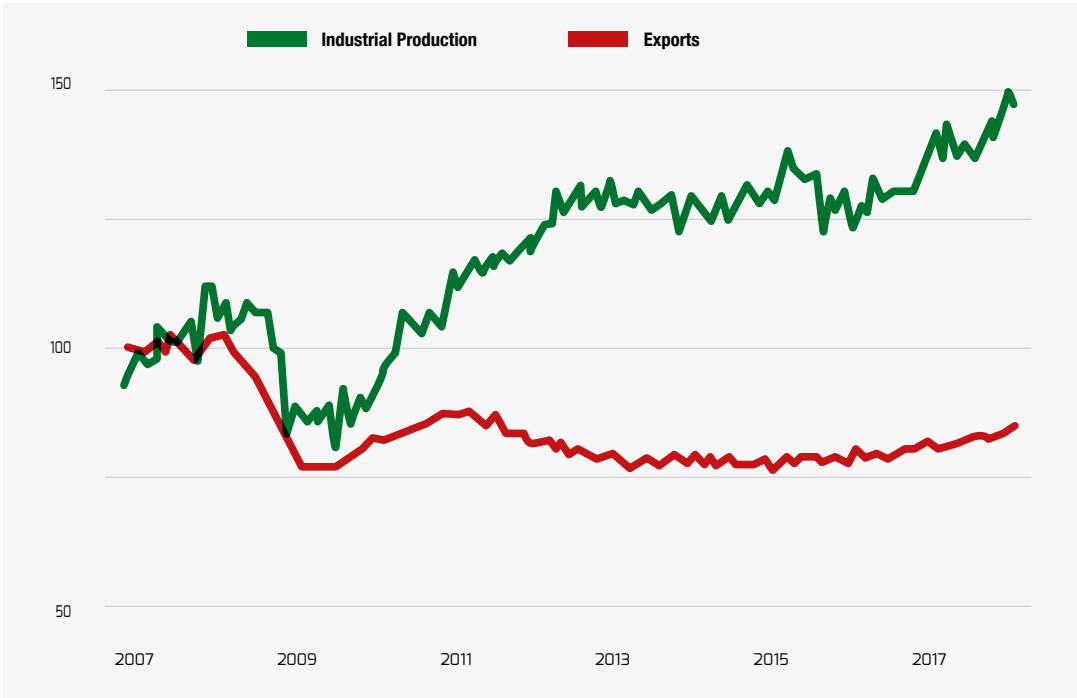
## Economic Observatory

### The fundamentals of Italy leading up to the election: consolidated growth but with no outstanding achievements

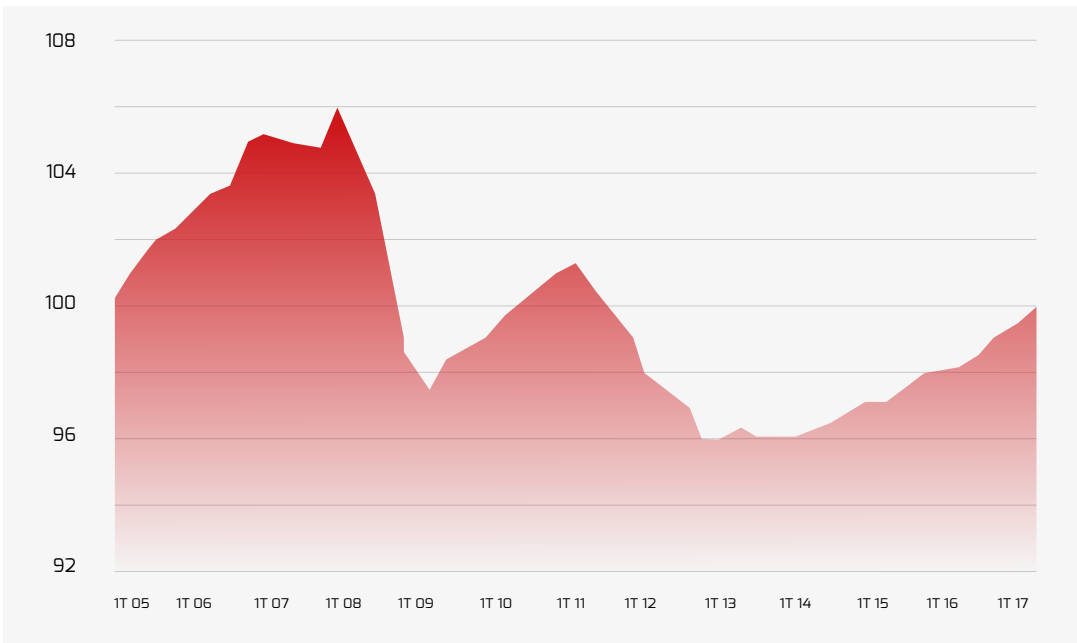
According to ISTAT, the National Institute of Statistics, the Italy who is getting ready to face new elections sees its growth strengthened in the last quarter of 2017. The **preliminary GDP estimates show that the wealth of the country in the last quarter grew by 1.6% compared to the same period in 2016**, with a 0.3% growth over the previous quarter. Nonetheless, the estimate falls below the data recorded in the eurozone (+0.6% over Q3 2017, +2.7 over Q4 2016) and in the United States (+0.6% over Q3 2017, +2.5% over Q4 2016). Italy's

growth thus appears still modest and not fully sustained by all the macroeconomic fundamentals. Export remains the main driver, with a 7.4% value increase and a 3.1% in volumes increase in 2017: presence on non-EU markets is rapidly expanding, particularly in China (+22.2%), Russia (+19.3%) and the United States (+9.8%). This performance is led by the chemical-pharmaceutical (+16%), automotive (+11.3%) and chemical (+9%) sectors. After a slowdown in November, industrial production started growing again in December by 1.6%. Trend value in 2017 indicated a 3% increase of production: also for this indicator, the chemical-pharmaceutical sector records the best performance (+7.4%), with manufacturing recording an overall increase of +6%. Consumption growth of families remains modest (+0.2%

**INDUSTRIAL PRODUCTION AND EXPORT DATA ON A TEN-YEAR BASIS**  
(Source: ISTAT)



**GROSS DOMESTIC PRODUCT IN THE FIRSTS THREE MONTHS OF THE YEAR**  
Rending variables on concerted data, seasonally and corrected by the calendar effect



in the third quarter of 2017 on a quarterly basis and in a slowdown compared to the two previous quarters), as a result of a cautious approach reflected in the growth of available income (+0.7%). Employment also slows: on a monthly basis, the number of employed went down 0.3% in December. The slight increase (+0.1%) recorded between Q4 and Q3 2017 is restricted to temporary employment. The unemployment rate is fixed at 10.8%, while youth unemployment is at 32.2%.

Financial markets seem to confirm their confidence without being affected by the electoral campaign: the spread between Italian treasury bonds and German Bunds on a 10 year basis is stable around 130 base points, a value very close to the lowest values recorded in the past 6 months (120 points on February 7). The FTSE-MIB stock index, after reaching its highest value in a year at 23 thousand points on January 22, is now facing a slight correction, stabilizing around 22.500 points.

### Europe, investments, taxes: the proposals of Confindustria

The summit of the General Confederation of Italian Industry (Confindustria), held on February 16<sup>th</sup> in Verona, saw the presentation of a package of economic policy proposals that the President Vincenzo Boccia had announced as his contribution to the electoral campaign. **A plan to mobilize resources for about 250 billion in the next five years**, to be raised – according to data from the Confindustria – with contributions from the European Union, the public sector and private actors. From the EU could come 93 billion from the issuing of Eurobonds as well as from a maximum annual leeway of 0.5% of GDP for those countries that respect the 3% deficit limit, also unbundling the national quota of co-financing on European funds. The funds coming from the private sector could amount to 38 billion: Confindustria estimates investment obligations of 5-10% in

alternative assets for Pension funds and Insurance funds and a recalibration of capital requirements of insurance companies. Moreover, a proposal was set forth concerning the constitution of a national fund of funds for real estate investments to capitalize around one fourth of the public assets of local authorities. The public sector could in turn mobilize €20 billion through a revision of the involvement in spending on services and the introduction of a policy unit for the annual spending review amounting to 1% of an area of expenditure of around 350 billion, in addition to a strengthening of fiscal rewards to combat tax evasion.

### Spain's De Guindos the next Vice-President of the ECB

Luis de Guindos, current Minister of Economy in the Spanish Government, will be the next Vice-President of the ECB, replacing the actual Vitor Costancio. His appointment opens the **renewal of the European Central Bank's executive board, which will end with the choice, in 2019, of Mario Draghi's successor**. The composition of the political equilibria for the two highest seats will be reflected in the approach to monetary policy. The choice of De Guindos – who represents a country of the Mediterranean area that has benefited from expansionary policies – may be read as a counterbalance to a future “rigor-inclined” president from Northern Europe. This is the view of the Italian Government, which until the very end had expressed support for the candidacy of Central Bank of Ireland Governor Philip Lane, which would have left room for a presidency more in line with the approach held so far by Mario Draghi. What's at stake is the definition of a “soft” exit strategy from the era of quantitative easing and near-to-zero rates inaugurated by Draghi. An abrupt contraction of liquidity could in fact slow down the growth rate of Italy's economy, which has so far been able to count on the ECB to buy its government bonds for over €30 billion.

