

Italy Turns Right

Giorgia Meloni Set to Become Italy's New Prime Minister

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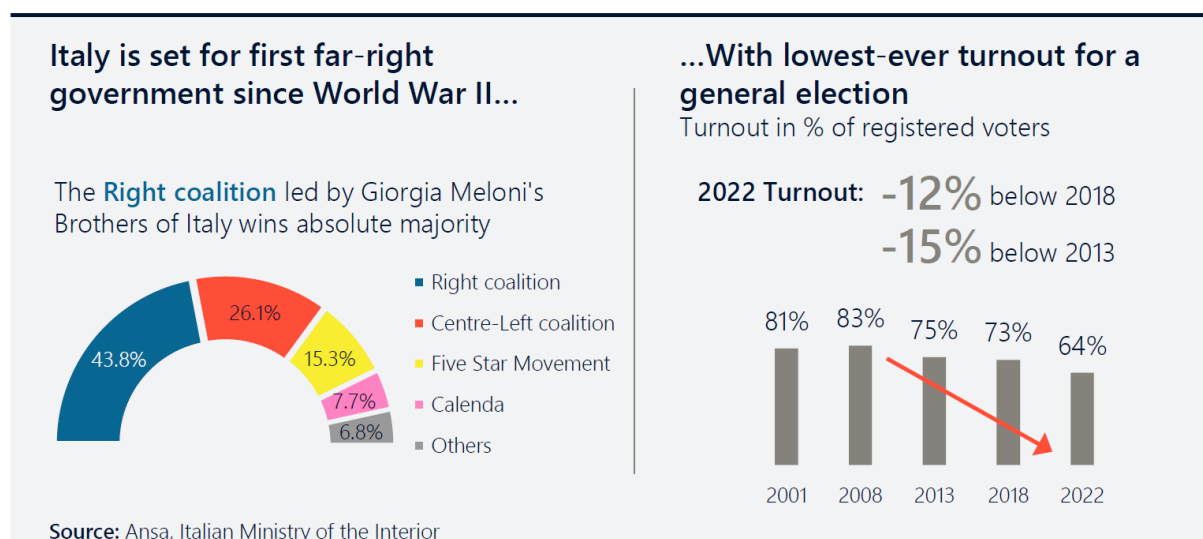
Giorgia Meloni, the leader of Italy's right wing Fratelli d'Italia party, is set to become Italy's first woman prime minister. After winning 26% of the popular vote in the latest elections, her party is expected to lead a coalition government of right and center, which should be in place by the end of October. Results show the right-wing coalition will hold the majority of seats in both the lower chamber and in the senate, but not the two-thirds required to change the Constitution.

Giorgia Meloni – pragmatist or ideologue?

Meloni rose through far-right groups before becoming Italy's youngest-ever minister in 2008 at the age of 29, in the government of Prime Minister Silvio Berlusconi. She split from Berlusconi in 2015 to found and grow the Fratelli d'Italia, which she has turned into the most powerful political force in the country. Earlier in her career, she often spoke in nationalist, nativist terms, attacking illegal immigrants, Islam, the "LGBT lobby" and the major EU powers (France and Germany), whom she accused of crushing democracy.

She was one of the few major Italian political figures not to join the technocratic government of Mario Draghi, the former ECB chief, whom she is now set to succeed.

Her rhetoric has mellowed recently, as she came closer to political triumph. During the campaign for the parliamentary elections, she presented herself as a no-nonsense conservative, determined to solve Italy's economic problems, notably the fuel shortages created by Russia's invasion of Ukraine, and high public debt, which is now below 150% of GDP. This more moderate Meloni appears to be the version Italians will get as prime minister "of every Italian," as she declared immediately after her victory.



Corporate support to take on economic challenges

The Italian corporate world swung in behind Meloni in the last weeks of the election campaign. The election result was welcomed especially in northern Italy, where more than 60% of the national wealth is located. In the last few years, these regions have been easy wins for Meloni's right-wing rivals, the Lega Nord, and its leader, Matteo Salvini. But Salvini's decision to drop "north" from the name of his party,

along with some of his political strategies, led the region's entrepreneurs to turn decisively away from him in favor of Meloni and Fratelli d'Italia.

The economic challenges facing Meloni are considerable: the skyrocketing cost of energy is just the latest burden on Italian businesses. A number of reforms demanded by the EU in return for post-COVID financial support remain to be completed, including the competition law and the tax reform for which both Lega and FDI have fought so hard.

As ever, the issue of public debt will hang over this government, overshadowing efforts to stimulate the economy. In 2022, Italian GDP is forecast to close with an excellent +3.3% rate of growth, but 2023 is expected to be close to zero and a meager +1% in 2024.

A fractious coalition will strive for stability

Meloni's victory speech was prudent. She stressed the need for responsibility and her ambition to govern for all Italians. She will support Italy's position within the Atlantic Alliance and the European Union, and is opposed to increases in public debt, particularly given rising interest rates and cost to service that debt.

She also expressed willingness to cooperate with the outgoing government in the month-long transitional phase, starting with the draft budget law to be sent to Brussels by October 16.

Meloni made a point to thank her allies for their support. Her language and tone reflected the challenge she faces keeping her coalition together in the medium to long term.

Her right-wing allies are likely to face immediate difficulties. A weak result for the once-formidable Lega, led by Matteo Salvini, could lead to Salvini's ouster. The future of Forza Italia also looks uncertain, after they won just 8.3% of the vote.

The good news for Meloni is that having performed below expectations, the center-left parties are likely to go through a similar period of change and soul searching. The more centrist MPs may vote with Meloni on certain issues such as justice, development and infrastructure, provided their interests align.

While we wait...

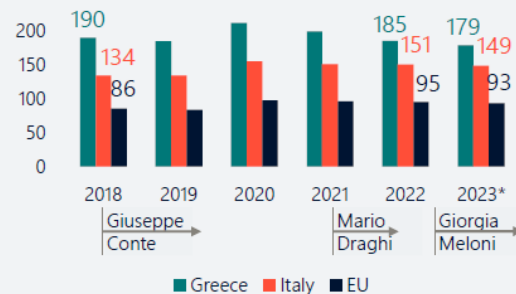
Before a new government takes office, the following institutional steps must be taken:

- October 13: first session of the new Parliament with the appointment of the Office of Presidency and of the Election Commission.
- From October 13: Election of the presidents of the Chamber of Deputies and of the Senate
- October 16: first draft of the budget law to be sent to Brussels.

Higher rates and energy shock challenge Italy's debt reduction

Government gross debt, % of GDP

Italy's debt ratio at **1.6x** of EU level; within the 27-nation EU, Italy is second only to Greece



Source: IMF; *IMF Forecast

Decline of Italy's consumer morale

Consumer Confidence Index

Consumer confidence in Sept 2022 fell back to July's level below 95, hitting a 2-year low



Source: Trading Economics

- October 17–18: in the best-case scenario, President Mattarella could be ready to start consultations for the constitution of the new government, led by Meloni, which could start work by the end of the month.

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