

Italy's referendum: Renzi's big gamble failed. What's next?

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Following the outcome of today's referendum, President Mattarella will do his best to avoid early elections. Any new caretaker government would easily take a full year to deliver a new electoral law and thus the baseline case remains for elections no earlier than the natural end of this parliamentary term in spring 2018, writes [Lorenzo Codogno](#). The tail risks of Five Star Movement getting to power, a prolonged phase of political instability and/or Euro-exit remain very low probability events.



A resounding 'no'

With a very high turnout of almost 70% and a defeat of the constitutional proposal by almost 60% to 40%, the message could not have been lauder and clearer. No surprise that Renzi immediately announced his resignation. With such a strong defeat, it is no longer clear that President Mattarella will reject his resignation and send him back to parliament. Procedurally, and to fully respect the prerogatives of parliament, this should be the way to go, but it may just prove a waste of time, although this would also provide useful indications to the President for the possible next steps. At any rate, at least for now, I think the baseline case remains for a parliamentary debate first. It would mean that we have to wait until the end of the week or early next week, at the latest, to have a hint of what could be the next steps by President Mattarella regarding a new mandate.

Early elections?

At this stage, it appears very unlikely that Renzi will get a new mandate and stays as PM. However, my guess is that Renzi will try to remain as leader of the PD, at least until the next congress. This would leave Mattarella no other solution but to appoint a caretaker government. It would do an electoral reform and then allow for elections. A caretaker government would be politically weak, with a leader equally politically weak, who should however be able to cater consensus beyond his/her political party (people like Pietro Grasso, the speaker of the Senate, or Piercarlo Padoan, the current Finance Minister). The current government will facilitate the passage of the Budget through parliament, which is likely to be done by year-end. Any new government will have to work on a new electoral law and thus it would have to adopt a consensual approach. Ideally, the broader the government the better, as passing a new electoral law after such a big defeat of the government would require a broader consensus among political forces. As I pointed out in the past, early elections look unlikely as going for them with the current electoral laws (very different in the two Houses) would be a recipe for disaster, i.e. a hung parliament. President Mattarella will do his best to avoid it. Any new government would easily take a full year to deliver an electoral law and thus the baseline case remains for elections no earlier than the natural end of this parliamentary term in spring 2018.

Does it bode badly for Italy's political stability, participation to the euro etc.?

There is clearly some risk that the current political crisis extends beyond two-three weeks, thereby leading to instability. I remain convinced that a government will be in place by Christmas or at the latest by the end of January. It is non-sense to call for Italy-exit from the Eurozone or the EU. Today's outcome strengthens the anti-establishment and anti-euro parties such as the Northern League and the Five Star Movement, but again it would not be justified to jump into the conclusion that they will win the next general elections and that they will command an exit. The outcome of the referendum is much more complex and nuanced than 'just another wave of protest across the globe'. So the tail risks of Five Star Movement getting to power, a prolonged phase of political instability and/or Euro-exit remain very low probability events, in my view. In fact, following this referendum any change to the electoral system would be in the direction of a more proportional system, thus condemning Italy to a grand coalition forever if the Five Star Movement stays at about 30% of the votes. Not a great outcome, but neither a disaster.

For the financial sector, it is not over.

Today's reaction in financial markets was muted as participants were already positioned for a 'no' victory. I believe it will stay like this over the next few days. However, if there is no solution, say, by Christmas, financial markets will start getting nervous again. We will see today whether Monte Paschi will dare to announce the long-awaited capital increase. There is clearly a risk of delay or outright cancellation and this may slow down current initiatives for the whole banking sector. The banking sector has to work out its own capital strengthening, restructuring and cleaning up, which may become more difficult following today's results. If Italy does not get a new government soon, financial stability risk would increase and would collapse the time needed for the healing of the banking sector. The ECB may provide temporary relief if needed, but it would only be temporary.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics. Featured image via hungarytoday.hu.

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