Flash Note
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# Tria did not cross the Rubicon river and did not challenge Consul Di Maio. A humble assessment.

- **A Populist victory.** In a clear victory for populist factions within the Italian government, Rome finally set next year's budget deficit target at 2.4% of GDP after populists placed fresh pressure Finance Minister Giovanni Tria into providing more funds for their election promises:
    - The budget includes €10bn for the so-called citizen's income. (What if the rest of Eurozone countries demand the same "citizen's universal income"?)
    - Other measures approved by the government include rolling back the previous pension reform that raised the retirement age. (Right on the opposite direction that all countries, inexorably, must address).
- **"The budget for change".** Di Maio and Salvini said right after releasing the 2019 budget: "we are satisfied, it's the budget for change". Well, I ask them, What change? Italy have spent the last 10 years running a 2.5%-3% Deficit.
- **The Impact that will come:** Populist movements have been making inroads in almost every European Union countries, and this is already impacting on credit metrics, and why not, investors' concerns. More specifically, this decision will impact Italy's already mountainous public debt and its credibility.
    - With a 2.4% deficit (and assuming a more realistic market conditions for funding costs once the ECB stops its buying program), Italy must reach a 3.4% GDP nominal growth structurally, in order to keep debt ratio stable.
    - Well, the own European Commission's 2019 forecasts for Italy are of a GDP real growth of 1.1%, and a 1.5%-1.6% inflation. If true, this would result in a 2.6% nominal growth, and almost a 1% increase in Debt ratio.
- **The battle with EU looms**:
    - **EU officials today**: "To see even a marginal improvement in the structural balance of the country's budget, the headline deficit should have been around 1.6 percent". "This budget puts Italy in breach of its obligations"
    - **Moscovici:** "We don't have any interest either that Italy does not respect the rules and does not reduce its debt, which remains explosive." "sanctions are in theory possible if the budget was found to be flaunting EU rules".

   - **EU Commission** says will assess Italy budget plans, in what promises to be a serious clash among both authorities.
- **More to come?** This may be just the beginning: Italian press and some agencies (ANSA) yesterday already noticed that the 2.4% budget deficit is also estimated for 2020 and 2021!!
- **Reaction of Italian leader's to the negative market's reaction? The worst possible.** Di Maio said "I'm not worried by market reaction to budget announcement". Remarks by Five-Star leader Di Maio were that "the new budget will spur the country's economic growth, allowing the public debt to fall". Of course, it's always about the old script according to which the state creates its own demand (via public spending) or that the state creates wealth by simply transferring money from one hand to another one. An once again, the proponents of this economic school wrap their policies of *fait accompli* with friendly sentences of the type: "Rome must have dialogue with Europe and not argue".
- **What can we expect?** Di Maio said that "higher spending and budget deficit was designed to boost growth and will soon soothe investor's concerns". Well. Here you can easily see that he is only 32 years old. My particular view? Karl Popper said, "The true ignorance is NOT the lack of knowledge, but the refusal to acquire it". However, I once read in a book (whose author I can not remember) a much more precise definition. "The true ignorance is NOT the lack of knowledge, but denying the facts that have made us come here". Mr Di Maio & Salvini have denied all these facts.

Best regards