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Italy is electing a new president

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Italy is about to elect a new president of state. The election that will be held from 24 January 2022 in several ballots is going to determine the successor of the current, 80-year old President Sergio Mattarella, whose mandate expires in February 2022. This was announced by the president of the chamber of deputies of the Italian parliament, Roberto Fico.

Mario Draghi, current prime minister, has indicated he is willing to take the job

Even though in parliamentary democracies the role of the president of state is of limited relevance to everyday politics, this election is of big political significance because the current prime minister of Italy, Mario Draghi, might run for office. Draghi indicated he was willing to take office in his year-end speech.

The 74-year old Mario Draghi is particularly well known as former president of the European Central Bank (2011-2019), when he established a reputation as good crisis manager; he confirmed this reputation as prime minister of Italy.

The big symbolic relevance of the presidential election is that Draghi would not be able to insert himself and his abilities as crisis manager into Italian everyday politics any longer. He would have to step down as prime minister immediately after his election as president of state.

Reform efforts could slow down

In addition to the worries that the current reform efforts in Italy could slow down, there is also the concern that snap elections could be held in Italy, which could result in a move to the right.

According to the most recent polls by the polling firm "Demos", which were published in the daily newspaper "La Repubblica" at the end of December, these worries are not unfounded. While the "Partito Democratico" (PD) would come out on top again at 21%, the right-wing party "Fratelli d'Italia" (FDI – The Brothers of Italy) would be a close second at 20%. Lega Nord with Matteo Salvini would come in third at 19%. The populist Five Star Movement would have to content itself with 16%.

Yields of Italian government bonds on the rise

On the capital markets, this situation is reflected in the drastically widening interest rate differential between 10Y Italian government bonds and German government bonds. Said differential widened from its low of about 0.90% at the beginning of 2021 to its high (especially around the end of 2021) of above 1.35%, despite the massive purchase programme by the ECB.

Italian government bonds account for about 22% of euro government bonds

Italian government bonds account for a significant share of euro government bonds. Therefore, the market participants are closely monitoring the development in Italy, as it has a noticeable bearing on the yields on the government bond market of the Eurozone overall.

Interest rate differential between 10Y Italian government bonds and 10Y German government bonds (in percentage points)

Sources: Refinitiv Eikon, 1 January 2016 – 4 January 2022, Erste Asset Management; in percentage points (1 = 100 percentage points)

The Italian president of state is elected by the joint session of the parliamentary chambers and representatives of the 20 regions. The ballots are secret, and a two-thirds majority is required. It is therefore not uncommon for the presidential election to require several ballots. This time, it will be one ballot per day. After three ballots, a simple absolute majority is sufficient. The election in 1971 holds the current record at 23 ballots and 16 days. The presidential term is seven years.

The centre-right parties Lega, Forza Italia, and Fratelli d'Italia seem to be prepared to support the candidacy of four-time Prime Minister Silvio Berlusconi. Next week we will find out whether Mario Draghi will run for office and whether he will be elected.

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