

Spread and BTP hanging on the European elections: the possible scenarios



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The next budget law will be a hot potato, the worst-case scenario would be another battle with Brussels. A technical government would be good for Italian debt, but it is not a likely outcome with this Parliament.

What will happen after the European elections on 26 May? Will the government continue? Will there be a new majority? Will the President form a technical government? Or will the vote planned for autumn go straight ahead? More importantly, in these scenarios, what will happen to the spread which has practically doubled, rising from 130 to 260 basis points after a year of “yellow-green” government (TN: coalition between the Five Star Movement and Lega)? Where the link with politics is increasingly evident, it only takes one piece of data, for example yesterday’s figures on the European Commission’s valuation of public accounts, to see the BTP-Bund spread at ten years close at a net increase of 266 points, with yield up to 2.62%.

MAJOR REPERCUSSIONS ON ITALIAN DEBT

“The result of the European elections will have major repercussions for Italian debt” - explains Francesco Castelli, **Banor Capital** Fixed Income Manager - “not only because of the possible changes within the majority of Government, but also due to the new international equilibrium which will be expressed by the new European Commission. In fact, the Commission will be the judge of budgetary decisions that Italy will need to take after the summer”. Beyond the political data, **whoever is in government in the autumn will have to deal with the public accounts** also considering the recommendations recently published by the Commission and with Italy remaining “under watch” by Brussels, as Commissioner Pierre Moscovici has clarified. “The markets will be unmoved by the reality of budget balances” Castelli continued - “the European Commission may be able to help and apply some degree of flexibility but there will be little room for manoeuvre on public accounts: the 2019 manoeuvre pushed spending, to make room for electoral promises. The 2020 manoeuvre will have to find financial guarantees, either with the automatic increase of VAT, or (presumably) applying a tax increase elsewhere”...

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