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COMMENT

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Italy at loggerheads with the European Commission and Germany > Has Matteo Renzi taken a euro-critical stance?

As the Italian economy slows down, Prime Minister Matteo Renzi is forcefully advocating budget flexibility in order to stimulate growth and fend off domestic political challenges. However, his rhetoric and the Commission's reluctance to make concessions may lead to a full-blown crisis.

In the first weeks of 2016, Matteo Renzi repeatedly accused EU institutions of pursuing austerity policies that suffocate economic growth. Renzi's accusations were formulated after European Commission officials argued that Italy's budget law for 2016 risks breaking EU fiscal rules.

Italy's budget deficit for 2015 was estimated at around 2.5% of gross domestic product (GDP), below the 3% threshold set by the Stability and Growth Pact (SGP). However, in 2015 Italy's public debt reached 132.8% of GDP, more than double the 60% limit set by the SGP. The Commission is still screening Italy's 2016 budget law and will issue a verdict in the spring, possibly asking for adjustments.

Renzi considers Brussels' stance excessively strict and counter-productive. In several interviews with Italian and international media, he contrasted the EU's focus on austerity with US expansionary policies after the 2008 financial crisis, arguing that only the latter have restored economic growth. Moreover, he accused the Commission of double standards, notably of being strict with Italy and lax with Germany. He stated that Brussels has not sanctioned Berlin for repeatedly violating EU rules on trade surplus: while the EU has set a 6% threshold,

Germany's surplus currently stands at 8%.

Renzi argued that Germany has shaped EU economic policies to its own advantage. Moreover, he criticised Angela Merkel's perceived tendency to pre-arrange policy decisions with EU-wide relevance in closed meetings with French President François Hollande, before discussing them with Rome or at the EU level.

He also condemned Berlin's support of the Nord Stream 2 pipeline, a project that would turn Germany into a hub for Russian gas exports to Europe. Contrary to other critics of the pipeline, Renzi was not concerned about Germany's resumption of cooperation with Russia – in fact, he is keen on the EU and Italy pursuing the same approach. Coming only a few months after the Commission blocked an Italian-backed project for gas imports from Russia (the South Stream pipeline), the advancement of Nord Stream struck the Italian government as another example of double standards in the EU.

Rome's clash with Berlin and Brussels has extended to migration issues. In December 2015, the European Commission opened an infraction procedure against Italy (as well as Greece and Croatia) for failing to fingerprint migrants.

According to the Eurodac Regulation, fingerprints of asylum seekers have to be transmitted to a central EU database within 72 hours of applying for international protection. Renzi countered that Italy has implemented the regulation correctly for months. In addition, he noted that no infraction procedure was initiated against Germany when Berlin took in hundreds of thousands of migrants without fingerprinting them, between August and October 2015.

On the topic of migration, Italy's main concern is that northern and central European member states may decide to exclude the countries of first arrival for migrants – particularly Italy and Greece – from the Schengen area, arguing that they have failed to control their external borders. Rome is determined to prevent this and negotiate an amendment of the EU's Dublin Regulation. This legislation establishes that the member state through which asylum seekers first enter the EU is responsible for their asylum claims.

Rome is also keen on Brussels' recognition of the costs it has incurred as a 'front-liner' in the migration crisis, and relates this to requests for additional budget flexibility. For this reason, until early February 2016 Italy blocked a

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decision on the provision of national and EU funding for a €3 billion deal with Turkey. This had a negative impact on Renzi's relationship with Merkel, who is under heavy domestic pressure to stem the flow of migrants to Germany: the deal is meant to help Turkey keep Syrian refugees on its territory.

Renzi's confrontational stance in the EU can be understood against the background of Italian domestic politics. In 2016, the governing Democratic Party faces key electoral tests, including mayoral elections in Rome and Milan and, most likely, a referendum on Renzi's constitutional reform reducing the powers of the Italian Senate.

Nationwide polls suggest that Renzi's popularity is waning: although his party still leads with 32–33% of support, the rival Five Star Movement has been closing the gap and would obtain 25–27% of votes if the elections were held now. By contrast, in the European elections of May 2014 the Democratic Party led by nearly 20%. Moreover, the xenophobic and anti-EU Northern League now enjoys 16–17% support.

To make matters worse for Renzi, Italy's sluggish recovery (estimated at 0.8% of GDP in 2015) has slowed down again. In the fourth quarter

of 2015, the Italian economy grew by only 0.1%, while Italian banks have been among the hardest hit in the recent market sell-off. Unemployment remains high, at 11.4%, with youth unemployment at 36.5%. Against this background, Renzi has decided to play the 'euro-criticism card', which is increasingly popular in Italy.

The Italian demands for budget flexibility may be justified if the slowdown of the Italian economy is taken into account. Renzi believes that Brussels and Berlin have no alternative but to work with him, as his domestic opponents appear to be far less amenable interlocutors. Hence, he has an incentive to make a stronger case for his demands at the EU level. However, if the Commission takes a hard stance, their verbal clash may soon escalate into a major crisis.