

Europe

Italy backs down in its budget standoff with the E.U.

By [Chico Harlan](#)

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ROME — The populist Italian government's first experiment in challenging Europe appeared to near its conclusion Tuesday with reports of the most conventional of outcomes: an agreement with Brussels bureaucrats.

Just weeks ago, Italy's leaders were saying they would not compromise in their battle with the European Union over the country's budget-stretching spending plans.

One coalition party leader, Luigi Di Maio, said the government would "not backtrack by a millimeter." The other party leader, Matteo Salvini, said Italy wouldn't "be a servant" to European rules. Prime Minister Giuseppe Conte was just as direct. "There isn't any Plan B," he said in [one interview](#).

But in recent days, Italian officials backed away from that defiant stance, illustrating the limits of a populist government's ability to quickly upend the norms of Europe.

On Tuesday, Italian news outlets reported that Brussels and Rome had reached an informal agreement on Italy's budget that would be announced the following day. One official in Brussels said the deal, which would ease months of tensions, still needed to be discussed at a Wednesday meeting of European commissioners.

Salvini on Tuesday night referenced the deal in a statement issued by his spokeswoman, saying he had "great satisfaction for the result." He said the budget will turn "into real money to help out millions of Italians."

For Italy, retreat has come in the form of a reduction to its target budget deficit for next year — from 2.4 to 2.04 percent of gross domestic product. There's also been a rhetorical shift. Italian leaders may still take a few digs at the European establishment, but they have said compromise with Brussels is worth seeking.

European fiscal rules require that highly indebted countries such as Italy work to reduce their debt burden. Although Europe cannot veto a country's budget, it can apply sanctions — a step the European Commission had threatened to take with Italy.

Political analysts say Italy backed away from overt confrontation both as a way to avoid unprecedented financial punishment and because markets were unnerved by the clash — a development that had sown anxiety among some Italian voters.

Amid the standoff, yields on Italian bonds hit the highest level in more than four years. Borrowing costs for home buyers and business owners jumped. Economists spoke about the prospect of an Italian economic crisis and said the country is already on the verge of recession.

In a particularly noteworthy critique, Vincenzo Boccia, the head of the country's powerful industrial association, said 100 percent of the members he had spoken to were against the fiscal plan. That association has its deepest roots in the north, where the far-right League — one of the Italian coalition partners — receives its strongest support.

According to SWG, an Italian polling firm, 54 percent of Italians in mid-October were in favor of the budget plans. By mid-December, that percentage had fallen to 47.

"The Italian government [initially] felt that they had more leeway than there turned out to be," said Franco Pavoncello, the president of John Cabot University in Rome. "People started looking at Brexit. People started considering the [interest rates]. It's people sympathetic to these parties who started to have cold feet. One thing is to talk about it. Another thing is to go down in history as the guy who broke the donkey's back."

Since taking power more than six months ago, Italy's government has also butted heads with Europe on migration. But its spending plans created the most significant fault line.

Italy's governing coalition brought together two parties, the League and the anti-establishment Five Star Movement, each with their own budget-straining plans. The League wanted to cut taxes. Five Star wanted to [increase social spending](#) for its base in the impoverished south. Those policies, plus a planned overhaul of the pension system, all but ensured a collision with Europe.

When Italy submitted its initial budget proposal in October, some analysts anticipated that European bureaucrats might accept the plan, for fear of stoking populism in other countries. But the opposite happened. The European Commission said Italy's proposal posed "unacceptable risks" and sent it back to Rome for revisions.

As Europe issued its response, a major Italian newspaper reported that Greek Prime Minister Alexis Tsipras had advised confidants in Italy to back down: "You'd better do today what

[Europe] will have you do anyway tomorrow.” In 2015, Tsipras came to power pledging to end Greece’s “national humiliation” by rewriting the terms of its bailout, ending the age of austerity and winning concessions from Europe. But Europe did not budge.

Closer to home, former Italian prime minister Matteo Renzi noted on Facebook this week that Italy’s populists had “backtracked” after swearing “eternal war on Europe.”

In lengthy discussions, Di Maio, Salvini and Conte have worked to shave several billion dollars from their spending, pulling away money from their favored policies. For now, the League and the Five Star Movement — though often sparring over the day-to-day running of the country — remain Italy’s most dominant parties. The Democratic Party, to which Renzi belongs, and Silvio Berlusconi’s Forza Italia languish far behind in the polls.

But even among those running the country, there are still prominent conventional figures, including Finance Minister Giovanni Tria. Conte has also emerged as a cautious voice — more conciliatory toward Brussels than the two party leaders, Salvini and Di Maio, who picked him for the job.

“We’ve climbed down from 2.4 to 2.04,” Conte said last week in Brussels. “We’re a government that respects commitments, but also a reasonable one.”

Stefano Pitrelli contributed to this report.

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