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# Berlusconi fights to the end as debt costs soar

By Guy Dinmore in Rome

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The unchallenged leader of Italy's centre-right for nearly 18 years despite court cases and sex scandals, Silvio Berlusconi is fighting a personal vendetta to the end, accusing former allies of "betrayal" and telling them he wants "to look them in the face" should they dare to bring his government down.

In rejecting calls for his resignation, the Italian prime minister may succeed in buying limited time for his weakened coalition – but at the expense of continued paralysis in parliament that has already sent the cost of financing the country's public debt to levels unsustainable in the long term.



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Even supporters of Italy's prime minister say the moment has come for him to decide whether his People of Liberty party will support a government of national emergency led by technocrats from outside parliament, or carry out his threat to force Italy into snap elections.

Investors and the main opposition parties alike are pressing Mr Berlusconi to make the statesman's choice and give way to Mario Monti, economist and former European commissioner, fearing that the second option would see a disastrous spiralling of bond yields. Mr Monti is already preparing a government-in-waiting made up of external technocrats such as himself but possibly including some serving officials, such as Franco Frattini, foreign minister and a Berlusconi loyalist.

"Politics and markets are on a roller coaster. The world looks at us and asks us how long Berlusconi can last. How much more can we harm ourselves?" commented Mario Calabresi, editor of La Stampa.

Even if Mr Berlusconi refuses to the end to back an emergency government, he risks destroying his party. Opposition politicians believe it is still possible that some 60 of his MPs are ready to desert him – just about enough for Mr Monti to form a broad-based coalition with a mandate to carry out unpopular reforms that Mr Berlusconi has long promised but failed to deliver.

A compromise where Mr Berlusconi would hand over the reins of government to a party loyalist – perhaps Gianni Letta, cabinet undersecretary – appears too late and too little to satisfy the opposition. Giulio Tremonti, finance minister long at odds with

Mr Berlusconi over economic policy, is backing this option, but commentators believe his days are numbered too.

Wild gyrations on the Milan bourse show that Italian investors at least are betting on Mr Berlusconi's departure, whether it comes in the next days or weeks. Analysts view that most Italian financial stocks and blue chips have been oversold on a poor image of Italy's credibility with fundamentals that are relatively sound.

But the persistent widening of Italy's 10-year bond yields over German bunds, peaking at a euro-era high of 491 basis points on Monday, reflect the real problem of Italy's high debt – at 120 per cent of GDP, second in Europe only to Greece.

A well placed source said Mario Draghi, the new president of the European Central Bank, had indirectly also played his part in piling the pressure on Mr Berlusconi to act fast. The ECB was said to have undertaken only limited buying of Italian bonds on Monday.

One opinion poll shows 54 per cent of Italians in favour of a technical government, and support for Mr Monti is growing. *Famiglia Cristiana*, the influential Catholic weekly, described the 68-year-old economist as an “experienced captain able to take us out of the perils of financial turbulence and launch essential reforms . . . in agreement with the ECB and EU.”

Although Mr Monti is backed by most opposition parties – which want to avoid early elections – however, there is also a sense among the business community that he is not cut out for the rough and tumble of parliamentary politics, and that foreign institutions are simply latching onto him out of desperation.

While Italy's rudderless government projects chaos and paralysis, its citizens are taking matters into their own hands, whether it is volunteers baling out homes in the flood-stricken north or a private businessman campaigning for Italians to buy the nation's debt.

With the river Po and government bond yields approaching dangerous heights, however, their efforts to save the country appear heroic – but also against the odds.

*Additional reporting by Rachel Sanderson in Milan and Giulia Segreti in Rome*

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