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Rome abandons 2013 goal for balanced budget

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By Guy Dinmore and Giulia Segreti in Rome

Mario Monti has delayed by one year Italy's goal of balancing its budget rather than risk deepening the economic recession by imposing further drastic austerity measures.

Financial analysts broadly accepted what they saw as an inevitable policy shift by Rome's technocrat government, a view reflected on markets where Italy's bond yields rose only slightly in response to the news delivered after a cabinet meeting on Wednesday.

There was also scepticism, however, that Italy would meet its new target of balancing the budget in 2014 after a projected deficit of 0.5 per cent in 2013, with analysts doubting the government would meet its revised forecast of a 1.2 per cent fall in GDP this year followed by growth of 0.5 per cent in 2013.

"We are fighting every day to avoid the dramatic destiny of Greece," Mr Monti told a news conference after the cabinet approved the government's revised budget plans.

Noting that the crisis was "exacting a huge price" on Italians, the prime minister said "everything, everything we are doing is going in the direction of growth".

Mr Monti's credibility on the markets would help protect Italian bonds from Spain's sell-off seen over the past month, investors said. But there is concern that Mr Monti, a former economics professor and EU competition commissioner, was losing control over events, while worries are building over what kind of government will follow when his mandate expires with general elections early next year.

Riccardo Barbieri, analyst for Mizuho International, commented: "All in all, the fact that budget targets are now a touch more realistic should be viewed in a positive light given the risk of a recessionary spiral caused by continuing fiscal tightening and a deepening recession."

Optimism about Italy's potential to emerge from crisis had been "dented" by the dilution of Mr Monti's economic reforms in parliament, Mr Barbieri added.

One senior official said Mr Monti's decision to let the budget target slip also reflects the political reality that he might fail to win parliamentary approval for further substantial austerity measures following €30bn of tax increases and spending cuts passed in December.

Mr Monti warned Italy's political leaders – their parties mired in corruption scandals – that they were also under the spotlight of the markets. He urged them to give speedy approval to pending economic legislation and move ahead with reforms to the electoral system and party financing, as well as plans to cut the size of parliament.

Silvio Berlusconi, leader of the centre-right People of Liberty, is to hold talks with Mr Monti on Thursday. The two men have met only occasionally since Mr Berlusconi's coalition government collapsed last November.

Mr Monti's cabinet stressed that the new budget target of a 0.5 per cent deficit in 2013 was in line with the European Union's fiscal compact, which allows for deficits to be adjusted for the business cycle.

Italy's €1.9tn public debt – the second highest in the eurozone after Greece relative to GDP – is forecast to rise this year to 123.4 per cent from 120.1 per cent in 2011.