

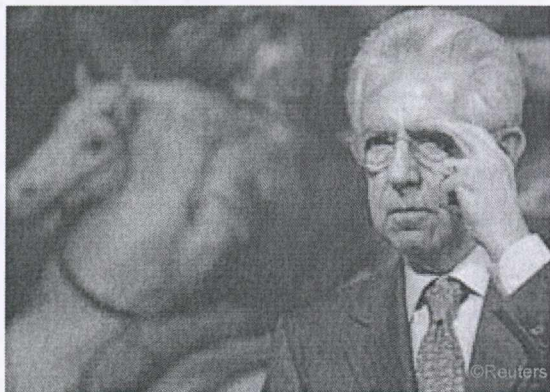
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Monti lashes out at Germany ahead of summit

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By Guy Dinmore and Giulia Segreti in Rome and Peter Spiegel in Brussels



Mario Monti has set the stage for a tough fight with Germany at the EU summit this week, insisting that he will continue to push Italy's proposal to use eurozone bailout funds in an attempt to stabilise financial markets.

Italy's technocratic prime minister's frustration with Germany surfaced in a combative speech to parliament, saying he would not go to Brussels to "rubber-stamp" pre-written documents and was ready to extend the two

-day summit until Sunday night if needed to reach agreements before markets reopen on Monday.

Aides said Mr Monti was not referring to a highly-anticipated report published on Tuesday by Herman Van Rompuy, president of the European Council, outlining a path towards banking and fiscal union within the eurozone.

The report proposed an EU-wide bank supervisor with powers to intervene in all European banks coupled with a deposit guarantee and bailout fund that could eventually be backstopped by the eurozone rescue fund, the €500bn European Stability Mechanism.

Mr Van Rompuy's report also advocated tighter budget rules, including agreeing annually the "upper limits" of national budgets and government debt levels, forcing eurozone governments to get prior approval before breaching such limits.

But the report also dropped some of the more ambitious proposals contained in earlier drafts, including giving the EU power to rewrite national budgets of countries that have violated debt and deficit rules.

Despite Mr Van Rompuy's efforts, focus ahead of the summit has turned towards Mr Monti's efforts to get quicker action agreed by his EU counterparts, particularly in Berlin. Speculation over the fate of his government has become so feverish in Rome that officials were forced to deny that the prime minister had threatened to resign if he were to leave Brussels without success.

Singling out Jens Weidmann by name, Mr Monti said the Bundesbank president had “badly misunderstood” his proposal to deploy eurozone rescue funds to bring down the borrowing costs of countries such as Italy and Spain that had honoured obligations to implement reforms and bring down their budget deficits.

Italy on Tuesday was forced to borrow at 4.71 per cent for two-year bills, its highest level since December, and will face a testing auction on Thursday of up to €5.5bn in five and 10-year bonds.

Italian officials said they were extremely concerned how markets might react Monday if the Brussels talks fail to break new ground. The summit was heading towards “complete uncertainty”, Mr Monti said.

An official close to the government said Mr Monti was sending two messages to Germany ahead of the summit – that he had foreign allies behind him, but that he was also acting under domestic constraints and that the EU risked the uncertain consequences of the impact on his government if markets continued to bet against Italy.

A failure to return from Brussels with tangible results could put the future of Mr Monti’s government at risk. Some analysts saw the defiant speech as a direct riposte to the pressure mounting from the centre-right party of former prime minister Silvio Berlusconi.

Mr Berlusconi’s People of Liberty – the largest party in parliament – says it will give final approval on Wednesday to the government’s labour reforms to strengthen Mr Monti’s hand in Brussels, while making clear its dissatisfaction with the bill and the government’s austerity-based policies.

Hardliners in the party want to bring the government down and force early elections in October and Mr Berlusconi is clearly struggling to maintain his authority. He was quoted as telling party leaders on Tuesday that the fall of the Monti government would be seen in Brussels as “catastrophic” while declaring that the party had lost 75 per cent of their voters by backing the prime minister.

Mr Monti is said by aides to be furious with Mr Berlusconi’s recent anti-European tack which is seen as undermining Italy ahead of the summit. Mr Berlusconi reportedly repeated on Tuesday that it would not be a bad thing if Germany exited from the euro.

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