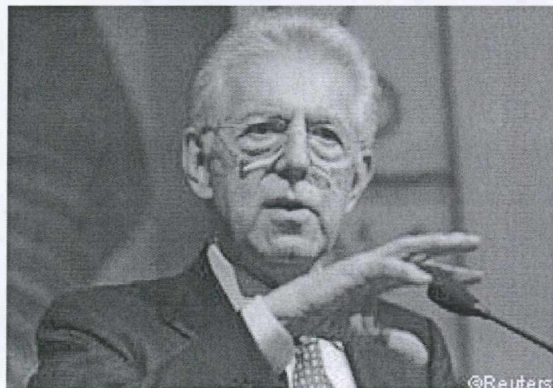


FINANCIAL TIMES

June 20, 2012 6:09 pm

Monti in fight for survival – of Italy and euro

By Guy Dinmore in Rome



Mario Monti, Italy's prime minister

Hastily elevated from professor to prime minister to save Italy from financial ruin, Mario Monti enters his most crucial week in politics, his options dwindling with the future of the euro hanging in the balance.

If he were to come away empty-handed from a European summit starting next Thursday then Mr Monti's unelected technocrat government could also expect to find itself under intensifying pressure to resign and to make way for early elections, a prospect

that is already alarming markets.

A year ago, as the eurozone sovereign debt crisis lapped at Rome's door, Edward Altman, finance professor at New York University, gave Italy – and the euro – a 70 per cent chance of survival.

“Now it is no more than 50-50,” he told the 2012 International Risk Management Conference in Rome. “Italy is the fulcrum country. Italy is under the scrutiny of the markets. Italy is too large to save,” he added, warning that “every major institution” is analysing the consequences of the death of the single currency.

On Friday in Rome, a summit of heads of government of Italy, France, Germany and Spain – the four largest eurozone economies – will use pressure on Chancellor Angela Merkel to agree to a package of growth-promoting measures and a “firewall” to backstop the debts of Spain and Italy in advance of next week's EU summit in Brussels.

Mr Monti's latest proposal, raised at the G20 summit in Mexico, is to use the eurozone's bailout funds to buy the debt of countries like Spain and Italy on the market.

Germany's reaction ranges from cool to dismissive. Officials in Berlin say Mr Monti's proposal lacked traction and that Rome's summit would focus on the growth package – for which France's François Hollande will claim authorship – and a longer-term plan to reach a European banking union.

Rome's argument for bond-buying is that this would not amount to a bailout with strings attached as Italy has been "virtuous" by putting the budget deficit on target to fall below 3 per cent this year while pushing through structural reforms, notably in regard to pensions.

With the costs of its €1.95 trillion public debt rising and the economy sinking further into austerity-induced recession, Italy faces a daunting task to roll over its bills and longer-term bonds. Riccardo Barbieri, economist at Mizuho International, estimates the total at €211bn from July 1 to end-2012.

The government hopes to raise €10bn this year by means of asset sales and to save a further €5bn euros by spending cuts, but that might not be enough to offset the need to raise taxes further if the 1.7 per cent budget deficit target is to be achieved.

"Monti is at fault in not pushing enough for growth," said Oliviero Roggi, University of Florence corporate finance professor. "We are entering the Greek circle of recession, leading to default of companies to the default of the government and then to bailout."

Recession is clearly biting. Unemployment has risen to more than 10 per cent, and bankruptcies mount as companies struggle to get credit from banks. The overwhelming popular support for Mr Monti when he came to office in November on the back of Silvio Berlusconi's paralysed government has fallen sharply.

Even in Brussels, where Mr Monti served 10 years as commissioner, patience is said to be wearing thin. One senior EU official warned that he was developing a reputation for telling his interlocutors what they wanted to hear – but not delivering back home. "He's developed the mythology around him – but the Italian reform agenda has stalled," he said.

That is most visible in the government's labour reform bill, already diluted but held up in parliament where the two main parties giving Mr Monti his majority demand a higher price for their continued support.

Mr Monti has called on parliament to give its final approval before he heads for Brussels.

Franco Frattini, former foreign minister and a moderate in Mr Berlusconi's centre-right party, says approval on time is "within reach", arguing that the parties had "a moral and political responsibility" to continue to back Mr Monti.

Early elections would be a "disaster", Mr Frattini said. "Those talking of a break-up of the alliance (in parliament) and going to elections don't realise the gravity of the consequences."

Additional reporting by Quentin Peel in Berlin and Peter Spiegel in Brussels

You may be interested in

Bondholders fear losses in Spain bailout