

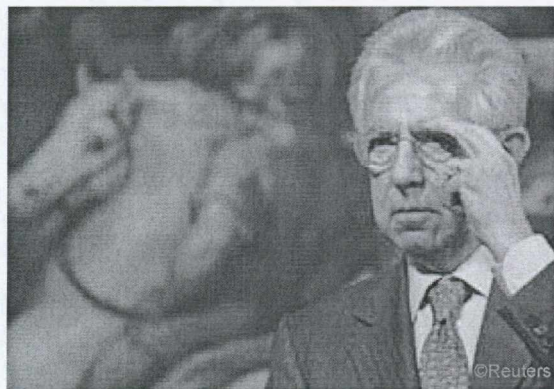
# FINANCIAL TIMES

Last updated: June 29, 2012 1:26 am

## Italy's demands hold up growth package

By Joshua Chaffin, Peter Spiegel and Hugh Carnegy in Brussels

145



Italy has blocked a €120bn package of measures to enhance economic growth and create jobs that was to be the one concrete achievement of the EU summit, refusing to give the green light until Germany supports short-term measures to provide relief from the debt crisis.

The Italians, with backing from the Spanish, threw into confusion a pivotal meeting in which EU leaders were hoping to present a united vision about the future of the eurozone and plot a way out of the crisis.

The meeting instead laid bare the depth of division between the northern member states, which are pushing for long-term reforms of budget policies, and the southern periphery, whose members are desperate for immediate relief from dangerously high borrowing costs brought on by the crisis.

“The idea is not to veto or block – it’s to push the discussion in a different direction,” an Italian diplomat said.

But a eurozone diplomat said the Italian tactics had soured the summit before Friday’s session when proposals for short-term measures were to be discussed. “The atmosphere is horrid,” said the diplomat.

This resulted in an awkward press conference in which Herman Van Rompuy, the European Council president, struggled to clarify the fate of the growth measures, which include a €10bn capital increase for the European Investment Bank and a redeployment of EU development funds.

Both Italy and Spain had agreed the growth measures with France and Germany at a meeting last week and continued to support them but refused to sign off on them as a bargaining tactic.

“They simply held the whole thing hostage,” one eurozone diplomat said. “They won’t accept the growth pact until they get their short-term measures.”

They want the eurozone rescue funds and the European Central Bank to intervene more aggressively on financial markets to buy Spanish and Italian bonds to ease the very high yields the two countries have been forced to pay on their sovereign debt.

But Angela Merkel, the German chancellor, told the meeting such an approach threatened to derail the whole summit. "It became really tense," said one senior EU official. "Everyone thinks it is extremely unlikely they will find a deal on short-term measures."

The growth pact, despite being widely derided by diplomats and EU officials in Brussels as "recycled money" and "old wine in a new bottle", was a key demand of François Hollande, the French president, who made it a central plank of his election campaign earlier this year.

But Mr Hollande, who had a bilateral meeting with Mr Monti shortly before the summit began, has also demanded short-term measures to stabilise the eurozone. In recent weeks, the Elysée palace has signalled that it attaches as much weight to this as to the growth pact.

Mr Hollande said as he arrived that if the summit provided "more growth, a medium-term vision and immediate measures for countries which have made their efforts, we will have done good work."

A crucial issue for Mr Hollande is to be able to return to Paris with a strong enough deal on growth and financial stability measures to justify ratifying the EU's fiscal discipline treaty agreed in March, which enshrines tougher budget rules across the continent.

Mr Hollande is under close scrutiny within his Socialist party, unhappy over German-led austerity policies, to live up to his election promises to renegotiate the treaty.

Pushing the fiscal accord through the national assembly could be awkward if he cannot make a convincing case that he won significant concessions in Brussels.

Officials in Paris were coy on the issue before the summit, insisting that the growth pact would amount to an important balancing of the fiscal accord, which would "change the context". But they said it would be up to Mr Hollande to decide whether enough had been done to give the green light.

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