Italian austerity

The Italian government is today expected to approve an austerity drive worth up to €47bn ($68bn) in savings by 2014, in a move aimed at reassuring the markets and its European partners on its fiscal discipline. Giulio Tremonti, finance minister, (above) is confident that the coalition government will push through his austerity budget. "It is the end of an era of deficit spending," he said. "Deficit spending is in the archives."

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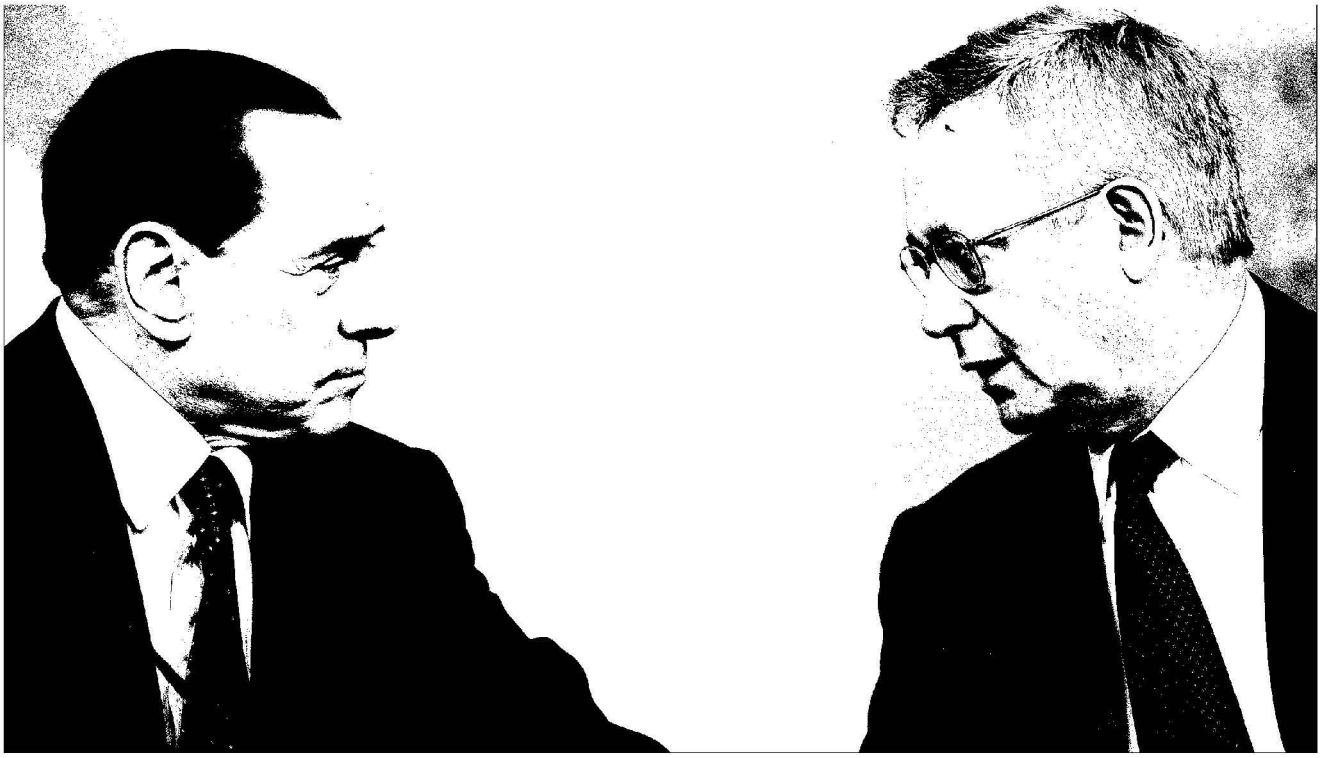
Italy to rule on €47bn savings drive



Cuts plan: Il Giornale newspaper has claimed the austerity budget of Giulio Tremonti (right) has been watered down by Silvio Berlusconi AFP/Getty

€1.8bn

Value of extra cuts envisaged this year

120%

Forecast of debt to GDP ratio this year

Cuts are aimed at reassuring markets

Tremonti confident of budget backing

By Guy Dinmore in Rome

Rome is today expected to approve an austerity drive worth up to €47bn ($68bn) in savings by 2014, in a move aimed at reassuring the markets and its European partners on its fiscal discipline.

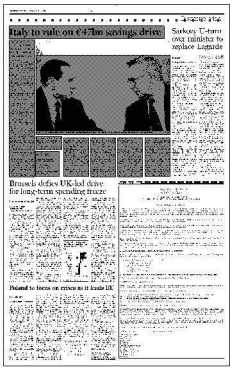
Giulio Tremonti, finance minister, is confident that the coalition government will push through his austerity budget on Thursday, with no changes to what he has requested.

"It is the end of an era of deficit spending," Mr Tremonti told the Financial Times, referring to all of Europe. "Deficit spending is in the archives."

Implicitly rejecting newspaper reports, including those in Il Giornale, which is owned by the family of Silvio Berlusconi, the prime minister, that his 2011-14 austerity budget had been watered down by the government, Mr Tremonti said the plan was "absolutely the same as designed by the Treasury".

The plan envisages extra cuts in 2011 of €1.8bn, €5.5bn next year and €20bn in each of 2013 and 2014.

With Italy's debt to gross domestic product ratio



L'Italia è pronta ad approvare una manovra di austerità da 47 miliardi di euro (pds)

projected to reach 120 per cent this year – the second largest in the eurozone after Greece – Mr Tremonti has little room to manoeuvre.

However, he insists that Italy "is absolutely on line" to reduce the government budget deficit to 3.9 per cent this year and 2.7 per cent in 2012. The goal is to come close to balance by 2014, when debt is projected to fall to 112 per cent of GDP.

The austerity package is to be passed by the cabinet by decree on Thursday and then go to parliament for confirmation before the summer recess.

Il Giornale on Wednesday presented the outcome as a "victory" for Mr Berlusconi in winning a "budget-lite", against the wishes of the excessively rigorous Mr Tremonti. The finance minister said he did not want to comment on Mr Berlusconi but denied such reports.

In the run-up to a ministerial meeting on Tuesday to consider the budget, newspapers reported that Mr Tremonti had threatened to resign if it were not passed.

Insiders told the FT, however, that in fact members of the government had put pressure on Mr Tremonti to resign in order to sabotage what they saw as an election losing package but he refused to quit.

Commentators and politicians also argued that Mr Tremonti's focus on cuts in 2013 and 2014 was part of a political ploy to smooth the way for early elections next spring before they had an effect on the electorate.

Mr Tremonti again denied this. "There were no political machinations," he said. Planned cuts in the UK were similarly weighted to later years, he noted, adding that the measures had the European Commission's seal of approval.

Cuts and savings will come from an extension into 2014 of a wage and hiring freeze in the public sector, a raising of the pension age, reductions in central and local government spending and a crackdown on tax evasion and false pension claims, which alone amount to €16bn a year.

Mr Tremonti called the level of tax evasion "absolutely incredible", at an estimated €150bn a year.

He expressed confidence that Italy would not witness the social unrest that has rocked Greece. "The Italian people understand," he said. "Their demand is to be serious and rigorous. People are strongly in favour of this discipline."

Mr Tremonti also hailed as "historic" an agreement reached on Tuesday between the three main trade union federations and Confindustria, the employer's association, for a reform of the collective wage bargaining system that will lead to more productivity through negotiations at the local level.