

Rome's €80bn package attacked as old initiatives in new form

By Guy Dinmore in Rome and Vincent Boland in Milan

An outline €80bn fiscal stimulus package announced by the Italian government at the weekend was attacked yesterday by economists and investors as a repackaging of old initiatives.

Declarations made by Silvio Berlusconi, prime minister, and Giulio Tremonti, finance minister, after the Group of 20 summit in Washington seemed to add substance to the meeting and captured domestic headlines.

But, as few new details emerged of the spending plans, independent economists agreed with opposition politicians who accused the centre-right government of presenting old proposals in a new form just days after Italy officially entered recession.

"They are moving cardboard tanks for the parade," commented Pierluigi Bersani, economic spokesman for the opposition Democratic party. "These funds have already been allocated. Actually they are less than what there was."

Of the €80bn (\$102bn, £68bn), half was allocated by the European Union over

three years for spending on the environment, research and development. Separately, some €16bn is to be redirected to infrastructure spending, with €2bn coming from the EU and €4bn from project financing. Special projects include a bridge to Sicily.

Renato Brunetta minister for public administration, said: "Funds destined for thousands of small interventions will be compacted and destined to a few major interventions."

A separate category of €14bn was reported to be allocated for support of

banks, low-income families and some cuts in taxes.

Fabio Pammolli, director of the Cerm research institute, said it was mostly old money repackaged but the new direction of spending on infrastructure could be useful. Mr Pammolli said he did not see any stimulus for consumer spending in the critical Christmas period. What Italy required, he said, were structural reforms to lighten the pension burden and improve the welfare system.

Given the lack of detail, analysts were unsure of the total sum that the govern-

ment intended to make available to recapitalise banks. After weeks of pouring cold water on the idea, banks have come around to the view that they need extra capital and the most reliable source is the government.

Intesa Sanpaolo and Monte dei Paschi di Siena, Italy's second and third biggest banks, said last week they would consider accepting a state offer of capital. Others are certain to join them.

Analysts say Italian banks look undercapitalised compared with European peers, in spite of their relative lack of exposure to "toxic" assets.

Analysts at JPMorgan estimated in October that Italian banks would still need an additional €18bn in new capital after their own individual efforts to boost core capital ratios. Bankers in Milan said this month that they expected the total state aid package to be up to €30bn. That applied across Italy's financial sector and included possible emergency funding, which no Italian bank has sought. An initial package would probably invite Italy's top banks to tap a €15bn-€20bn "fund".

