FINANCIAL TIMES

Data 01-10-2007
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Foglio 1

Skilful Prodi secures cabinet deal on budget

By Guy Dinmore in Rome

Romano Prodi, Italy's prime minister, has once again demonstrated his skill in holding his fractious centre-left government together by securing the cabinet's agreement on the 2008 budget through a combination of major tax cuts for businesses, cash handouts and lower property taxes.

But the budget, to be presented to parliament today, is still likely to face a rough passage, notably in the Senate where the nine-party coalition has just a one-seat majority.

The contentious issue of pension reform, which is part of the budget, has been put off until a cabinet meeting on October 12.

After an 11-hour meeting that ended with the compromise budget agreement early on Saturday, Mr Prodi looked relaxed and relieved. He told foreign reporters that Italy's public finances were returning to a "calm and normal" situation after the emergency last year when he took over from the centre-right government of Silvio Berlusconi.

Mr Prodi said his government would continue to keep its promises to reduce Italy's huge public debt, cut the budget deficit, stabilise government spending, ease tax pressures, help the weakest and invest in infrastructure.

Opinion polls show the government to be deeply unpopular, partly due to the high tax burden but also because the coalition is seen as ineffective with its constant internal disputes. It remains to be seen whether the proposed tax cuts will alleviate that pressure.

"It will be a highly critical moment," Professor Tito Boeri of Milan's Bocconi University said of the budget's passage. "At the end, a way to pass the budget is found and then you find a way to go to elections in the spring. They may be able to muddle through."

The budget deficit is projected to remain below the European Union cap of 3 per cent of GDP, falling to 2.2 per cent in 2008 from an estimated 2.4 per cent in 2007. Government debt, which costs €70bn ($100bn, £49bn)a year in interest, is forecast to fall to 103.5 per cent of GDP next year from 105 per cent in 2007, by far the highest rate in Europe.

A crackdown on tax evasion, which costs Italy an estimated €100bn a year, plus some spending cuts, netted Tommaso Padoa-Schioppa, the finance minister, some €18bn to finance tax cuts and new spending on public sector wages and infrastructure for the remainder of 2007 and 2008.

Under the proposals, which could go through many changes, the poorest, earning less than €15,494, will receive a tax break or cash handout of €300 a year. Low income home owners will also face lower local property taxes. The main corporate tax, Iref, is to be cut. A regional business tax will also be cut. These are to be funded in part by cutting subsidies to business.

"This is the heaviest cut in corporate tax ever done in Italy," a government official said.

Francesco Giovazzi, an economist, said: "If you are an entrepreneur you cannot complain. On the left it is hard to complain also... Prodi is wonderful at this. He got everyone to agree."


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