

News Analysis: Nervous markets expected over crisis-hit Italy

ROME, July 31 (Xinhua) -- As Italian Prime Minister Mario Monti started on Tuesday a three-day European tour to reassure markets on Italy's stability, concerns remained high in the country struggling amid its stagnant economic and political landscape. Speaking to state radio Rai ahead of his visit to France, Finland and Spain, Monti said on Tuesday that "Italy and Europe were close to come through the eurozone crisis." But fears that the crisis would force Italy to seek a bailout drove the yield spread between Italy's 10-year bonds and the German benchmark up to 482 points, after borrowing costs went through a worrying non-stop increase over the past few weeks. Also on Tuesday, Monti's emergency cabinet of technocrats won a confidence vote in Senate on a controversial spending review, the last step in a series of austerity measures aimed at reducing government expense in a country whose public debt has hit 123.3 percent of gross domestic product (GDP). At the last bond auction on Monday before the summer break, Italy sold 5.48 billion euros (6.72 billion U.S. dollars) worth of treasury bonds -- almost all of its maximum target -- at a lower rate than the last equivalent sale. However, until now neither economic indicators nor political moves have helped the Mediterranean country regain the confidence of markets, which are expected to add pressure on its bonds during an upcoming "hot" August, according to local observers. A financial analyst at Milan-based Mazziero Research, Maurizio Mazziero, said it was very likely that volatility will increase in August. "During the holiday period, volumes will reduce, and decisions at the EU level will be also taken in a moment of less attention, which may drive prices in one or another direction," he told Xinhua. "Many uncertainties make financial markets nervous," he added, although European Central Bank (ECB) President Mario Draghi reassured last week that the ECB will do everything necessary to save the single currency. More shadow on the recession-hit economy was cast by new negative figures released on Tuesday by the national statistic institute Istat, which said unemployment rate has reached 10.8 percent, up 2.7 points on the year, the highest level since 2004. Industrial production also continued to perform negatively in July, down 0.4 percent from June, with average daily production decreasing by 8.0 percent in annual terms, according to a report of Italy's largest industrial association Confindustria. The figures were a further signal that there would be no recovery this year. But Italy's fundamentals -- solid banking system, large private saving and gold reserves -- will not be enough to save the country from a dramatic perspective unless a mentality change is carried out, local analysts warned. Italians would only deceive themselves by thinking that expense cuts and tax hikes will be sufficient to tackle the crisis, noted Francesco Giavazzi, a renowned economics professor at Milan Bocconi University. Giavazzi urged a mentality "revolution" for the country starting from guaranteeing equal rights, investing on meritocracy, reducing privileges and waste, and fighting huge tax evasion. As the 2013 political vote approaches, Italy's uncertain political landscape risks to be increasingly perceived by financial markets as an aggravating circumstance of the stagnant economy. Earlier on Tuesday, Monti said that going to elections at their scheduled time next spring

before agreeing on electoral reforms would be "the worst-case scenario." A persisting climate of "partisan bickering" would feed the obvious "skepticism of international markets on Italy's future," he said. The prospect of Italy's electoral system being changed has increased after main parties agreed it was necessary to modify the law that is believed to distance common citizens from politicians as voters can choose a single list of candidates but not elect their own representatives directly. However, until now no agreements have been reached, and parties have only "dragged on for weeks," said President Giorgio Napolitano in a statement on Monday. "A rapid convergence effort" was necessary to strengthen the country's credibility, he said.