

Italy's Berlusconi rules out early elections

Bernama

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Italy's Prime Minister Silvio Berlusconi attends a news conference at Chigi Palace in Rome August 5, 2011. REUTERS/Tony Gentile/FilesBy **Deepa Babington**

ROME, Aug 7 (Reuters) - Italian Prime Minister Silvio Berlusconi on Saturday ruled out calling early elections to stem market panic that has pounded Italian assets and forced his government to bring forward austerity measures.

Berlusconi's conservative government has been weakened by infighting, and the leftist opposition has called for a government of technocrats to restore credibility in the country's finances. Italy is due to go to the polls in 2013.

But Berlusconi dismissed any suggestion of emulating Spain, where Prime Minister Jose Luis Rodriguez Zapatero has called an early election to tackle the crisis.

"This has absolutely not been talked about," Berlusconi told reporters when asked about the option of bringing elections forward to 2012, in comments confirmed by a spokesman.

"This has never been an option."

Fears over the widening euro zone debt crisis sent Italian bond yields to 14-year highs and the Milan bourse to more than two-year lows this week.

The growing crisis has alarmed European policy makers concerned that a debt emergency in the euro zone's third largest economy could completely overwhelm bailout mechanisms set up to help smaller troubled countries like Greece or Ireland.

After vague pledges to step up economic reforms failed to convince markets earlier in the week, Berlusconi promised on Friday to bring forward austerity measures and balance the budget by 2013, a year ahead of schedule.

A 48 billion euro austerity plan passed in parliament last month was widely criticised for delaying most cuts until after elections scheduled in 2013 and doing nothing for growth.

The European Union's top economic official praised the plans outlined by Berlusconi and called for swift implementation.

"This will help to boost potential growth, secure budgetary retrenchment and bolster market confidence. Given the gravity of the situation, such a strategy should enjoy broad support across the political spectrum," European Economic and Monetary Affairs Commissioner Olli Rehn told Reuters in the first EU response to Berlusconi's announcement.

Asked whether Italy's moves would persuade the European Central Bank to buy Italian bonds, Rehn said he could not speak for the ECB, but added: "The Commission's view is that the fiscal strategy is striking the right balance. The essential thing is rigorous implementation."

SHORING UP CONFIDENCE

Initial reaction from analysts to Berlusconi's latest pledge was also positive. Accelerating reforms appeared to be a first step to shoring up battered confidence in the markets, even if there was plenty more still left for Italy to do, they said.

"This is the response we were hoping to see and there are no doubts that the government pledged to deliver what has been called for, to say the least," UniCredit economist Chiara Corsa said in a note.

"If this (is) enough to calm markets depends on whether the market believes it or not, but today's decisions by the Italian government are certainly a step in the right direction."

The leftist opposition -- whose position has strengthened in recent months as Berlusconi confronted squabbling partners, a stagnant economy and a high-profile trial on charges of paying for sex with a teenager -- was more sceptical.

"Italy has a political problem," said Pier Luigi Bersani, leader of the opposition Democratic Party, questioning whether poor Italians would bear the brunt of the austerity measures.

"And if this problem is not resolved, it will burn through any sacrifices Italians make."

The head of Italy's largest union, CGIL, openly attacked the austerity plan, underlining the challenges Berlusconi faces in getting broad agreement for structural reforms needed to kickstart growth.

"With this government, with this austerity budget, no social pact is possible," CGIL leader Susanna Camusso told L'Unita newspaper. "Bringing forward the austerity measures means killing the country."

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