
BRUSSELS LIES LOW AS ITALY CRISIS CONTINUES

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The European Union is trading cautiously as the political crisis in Italy fuels fear of a renewed threat to the long-term credibility of the eurozone.

Chaos reigns in Rome after talks to form a populist, extreme right government foundered when the Italian President Sergio Mattarella refused a staunch eurosceptic in the key position of finance minister.

The veto of 81-year-old Paolo Savona as finance minister was seen by populists as an insult from the European establishment and a bid to quash a repeat of the Greek crisis of 2015 when far leftists won power in Athens refusing EU-ordered austerity.

The anger of the Five Star and League coalition was piqued still further when Mattarella named Carlo Cottarelli, an IMF veteran, to form an interim government who would hold to the economic doctrines of Brussels.

Their hopes havent entirely faded. On Wednesday, Luigi Di Maio, head of the 5-Star Movement which emerged from inconclusive elections in March as the biggest party in parliament, appealed to the League to drop its insistence on Savona as economy minister, so that the two parties could resurrect their bid to govern together.

Lets find someone of the same calibre as Savona, who would still remain in the government in another ministry, Di Maio said on Facebook after meeting with Mattarella.

In the meantime, the failure to form an anti-EU cabinet in Italy brought only temporary relief to Brussels, especially after the blocs commissioner from Germany caused uproar with a blunt warning that Italians must heed the realities of the financial markets when voting.

Italians were shocked at the admonishment by EU Budget Commissioner Günther Oettinger, which also drew pushback from European leaders afraid to stoke the populist fires in Rome even further.

Oettinger: Markets will show the way to shun populists in Italy

Markets will persuade Italians not to vote for the two populist parties that have tried and failed to form a government this month, the anti-establishment 5-Star Movement (M5S) and the anti-migrant Eurosceptic League, the EUs budget Commissioner said in an interview with Deutsche Welle.

Respect it

The Italians voted, it may not have been my favourite choice, but I must respect it, Luxembourg Prime Minister Xavier Bettel told MEPs at European Parliament in Strasbourg, France.

To condemn them now * would be not understanding them and pushing them further into the corner when it is towards the centre that we must try to meet them, he said.

But for many, Oettinger said out loud what many believe behind closed doors.

Even misquoted, Oettinger represents what many in the eurozone think, and this is extremely uncalled for given the complicated situation in Italy, said Marco Giuli, policy analyst at the European Policy Centre in Brussels.

If we had to consider Oettingers logic then we have to consider that the euro is reversible and this is what the markets will react to, he added.

Italy is an extreme worry for the markets as for Europe as a whole: the eurozones third biggest economy, the country is widely seen as too big to fail or save, with a mountain of debt of about two trillion euros, the biggest in Europe.

A crisis could be horrific, warned the Bruegel think-tank, which is closely linked to the EU establishment in Brussels.

First, with Italy already over-stretched, none of the powerful stabilisation instruments that the euro area has developed over the years could be deployed to rescue Italy, the institute warned.

Second, there is Italys interconnectedness and size.

While the euro might survive Italy leaving, an exit would nonetheless put Italy, the euro area economy, and the European Union in deep distress, it said.

South Tyrol looks anxiously towards Rome

The governor of South Tyrol, Italys northernmost region, speaks of the biggest crisis in Italy, worries about his provinces role in the EU and warns of political experiments. EURACTIV Germany reports from Vienna.

Real question mark

The biggest danger is seeing a return of the debt crisis, when the markets began to question the very survival of the single currency, heaping almost unbearable pressure on the finances of Greece, Italy, Portugal and Spain.

The survival of the eurozone and the single currency has now become synonymous with the survival of the European Union itself, said Britains former deputy prime minister Nick Clegg.

The Italian situation could □ and I emphasise could □ evolve into something that amounts to a real question mark over the long-term sustainability of the eurozone, he told AFP.

The leader of the 17 elected representatives of the M5S in the European Parliament, Laura Agea, on Wednesday sought to calm concerns.

We do not want to destroy either the European Union, the Euro, or the markets, she said.

Is Europes future at risk? Yes, and is not our fault, but because of this failed (edifice) that you have built, the MEP said.

Left aside for now were the insults against austerity-pushing Germany or the EU, a line of argument that helped torpedo Savonas chances to be minister.

According to analyst Giuli, those raising the EU issue the most are the party of Matteo Renzi, the left-of-centre former prime minister who is trying to scare voters away from the Five Star movement.

This is very risky and as it depends on the outcome of a vote whose result scares the markets more than the risk of Five-star government, he said.

Kaynak/Source: