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Rome's fiscal stimulus comes under fire

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The outlines of an €80bn fiscal stimulus package announced by Rome left economists and investors unimpressed on Monday.

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 spending plans, independent economists agreed with opposition politicians who accused the centre-right government of repackaging old money just days after Italy officially entered recession. "They are moving cardboard tanks for the parade," said 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 €12bn 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.

Fabnio 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.

Marco Valli, economist at Unicredit, a bank, said he had not revised his economic forecasts pending the release of more details. He said the figure of €80bn should be taken with caution and, given Italy's high debt levels, could not be afforded.

Given the lack of detail, analysts were unsure of the total sum the government intended to make available to recapitalise banks. After pouring cold water on the idea, banks have come round 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 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.

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