ITALY FROM RECESSION TO RECOVERY: A CRITICAL REFLECTION OF ITALY DURING THE EUROZONE FINANCIAL CRISIS

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Declaration

I hereby declare that this dissertation is my own original work.

(signature)

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12 November 2015, Rome, Italy

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Dedication

I dedicate my dissertation to my late beloved father who passed away on 18 March 2015 and who was always proud of the work that I do.

Unfortunately, he will no longer have another opportunity to witness my achievement as he did in 2005 with a similar academic achievement.

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Abstract

The global financial crisis of 2008 left many economies in different parts of the world devastated. Many countries later recovered but some like Italy which had historical embedded fiscal challenges and sluggish growth, struggled to restore their financial stability.

Since then, successive Italian governments responded by developing and implementing myriad instruments aimed at tackling the crisis. These attempts were proven in the past to have failed to improve the dire economic situation which had a potential to spread to other surrounding economies.

This paper will explore Italy's recovery from financial crisis by, amongst others, focusing on the instruments applied to supplement austerity measures, looking at the impact of the austerity measures and attempting to reveal how Italy applied its diplomatic acumen to deal with the crisis to avert further reputational damage to its regional and international standing.

In this regard, the purpose of this paper is to attempt to provide a critical analysis and bring to the fore a different perspective on how Italy dealt with the crisis.

Acronyms

Ce.S.I	Centro Studi Internazionale
CGIL	Confederazione Generale Italiano del Lavoro
DEF	Documento di Economia e Finanza
ECB	European Central Bank
EFSF	European Financial Stability Facility
ENI	Ente Nazionale Idrocarburi
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
IPU	Integrated Police Unit
ISAF	International Security Assistance Force
ISIAMED	Istituto Italiano per Asia Mediterraneo
ISPI	Istituto per gli Studi di Politica Internazionale
ISTAT	National Institute for Statistics
M5S	Movimento 5 Stelle (Five Star Movement)
OECD	Organisation for Economic Co-operation and Development
PD	Partito Democratico (Democratic Party)
PdL	Il Popolo della Liberta (People of Freedom)

RAI	**Radiotelevisione Italia**
SME	**Small and Medium Enterprise**
SNAM	**Italian Natural Gas Company (SNAM S.p.A.)**
UIL	**Unione Italiana de Lavoro**
UNINT	**University degli Studi Internazionali di Roma**
USA	**United State of America**
VAT	**Value Added Tax**
WWI	**World War I**

1. Introduction

The global financial crisis of 2008 left many economies in different parts of the world devastated. Many countries later recovered but some like Italy which had historical embedded fiscal challenges and sluggish growth, struggled to restore their financial stability.

Since then, successive Italian governments responded by developing and implementing myriad instruments aimed at tackling the crisis. These attempts were proven in the past to have failed to improve the dire economic situation which had a potential to spread to other surrounding economies.

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1.1. Research Topic

Italy from recession to recovery: A critical reflection of Italy during the Eurozone financial crisis.

1.2. Research Sub-questions

In attempting to explain the topic fully, the following sub-questions need to be asked:

- How did Italy find itself under the crippling financial crisis?
- What was the role of the EU and how did Italy respond diplomatically to EU's recommendations?

- How did Italy apply its diplomatic skills to deal with the crisis to avert further damage to its image?
- What was the impact of former President Napolitano in maintaining stability amid continuing financial challenges?
- Ranging from the government of Prime Ministers Monti to Renzi various measures were put in place to address the financial crisis. Which ones brought significant change?
- Focusing on the past five (5) years, what has been the impact of the financial crisis?

1. Research overview

The paper begins with chapter one (1), a brief history of the Italian crisis, aims of the study, research overview, research method and ends with the conceptual framework. This chapter will, amongst others, describe the rationale behind the approach followed and outline the interview process used as a data collection tool. Again, it will record the ethical considerations taken into account for this paper.

The above mentioned chapter is followed by the main chapters, two to five (2-5) with chapter two (2) capturing the role of the Italian Diplomacy and that of the European Union. Chapter three (3) covers the impact of former President Giorgio Napolitano, an important figure who played a significant role in bringing political stability during the financial crisis.

Chapters four (4) and five (5) will both address measures to deal with the financial crisis and the impact of the financial crisis, respectively. This will be followed by a conclusion drawing together all the elements of the paper and implications of the study. This paper will end with the bibliography and appendices.

CHAPTER 1

1.1. Brief History of Italy and Financial Crisis

In Italy, the financial decline has been there since the 19^{th} century. Tanzi (2012) asserts that due to the fact that Italy was born out of different states with highly diverse systems and traditions and even with different measures, weights and languages, in the first ten years of the life of this state, expenditure for administration reached 58% of total spending rising from 34.2% in 1862.

Furthermore, the unification was seen as a clear sign of conquest and occupation by some of the population of the Mezzogiorno (South of Italy). These different interpretations of unification had major implications in the public finances. Even at present, the North-South divide still continues to be reflected in all economic and social indicators of the country. The north with an advantage of strong economy with relative positive growth buttressed by proximity to developed countries such as Switzerland, Austria, Germany and France, views the south as responsible for Italy's prevailing financial crisis. For the fact that Rome, the seat of government is close to the south, the allegation of government corruption and financial mismanagement is blamed on the paradigm of the south.

To add to the above discontent by the north regarding the south, Venice, led by Professor Paolo Bernardini of the University of Insubria in Como has been campaigning for the independence of Veneto since 2007. In March 2014, Venice and surrounding towns voted in a referendum which was not recognised by Italy in favour of a breakaway from Italy. Parties like the anti-immigration Lega Nord has been calling for a cessation of the north or greater regional autonomy.

It is history now that the results of the unrecognised referendum showed that the majority (89% of Veneto Region) of those who participated were in favour of the independence of the Veneto, the region of Italy surrounding Venice. Even though it is difficult to generalise these sentiments, a sizable majority in the north do harbour similar feelings on the issue of the independence of the north from the south. However, these sentiments are mainly dominant in the north east compared to the North West where centrist and centre left parties are in the majority except in the region of Liguria.

Recently, in May 2015, a large round of elections were held in seven (7) of the twenty (20) Italian regions including four (4) of the ten (10) largest ones namely Campania, Tuscany, Marche, Umbria, Apulia, Liguria and Veneto following the end of term for serving incumbents.

The outcome of the elections saw the Democratic Party winning in the regions of Campania, Tuscany, Marche, Umbria, and Apulia. The surprise outcome was in Liguria traditionally a PD stronghold which was won by the party of former Prime Minister Silvo Berlusconi, Forza Italia. Amongst other reasons why the PD lost Liguria is that it fielded a dissident PD candidate who was at odds with the Prime Minister's centrist policies while critics of the Prime Minister apportion blame on what they called the Party's shift to the right. The region of Veneto (50%) was retained by the Lega Nord which has been held by the party since 2010.

Interestingly, Veneto remains in the hands of the anti-immigration centre-right party which is in the forefront of the call for greater autonomy of that region. At present, the same party is in power in Lombardy, a region which is an engine of the Italian economy.

Furthermore, it is estimated that between 1872-1912 Italy's public spending exceeded that of major European countries like France, Great Britain and Germany. It is also indicated that even after the WWI public spending in Italy significantly exceeded those of other European countries and double that of the USA. At present Italy accounts for 13% of Eurozone GDP and is considered the third (3) largest economy after France and Germany, and thirteenth

(13) largest in the world. On the same point, its public debt is considered the third (3) largest in the world.

Member States	GDP 2014 (trillions Euros)	Population in millions	GDP per capita (Euros) (nominal)	Eurozone Yes/No
Germany	3.29	80.8	40 513	Yes
United Kingdom	2.25	64.1	31 686	No
France	2.28	66.5	35 658	Yes
Italy	1.88	61.8	31 333	Yes

Source: Worldfactbook

It could be argued further that Italy despite its financial challenges remains amongst the countries rich in entrepreneurs. According to Global Insight (HIS) in 2009 it was considered the fifth (5) largest manufacturer in the world after the USA, China, Japan and Germany. This is supported by a massive presence of skills, innovation and enthusiasm. This is also supported by the “made in Italy” concept which is a brand rooted in Italian culture of excellence and quality.

Tanzi further argues that to understand why the initial public spending in Italy was so high especially in the categories of military spending, administration and the interests on payment of national debt it may be worthwhile to go back to the origin of the Kingdom of Italy. At its center, the administrative system adopted by the kingdom of Italy had all the defects of French bureaucracy but without any of its merits speed and decision. A few examples of such kingdoms include Piedmont and Sardinia.

At the height of the financial crisis in 2012, Italy was spending about 1.69% of the GDP on defence compared to France and Germany at 1.9% and 1.35% respectively. However, much less than the United Kingdom whose defence spending was at about 2.5%. of GDP. At present the Italian military is participating in various essential foreign missions such as the Multinational Battle Groups in Kosovo, counter piracy activities in Somalian waters, United Peace Force in Cyprus, Multinational Force Organisations for the maintenance of peace between Egypt and Israel, training of Integrated Police Unit (IPU) in the Democratic

Republic of Congo, Joint Enterprise in Bosnia Herzegovina, United Nations Interim Force in Lebanon, operations in support of Libya, and International Security Assistance Force (ISAF) and European Union Police Mission in Afghanistan and others.

All these international operations including the patrolling of the Mediterranean Sea have overstrained the military resources which resulted in, amongst others, a decision not to send boots on the ground in the operation to rid Iraq and Syria of the Islamic State insurgents. Instead it provided arms, ammunition and highly advanced weaponry especially in the Kurdish controlled besieged areas.

Notably, Italy continued in the past 150 years to apply what Tanzi referred to as “golden rule”, a system used to justify public borrowing, as long as the borrowed money would be used for public ends. In contrast, during the same period, countries like Britain and the USA used the private sector to finance projects such as highways, railroads and canals. According to Emmot (2012 pg. 13) Italy has been a country for hundred and fifty (150) years but has never been a nation. He further argues that it is only soccer that unites Italians.

Importantly, it has been strongly argued by some reporters that Prime Minister Camillo Benso Cavour’s policies aimed at financing the wars to unify Italy were seen as the major contributors to the growth of public spending and consequently public debt. In fact to deal with the increasing public debt, Cavour was convinced that the kingdoms should carry a high tax burden.

It was found that the northern states managed to pay high taxes but the south, which was the Kingdom of Naples at that time, failed to keep up with tax commitments and the idea was defeated. Consequently, debt rose much faster than economic growth and the servicing of the debt became a major concern. The northern states continued to grow faster than the south despite the payment of these exorbitant taxes.

Furthermore, the South failed to develop even after the Italian government injected billions of dollars after the WWII to boost the economy through myriad public works projects such as the programme called Cassa per il Mezzogiorno (Fund for the South). Amongst others, the major causes of these failures, as it is today, were organised crime, maladministration and corruption.

It is reported that public debt tripled between 1859-1861 and reached 200 million lire which was considered an astronomical amount during that period especially for a small state.

Tanzi further highlights that in fact Italy was born in the ashes of, or with the original sin of, a huge public debt. This debt accompanied all those who governed it for much of the following 150 years. According to statistics, in 1860 the overall debt of all Italian states equaled to 2, 242 of millions of Lire, 1862 was 3,240 million. In percentages it was 32.2 in 1861 and 57.7 in 1866 and 78.3 in 1870 of the GDP. Later on successive governments adopted what was called “fathers know best" approach and centralised outlook that would micro manage the activities of the citizens.

However, Jones (Jones, 2003 p. 142) reports that “for much of the post war years, the percentage growth of exports - cars, chemicals clothes and so on- was in double figures. The crises only arrived in the 1970s. Since Italy was more dependent upon oil than many of the other industrialised countries, it was particularly susceptible to the hike of oil prices at the beginning of the 1970s.

In contrast, during the post war years there was a period wherein Italian investors became disinclined towards domestic investment due to the artificial deflation and inflation of stock prices at the Milan Borsa. Italy experienced an increasing export of capital abroad. Jones (2003 pg.145) estimates that three (3) billion dollars in 1969 were exported, before the financial crisis had even begun.

Some reporters have agreed that towards the end of 1979, Italy was portrayed socially, politically and economically as the “sick man of Europe". By late 1980 recurrent public sector deficit generated a huge public debt that was beginning to constrain Italian fiscal and monetary policy and creating serious political challenges.

On the same point, as Bull and Rhodes (1997 pg.15) put it, Italy shares the "Southern type" of politics like other governments in the region. This is characterised by inadequate political institutions, atomic division of political labour, balkanisation and exploitation of the state by a sector of political and economic elite, and the absence of administrative technocracy. According to Sapelli this was seen as a good example of a weakness to be found in the Southern European democracy.

Furthermore, the economic problems of Italy were connected with the political class that was ethically bankrupt and incapable of reforming either itself or institutions that it neglected or made its own via the "privatization of its sphere". Bohlen[1] (1996) highlights, amongst others, that the political class ruined the opportunity of the south of Italy to develop and prosper like the north by looting the public coffers consequently breeding the culture of handouts and dependence on the state. In this regard, they failed to invest and provide incentives to small and medium enterprises which formed Italy’s economic bedrock.

In addition, Rhodes et al (1997 pg.20-21) argues that there is a difference between a structural and conjectural crisis. The former is deeply rooted in the institutional arrangements of the country and in the norms of political behavior. The latter is connected to the sudden breakdown of political parties, alliance and networks that were; on the one

[1] In her article Celestine Bohlen, Northern-South Divide in Italy: A Problem for Europe, Too- describes the major causes of the much division between the north and south of Italy in terms of development.

hand, partly responsible for the systematic problems of the country and on the other, it's victims.

This conjectural crisis led to a political vacuum that allowed the establishment of what was called a "virtual party" called Forza Italia and the rise of Berlusconi within four (4) months of its launch. During his term as a prime minister, Berlusconi was involved in conflict of interest and the use or abuse of state media.

In the 1990s, the collapse of traditional political parties was associated by the fall of communism and the exposure of massive corruption by Italian magistrates controlled for years by political parties.

The period between 1992-1994 is considered as the beginning of the Second Italian Republic. This era referred to “Clean Hands magistrates” by Jones (2003 pg. 130)) is characterised by a sweeping moment of political and economic revolution. The magistrates overwhelmingly supported by the public uncovered and prosecuted corrupt politicians. Notably, this is the period where credibility of the Italian Communist and Christian Democratic Parties collapsed.

The impact of “Clean Hands” later led to the renaming of the Communist Party as the Democrats of the Left and of the Christian Democrats as the People’s Party. The Northern League saw its popularity growing. The birth of Forza Italia under Silvo Berlusconi in January 1994, rode on the back of his media empire’s support for the Clean Hands operation. Jones (2003 pg. 152) highlights that “having been in the front line of support for Clean Hands in 1994, Berlusconi has completely changed tack.”

On the other hand, the EU introduced a new style of politics into Southern Europe based on northern Protestant or technocratic norms which fit alongside the personalised and clientelistic politics of the south.

This led to exposure of the Italian political weakness (anomalistic) and the predisposition of its economy to new international capital markets scrutiny. The traditionally collusive practices that had informally regulated investment, the stock exchange and corporate governance were now being subjected to new regulations.

Rhodes et al (1997 pg.14-15) further claim that the above factors have precipitated the crisis both in the political and economic sphere. Diplomatically the latter change, like in other EU member countries, demanded Italy to gradually cede some powers to the EU in terms of broader macro-economic policy (The dictates of the Maastricht Treaty). They further highlight that Italy is the founder member of the European Union, promoter of EU integration and staunch supporter of the western alliance thus its economy is deeply rooted within those of the EU partners.

Youngs (2010 p. 2) explains that in the EU “financial crisis has been followed by a sovereign debt crisis”. However, in 2010 the EU faced its most serious internal disarray for many decades, as governments have struggled to save the euro. In addition, there have been numerous questions on whether the effects of EU’s decline are the unavoidable end result of structural global change or EU policy failures.

In addition, the inevitable dawn of the Maastricht treaty which brought monetary orthodoxy opened the Italian economy to international scrutiny. Jones (2003 pg.147) reports that “at the signing of the treaty, Italy’s deficit was sitting at 7% and 20% of all state revenue was going simply to the payment of interests for the public debt, which itself was over 100% of GDP”.

This period saw the tradition of tax evasion increasing as various governments bribed citizens to buy government bonds by offering high interest rates which the state could not afford.

Jones (2003 pg.134) notes that there is a unique thing about the Italian economy that one immediately notices. It is a cash economy. This is mostly attributable to the confusing number of banks and documents such as receipts, visa-slips or cheque book stubs which are considered inconvenient. The dependence on cash led to the breeding of fraud, swindle and deception.

Regarding bureaucratic red tape and open encouragement for tax evasion even by politicians, Jones (2003 pg. 139) explains that those in opposition would encourage viewers not to pay the TV license because the RAI channels were in the hands of the 'wrong party'. Other political leaders regularly urged a *sciopero fiscal*, a tax strike in protest against unfair financial burdens by the government. The defence for tax evasion was justified as a fiscal resistance to corruption or extra ordinary tax levy.

On the size of the public service, the percentage of employment in the public sector rose from 9% in 1951 to 18% in 1990. Public servants were mainly installed by politicians through patronage and to act as center of power -grateful clientele.

During 2008-2010 most of the big, rich countries of the West suffered under the crippling financial crisis. As such, the political and economic crisis, that Italy found itself in during 2011-2013, has been considered as an ongoing crisis that dates back to decades but also as the second within twenty years.

In 2011, the Italian government debt rose to 120% of the country's annual GDP and led to loss of faith and confidence by international investors that Italy could maintain its currency and service its debt. Emmot (2012 p. 3) highlights that "the response was to throw out, albeit temporarily, politicians from government and instead to install a technocrat, a non-politician as prime minister". The installation of the technocratic government was in fact a reflection of the waning confidence from investors, business and Italian public on the capacity of politicians to rescue Italy from its financial trouble.

However, as it will be shown later, within a short space of time, the general public felt a bit betrayed by the technocratic government. The technical government instead delivered rounds after rounds of austerity measures which significantly affected the normal lives of ordinary Italians. With the increase of taxation, those on the breadline, started to feel the crunch and were forced to downscale their general spending. By the same token, the new measures implemented to regulate business loans, stifled access to capital for new entrepreneurs. It also limited established business to expand and internationalise their business thus forcing many companies to cut down their business and some eventually closed. This had a remarkable impact on the surge in the unemployment rate.

Interestingly, Blyth (2013 p. 52) reminds us that " Italy's debt-to–GDP was over 100% in 2001 and no one seemed to mind - suddenly looked much riskier as their growth slowed and as a consequence their bonds yields shot up. Italian net debt to GDP was 93% in 2000 and 87% in 2007. Growth rate was 1.5 in 2013 and net debt to GDP was 130%. This was exacerbated by the combination of low growth, old age, low productivity and institutional weaknesses".

By 2011, Italy was in fact not the only country with the largest debt as Greek debt was at 150% of GDP. Another significant factor is that unlike Greece, Italy did not apply for a bail out. Nevertheless, it was compelled to implement austerity measures in areas such as public sector wages, pension, sale of state assets and taxation to curb public spending.

It is further noted that twenty (20) years ago former Central Bank Governor, Carlo Azeglio Ciampi, was chosen as prime minister to deal with the political and economic crisis at the time. So was Mario Monti, an economist and former Italian EU Commissioner, at the height of the 2011 financial crisis. It is argued that the two (2) experts could not save Italy from the growing public debt. Even today, debt remains exceptional high at 134% (2014 est.).

1.2. Main Aims and Objectives

The main focus of the paper is to:

- identify the effect of the financial crisis on all sectors of society including the international image of the country. In a nutshell, the paper will investigate the impact of the financial crisis without spreading the effect to its neighbor countries.
- identify the instruments that Italy applied to counter austerity measures including reforms on the constitution, labour market legislation, public service administration as well as taxation.
- assist in providing information on how a country could deal with a financial crisis without facing a serious revolution.

1.3. RESEARCH METHODOLOGY

1.3.1. Methodological approach

The method to be used in this study is a qualitative approach. This approach was chosen because the study requires a thorough knowledge and understanding of the problem statement; is based on building a complex, holistic picture, formed with words and reporting detailed views of sources which would be conducted in a natural setting.

1.3.2. Gaining Access

Although there were some difficulties in reaching some of the intended respondents, the researcher managed to access information particularly on the websites where the respondents could not make it. Amongst others, irregular working schedules and international travelling made it impossible for some of the respondents to provide feedback and or make themselves available for the interview.

1.3.3. Sampling

This study followed the purposive sampling which ideally allowed the researcher to target specific individuals and categories of institutions for investigation.

The sampling included selection of institutions and individuals who understand the financial crisis and its implications in the economy and the well-being of the people. Therefore, the approach cut across, amongst others, think tanks, academics, consultants, government ministries, parastatals and political parties.

As mentioned in the section above, there were some delays due to the unavailability of respondents but, fortunately, those challenges were overcome by alternative means of access information.

For example, Policy Sonar and the ISPI were not available to respond to the questionnaire but did refer the researcher to the most valuable journals and previous papers on the subject in question.

Despite all the challenges, the researcher has had an opportunity to gain access to information from the ISTAT, Ministries of Foreign Affairs, Finance and Economy, Economic Development and Universities such as the University degli studi Internazionali (UNINT) of Rome.

Furthermore, the researcher had an opportunity to get response from three (3) important sources Ce.SI, a think tank group which focus mainly on the Italian Foreign and Security

Policy, ISIAMED, a consultancy institution which deals with trade and investment promotion for Italian companies and the UNINT

The Democratic Party was also prepared to share some conversation on the important issues and dynamics within the party with a complete picture of the current affairs within the party in so far as the reforms under the stewardship of Prime Minister Renzi are concerned. Again the researcher had an opportunity to mingle and converse with the Five Star Movement representatives during a seminar on BRICS hosted by the Foreign and European Affairs Commission of the House of Deputies in July 2015 where important information was shared by these representatives

1.3.4. Data Collection Techniques

The majority of the data was collected through journals, websites, discussion and a formal questionnaire (**Annexure A**) that was prepared and sent to respondents who were requested to complete them. Since the questionnaires were requesting narrative responses than ticks, they were only forwarded to few samples.

The main focus was to explore specific areas to be covered and to give respondents an opportunity to explain to the interviewer their views about the subject. There was a combination of closed and open ended questions that assisted to extract responses. The opened–ended questions enabled the respondents to include extra information and closed questions were geared to offer specific answers that were easier to analyse.

The researcher based all the interviews on the structured questionnaire to extract different opinions while giving the respondents an opportunity to expand on their responses. This approach afforded all respondents sufficient time to dwell on the subject at the same time allowing them to draw on their own experiences about the issues. This sometimes took time but at the end their views proved useful.

The model of the questionnaire remained the same throughout those who participated even though respondents were allowed an opportunity to respond widely on the subject.

On the other techniques, discussions were held with, for example, political parties since in some instances politicians would not like to commit in writing their comments, sometimes to protect their careers or purely to avoid being quoted.

Websites contributed the second major important literature taking into consideration that there is massive information and papers written on this subject that is stored in many websites. It also provided an opportunity to cut the distance for example to universities, government offices or parastatals because most of the reports are carried on the websites.

1.3.5. Data Analysis

From the response received from the respondents and the information accessed from the websites, the researcher has been able to gain invaluable information and knowledge about the subject under review. This has provided an opportunity to arrive at the informed conclusion with supported evidence.

1.3.6. ETHICAL ISSUES

1.3.6.1. Voluntary

All respondents approached by the researcher agreed and volunteered to participate in the study and before any interviews they were reminded that involvement in the study was voluntary and that no one was coerced into engaging on it.

Finally, the researcher was not confronted by cultural challenges during this process and all participants were made aware of this aspect.

1.3.6.2. Political

Various political parties and political analysts have different views on the subject matter and care would be taken not to disclose the identity of the sources if they prefer to remain anonymous. The intention was to provide the researcher with balanced and unbiased views of the facts.

1.3.6.3. Confidential

All participants were encouraged to present their own views without being subjected to any pressure and such views were treated as confidential. In the event where private and confidential matters surfaced, respondents were reassured that they would be treated as such and any possible disclosure would only take place with their permission.

1.3.7. RESEARCH EXPERIENCE

The interaction with experts in the fields of political economy and political science including think tanks presented the researcher with an invaluable experience. More exciting was their generous and altruistic approach to this study. It is inarguable that the knowledge and information shared by these experts will leave a lasting legacy in the mind of the researcher.

Consequently, the researcher has developed a passion to consider reading more books, articles, journals and special editions that relates to financial crisis and austerity measures and not only about Italy but other countries faced similar dilemma as well.

1.3.8. LIMITATIONS

Although there were no major obstacles experienced during the entire study, the accessibility to confidential information presented a slight challenge when dealing with the literature review. Moreover, the unavailability of respondents which caused unanticipated postponement of interviews almost delayed the completion of the study.

Again the inability to secure some other important views on the subject left a gap in the attempt to obtain wide ranging views as planned.

1.4. THEORETICAL AND CONCEPTUAL FRAMEWORK

In addressing the conceptual framework the following concepts were clarified which provided assistance in gaining insight in some of the technical words:

1.4.1. Financial Crisis

According to the Business dictionary[2] financial crisis occurs when the supply of money is outpaced by the demand. One may also argue that, in summary, financial crisis is predominated by a failure to honour financial contracts or be in possession of financial assets that are insufficient to meet expected financial obligations.

Others argue that financial crisis is a period where economy experiences a slowdown dominated by sluggish productivity and devaluing of financial institutions mainly due to unregulated and unsustainable lending. Now, this definition brings another dimension to the earlier definition and introduces the aspects of productivity and lending. These concepts are key in economic performance and measurement of growth.

In fact, the global financial crisis started in September 2008 with the collapse of the US Investment Bank, the Lehman Brothers. In late 2010 many countries emerged successfully from the crisis but Europe remained seized by the crisis after many central governments took aggressive steps to stabilise national economies.

In general, financial crisis is the threat of collapse of financial institutions characterised by government intervention to help bail out the collapsing institutions. However, in Italy the opposite is true in that the government's public debts widen with a concomitant loss of confidence by market in government bonds.

[2] Business dictionary further explains that liquidity is quickly evaporated because available money is withdrawn from the banks forcing banks to either sell other investments to make up for the shortfall or to collapse

Like other EU member countries, Italy began early November in 2008 by introducing measures to militate against what was clearly an economy facing unbearable crisis.

1.4.2. Austerity Measures

Blyth (2013 pg. 2) defines “austerity as a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public sending to restore competitiveness, which is (supposedly) best achieved by cutting the state budgets, debts and deficits”. [3]

One can argue that austerity measures are official actions taken by government which are designed to reduce budget deficits and restore confidence from investors.

In Europe from 2010 austerity plans involved in principle tax increases and government spending cuts. In Italy for example it is said that income tax rose from 40% to about 55% for high income earners. A property tax was also introduced in addition to the increase of VAT from 21% to 22%.

It is a foregone conclusion that ordinary citizens felt pressured by the effects of austerity measures while in other countries austerity was combined with structural reforms that added more economic woes.

[3] Various austerity measures have been announced and implemented since 2008 and in the EU financial crisis in 2009. Greece being the notable example.

1.4.3. Sovereign/Public Debt

According to the Financial Times, sovereign debt is related to a debt issued by the national government. This debt could be considered risk free as the government could manage to employ different measures to guarantee payment.

The International Business Times (2011) explains that the "sovereign debt is generally defined as economic and financial problems caused (perceived) by inability of a country to pay its debt'. It further argues that this usually happens when a country reaches critical debt levels and suffers from low (perceived) economic growth. For example Italy's debt as of March 2015 reached €2,1659 trillion. The Gross Domestic Product to the debt is approximately 132% compared to 127% in 2013. The EU has set a benchmark of 60% of debt to the GDP and Italy remains under what is called "special surveillance" by the European Central Bank (ECB)

Italy's growth forecast for 2015 has been put at 0,5% after it went out of recession early in the 1st and 2nd quarters of 2015. The country has not seen growth since 2011.

On the other hand, Amadeo[4] postulates that a sovereign debt is how much a government owes. It means the same thing as national debt, government debt and country debt.

Moreover, the Financial Times further argues by putting an example that the stability and growth pact of European countries that introduced the Euro as their national currency requires each country to maintain a national sovereign debt level that is below 60% of the country's GDP.

[4] Article of Kimberley Amadeo on the US Economy explaining the sovereign debt.

It was in 2010 that the EU, ECB and the IMF introduced a rescue package of about €750 billion following fears that a number of European countries were experiencing growing sovereign debt. This included, amongst others, Italy, Spain, Greece, Ireland and Portugal. Comparably, Greece had a worse yield which brought its economy to a standstill.

1.4.4. Recession

Investor Words explains recession as a period of general economic decline typically in GDP for two or more consecutive months which is usually accompanied by a drop in stock markets, increase in unemployment and a decline in the house market. Since 2007, Italy's house market experienced a seven year long decline. It was only in November 2014 that the sales increase by 3.7% marking the first gain since 2006. The decline was also exacerbated by the property tax which was introduced by the technocratic government late 2011 and halted in 2013.

The Italian economy went into recession from April 2014 by 0.2 per cent until the 1st quarter of 2015. This decline squashed hopes that Italy was emerging from a decade of economic stagnation.

1.4.5. Financial Stability Law

According to South African Reserve Bank[5], the concept of financial stability "is most often thought of in terms of avoiding financial crisis or managing systematic financial risk". Schinasi (2004 pg. 6) asserts that the concept of financial stability "relates not only to the absence of actual financial crises but also to the ability of the financial system to limit, contain and deal with the emergence of the imbalances before they constitute threats to itself or economic processes".

[5] South African Reserve Bank explains that financial stability is a joint stability of the key financial institutions and the financial markets in which they operate.

On 9 May 2010, the European Union introduced what was called the European Financial Stability Facility (EFSF) to address the sovereign debt crisis by providing financial assistance to Eurozone countries.

1.4.6. Technocratic Government

Tucker (2011) [6] relates that “technically, technocratic government is one in which ministers are not career politicians and in some cases they may not be politicians at all”. They are supposed to be experts in their fields of respective ministries. A technocrat may be a prime minister or president. For example a judge or lawyer could be appointed to take over the ministry of justice.

Technocratic governments are appointed because of loss of support or confidence in parliament or generally in politicians among other reasons. Another reason may sometimes be that time is too short to hold elections or that the politicians just agree that it would be better for an unelected technocratic government to implement unpopular painful reforms.

1.4.7. Public Spending

The money usually spent by government on public services and other state-controlled operations, investments and projects such as health care, education, defence, transport, housing etc., is usually referred to as public spending. Ordinarily, public funds emanate from taxation and other sources of government revenue.

[6] Tucker’s article on “so what exactly is a technocrat anyway?” posted on the Aljazeera of 16 November 2011.

1.4.8. Article 18

Article 18 is part of the Italian Worker Statute Law no 300 of 20 May 1970 entitled "*provisions on the protection of the freedom and dignity of workers, freedom of association and trade union activities in the workplace and regulations on employment"*. This is considered as the main rules of the Italian labour law

Article 18 of the statute, amongst others, requires employers with fifteen (15) or more workers to rehire permanent employees who were wrongfully (i.e.illegally) dismissed. According to Towers Watson " the article is intended simply to protect workers from wrongful dismissal, but due to the restrictive, time-consuming and costly nature of the judicial process and the threat of automatic reinstatement, it provides workers with a significant amount of leverage in negotiations over dismissals and redundancies. Moreover, the article does not apply to companies with fewer than fifteen (15) workers or fixed-term employment, resulting in a labor market where employers are reluctant to hire employees on indefinite-term contracts or to add staff when near the 15-employee threshold".

In the event that an employer employs more than fifteen (15) employees he/she will be forced to rehire those employees if they are wrongfully dismissed particularly for poor performance which has been a sore point in Italy's economic recovery.

1.4.9. Grand coalition

A grand coalition is usually an arrangement in a multi-party system where two (2) dominant parties with opposing or differing ideologies enter into a coalition government. This grand coalition emanates from a deadlock where the winner of the elections lacks a sufficient majority to form a government or may occur even when one party has enough seats to govern alone based on broad agreement about the best policies to govern. Notably, the coalition is usually formed by parties both from the left and right which together command a substantial majority of seats.

1.4.10. Reforms

Reform is a change that is effected to correct an unfair or wrong situation in order to make a certain system or government work effectively and efficiently. In government, reforms could be political, economic and structural.

Political reforms relate to the process of improving laws and the constitution in accordance with public expectations, whilst economic reforms are changes directed at achieving economic efficiency by transforming policies such as tax policy, competition, etc. The economic reforms could also include deregulation, sale of state assets and cutting down the size of government. Structural reforms may refer in general to changes in the way government works. The OECD summarises structural reforms as policies to make labour markets more adaptable and responsive; policies to liberalise services sectors, enhance competition in product and services markers or improve the general business environment; and policies that foster innovation.

CHAPTER 2

2.1. Italian Diplomacy and the Role of the European Union

It should be noted that former Prime Minister Mario Monti understood the pressure and configuration of Brussels. One would also recall that Brussels was amongst the major sources of pressure that propelled Berlusconi to accept defeat and resign. Interestingly, former Prime Minister Monti was first nominated by Berlusconi during his first term (1994) to become an Italian EU Commissioner for the internal market and services. He served his second term after being nominated by Prime Minister Massimo D'Alema. Therefore, Monti knew the architecture of Brussels very well and how to maneuver once he became the Italian Prime Minister.

It should be recalled that at the time, late 2011, the EU was under tremendous pressure to present a decisive solution to the debt crisis. The premier fully understood that Italy should prove beyond reasonable doubt that it had a convincing rescue package that would tackle the widening public debt and restore market confidence.

On the eve of the EU Summit in 2011, the Prime Minister introduced the emergency decree which brought a package of austerity measures that relied mainly on spending cuts and tax increases to reduce the country's massive budget deficit and stimulate economic growth. Diplomatically, he was sending strong signals to Brussels that he was taking serious and painful measures to address Italy's economic woes. On the other hand, this move was aimed at appeasing the markets and softening the general populace.

Notably, majority parties in parliament grudgingly supported former Prime Minister's Monti austerity measures because they avoided unleashing economic disaster. Importantly, the People of Liberty Party (PdL) of Berlusconi and the Democratic Party (Pd) were really concerned about two main issues:

(a) Any negative reaction from the public on Monti's package would affect their popularity as their supporters would feel betrayed by a parliament they had voted for and which was supporting decrees presented by a technocratic government.

However, they found solace in that, politically, they could not be held accountable for decrees emanating from a technocratic government.

(b) The PD supported the decree on austerity but was concerned about its implications on pension while the PdL were worried by the raising of taxes. The PdL even opposed the introduction of the property tax and the reform of labour legislation.

It should also be remembered that during this period there was a growing Eurosceptic sentiments engulfing Italy to an extent that there were calls that the country should pull out of Brussels and the EU zone. Parties like the Five Star Movement led by the comedian Mr Beppe Grillo, Lega Nord and even the PdL agitated for Rome to strongly consider withdrawing from the Eurozone. They were specifically incensed by Germany's role in the sacking of Berlusconi and its pressure for Italy to implement austerity measures. These parties blamed the financial crisis on the EU and Germany. In fact, Berlusconi later blamed Mr Monti when he accused him of following failed "Germany-centric" policies.

Despite all these attacks, at the time, Prime Minister Monti had sufficient support from his European allies who believed that his fiscal policies and reforms would assist Italy to avoid serious financial problems like Greece.

Notably, German Chancellor Angela Merkel and former Italian Reserve Bank Governor and current ECB Chief, Mario Draghi, commended Italy and in particular former Prime Minister Monti for instituting belt tightening measures. The spending cuts were aimed at containing financial crisis from crippling Italy, the third largest economy in the Eurozone as this would have had a pull down effect on the economies of surrounding EU countries. The Italian economy was considered to be too big to fail. The markets also responded positively to the move by the Italian government.

However, Monti did concede that the impact of austerity measures were not effective in creating employment and boosting growth. Traynor of the Guardian (2013) reported that the "former prime minister warned European leaders that the rigid austerity policies of the past three (3) years have generated mass disaffection within the EU and a populist political backlash" according to the report, the former Prime Minister was complaining that unlike France and Netherlands, Italy during his reign was not provided a "breathing space on their spending targets than they did with the two countries)".

In fact, this was a diplomatic turning point for Italy in terms of its approach to the general question of austerity. My view is that once Italy restored market confidence in its economy, it went beyond the concept of "belt tightening" policies to growth stimulating policies. However, it could not do so because it had unleashed austerities which curbed public spending and fastened regulation on access to capital such as loans for companies. On the other hand, the populace was facing economic hardships due to austerity.

In addition, Bruni[7] (2013) of ISPI agrees with the above that Italy triggered the main reforms of the EU governance in 2012. According to him, throughout 2012 the Monti government restored credibility in the country's public accounts thus earning the right to adopt a proactive and diplomatic stance. According to Bruni, this approach opened the diminishing role of what he called "awkward Franco-Germany" pseudo leadership and paved the way for significant macro-economic reforms of the Union.

[7] Istituto per gli studi di politica internazionale (ISPI)- Working Paper 19 April 2013-In and Out of Doldrums

Logically, Italy had to diplomatically push the EU into a corner to concede that the austerity without growth would never help countries facing sovereign debts. Again, as mentioned above it was Monti who warned the EU about the long term effects of austerity. We will recall then that his successor, Enrico Letta and Matteo Renzi took over the concept of “austerity measures with job creation and growth” which was at the centre of Italy’s Presidency of the EU Council in 2014.

However, this came out as a tough battle to be won by Italy considering that Greece was not showing any convincing signs of genuine economic recovery despite receiving bail outs to deal with its financial troubles. The EU has not shifted on maintaining that countries should enforce fiscal discipline to contain widening public debts. Italy did not win this battle but managed to put it on the agenda of the EU which was an important step in drawing strong attention within the EU that there is a strong need to review austerities in the light of European-wide sluggish growth and rising unemployment particularity amongst youths.

In 2013, Italian Economic Minister Vittorio Grilli told the European Union Parliament that Italy would have a balanced budget in 2013 with a 3% of GDP surplus, which will rise to 5% by 2015. Italy must balance its budget to meet its obligations under the Fiscal Compact signed by European partner countries in March 2012 to help shore up the common currency. Grilli added that "there will be no (new austerity) measure because the objective is adjusted for the (economic) cycle, and thus, when one has a balanced budget in structural terms, it is not necessary to weigh down the economy with other (austerity) measures".

To add to the above, the Financial Times of 15 October 2014 reported that “Italy’s Prime Minister, has proposed a budget heavy on stimulus measures - from tax cuts to investments and lighter than expected on spending cuts, which will bring the country within a whisker of breaching EU deficit rules”. In the same article, the premier reported that this was the biggest tax cut done by a government in a year. These tax cuts amounted to €18 billion which were aimed at boosting the economy particularly for lower income earners and business. In total, these cuts led to a 2.9% of Italy's budget deficit which was closer to the EU budget limit of 3%.

Again, this was a demonstration of full commitment to fiscal discipline and also to sending a positive message to investors about the country's prudent financial systems.

In July 2014, Italy took over the Presidency of the EU Council. It should be noted that it was the first time since the Treaty of Lisbon (December 2009) that Italy held the rotating EU Council Presidency. During its term, it adopted a Presidential programme which focused mainly on priorities such as employment and economic growth, democracy, immigration, rights and freedoms and forging for new impetus to the EU foreign policy. Diplomatically, these programmes resonated with Italy's domestic challenges.

It was during its presidential term that Italy tried to harness European effort to focus on instruments that would deliver jobs and fast growth. It was interesting to note that despite focus on jobs and growth, Italy called for the united EU approach on addressing economic and financial crisis taking into account real economic challenges of its diverse members. Now, this brought to the fore the earlier reminder that Italy unlike Greece did not seek bailout despite being closer to Greece with its public debt.

Rome's Presidency of the EU Council was trying to bridge the gap between its EU allies who favored austerity and the home dissidents who called for the withdrawal of Italy from the EU. The main message was to highlight to the EU that not all financial crises could be solely addressed through bail out packages. Greece fire was doused with bail out packages but Italy had to implement austerity measures without applying for bail out packages.

Furthermore, one would also recall that the principal approach of the Italian governments (Monti, Letta and Renzi) was to pledge loyalty to EU membership to maintain regional support and win like-minded allies, at the same time negotiating fiscal flexibility to allow EU member countries to redirect funds for programmes aimed at stimulating growth rather than worry about fiscal discipline and debt servicing measures.

Parodi[8], agrees that this question of Italy's diplomacy brings together two key words of the recent Italian national and international diplomatic attitude: diplomacy and image. In this very critical and crucial period, Italian politicians bet a lot on image and communication, which indicates an improvement of their oratorical skills and influence, useful to provide to foreign partners and Italian citizens a falsely sympathetic image of a dynamic and young Italy.

However, the majority of Italian citizens think that Italian representatives should focus more on using these excellent oratorical techniques for another type of diplomacy which should defend the interests of Italy rather than entertain the rest of the world.

On the role of EU, Parodi commented that it seems clear to everyone that Europe commands and Italy follows its orders. Sometimes, especially in the last few days, the media advertises enormous efforts made by the Italian representatives seeking to satisfy European demands while defending Italian needs, but Italian citizens know that it is only a cheerful facade.

Furthermore, Milioto[9] highlights that Italy's reputation worldwide has been established and founded by its own history and accountability. Major world industrialised countries have supported and trusted Italy's serious attitude and responsibility. The Italian excellence, masters of culture, unique and high quality products, have also empowered the image and vision of Italy worldwide.

Whilst on the role of the EU, he asserts that the EU has enforced the change of pace from Berlusconi to Monti and Italy has accepted the request. Recommendations have been answered with precise and conducive reforms.

[8] Fabia Parodi, a Consultant at ISIAMED
[9] Adv. Ben Milioto, Professor at the Università degli Studi Internazionali di Roma

Di Liddo[10], provides another dimension on the diplomatic acumen of Italy by indicating that he "believes that the economic crisis has not damaged the reputation of Italians in the world. I believe that the real problems have come from the case of Mario Monti and behaviour of Silvio Berlusconi. Left to Berlusconi, the Italian diplomacy was able to work calmly and, indeed, now is playing a very important role to pacify and stabilize Libya".

On the EU, Di Liddo is of the view that the EU has had a very important role in the fall of Berlusconi. In a world where credibility is everything, Berlusconi was not the most internationally respected politician and the Italian economy was suffering, because there was the perception of an unreliable Italian government. With the rise of Monti and Renzi and austerity policy, the situation has improved. However, during the worst of the crisis Italy was isolated in Europe and had to undergo a veritable diktat of Brussels. This is also because the most influential Italian personalities in Europe were anti-Berlusconi.

Commeli[11] (2011 pg.7) dealing with Italy's lukewarm reception towards EU integration, comments that under the leadership of the Berlusconi government, the political elite was sceptical of the EU. On the contrary, she maintains that Italians trust the EU institutions rather than national institutions. This in my view has been informed by the gravity of corruption including bribes that have been associated with some public institutions. The main belief is that the EU institutions are immune to the renowned weaker government institutions of Italy.

[10] Dr. Marco Di Liddo, an Analyst from the Centro Studi Internazionale
[11] Institute of International Affairs- Working Paper 11/08-April 2011 (Italy Love Affair with the EU: Between Continuity and Change)

CHAPTER 3

3.1. The Role of Former President Gorgio Napolitano

One should be reminded that the President of Italy is the Head of State but not of Government. According to the founders of the current Constitution which was adopted in 1948, any citizen who is fifty or older on Election Day and enjoys civil and political rights can be elected President. Unfortunately, there is no term limits and he/she is elected by an Electoral College comprising the two chambers of Parliament (deputies and senate) combined with 58 special committees and 20 regional representatives.

It is also important to note that the presidential term is seven (7) years which, interestingly, prevents any houses from re-electing the same president as Parliament has only a five (5) year term limit. Now the main functions of the president, whose office is mainly ceremonial, includes amongst others, naming of Prime Minister of Italy and appointing Cabinet Ministers on the advice of the PM, receiving the resignation of a government, promulgating laws approved by parliament, naming one third of the constitutional court, the accreditation of diplomats and declaring a state of war as decided by parliament.

Now one needs to zero in on the role of the Italian president in the nomination of the prime minister because it touches on critical events where many previous governments collapsed before their terms ended. In all those instances, it was the president who played a central role by receiving resignations and nominating prime ministers of the new governments.

Fast forward to the fall of 2011. Italy was faced with a crippling financial crisis and investors were pulling in numbers out of Italy fearing a worse economic situation. On the other hand, Prime Minister Silvio Berlusconi was fighting in office for his political life amid growing pressure from investors, the public and Brussels for him to quit.

Notably, the majority of Italian governments that collapsed did so mainly due to losing support or to the withdrawal of a coalition partner thereby causing the leader of the coalition to lose support and mandate. It was a different ball game with Berlusconi because despite widespread discontents including amongst members of parliament, he still had his majority support from his party and allies in parliament.

However, President Napolitano stepped in and advised Berlusconi, in the interests of Italy, to resign following the President's successful persuasion for him to do so. Consequently, Mr Berlusconi resigned only after both chambers of parliament adopted austerity measures which were, amongst others, demanded by the EU leaders. According to the President "Berlusconi had demonstrated to the head of state his understanding of the implications of today's vote in the chamber of deputies".

According to Ms Parodi, the role played by President Napolitano during the economic crisis that hit the EU and Italy, was strongly consistent with his strongly pro-European approach and with the conviction that Europe (which includes but it is not limited to Italy only) must change its views for its survival.

Certainly the role of Giorgio Napolitano has been prominent in the most acute moments of the economic and financial crisis that has rocked Italy in the second half of 2011, leading to Silvio Berlusconi's resignation and to the technical government led by Mario Monti.

Parodi further argues that it is clear that Napolitano's priority was to preserve the permanence of Italy in the European Union in order to avoid the financial collapse of the country.

For this reason, it was necessary to welcome the establishment of Monti's Government and the austerity policies it launched. To President Napolitano, the most important thing was that Italy could count on a period of peace and political stability," (New Year message of December 31, 2011) as this stability would have helped Italian economic recovery and raise international credibility.

Galietti[12] (2014 pg. 1), in one of his articles suggests that a candidate to replace former President Napolitano should possess the following qualities:

> *"a) the candidate must have a lot **moral suasion**;*
>
> *b) the candidate should be able to discretely and firmly **liaise with "deep state" structures** and be seen as a respected "**honest broker"** of international affairs"*

He further argues that most of the President's responsibility is "spent balancing conflicting interests between the judiciary and the political class…….Since the 1990s, Italian history has shown that the political class lacks the capacity (or the will) to tackle the issue of conflicts between powers.

Moreover, several political players of both the center right and the centre-left are facing severe problems with justice, and their conflict of interests would be immediately upheld against them. As a matter of fact, the only solution that seems to actually work to defuse the tensions among powers is "moral suasion". Like everything that is not explicitly codified, moral suasion is more an art than a function, and the outgoing President of the Republic, Giorgio Napolitano, had used it tactfully".

The above analysis supports the view that a ceremonial president in Italy is expected to play a much bigger role than being just ceremonial. The stability Galietti is referring to does not only ends between the judiciary and the political class but extends to economic and social stability. It was in the interest of economic and social stability that the former President intervened and successfully convinced Berlusconi to step down and allow a new prime minister to take over, stabilise the economy and restore market confidence in the Italian economy. It was to be seen that his of choice of Dr Monti was a good medicine to calm the Italy pain.

[12] Policy Sonar FG. Prof. No. 28/2014 article published 08 September 2014 titled A Market Friendly Quirinale provides a background on succession for President Napolitano

The recent support which Napolitano gave to Renzi's government should not be read as a simple executive support, but also as evidence of the President's constant approach and engagement to guarantee a certain political stability, based on the need for Europe to change methods to ensure its survival. With Renzi, Napolitano focused even more on propagating the principles of growth and flexibility within the European borders.

Remaining within Europeanism, which is a distinctive line of Italian national foreign policy, President Napolitano reiterated the message of a more "political" European Union, where general economic integration is an essential condition to ensure the survival of the euro, the European project and Italy.

Milioto asserts that President Napolitano has been a *super partes (impartial)* judge pondering his decision and listening to all social and political instances along with economic necessary reforms. He has been monitoring and exercising a deep control of all the austerity measures and while patrolling economic changes has ensured that the Italian people preserve a standard social status.

On the other hand, Di Liddo is of the opinion that President Napolitano has had an important political role but not an important economic role. According to him, from the economic point of view and of relations with the EU, the strongest men were Monti, Prodi and Draghi, who acted as true great eminences to bring down Berlusconi and to restore confidence between Rome and Brussels. Napolitano has had the role to take over the country when the political leadership was not firmly in the hands of the government, and when the results of the election could be dangerous for stability.

The government by a large centrist alliance was one of his political projects. It can be said that, at a time of great uncertainty, Napolitano acted as a Russian, French or American President, rather than as a German President. He used his powers very broadly.

The abovementioned views confirm that even though the president is a ceremonial head of state with limited executive powers, his impartial role in maintaining political stability in the republic remains critically important. This role makes the president a “quasi-judge” on matters relating to governance whenever there is a clear demonstration of political instability that could affect people’s lives.

Again, this significant role became evident when there was a political deadlock after the February 2013 elections. During this period the party with the majority vote, PD, failed to put up a coalition government because of the majority in the House of Deputies but failed to garner enough votes in the Senate. At that time, the General Secretary of the PD, Mr Pier Luigi Bersani was unable to find a coalition partner. Mr Bersani refused to open a dialogue with Berlusconi’s PdL whiles Grillo’s Five Star Movement refused to join Bersani to form a coalition government.

Eventually, Bersani was forced into giving up his ambitions to become the prime minister of Italy. Once again, the President intervened and nominated Enrico Letta to form a government. It was this move that paved the way and broke the deadlock which lasted for almost three (3) months with caretaker government. This long drawn political impasse could have triggered instability in other countries.

With the president’s intervention a new grand coalition government led by former Prime Minister Enrico Letta emerged. Surprisingly, the coalition partners involved Berlusconi who had always been critical of the judges whom he accused of implementing a centre-left government agenda. In nominating Letta, the President might have seen an opportunity to utilise him since he is the nephew of one of Berlusconi’s former close aides.

Furthermore, the president also saw an opportunity that Letta was on the right of the centre left and did not share the same political vision as Bersani.

These considerations were important in finding a suitable candidate who would resonate with other willing parties on the opposition. Of critical importance was to save Italy from a brink of another election if a government could not be formed at that time. In a nutshell, President Napolitano became a saviour when Italy needed someone of his prowess to lift the country out of a pending catastrophe that could have exacerbated the financial crisis.

CHAPTER 4

4.1. Measures Applied to Address Financial Crisis

Borghi (2013 pg.2) asserts that Italy's latest financial crisis was first felt in the second quarter of 2008 as a consequence of the 2007 US global economic crisis. Subsequently, in the summer of 2011 Italy was hit by fallout from speculative global financial markets following the collapse of Greece. Due to its high debt-to-GDP ratio Italy followed Greece as the centre of speculation. This caused panic within government corridors that responded with tighter financial regulations that were implemented after damage had already occurred.

During this period, Italy's economy was facing a fifth recession within the decade, while public debt reached 120% in 2011. In general Italy's economic growth trailed that of the EU average for almost a decade.

2008-2011

Most researchers and commentators agree that, when compared to other EU countries hit by the global financial crisis, Italy was slow to react and put in measures to boost the economy. This was particularly with regard to compliance with the 3% Stability and Growth Pact threshold.

Borghi highlights that in November 2008, the government of Berlusconi approved the so-called anti-crisis decree (35 Articles) totaling €6.4 billion aimed at kick-starting the Italian economy. Amongst others, the decree provided instruments to protect income in the case of layoffs and unemployment. This decree also included tax relief on income earners of up to 35,000 euros. Unfortunately, this package focused on individuals and families and less on the economy. It had less impact on the economic crisis.

In February 2009, a decree on Urgent Measures to Support Industrial Sectors in Crisis was passed which injected €4.5 billion to support disposable income and consumption. Once again, the intention was to shield households against the harsh effect of the crisis and to stimulate the economy. On the business side, it supported companies to buy cars, domestic appliances and provided tax relief estimated at €1.3 billion.

On July 2009, Italy passed a decree on Measures on the Crisis and Prorogation Terms and on the Italian Participation in International Missions. This decree which came into force in October 2009, put into place investment taxes which purported to strengthen the social safety net and provide a tax shield.

The Financial Bill of 2010 prolonged and extended the measures which had been adopted since 2008 especially on issues related to employment, national insurance, productivity bonuses and tax relief.

It was only in 2010 that the government passed urgent corrective measures for financial stabilisation and to boost economic competitiveness. Borghi (2013 pg.4) reaffirms that the measures were specifically aimed at lowering the deficit-GDP from 5% in 2009 to 2.7% by 2012.

In December 2010, a Stability Law was passed to buttress the social fund for employment and training purposes, and to prolong tax relief on productivity contracts and bonuses.

Borghi (2013 pg.4) further highlights that it was the deepening sovereign debts coupled by increasing lack of market confidence that moved the government to shift its focus to fiscal consolidation and take compelling measures.

In July 2011, a €48 Billion Financial Stabilisation Decree was approved containing financial provisions cutting transfers to local authorities and health spending. This package was aimed at reducing the country's debt but it resulted in a high tax burden for households, raised taxes, vat, excise duties and tariffs with little or no marked impact on the public debt. The Berlusconi government, later in November 2011, buckled under pressure from the EU and global markets and made way for the Monti led-technocratic government.

2011-2012

On 4 December 2011, newly appointed Prime Minister Mario Monti, a technocrat and former EU Commissioner, unveiled a radical package (referred to as 'Save Italy' measures) of spending cuts and tax increases that included raising the retirement age. These measures, introduced in an emergency decree, were mainly intended to cut government spending, combat tax evasion and induce economic growth. The major focus was to eliminate the budget deficit by 2013. In total €30 billion was injected to cut public spending, service the widening debt and stimulate economic growth.

Besides other measures, the package included the following:

I) A reduction in funds to a number of regional governments to eliminate patronage spending;

II) Reintroducing the unpopular property tax (IMU) rescinded by former Prime Minister Silvio Berlusconi in 2008;

III) Prohibition of cash transactions exceeding €1000 to eliminate tax evasion. Any transaction above 1000 to be done electronically;

IV) Raising the country's value added tax from 21% to 22%;

V) Providing incentives to business to hire new workers;

VI) Increasing retirement age from 60 to 65 for women and from 62 to 66 for men with incentives for working until 70;

VII) Pension calculation to be based on contributions rather than on worker's last salary;

VIII) Clamp down on taxation. Those found evading tax on sums of €3 million or 30% of their business turnover would be charged;

IX) Taxation on high income earners. Those earning €300 000 or more would pay more tax;

X) Tax on income from investment. 20% to be applied to income and capital gains which resulted from investments;

XI) A cut down on the tax advantage of cooperatives. This would have affected 30 out of 100 largest businesses that were cooperatives; and

XII) General central government cuts by slimming down ministries.

However, Donaldo (2011) writing an article in the New York Times, warns of the following:

'Mr Monti, Prime Minister and Minister of Finance faced a parliament that grudgingly voted confidence in his government of technocrats but was reluctant to push through measures that might hinder their chances of elections.

Secondly, labour unions were opposed to raising the retirement age, general labour market friendly legislation and industrialists complained that the measures were inclined to trigger high taxes.

Thirdly, The Prime Minister faced the challenges of satisfying the demands of European leaders while pushing for Italians to take responsibility for their own challenges."

Without hesitation these measures were sharply criticised by Italy’s major trade federations. The CGIL was quick to point out that “raising the retirement age would be unsustainable for so many workers who would see their retirement prospects shaken and delayed by many years of work”. The Northern League party also openly opposed the installation of the technocratic government. In condemning the measures, the League highlighted that “If you have a patient who’s critically ill and you need to cure him, you must not kill him”.

Five groups of measures were introduced in a decree of January 2012. These included opening up competition in the provision of professional services; forcing the sale of gas network, SNAM, by the main oil and gas company, ENI; helping an alternative train operator to compete with the main train operator, Trenitalia; the establishment of new commercial courts; and simplified procedures for anyone under 35 to open a business.

During this period, much attention focused on Article 18 of the employment code, which protected permanent employees against redundancy and dismissals based on poor performance. The government insisted that such dismissals must not be taboo, but unions resisted the attempt to change the Article as it was considered a key right that could not be tampered with. At the end, the government backed down on trying to change the provisions affecting existing employees.

In July 2012, the Italian government approved €4.5 billion in spending cuts for 2012 with an aim to reducing the size of the public sector and to delay an increase in sales tax until 2013. The plan was to save €10.5 billion in 2013 and €11 billion in 2014 by reducing expenditure. This amounted to €26 billion in savings over three years which was anticipated to achieve 20 percent cuts in the number of public sector managers, 10 percent reduction on the rest of the public sector, limiting health care expenditure and rational allocation of human resources and materials to public administrations.

In fact, the “Save Italy” measures became unpopular and led to public discontent due to heavy taxation levels, job cuts and limitations to health care which resulted in the electorate losing faith in Monti’s austerity measures that, in their eyes, had failed to curb Italy’s rising unemployment, growing public debt and lack of growth.

In the end, the austerity measures Monti's emergency technocrat administration passed to bring Italy's public finances to order and steer the country out of the centre of the euro-zone crisis, deepened the recession. Furthermore, the euro crisis took an increasingly heavy toll on Italy's firms, with one in three according to the Bank of Italy, expected to be in the red by end of 2012, up by nearly 24% on 2011. The total unemployment for 2012 increased by 0.4% and hit the double digit 10% for the first time.

According to the annual survey of the country's industry and services sectors by the Italian central bank, loss-making firms started cutting employment. Demand for bank credit also dried up, the survey found, a sign that activity was slowing further. The recession in the Italian economy stretched into the second half of 2012, but became less severe.

In December 2012, the lifeline of the technocrat government was cut short by Berlusconi’s announcement that he was withdrawing his party’s support for Monti’s budget reforms and would return to the political arena, paving the way for elections in February 2013.

2013-2014

2013 commenced with Italy’s oldest Bank Monte Dei Paschi di Siena reported to be in need of a €3.9 billion bailout. Shareholders voted to put their bank in the State’s hands through a convertible bond subscribed by the government of up to €4.5 billion. This followed shareholders' dismay on learning that the previous management which had been pushed aside a year earlier at the behest of the Bank of Italy, had apparently been indulging in finance of the more risky sort, and that its bets had not panned out.

The Italian government approved a 3.9 billion euro salvage package for the Sienna-based bank after the European Central Bank suggested that Italy should take ownership of new shares as opposed to issuing more debt to help the troubled lender.

The Deputy Secretary of the Democratic Party, Mr Enrico Letta, was sworn in on April 2013 as the head of a grand coalition after two months of political paralysis that followed the inconclusive general election of February 2013. Like his predecessor, Prime Minister Letta pledged that the reforms introduced under Mr Monti would not be reversed, but the risk of this happening under a hung parliament remained high.

According to the *Economist*, the biggest challenge facing the Letta-led government was to try to balance measures needed to reduce Italy's debt burden with measures designed to promote economic growth, reverse a dramatic rise in unemployment and reduce social tension.

Some newspaper reports suggested that with government debt heading towards 130% of GDP and Italy dithering in a prolonged recession, the country remained vulnerable to shifts in investor sentiment, especially if investors perceive that divisions in the Letta government threatened to reverse the fiscal consolidation carried out under Mr Monti and/or reforms to improve competitiveness.

Prime Minister Letta’s budget vote in the 3rd quarter of 2013 was met with criticism from the business sector, the unions, and youth. It was criticised because the budget did little to cut corporate taxes and tackle unemployment. The Unions were against cuts in public spending. It should be noted, however, that Prime Minister Letta’s government was only acting under the prescripts of the ECB, that is, for economies to be within the prescribed limit of 60% of Debt-to-GDP ratio.

2014-2015

In December 2013, the young Mayor of Florence, Mr Matteo Renzi won the elections to become the Secretary General of the leftist Democratic Party. In January 2014, he entered into a pact dubbed "Nazareno Pact" with the leader of the centre right party Forza Italia, Mr Silvo Berlusconi. Amongst other things, the pact is reported to have focused on the re-election of the President, Berlusconi Assets, Jobs Acts and Electoral Reform.

On February 2014, former Prime Minister Letta tendered his resignation after the Democratic Party's (PD) Executive Meeting voted unanimously not to continue to support the coalition government and in favor of Mr Matteo Renzi taking over as prime minister of Italy. This was to confirm a fourth government in less than two and a half years to be formally sworn in by President Giorgio Napolitano.

In explaining why the Princes of Italy had lost their states, Barreca (2008 pg. 103) claimed that "those of our princes who had held their possessions for many years must not accuse fortune for having lost them, but rather their own remissness, for having never in quiet times considered that things might change when adversity came, they only thought of fleeing, instead of defending themselves, and hoped that the people, enraged by the insolence of the conquerors, would recall them. It was the same with the prime ministers who lost power due to public discontent emanating from dire economic situations".

When Renzi took over, he announced a programme of significant reforms, amongst which four key ones were:

- New electoral law
- Revision of labour market legislation
- Public administration reform
- Italy's tax system

On March 2014, the Prime Minister won a confidence vote to push through a cost-cutting bill which saw the abolishing of some of the country's provincial governments. Italy had 110 provincial governments and previous administrations had repeatedly tried and failed to abolish them.

On April 2014, the Cabinet approved a three-year blueprint called the Economic and Financial Document (*Documento di Economia e Finanza*- DEF) based on three pillars, *inter alia,* plans for annual income-tax cuts of €10 billion targeting low earners, a cap on wages of top public-sector managers and higher capital gains tax for banks.

According to this decree, the government will increase the country's bank taxes on their stakes in the Bank of Italy, raise sale revenues, sales of assets and stakes in state-controlled companies, and review public spending to fund the income tax cuts, which will mean an extra €80 in the monthly pay packets of low earners. Furthermore, it introduced a plan to set up a threshold on the earnings of public-sector managers to the €238,000 annual salary of President Giorgio Napolitano. Many commentators had complained about the higher salaries earned by public sector managers which some were higher than that of the President particularly when the country was facing a dire economic situation

In August, the Italian Cabinet approved the Justice Reform package as well as the Unlock Italy project. These initiatives were aimed at outlining measures that will improve Italy's competitiveness, cut red tape, promote investments and also lift the economy out of recession. As such, the justice reform aims to simplify civil law and remove the high number of legal obstacles, including those hampering foreign investment which impacted on Italy's drive for internationalisation.

According to reports, it takes an average of eight years to resolve civil cases and almost three years to enforce a contract, twice as long as in other high-income countries such as

France. This has caused foreign investors to opt for opportunities in other European countries and had a negative impact on Italy's economy.

During the same period, the cabinet approved the allocation of €10 billion towards public works in the south of Italy, €4.6 billion for five airport investments and €3.8 billion for projects that are ready to be built under the Unlock Italy Project. The primary focus of this project is to provide measures to promote growth and remove bottlenecks, which are currently halting the implementation of key projects such as public works and infrastructure projects.

On February 2015, the Italian Cabinet finally approved the key parts of the Jobs Act decree which had already been approved by parliament. The decree aims to change Articles 18 of the 1970 Workers Statute so as to settle unfair dismissals by compensation rather than court ordered reinstatement. The decree also introduces measures that allow new staff to be effectively on probation for three years leading to permanent hires compared to the past when new hires were kept on temporary contracts.

According to economic indicators in the 3^{rd} quarter of 2014, public debt remained at 132% of GDP, which is the second highest in the Eurozone after Greece. Government predicted that public debt would reach 133.4% in 2015 and then start decreasing to 131.9% in 2016, 128.6% in 2017 and 124.6% in 2018. This is due to Italy's aim to decrease its debt significantly in the long run. The decrees passed in 2014 allowed the Italian government to make more than 56 billion euros available to settle overdue debt. It is anticipated that more debts will be settled in order to make a significant decrease to the country's €2 trillion total debt.

Indeed all these measures, particularly since 2008, were aimed at easing the widening public debt, restore market confidence and stimulate economic growth.

In her appraisal, Parodi was of the view that none of the measures adopted by technocrat governments (governi tecnici) are suitable to help Italy to face the crisis and get out of it.

Furthermore, it is widely agreed that the Italian government has lagged behind other countries in intervening against the risk of infection before and against the effects of crisis later.

Parodi says that over the years, governments have focused their energy and attention on the sovereign debt and increased national revenue data by applying taxes and cuts on public and health services rather than reducing surplus spending.

She further argues that citizens have more and more taxes to pay but pensioners and those who are lucky enough to have a job have seen their retirement and pay check reduced, leading to a huge increase of poverty and social instability due to the general discontent.

For the same reason, Italian companies, which are mainly Small and Medium Enterprises (SMEs), were forced to lay off a large part of the staff, reducing their productive force and therefore their own profits, already hampered by other industry-specific taxes. In addition, although those taxes which should guarantee outstanding public services have increased substantially, one of the key measures supported by all technocrat governments was the reduction in public services. This led the country to a situation of real hardship, if not despair in several Italian regions.

Milioto, however, argued that Monti’s government was a technical enforcement decided by Europe to let Italy to reform domestic policies in order to cope and comply with the European *acquis communitaire* (European Union Law). Therefore he had introduced a deep reform in the pension/retirement system along with a series of strong austerity measures to reduce public spending, lower the Italian debt and reduce the economic gap with other major European countries. Renzi has strengthened previous reforming processes remoulding the legal framework of the Italian Labour Law standards and challenging the old secular system created by the Italian Trade Unions. The rest is a work in progress waiting for a significant reform of the Electoral Law Bill and Regulations for the Senate and the House elections in order to reduce local representatives to the Italian Parliament and create a presidential or semi presidential election system informed on the French or German electoral ones.

Di Liddo highlights that no economic measures have brought significant change in the economic and social sphere. The raising of the tax burden helped the financial state of Italy budget, but oppressed the people. According to him the Renzi “Job Act” contributed to increase the number of recruitments.

Looking at the above analysis one could deduce that some respondents agreed that there was a remarkable change that measures brought into the Italian economy.There’s also a general consensus that these critical instruments targeted, amongst others, jobs, taxes and pension which are essential to the wellbeing of the citizens including the growth of the economy.

CHAPTER 5

5.1. The Impact of the Financial and Anti-Crisis Measures

The impact of the anti-crisis measures could be analysed within the areas of households, labour market and business focusing between 2008-2014. The Main focus of the government in the period under review has been to increase revenue to boost the economy with unpleasant effects on the tax burden of businesses and households.

I) Households

Since 2012, the Italian families saw their purchasing power drop with hope for improvement in the near future slowly diminishing. Media reports suggested that this economic situation was blamed on increased taxes, higher retail prices and frozen salaries that accounted for a significant fall in their purchasing power.

Italians are still suffering due to the effects of the recession and, according to ISTAT, this has had an adverse effect on the country's demographics resulting in social problems such as divorce, suicides and substance abuse.

II) Labor Market

In 2013, according to ISTAT, Italy's seasonally adjusted unemployment rate hit a high of 11.7%, youth unemployment (aged 15-24) also jumped to an all-time high of 38.7% from 37.1%. Rising unemployment was a big factor in the Italian election, particularly among parties arguing against Mario Monti's economic reforms.

ISTAT also reported that the official unemployment rate increased from 12.9% in September 2014 to 13.2% in October 2014, which was above the Eurozone rate of

11.5%. Youth unemployment rate was at 43.3% and according to reports there was no reasonable basis to believe that the rate would decrease in the short run.

Amongst the reasons for the opposition of the so called labour market friendly Jobs Act by trade unions, are its perceived contribution to a future high unemployment rate. The fears of trade unions were based on the fact that it would be easier for employers to lay off workers based on economic conditions. A similar case was recently experienced in Terni where about 500 employees from the AST Steel Company were threatened with layoffs.

Italy is further expected to continue being faced with the challenge of net brain drain as the youth explore economic opportunities in countries such as Germany, France, USA and Canada

However, the fourth quarter of 2014 saw the reform agenda of the Prime Minister gaining momentum. The much talked about Jobs Act aimed at transforming market labour legislation was passed into law amid internal divisions within the coalition government.

Pressure on the Prime Minister also came from trade unions. In December 2012, the CGIL and UIL unions called a general strike, which affected public transport, hospitals, schools and civil administrations across Italy. This strike was a reflection of the deep division inside the PD, whose minority was increasingly critical of the labour reform pursued by the government.

The main thrust of the Jobs Act according to the government is to introduce flexible security. This Act will see, amongst others, the new social protection system, the introduction of labor contracts with gradual social protection measures, the simplified code of contractual forms, the reorganization of unemployment insurance, the services for labor and active policy, the rationalization of processes and payments, and new maternity rules.

The government also maintained that the labour reform would encourage firms to hire new staff and help combat unemployment, which reached a record high of 13.2% in late 2014 when at the time there was recession in the economy.

It should be noted that the passing into law of this Jobs Acts did not escape criticism from various commentators. The majority were of the view that it would seem highly unlikely that labor reforms, while urgent and important, can resolve the Eurozone's and specifically Italy's own challenges.

Furthermore, they lambasted the EU by blaming the crisis in the south of the Eurozone not on the labour market, but on the poor policies of the European Central Bank and the fiscal choices forced on countries by the Troika or by the so called German-led Euro group.

Nevertheless, one should understand that the Jobs Act was central to the Prime Minister's reform agenda which included judicial, electoral, public administration and constitutional reform. As such, the Prime Minister was relieved when this Job Acts was passed which basically confirmed that his reform agenda is on course. The fundamental intention of the labour reforms was to restore Italy's international competitiveness and also to open the job market to the youth who find it extremely difficult to find permanent jobs.

III) Business

Italy's economic strength is in the processing and the manufacturing of goods, primarily in small and medium-sized family-owned firms. The country has been less successful in terms of developing world class multinational corporations. In addition, the small and medium-sized firms typically manufacture products that are technologically moderately advanced and therefore increasingly face crushing international competition. At the height of the financial crisis, the manufacturing sector has been reported as not showing signs of improvement. In addition, Italian banks are reported to be becoming increasingly selective, because of falling loan levels, and increasing interest rates.

Manufacturing was not showing signs of improvement and continued on a downward trend. This did not bode well for an economy that was currently experiencing minimal growth.

Generally, Italy was still struggling to recover from a two year long recession. GDP fell 0.1 percent in the first quarter of 2014, following a 0.1 percent rise in the fourth quarter of 2013. The government of Italy acknowledged that its economy remained fragile.

The country's consumer confidence decreased in June 2014 after three consecutive monthly rises. It should be noted that although this is below expectations, consumer confidence generally increased after Premier Renzi took office in February 2014.

Italy's remained on deflation at -0.1% since January 2015 which negatively affected business confidence. This trajectory was seen as a threat to the recovery prospects of the country since sustained deflation can trigger a ripple effect where businesses and households postpone purchases thus decreasing demand and causing unemployment.

In the 3rd quarter of 2014, official statistics regarding the economy's performance suggested that Italy was still struggling to emerge from recession. The GDP contracted by 0.1 percent and has not seen any growth since 2011. The contraction was mainly caused by weak domestic demand, which was somewhat unexpected following recent tax cuts by Government.

The National Statistics Agency, ISTAT, further announced that the GDP would possibly range between -0.2% and +0.2% in the 4th quarter and the overall 2014 GDP will contract by 0.3 percent.

However, the situation changed during the 1st quarter of 2015. During this period it was confirmed that the country finally emerged out of recession following the 0.3% growth forecast in the first quarter of 2015. In particular, there were positive signs with regards to exports, which were mostly driven by regions in Northern Italy where mainly manufacturing and big industries are located.

The European Union Quantitative Easing programme, which was implemented in the fourth quarter of 2014 resulted in the improvement of consumer confidence, depreciation of the euro and the increasing of inflation rates which bode well for some of the financial institutions. This programme injected growth in the economies of Italy and France which specifically helped Italy to finally emerge out of the deflation

Furthermore, the impact of the European Union's Quantitative Easing (QE) programme and the falling oil prices has led to a much faster and larger growth than expected. In addition, the economy is also benefitting from reforms introduced in 2014 such as tax cuts and additional support for SMEs.

The government has also developed in collaboration with the regions an internationalisation Roadshow Programme which is aimed at supporting and encouraging companies to invest abroad. This programme has seen growth in exports coupled with increased support of the SMEs mentioned above.

Equally positive was the January-June 2015 figures from ISTAT on export that revealed that in the second quarter of 2015 compared to 2014, exports in the regions increased for North-West (+2.1%), Centre (+5.0%), South and Islands (+5.7%) while they decreased in the North-East (-1.5%). This reflects the impact of some of the instruments that have been implemented to stimulate exports and economic growth.

It would be difficult not to mention the issue of corruption when one deals with business performance in Italy. It should be kept in mind that when Monti introduced the austerity measures, two of the critical issues he addressed were tax evasion and generally corrupt business practice. This has also been part of the Renzi central reforms, the transformation of the judiciary systems.

This year parliament approved the long overdue anti-corruption bill which aligned Italian legislation with those of other EU countries. According to the bill, both the public and private sectors have a responsibility to adopt measures to combat corruption. Furthermore, those convicted of committing corporate accounting fraud, embezzlement of public funds, organised crimes such as mafia and drugs related crime, will henceforth face stiffer punishment.

The government anticipates that this legislation will restore confidence in the integrity of business and improve Italy's image and the country's GDP. It is reported that corruption costs the economy about €60 billion per annum, money that could be redirected to programmes that would create employment particularly for youths.

On the impact of the counter austerity instruments, Parodi argues that the financial crisis has led to a simply dramatic situation change within the Italian economy and in socio-political stability.

According to her, the Italian economy has undergone many changes in response to the financial manoeuvres undertaken by governments which, instead of suppressing the crisis, caused the closure of many SMEs and family-run business activities, the real industrial pillar and economic strength of the nation.

Studies report that Italy, the second largest manufacturer in Europe, has lost nearly 25% of its industrial production, compared to the 1980s level without any evidence of early recovery.

Concerning the political aspect, the difficulties of the past five years have shown what the current Italian political reality is: Italians were subjected to technical governments (*governi tecnici*), which were not elected by the citizens, whose main mission should have been to mediate between Italians' needs and European interests. However, it is clear that this type of government does not suit the Italian situation as it actually encourages those external demands and pressures coming from strong European nations.

Parodi further argues that the last aspect, the social one, reflects the overall impact of the financial crisis over the past five years. Italians no longer believe in any form of political government. In addition, they are extremely disappointed and, as years go by, Italians are becoming more and more tired of Europe and the Euro, the currency to which the Italians have made enormous sacrifices, believing in future highly possible benefits and improvement of the economic and financial status. Therefore, Italians are now unenthusiastic and live a "hand to mouth" existence. They prefer to flee their own land rather than struggling to improve the situation since the financial crisis is so tough and durable that it kills those who try to face it. They feel completely abandoned by politicians who are more pro-European than pro-Italian interests and needs.

On the other hand, Milioto makes a comparison where he indicates that the world financial crises, from USA subprime to Asian high risk hedge fund, have definitely affected and reshaped the world economy while promoting momentum for a new path of governance. Financial Institutions have acknowledged the failure caused by the lack of *"non-governing body"* in monitoring and sanctioning fraudulent practice while the world population has suffered from banking speculation and abuse of a dominant position.

World consumption has drastically dropped in the last five years but while USA is recovering well with high an increase in GDP, Europe and Asia are still facing several severe challenges regarding ongoing economic, social and political instability.

Di Liddo points out that the financial crisis has had a heavy impact on Italy. This includes industrial production and consumption, which according to some economic analysts will take twenty (20) years to return to the levels prior to the crisis. Moreover, the problems of the economy have had a fierce political and social impact. As for the social sphere, the raising of the average level of poverty has forced the citizen to cut back on consumption, holidays, health, and education. As for the political aspects, the crisis has forced the Italian government into heavy cuts in health, defence and public spending in general.

Furthermore, to balance the state budget, the tax burden and the retirement age have been raised. The effect of all this has been growing popular discontent and a deep alienation from the institutions. Finally, economic difficulties have increased their support for populist, Eurosceptic and xenophobic movements.

The main argument put forward is that the instruments implemented by the technocratic governments have had little effect in improving the economic and social conditions of the people. In the main they created more problems than solutions.

However, the latest statistics for 2015 provide an interesting state of economic affairs in Italy. For an example, in all regions except the north east as reported exports have improved by more than 1% indicating growth. According to ISTAT, in July, the seasonal adjusted industrial index increased by 1.1% compared with the previous month. Furthermore, the percentage change on the previous three months was +5%. On the other hand, the calendar adjusted industrial production index increased by 2.7% compared with July 2014

Moreover, the consumer price index rose, on both a monthly and an annual basis rose by 0.2% while inflation was up to 1% from 0.99% in July 2015.

The importance of these statistics reflects an emerging positive upward trajectory in the Italian economy since the beginning of 2015. All these point to a positive future for business and economic growth but with the proviso that this pattern would have to be sustain.

FINDINGS AND CONCLUSION

1. INTRODUCTION

The paper has attempted to address some of the critical questions around Italy's financial crisis and its impact to the economy. The interest of many researchers in this field is based on finding out mainly the impact of a financial crisis especially on economic and social spheres. This is important in determining the extent of the challenge when its value is measured in terms of numbers as well as the gravity of the problem.

Furthermore, it should be noted that when this study was conducted the central focus was to present new, or add to, the existing body of information on this important subject which has affected many countries particularly in the South of Europe in countries like Greece, Portugal and Spain besides Italy.

However, it should be underscored that the paper touches on how diplomacy played its role in mitigating between what was nearly regarded as another "Greece" failure in the Eurozone. Italy became an important ally in resolving its own challenges and thereby emerging as a critical regional player while experiencing deep financial crisis. In this regard, Italy had shown its depth in diplomacy through its engagement with the region and the world in trying to find a balance between its domestic challenges and its international expectations.

Moreover, the study also reveals the value of an important role player in uniting different forces thereby bringing stability both political and economic. Few could have had the confidence and wisdom of the Italian President who, at the age of 86 in 2011 pulled Italy out of the economic challenge and successfully oversaw the transition from Silvio Berlusconi, an elected prime minister, to Mario Monti, a technocratic prime minister. It was at the age of 88 when he was re-elected as the first president to serve two terms indicating that his wisdom was seen as indispensable not only by the public at large but also by the very same political class.

Lastly, it should be important also to note that the paper brings to fore some of the important instruments that helped Italy to improve its dire economic situation and brought hope to a number of youngsters who had nearly given up hope about job security in their own country. This paper dealt extensively with these multiple instruments and their impact. One is tempted to say that the “Nazareno Pact” was a turning point which brought the economy to where it is today but other’s will argue that the austerity measures of Dr Mario Monti are starting to bear fruits. The next section will help find some answers to these contradictions.

2. FINDINGS AND ANALYSIS

This paper has succeeded in revealing that Italy has had a debt problem since its unification in the late 19th century. It would be recalled that it was reported that the public debt tripled between 1859-1861 and reached 200 million lire which was considered an astronomical amount during that period especially for a small state. Beyond that, it was also discovered by Jones (2003 pg.145) that in the late 60s, the country experienced a capital outflow amounting to approximately $3 billion before the financial crisis of the 70s even begun.

It was said earlier that in the early 80s the recurrent public sector deficit generated a huge debt that was beginning to constrain Italian fiscal and monetary policy and creating serious political problems. It was to be found that when Italy signed the Maastricht Treaty in 1992 its public debt was sitting at 100% which at the time was an alarming percentage that required immediate serious attention. However, the study also agrees with other researches and opinions that in 2011 when the debt reached 120% resulting in the loss of market confidence in the economy, the EU after experiencing problems with Greece, intervened and pressured Italy to act politically to save the economy.

According to 2014 figures of the Worldfactbook, the public debt is at 134% further indicating that there is still no near end to the widening debt. Put simply, the public debt reflects a debt owed by the government to all public and private lenders.

On this point it is clear that in the past five years all efforts and measures which were implemented to narrow the public debt were insufficient and instead the debt continues to grow. However, at some point one could say that the debt is increasing primary because the government has regained market confidence which allows it to access capital in the market to finance important national projects that are aimed at stimulating economic growth and job creation. Krugman[13] (2015.pg.1) points out that "believe it or not, many economists argue that the economy needs a sufficient amount of public debt out there to function well. And how is sufficient? Maybe more than we currently have. That is, there's reasonable argument to be made that part of what ails the world economy right now is that governments aren't deep enough in debt."

Therefore, it is precisely the question of what is sufficient or not which determines the level at which the market could maintain confidence in the capacity of the government to service its debt. That is the crucial question.

2.1. Diplomatic Skills and the role of the European Union

It is essential to note that Brussels was under tremendous pressure to act decisively and present a solution to the debt crisis not only in Greece, Italy, Spain and Portugal but in all member countries even those who had not yet reached alarming percentages.

In fact, the paper has revealed that according to Bruni[14] (2013. Pg.1) "in 2011 the European Central Bank (ECB) had already started to buy Italian Bonds and sent a hard letter mandating adjustments and reforms to the Italian authorities". It is a considered view that this how Brussels started to put pressure on the Italian government to sort out its fiscal challenges.

Furthermore, Bruni argues further that in July of the same year, Italy's fiscal adjustment programme was given the green light by the EU Council which recommended more

[13] Paul Krugman (21 August 2015) New York Times , Opinion Pages- Debt is Good on the good and bad of public debt

[14] Franco Bruni- A Paper " In and Out of Doldrums"- Italy and EU Economic Governance- Institute Per Gli Di Politica Internazionale (ISPI)- 19 April 2013

concrete measures and their implementation. In August 2011, the ECB demanded that Italy balanced its budget by the end of 2013 which triggered market speculation against the Italian sovereign bonds and a sparked political crisis. Consequently, the Italian government led by Berlusconi was forced to resign and a technical government was installed in November 2011.

It also came out in the study that Italy with its huge GDP estimated at €1.88 trillion avoided applying for bail out packages and opted for the rollout of painful austerity measures. It was also discovered in this paper that during the reign of Berlusconi, Italy's relations with the EU were frosty with growing sentiments of Euroscepticism from the centre-right particularly from parties such as the People of Liberty (PdL) of Berlusconi and the Lega Noord. It was not surprising that populists parties like the Five Star Movement joined the chorus of anti-EU establishment.

The appointment of former Prime Minister Mario Monti, who was well respected in Brussels and an economist, had two advantages:

1. An economist who will design necessary economic instruments that would fix the economy and restore market confidence; and
2. A former diplomat who had necessary knowledge and expertise to engage Brussels and the globe in repairing the damaged country's reputation.

At regional level, the first important diplomatic move from Italy in the height of its financial crisis was its contribution in 2012 in pushing for the establishment of the intergovernmental environment that enabled the July-August 2012 ECB Declarations which played a critical role in lowering spreads around the EU including Italy.

That was a good sign. It sent a clear diplomatic message that what happens around Italy has major implications on the health of the European economy. Italy, under Monti, was prepared to play an influential role in the transformation of some of the EU policies that have long been partly blamed for the financial crisis.

Once again the paper has revealed that in the same year in one of his addresses to the Italian parliament, Monti articulated Italy's stance on the anti-crisis measures and the EU integration process. According to Bruni, amongst others, regarding its diplomatic position, Italy wanted to be clear on what it strongly believes in namely budget discipline and growth policies.

The above point raised by Bruni was to become a diplomatic baton which was passed over to successive premiers, former Prime Minister Letta and now Renzi. It was also the central focus of Italy's Presidency of the European Union Council in 2014.

Again Monti, shifting away from the Eurosceptics, committed to Italy focusing on strengthening the then EU instruments in order to limit the financial contagions. This undertaking was critical in countering the damage on the country's reputation that the previous government had caused.

Bruni further suggests that Italy's diplomacy was aimed at breaking the inefficiency trap caused by the Franco-German leadership which has been alleged to have blocked "positive evolution in 2010 and 2011". Even Berlusconi has steadfastly remained convinced that Germany was profiting from the Italian financial crisis by lowering its own borrowing costs.

One of Italy's major diplomatic tactics under the leadership of Monti, was to respect the demand for balancing the budget by, among other ways, amending the Italian constitution to incorporate this obligation. This again was a clear and attractive signal to the EU and the financial markets that Italy was dealing decisively with its fiscal policy.

This paper also reveals that, at the height of its financial crisis, Italy was instrumental in the adoption of the June 2012 Compact for Growth and Jobs particularly in its support for growth instead of growth reducing austerity measures.

It is also interesting to note that Italian diplomatic influence went beyond the fiscal policies and it covered the Union's monetary policies. Italy supported the centralised EU Banking policy which, amongst others, introduced surveillance over all banks that agreed to take part in the new system. Italy used the advantage of the quality of its banking surveillance and crisis management system, which is considered to be above the European average, in this regard.

In summarising this point, Italy has managed to diplomatically put the agenda of the financial crisis on the EU map and demanded a regional solution to the problem instead of focusing on country specific shortcomings. Unlike Greece, Italy pushed for structural and policy changes at home and at the EU level instead of throwing cash at the problem.

2.2. The role of former President Gorgio Napolitano

The paper has found that the role played by President Napolitano in maintaining stability in the midst of crippling financial crisis was phenomenal. Unlike Greece, which saw massive demonstrations with resultant destruction of property, Italy had limited anti-austerity protests with minimum damage to property.

Parodi agrees that “there is no strong political leader who can actually lead the citizens to a real and massive demonstration and let citizens’ voice be heard”. However, we are currently witnessing that the Movimento 5 Stelle (M5S) is getting wider and wider popular approval.

Italians cannot afford to close shops or any other business activity for a day in order to protest. Therefore, Italian citizens were and are too busy working daily to pay taxes and live a “hand to mouth” existence.

She further argues that “Italians do not have the same temperament as the Greeks, the Spaniards and the French. The average Italian person is an individualistic person who gets angry and complains a lot but does nothing - or little - to change the general situation. (As reflected in the results of the last regional elections)”

Di Liddo agreed with Parodi and maintained that “Greece's situation was worse than that of Italy. For the Italian people to hold huge demonstrations they must be really in extreme poverty. In Italy there is a parallel system of welfare made by the families. This welfare system has had the effect of a social parachute and limited the effects of the crisis. In addition, official economic data is misleading, because in Italy the amount of the shadow economy is 30%. Finally, the policy was good at not scaring people. I believe that, in this sense, the political sacrifice of Berlusconi and Monti has served as a safety valve for the electorate. Now we hope that the optimism of Renzi will last for a long time"

Protests by public transport and taxi owners bear testimony to the above statements. When protesting, transport workers would do so after 9:00 am and return to their posts just before the 5:00 pm knocking off time to ensure that workers were not inconvenienced. At the same time, they would not miss out on their income for the day.

The above also demonstrate possibilities that the President's intervention, amongst others, helped to avoid. When he was re-elected in 2013, President Napolitano conceded that he was facing a difficult challenge and that he was re-elected during a "crucial moment" in the political history of Italy.

The paper reveals a man who was so committed to his country even at his vulnerable old age that he immensely contributed towards political stability at a time when hope and trust in politicians was fast waning.

Parodi confirms that it "might be discovered that former President Napolitano managed to maintain a consistent attitude, in line with his strongly pro-European approach and with the conviction that Europe must change its views for its survival".

This line of thinking is in tandem with the prime ministers he nominated in the past five years which were all pro-Europeans. This also feeds the belief that Italy's national interest is strongly aligned to that of EU countries.

2.3. Measures to address the Financial Crisis

As has been highlighted in the study, it is quite difficult to point out which instruments exactly contributed to the improvement of the economic situation in Italy. It has been emphasised above that Italy is not yet out of debt since the public debt is continuing to rise from approximately 83% in 1870 to 134% in 2014.

However, some of the hard measures that were implemented since December 2011 have contributed to an improvement of the economic situation especially in the last 12 months. The paper has put an example of the number of these measures which include, amongst others:

1) **Financial Stabilisation Decree**:-former Prime Minister Mario Berlusconi (2011)- cut money transferred to local authorities and health spending.
2) **Save Italy measures**: - former Prime Minister Mario Monti- cut spending and tax increases aimed at eliminating the budget deficit by 2013 and stimulating economic growth.
3) **Abolishing of the IMU**:- former Prime Minister Enrico Letta aimed at scrapping housing tax
4) **Labour Tax Reduction**:- former Prime Minister Enrico Letta introduced tax reduction for employees
5) **VAT Increase (21%-22%)**:- former Prime Minister Enrico Letta attempted to ease fiscal pressure in the long run.
6) **Nazareno Pact**: - Prime Minister Matteo Renzi in collaboration with Berlusconi aims to overhaul the electoral and labour legislation, public administration and Italy's tax system.

The study has identified that part of the EU and President Napolitano's bargaining points was to push Berlusconi to balance the budget and consider resigning afterwards following huge pressure from the EU and the markets for him to step aside. The Financial Stability Decree could not make a dent on the widening gap.

It has also been seen that the Monti “Save Italy” measures brought painful measures which later made him not only unpopular with the populace but with political parties in parliament who grudgingly supported his agenda. Amongst others, the measures were targeted at cutting the cost of government, combatting tax evasion and stimulating economic growth. However, the increase in taxes for workers, the sale of some state assets, the transformation of public transport and pharmaceutical industry as well as labour reforms met huge resistance. This resistance sparked what was to be called anti-austerity protests across Italy.

When former Minister Letta took over, he promised to review the austerity measures. The focus of his government was to reduce the tax burden without abandoning the austerity which has retained the faith of investors in the Italian economy. We have seen that during this period two important decisions were taken namely, scrapping of the housing tax called IMU and the increase of the Value Added Tax from 21%-22%. During this period the public debt continued to increase to approximately 130% in 2013. As the graph below from trading economics shows public debt reached 132.1% in 2014.

In 2014, Premier Renzi introduced a “Nazareno Pact” which focused mainly on four (4) areas; labour reforms, a new electoral law, public administration and Italy’s tax system. This pact has been the pillar of the premier’s reform agenda. The Jobs Act approved late last year was implemented in the 1st quarter of 2015.

So far the Jobs Act has been found to have had an indelible impact in the labour market. This Act was also praised by the OECD and the EU which indicated that it will contribute to economic growth. The official figures indicate that while the economy grew by 0.3% in the 2nd quarter 2015, positive employment grew in July by 1.1%. The unemployment rate decreased to 12% after having reached 13% in the 3rd quarter of 2014.

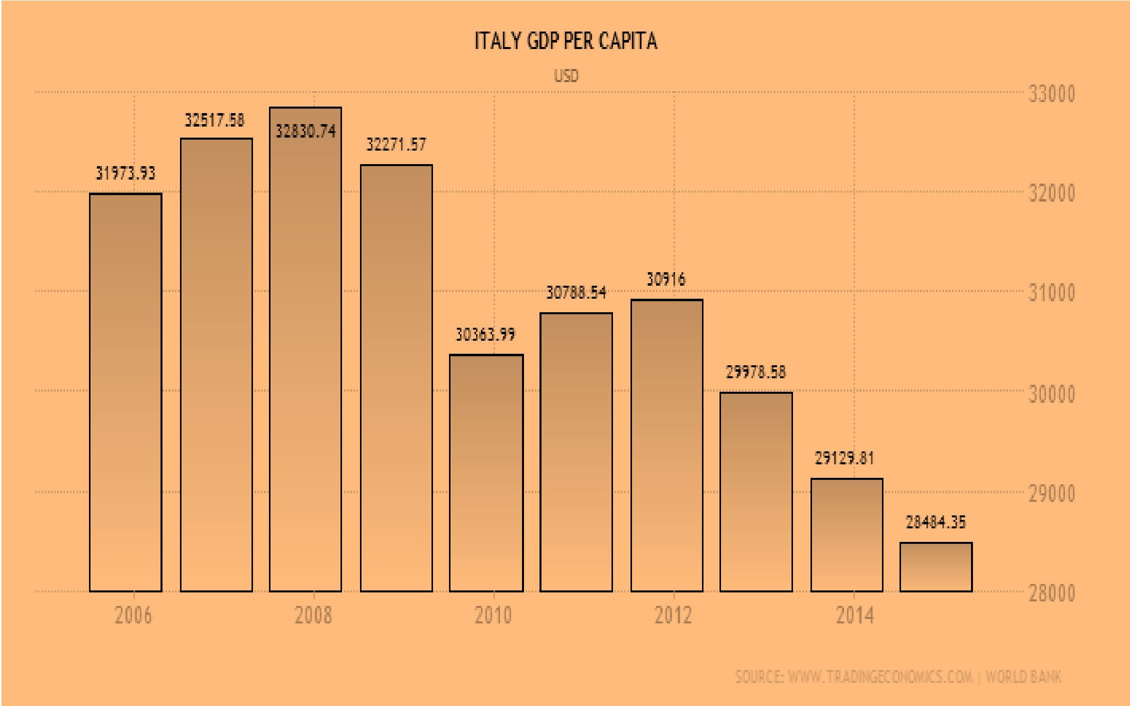
In closing, as mentioned earlier, the paper reveals that Italy came out of a long recession in the 1st quarter of 2015. Analysts have, amongst others, apportioned this positive growth to many factors including the reforms that have been implemented by the government of Prime Minister Renzi such as the Job Acts, Anti-corruption law and the European Quantitative Easing programme.

2.4. The Impact of the Financial Crisis

Unfortunately, the standard of living mainly of the lower class has been severely affected by the effects of austerity measures. This paper revealed that Italians have suffered due to a recession which reached its high of -7.20% in the first quarter of 2009. According to ISTAT this recession had a devastating effect on the country’s demographics resulting in spiraling social problems like increased rates of divorce, suicides and substance abuses.

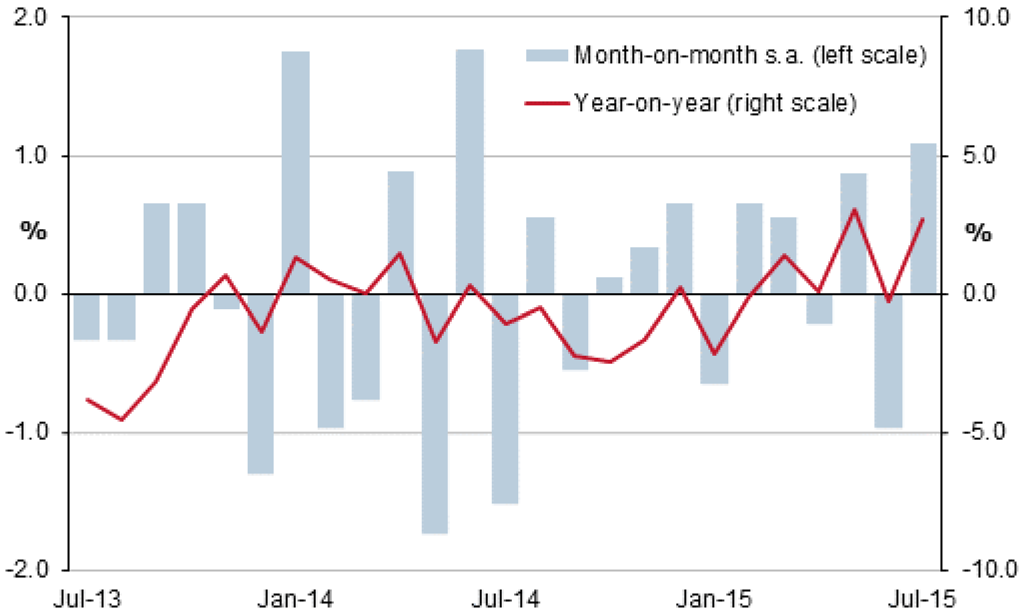
However, in 2014, households final consumption grew by 0.3% after a significant decrease in the previous two years -3.9% and -2.9% in 2012 and 2013, respectively. It is reported that this increase was due low inflation and the reduction of household propensity to save from approximately 8.9% to 8.6%.

According to Trading Economics, the GDP per capita plunged from $32,830,74 in 2008 to a low of $28,484,35 in 2014.



It should be recalled that in 2007 Italy recorded its lowest unemployment rate at 5.8%. Notably, it recorded its all-time highest rate of 13% late in November 2014. Importantly, young Italians lost hope of ever finding employment in Italy and some have migrated to some EU countries in the north.

On the business side, the paper discovered that manufacturing suffered tremendously during the recession. As depicted by the graph below, in 2013 industrial production was below 0% and the situation in the past nine (9) months demonstrate a significant shift to positive percentages



Note: Month-on-month changes of seasonally-adjusted industrial production and annual growth rate in %. **Source:** National Statistical Institute (Istat) and Focus Economics calculations.

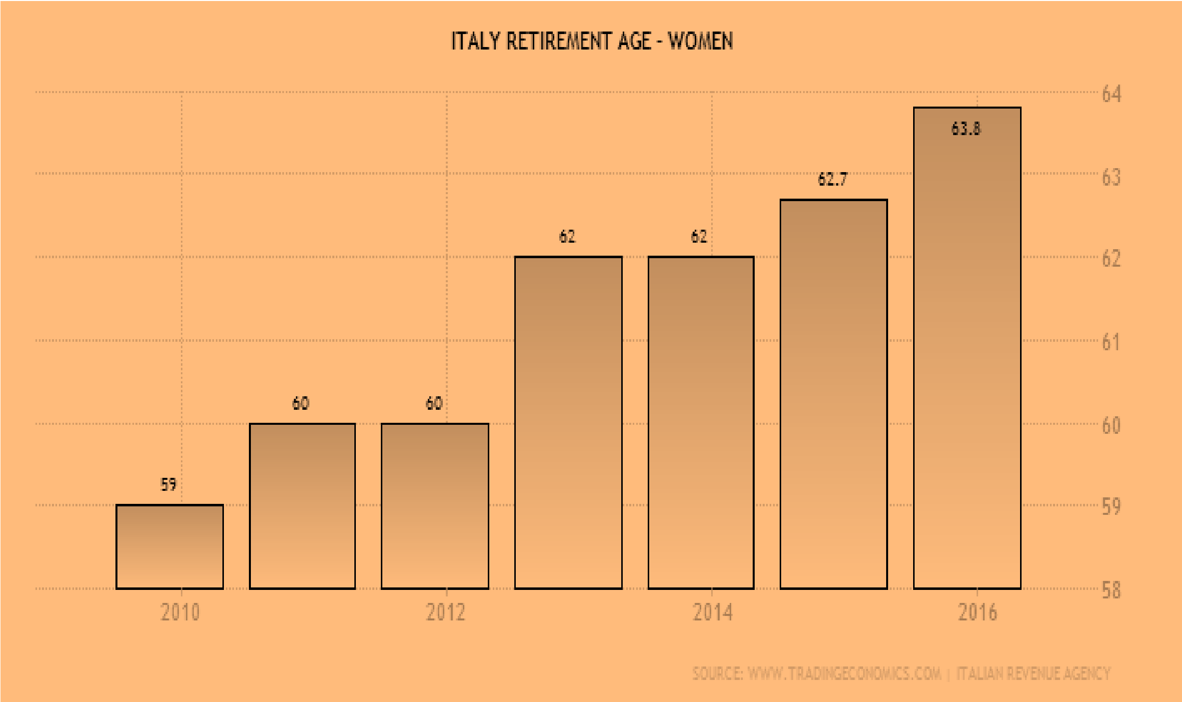
It is almost history now that Italy has been in recession almost for the past five (5) years. Analysts have suggested that amongst others, the contraction was caused by weaker domestic demand following the effects of the austerity measures.

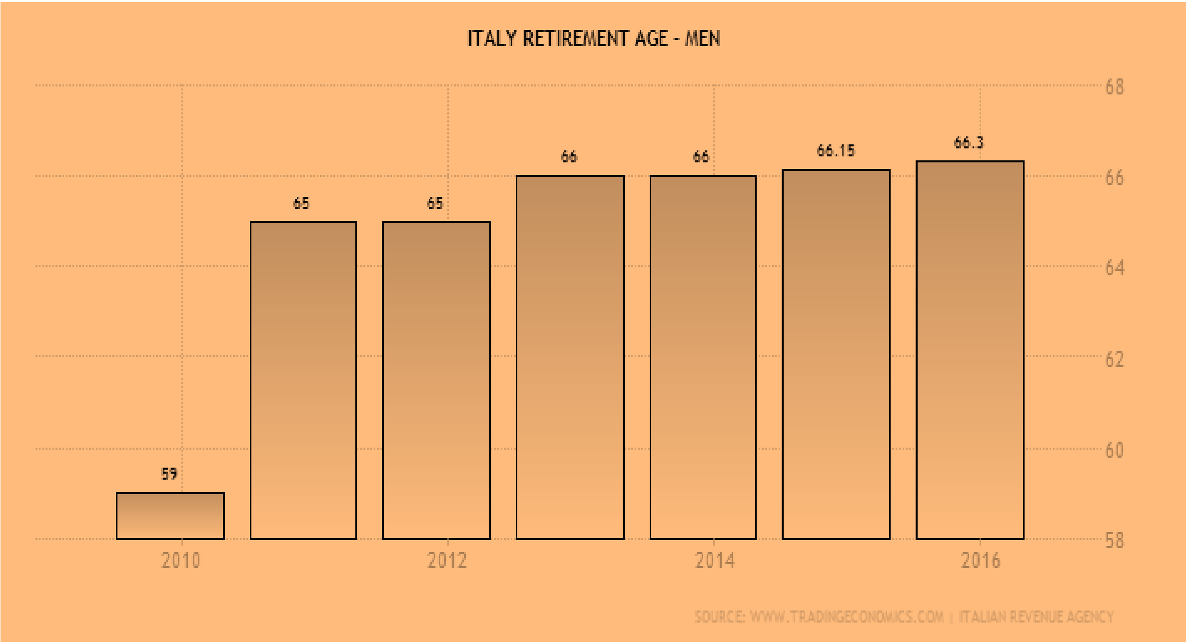
The impact of the austerity measures is articulated by Parodi when she asserts that Italians do not believe in a form of political government. She further argues that they are extremely disappointed and, as years go by, Italians are more and more tired of Europe and the Euro, the currency to which the Italians have made enormous sacrifices.

On the other hand, Di Liddo concurs with Parodi that due to the impact of the crisis economic data and industrial production will take twenty (20) years to return to the levels prior to the crisis. He further argues that the average level of poverty has forced the citizen into lower consumption, and less expenditure on holidays, health and education. In addition, it has forced the Italian government to cut heavily on health, defence and public spending in general.

This paper also revealed that the impact of the austerity has led to the government lifting the retirement age to 66 for both men and women in the public sector and 60 in the private sector. Italy continued to be plagued by the problem of an aging population with its fertility rate being among the lowest in the OECD and life expectancy among the highest in the OECD countries. Notably, public pension spending was 9% of the GDP in 2011 which is considered the highest among the OECD countries after Greece and Spain.

The graph below shows that due to the crisis, women are beginning to delay taking their pensions. It could also be partly due to recent pension reforms introduced by the government. The other graph shows that men have begun to take their pension at 66 years.





In concluding, the paper has revealed that the instruments implemented by the government up to 2013 have had little effect in improving the social and economic conditions of the people. In the main it created more problems than solutions especially for the ordinary man and woman on the streets.

3. CONCLUSION

Most literature and respondents agree that Italy's image has suffered during the height of the financial crisis. Firstly, the scandals that surrounded former Prime Minister Berlusconi who received a majority of votes in his last terms damaged the reputation of the office of the prime minister and that of the Italian Government. Secondly, as a consequence of failure to arrest the growing public debt, Italy saw its influence within the region and internationally diminish.

It was therefore important that Italy was forced to act decisively to restore public confidence in government in general and in the office of the prime minister in particular by introducing measures to recover the lost ground within the region and internationally. The literature and respondents also agree that the choice of the technocratic government led by a former EU Commissioner and economist, Dr Mario Monti was a smart move designed to revive confidence from the markets and Brussels. Indeed, this regime successfully achieved this responsibility under the stewardship of Prime Minister Monti.

In addition, it has been shown that Dr Monti with his extensive knowledge of the EU and diplomacy was the relevant leader to diplomatically express Italy's economic interests in a manner that would have changed Brussels' perceptions on the financial crisis and on austerity measures. Dr Monti set the course for successive Italian leaders to focus on demanding austerity with growth policies. This approach was also supported by France and Greece, respectively. Both countries championed austerity accompanied by growth policies. This strategy was carried out by Prime Minister Enrico Letta and currently by

Premier Renzi whom in the Italian Presidency of the EU Council focused on “mobility and economic growth than austerity measures.”

Agreement has also been reached on the importance of regional diplomacy on the issue of the financial crisis not only for Italy but for other countries like Greece, Portugal and Spain within the EU block. The study has confirmed that there was no way the EU could fold its arms and allow Italy, which is the third largest economy in the Eurozone and the fourth in Europe, to collapse. It was clear that any complacency or letting Italy’s situation get worse would have been catastrophic for the Union. EU leaders, and also certainly the entire globe, agreed that the Italian debt was too large and Italy too big to fail.

Italian diplomacy managed to calm the nerves of investors and somewhat revitalised the confidence of Italy’s international allies, particularly from within the European Union, in the country’s ability to take the necessary steps.

The role of President Giorgio Napolitano during the height of the financial crisis and the 2013 political impasse cannot be over emphasised. The president was an important political figure who brought hope and forged stability when Italians had thrown away any trust and confidence in the political class. Confidence in him was found not only amongst ordinary man in the street but also amongst politicians themselves who equally trusted his ability and integrity.

It should be recalled that President Giorgio Napolitano was re-elected in 2013 to become the first head of state of Italy to serve two terms after he agreed to stand in the sixth presidential ballot to avoid escalation of the political deadlock. Notably, the re-election of President Napolitano was backed by the Democratic Party, ex-premier Silvo Berlusconi’s People of Freedom (Pdl) party and outgoing Premier Mario Monti’s Civic Choice. Only the Five Star Movement voted for its own candidate.

One of the central focuses of this research was to find out the key instruments that were implemented by successive governments to counter the effects of the financial crisis and the austerity measures. The paper managed to label a few that gained popularity as covered in the findings.

It is agreed that Italy was slow in responding to the 2008 global financial crisis and only reacted late in 2008 with an anti-crisis decree which was aimed at jumpstarting the economy. This included other measures that were put in place later on but did not yield positive results. It was particularly in 2010 when market confidence plunged that the government of Italy moved its focus to fiscal consolidation and took compelling measures.

Be that as it may, under Berlusconi an important bill on Financial Stabilisation Decree was passed cutting the transfer of funds to local authorities and health spending. This decree failed to bring the necessary impact on the widening public debt.

Dr Monti introduced a radical package which was called "Save Italy" measures for cutting spending and tax increases aimed at eliminating budget deficit by 2013 and stimulate economic growth. It is agreed that despite opposition from various parties and trade federations, the measures implemented by Dr Monti somewhat brought a relative financial stability and restored confidence in the economy.

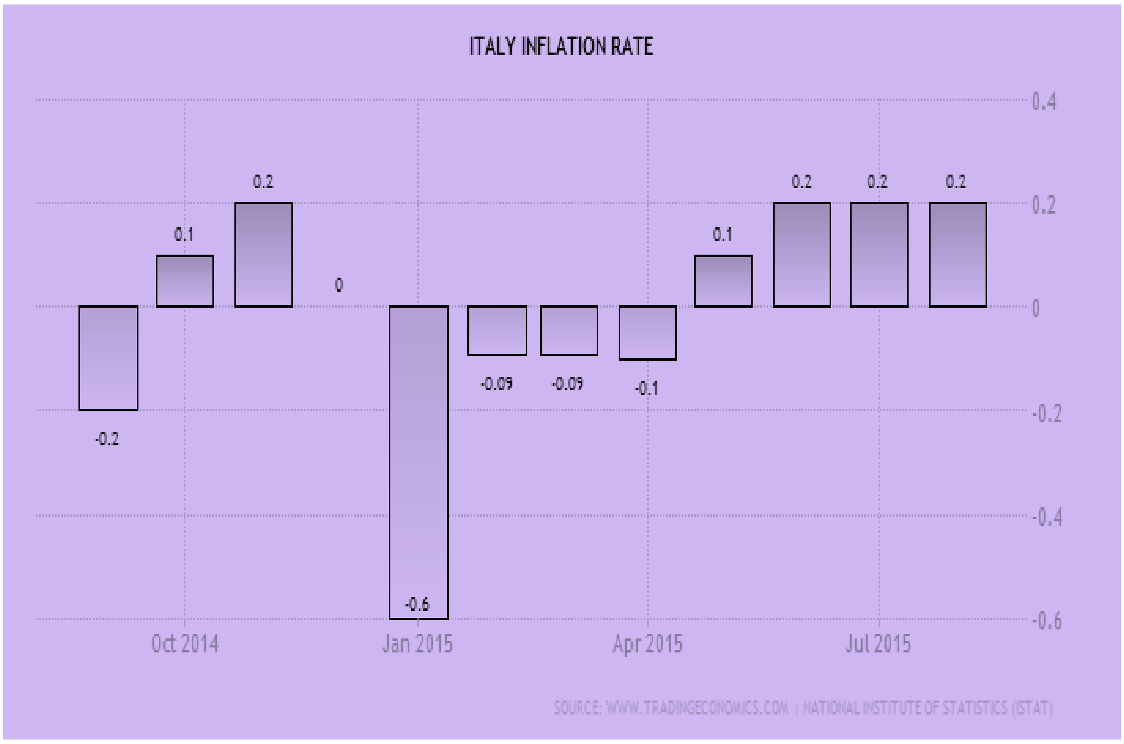
It should be noted also that some respondents and the literature are of the view that even under Monti, the economy went into recession, and the unemployment rate surged. Some banks even resorted to bailouts when credit dried out. But in the main there was relative stability and markets gained confidence in the direction Italy was taking in terms of fiscal policies.

However, this relative stability came at expense of the popularity of Dr Monti who eventually succumbed and resigned due to a loss of support in parliament.

Premier Renzi took over when the seas where much calmer and introduced a reform package labelled “Nazareno Pact” in collaboration with Berlusconi. This package was aimed at overhauling the electoral, labour legislation, public administration and Italy’s tax system. It is these reforms that have seen Italy moving out of deflation and recession and have experienced a positive growth and reduced unemployment. The following graphs therefore paint a different picture of Italy’s current situation which depicts a country in a state of economic recovery from an approximately six (6) year long recession.

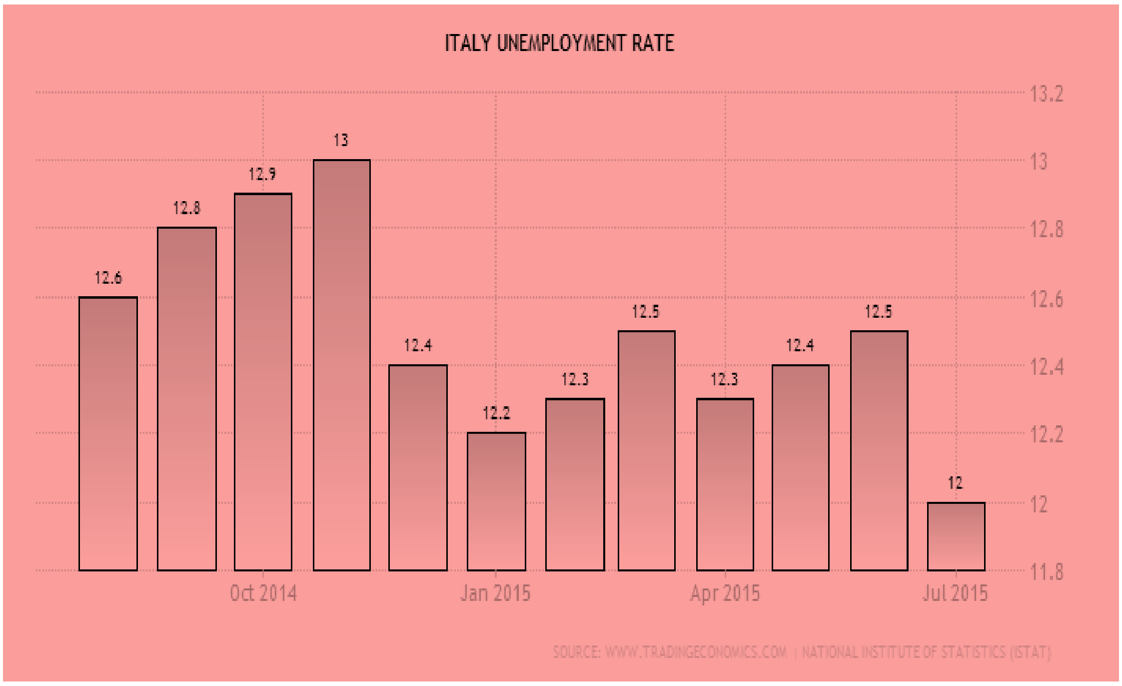
According to the Trading Economics, GDP in Italy expanded 0.70 percent in the second quarter of 2015 over the same quarter of the previous year. Notably Italy’s record low of -7.20 percent was recorded in the first quarter of 2009.

According to the graph below from the Trading Economics, Italian consumer prices increased by 0.2 percent in August of 2015, the same pace as in the previous two months and matching preliminary estimates. It should also be noted that the Inflation Rate in Italy averaged 6.36 percent from 1962 until 2015 and it reached a record low of -0.60 percent in January of 2015. However, the economy emerged out of the deflation in the second quarter of 2015 and reached 0.2%.



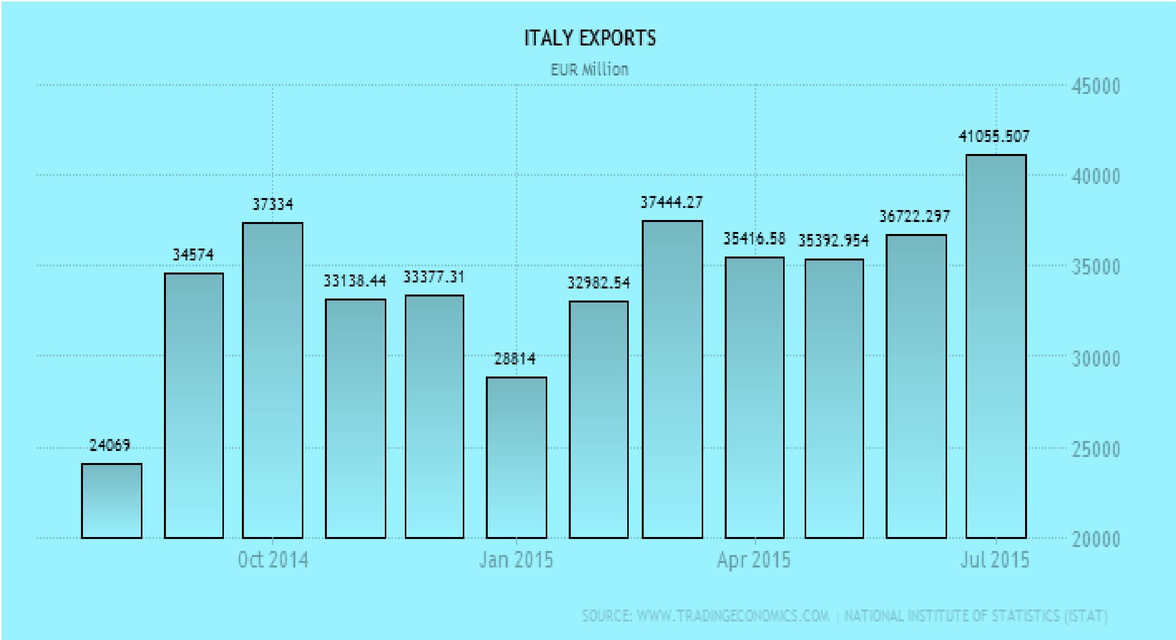
The graph below from Trading Economics illustrates that in the second quarter of 2015 the Unemployment Rate in Italy decreased to 12 percent from a downwardly revised 12.50 percent in June of 2015. This recovery follows on the footsteps of Italy's reaching an all-time high of 13 percent in November of 2014.

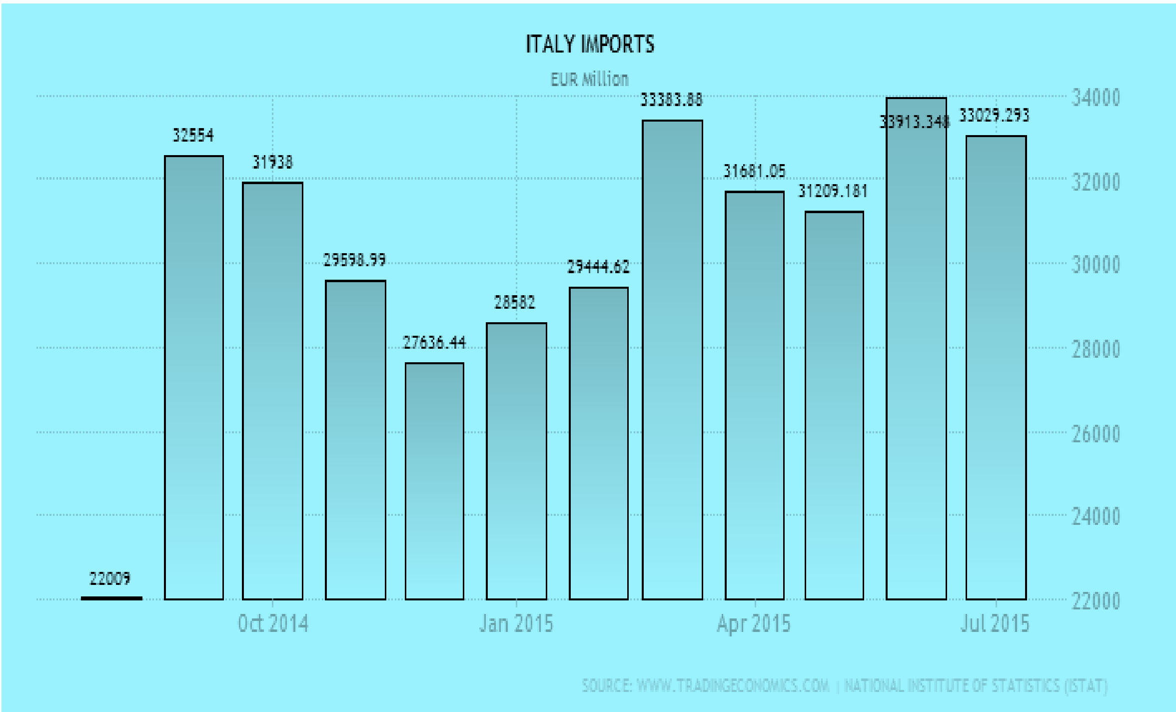
The lowest ever unemployment rate in Italy was a record low of 5.80 percent in April of 2007



The graphs below from Trading Economics reflect the state of exports and imports from Italy. Exports in Italy increased to €41,055,51 million in July from €37,334,00 million in October of 2014. This graph also indicates that Italy reached an all-time high of €41,055,51 million in July of 2015.

On imports, Italy's imports decreased to €33,029,29 million in July from €33,383,88 million in the first quarter. This has maintained Italy's positive trade balance.





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ANNEXURE A: INTERVIEW QUESTIONNAIRE

Kindly complete this questionnaire and submit to the researcher as per determined date. Please note that your views will be treated as confidential.

Section A

Name of organization	
Name of the Interviewee	
Section	
Date	

Section B- Questions

1. From your perspective, focusing on the past five (5) years, what has been the impact of the financial crisis?
2. Various measures ranging from the government of Prime Ministers Monti to Renzi were put in place to address the financial crisis, please identify those in your understanding that have brought significant change.
3. Compared to Greece, Italy did not experience major substantial demonstrations. What contributed towards relative stability when ordinary citizens were experiencing economic hardships?
4. Italy's regional and international reputation, amongst others, as a G7 suffered during this period of financial downturn. How did Italy apply its diplomatic skills to deal with the crisis to avert further damage to its image?
5. The EU was instrumental in intervening and putting former Prime Minister Berlusconi under pressure to implement reforms. From your view what was the role of the European Union and how did Italy respond diplomatically to EU recommendations?

6. President Napolitano, informed by Italy’s Constitution, played a central role in maintaining stability amid continuing financial challenges. Can you please measure the impact of his intervention?