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Business fears instability will put reforms at risk

By Adrian Michaels in Milan

Italian business leaders and economists warned yesterday government instability after the Italian elections would jeopardise swift implementation of badly needed reforms.

Indices on the Milan stock exchange fell as investors showed disquiet at the close election result. Towards the close of trading yesterday the S&P/MIB index was down 2.3 per cent.

Some feared a worst-case scenario. Others were optimistic. "The worst is behind us," said Diego Della Valle, chief executive of fashion company Tod's, who has clashed with Silvio Berlusconi: "Italians need and want a government that can face the problems of the country, put the bad faith [of the campaign] behind us and go forward together."

Roberto Crapelli, regional head for consultants Roland Berger, also preferred to concentrate on what the government needed to do rather than to dwell on the likelihood of it happening.

"Even though the elections were close, the challenge for the new government is to implement reforms necessary to restore the competitiveness of the Italian industrial and financial systems," he said.

The health of the country depended, he said, on wealth of the economy. "There is no more room for subsidies, for increases in debt."

Business people were generally united about the need for greater competition. Confindustria, the Italian employers' body, said yesterday it was mindful of the difficult situation and repeated its belief the economy and business should top the country's agenda.

Mr Crapelli urged measures to diminish bureaucracy – "more than 20 governments have tried to fix this [during] 30 years" – and to form strong banks and insurers that were not entangled in politics.

The new government should support those banks and other groups in providing stronger services for Italian exporters, said Arturo Artom, a venture capitalist whose interests range from satellite broadband to design and technology. Mr Artom has been supportive of Romano Prodi's centre-left.

Need for reform was highlighted by Lorenzo Codogno, who has become chief economist at the finance ministry. Mr Codogno, in one of his last acts in his previous job as an economist at Bank of America, wrote on the eve of the elections: "Italy's deep structural problems call for shock therapy immediately after elections."

Fitch, the ratings agency, said the government would "need to demonstrate a willingness to bear down on public expenditure if a downgrade of Italy's sovereign ratings is to be avoided".

Inês Calado Lopes at Goldman Sachs was cautious: "With a very slim majority and a very broad coalition, the stability of the next government may be at stake."