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Grand Tour for G-7 Begins as Italy Seeks to Dazzle Amid Woes

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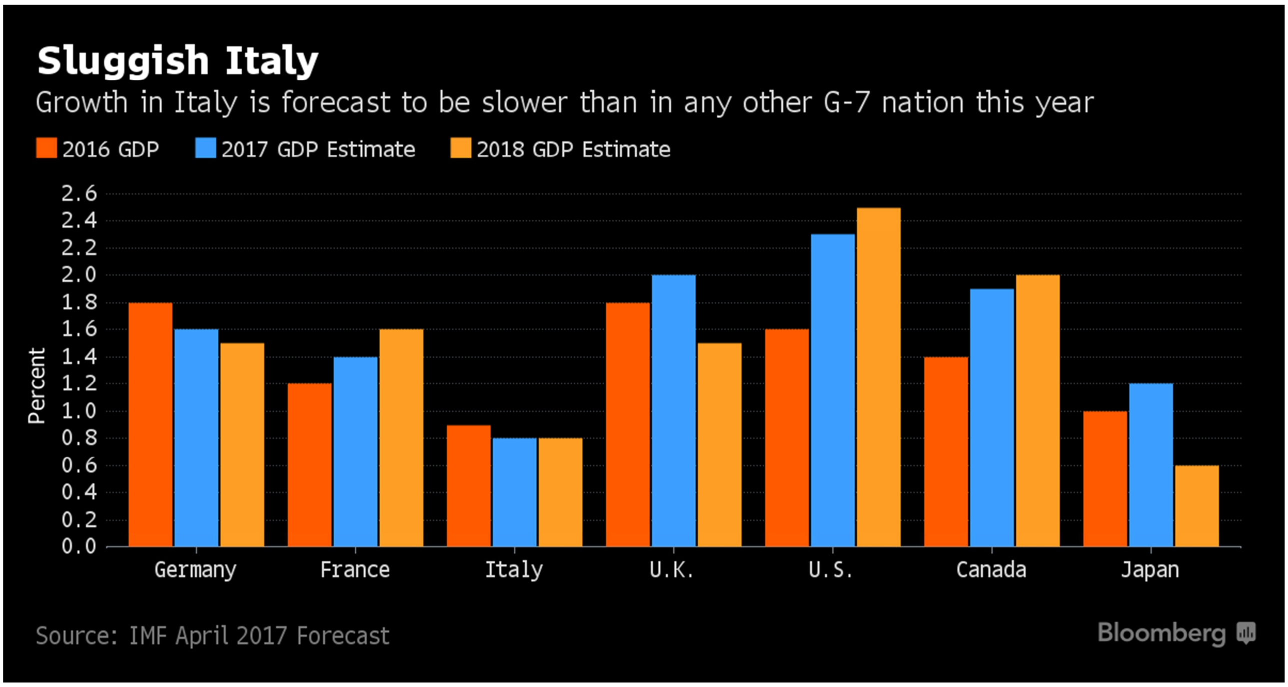
With France's election scare out of the way, Italy is about to get all the attention again.

The euro region's third-biggest economy will this month host the two major Group of Seven meetings of the year, flaunting some of the most spectacular tourist locations in its impoverished south while seeking to divert investors from its banking malaise, growth funk and political turmoil.

"Italy's problems make it the euro area's weakest link," said professor Marcello Minenna from Milan's Bocconi University. "So it's a lucky coincidence that this G-7 takes place in Italy at a time of strong global tensions and the threat of protectionism from the U.S."



The show starts on Friday, when finance chiefs gather in the country's southeast in Bari's Castello Svevo, a Norman fortress where St. Francis of Assisi once reportedly talked the night away with emperor Frederick II. Two weeks later, during Donald Trump's first international summit as U.S. President, leaders will converge in Taormina, Sicily, under Europe's largest active volcano. They'll share the same view of Etna that German poet Johann Wolfgang Goethe once did on his own grand tour of Italy.

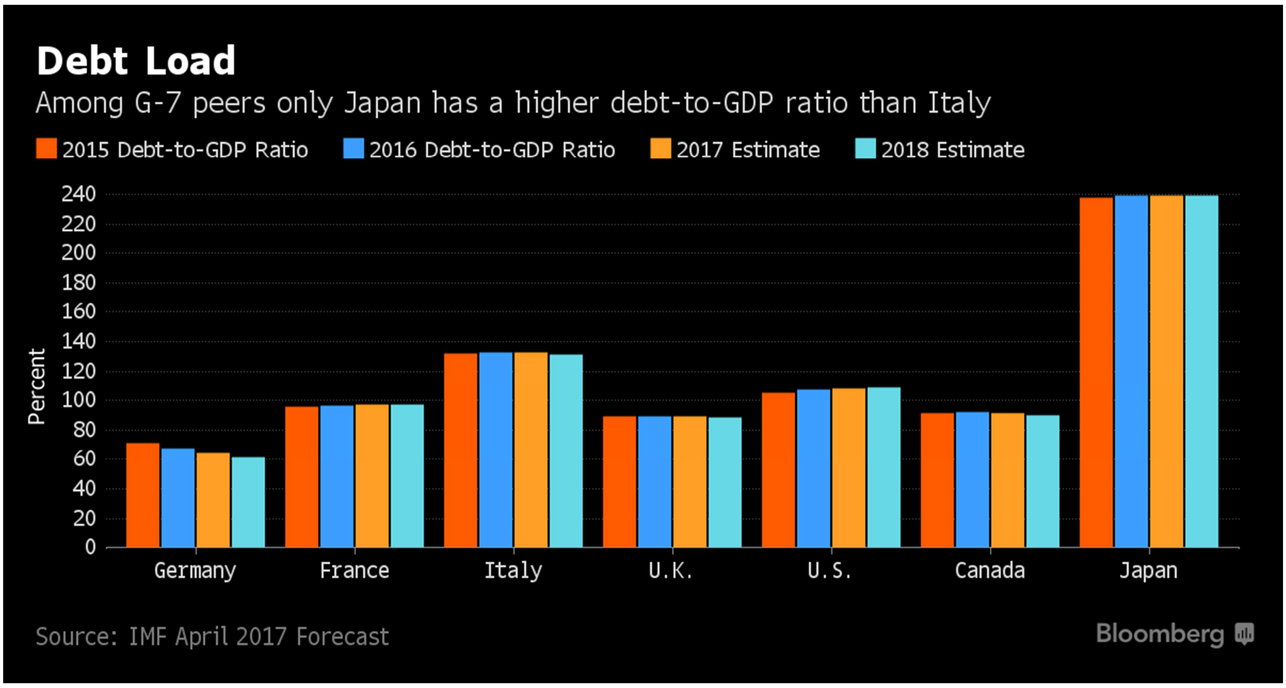
The plan to dazzle the world's economic leaders was devised in happier times by Matteo Renzi, the former prime minister whose fall from office last year followed his failed attempt to streamline the country's political system as a precursor to a revamp of its economy. When that foundered with a referendum defeat, his former foreign minister, Paolo Gentiloni, took the helm of a caretaker administration that has been limping toward an electoral showdown with a vote scheduled for May 2018 at the latest.

Debt Target

Amid that political interregnum, the economy's recovery from its longest recession since World War II failed to gain pace, forcing the government in Rome to postpone its target of starting to cut the country's public-debt load, the euro region's second-biggest after Greece.

On Thursday, the European Commission said in its spring economic forecasts that it expects a "slight increase" in Italy's debt this year to 133.1 percent of gross domestic product from 132.6 percent in 2016.

All the while the nation's banking system remains saddled with more than 200 billion euros ($217 billion) in bad loans, the worst legacy of the economic slump.



As angst about France fades partly into the past, investors are shifting their focus to Italy. Renzi is likely to run again for Prime Minister in the next elections and will face a strong challenge from the anti-establishment Five Star Movement, which has called for a referendum on Italy's euro membership.

The economic sluggishness and political uncertainty are making investors jittery. Citigroup Inc. is forecasting that Italy's 10-year bond yields could rise as much as 300 basis points above their German counterparts from about 180 basis points now also due to likely tapering by the European Central Bank.

"Macron's victory has brought a renewed sense of stability to the euro area economy and politics. This euphoria is likely to last in the next six months, before the next big hurdle of Italian elections," Raffaella Tenconi, a London-based senior economist at brokerage Wood & Co. said in an e-mailed response to questions. "We note that the Italian case is much more challenging."

U.S. Treasury Secretary Steven Mnuchin and Italian Finance Minister Pier Carlo Padoan will meet in Bari on Thursday afternoon ahead of the talks with their counterparts from the other G-7 nations.

Finance ministers and central bankers will discuss inclusive growth while inequalities deepen within their own ranks. Their first dinner on Friday night may provide food for thought. It will be in the city of Matera, a striking UNESCO world heritage site, with its 16th century palazzi that stand above ancient cave dwellings used as housing by poor locals until the mid 1950s.