

ECB interest rate rises expose Italy as eurozone's weakest link, FT poll shows

MARTIN ARNOLD AND
ALEXANDER VLADKOV — FRANKFURT

Italy is the eurozone country most susceptible to a debt crisis as the European Central Bank raises interest rates and buys fewer bonds, according to a Financial Times poll of economists.

Nine out of 10 economists polled by the FT last month identified Italy as the eurozone nation “most at risk of an uncorrelated sell-off in its government bond markets”.

Italy's new rightwing coalition government has budgeted for the fiscal deficit to fall from 5.6 per cent of gross domestic product in 2022 to 4.5 per cent in 2023 and 3 per cent next year. But Italian public debt is one of the highest in Europe, at just over 145 per cent of GDP.

Marco Valli, chief economist at Italian bank UniCredit, said Italy's “higher debt refinancing needs” and “potentially tricky” political situation left it most vulnerable to a sell-off in bond markets.

Rome's borrowing costs have risen sharply since the ECB started raising interest rates last year. The 10-year bond yield climbed above 4.6 per cent last week, almost quadruple the level of a year ago.

Italian prime minister Giorgia Meloni and her allies have been highly critical of the ECB's monetary tightening. Last week she expressed dismay at rate-setters' willingness to keep raising rates despite the risks to growth and financial stability. She said the ECB risked “generating not panic but fluctuations on the market that nullify the efforts that governments are making”.

ECB rate-setters have said they would continue to raise rates in half-point increments this year. However, analysts believe the bank is overestimating the risks to inflation — and underestimating the prospect of a recession.

Kristalina Georgieva, the IMF's managing director, warned at the weekend that a third of the global economy would fall into recession this year, saying the world faced a “tougher” year than 2022.

Four-fifths of the 37 economists polled by the FT forecast the ECB would stop raising rates in the first six months of 2023 and two-thirds predicted it would start cutting them the following year in response to weaker growth.

“The ECB was too slow [in] recognising that inflation was not temporary,” said Jesper Rangvid, professor of finance at Copenhagen Business School.

“I am still afraid, though, that the ECB will not tighten enough because of troubles this would cause in Italy.”

L'aumento dei tassi di interesse mette in mostra l'Italia come l'anello più debole della catena dell'eurozona, evidenzia un sondaggio dell'FT



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