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Italy growth slows, debt hits record high

AFP - Italy's economic growth rate slowed sharply to 0.2 percent in the third quarter and public debt hit a new high, official data showed Friday as bond yield spreads reached record levels.

Italy "is moving away from the leading countries in Europe like France and Germany. Our growth rate is too slow," said Giuliano Noci, a professor at the MIP management school of Milan's Polytechnic university.

"The slight recovery, which is insufficient, is due to a minority of companies that have managed to develop thanks to exports," he said.

"But for small businesses, which are the backbone of the Italian system, the crisis has not gone away," he added.

The growth rate was half the analyst consensus forecast of 0.4 percent.

The Italian central bank meanwhile said that public debt reached 1.85 trillion euros (2.54 trillion dollars) in September -- one of the highest levels in the world after Japan and the United States.

Italy managed to raise 7.9 billion euros in bond auctions on Friday but had to pay higher rates due to worries over the Irish economy and the eurozone as a whole, as well as political tensions in Italy, experts said.

The higher yields were due to "tensions at the moment in the eurozone and in particular in Ireland and Portugal," said Rene Defosse, an analyst at French investment bank Natixis.

Referring to politics in Italy, where analysts say the government is on the brink of collapsing, Unicredit analyst Chiara Cremonesi said: "The political uncertainty doesn't help."

Ahead of the bond auctions, the spread between Italian and German 10-year government bonds reached 191 points -- its highest level since 1997 before the introduction of the euro, business daily *Il Sole 24 Ore* reported.



The Unicredit Banca logo on top of the main door of the bank headquarter in Milan 2005. Loredana Federico, an economist at Italy's Unicredit bank, which had forecast growth of 0.3 percent in the third quarter, said the data was "marginally weaker than expected."

The spread -- the difference between the yields on Italian and German bonds and a key measure of investor confidence on financial markets -- fell back to 180 basis points after the auctions. Last week, the spread was 156 points.

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Federico said the result was "overall in line with our expectations of a moderation in economic activity in the second half of the year."

Raj Badiani of research group IHS Global Insight said: "The recovery was sustained by the continued export revival."

"This appeared to be partly offset by softer consumer spending and business investment," he added.

Gross domestic product (GDP) grew by 1.0 percent on a 12-month comparison, according to the preliminary estimates released by Italy's ISTAT data agency.