

Sovereign bonds**The bond 'spread' strikes fear and shrugs on Italian streets**

Arcane bond market language becomes talk of Italy as populist government battles Brussels



Luigi Di Maio, right, leader of the Five Star Movement, and Matteo Salvini, leader of his League coalition partner © FT montage; Bloomberg; Getty Images

Miles Johnson and Davide Ghiglione in Rome OCTOBER 12, 2018

Alessandro Proietti, a 40-year-old chef making some fresh pumpkin ravioli in the Testaccio market in Rome, says just hearing the term “the spread” starts to make him nervous about the economy.

For bond traders “the spread”, meaning the rate the Italian government pays to borrow above Germany, is simply a measure on any given day of how much riskier markets view lending to Rome than Berlin. But for Italy’s populist coalition government, which is locked in a stand-off with Brussels over its public spending plans, the term “*lo spread*” has been taken up as a symbol of a hostile external force that are trying to meddle.

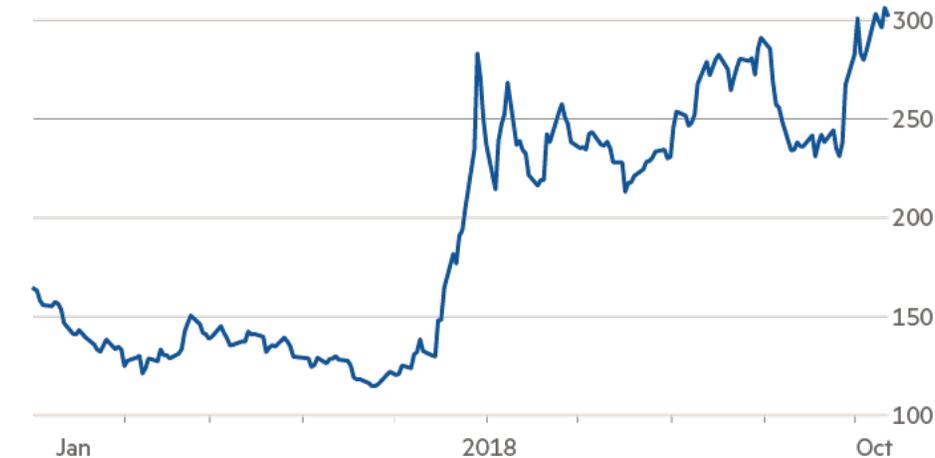
Europe’s last sovereign debt crisis thrust previously arcane bond market terminology from the business pages into the centre of political debate across the continent. As the country’s borrowing costs climb, Italians are once again watching their politicians debate the behaviour of bond markets on a daily basis, noticing “*lo spread*” appearing on the front pages of newspapers and seeing it passionately debated on talk shows for the first time since Silvio Berlusconi was forced from office in 2011.

“People hear it and think: ‘OK, the economic crisis is back, there is no money. I have to save and stop wasting my money,’” says Mr Proietti. “As soon as people hear the word spread, they get anxious and tend to pull in the oars and stop spending”.

Matteo Salvini, leader of the hard-right League party which shares power in the coalition, has regularly invoked the idea of “the lords of the spread” as trying to boss the government around. “Should I change my policies... on the basis of what some speculators decide in the morning?,” he asked this week. “No”.

Italy's 10-year bond yield

Spread over Bunds (basis points)



Source: Refinitiv
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It is echoed by Luigi Di Maio, the 32-year-old leader of the Five Star Movement, the largest party in the coalition. “Our objective is not the spread but the citizen,” said , this week. “The story of the spread... is a way to terrorise citizens”.

And some are anxious. “*Lo spread*. What is the spread?,” asks Anna Ferretti, a 90-year-old in the middle of buying some flowers. “If something goes up, something else has to go down. And I know that when the spread is the one thing that goes up, then my wallet is the thing going down”.

Raffale Oriani, professor of advanced corporate finance at LUISS in Rome, says that while few Italians will be familiar with the technical aspects of sovereign debt markets the reappearance of ‘lo spread’ will make people more aware of the economy, meaning this heightened awareness can feed directly back into their views about the government.

“The spread’ has become part of everyday language again,” says Prof Oriani. “Most people do not have a precise idea of what the spread is from a technical point of view. I think people perceive it in more general terms – when it goes up, something is going wrong with the country”.

The European Commission has said Rome’s plans to run a sharply higher budget deficit next year to fund the government’s spending plans risk breaking its rules, and must review them later this month. Brussels must tread carefully, knowing that Mr Di Maio and Mr Salvini are unlikely to back down from a fight. Some figures in the Commission believe that it would be better to leave financial markets to impose “discipline” rather than European politicians.

So far, although little time has passed since they announced their spending plans, there have been few signs that Mr Di Maio and Mr Salvini’s popularity is suffering from their confrontation with Brussels and the bond markets. Recent polls have shown Mr Salvini’s anti-migration League has surged ahead of Five Star, which itself is still polling far ahead of other parties.

For many Italians the noise of the markets is far too detached from daily reality to influence their thinking. “The real economy is far from the economy of the spread, the economy of the Bundesbank, of Merkel and Draghi,” says Vito Vivanti, who runs a cafe in central Rome. “The real economy is made of *piadinas*, artichokes and bills to pay at the end of the month”.

Others are willing to wait and see. Luigi Gallucci, a 72-year-old mechanic who voted for Five Star, says he doesn’t really care about the spread. “It doesn’t have anything to do with my everyday life,”

he says as he's trying to fix an old Fiat Panda. "I think that Italy is taking a positive road. Now we have to wait to see the first results of what [the government] is doing. We've dragged a huge debt behind us for so many years... I don't see how now Italy can be wiped out overnight."

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