Turkish lira crisis renews fears of Italian banking system collapse

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In mid-August, the Turkish lira lost nearly 40 percent of its value after US President Donald Trump announced a doubling of steel and aluminium tariffs against Turkey and Turkey responded with tariffs against American imports into the country.

The devaluation of the Turkish lira threatens a hyperinflationary collapse of Turkey's economy and has renewed fears about Italy's continuing economic and financial crisis. Italy's largest banks are heavily exposed to Turkey's economy through nearly €20 billion in loans, in euros and Turkish lira, many of which are going into default. Should the loan defaults continue, it could lead to a full-blown Italian credit crisis and possibly trigger a collapse of the Eurozone, which holds more than €135 billion in Turkish debt.

Amid fears of an Italian collapse, Italy's Unicredit Bank lost 5.2 percent of its share price.

The lira crisis comes just weeks after the Genoa motorway bridge collapse, an event that further exposed the fragility of Italian infrastructure, which has been underfunded and systematically looted for decades.

But according to economic analysts, the real issue in Italy is not the fall in the value of the Turkish lira. The rising cost of borrowing to cover Italy's sovereign debt is triggering a jump in Italian interest rates coupled with a drop in economic growth down from 1.8 percent of GDP to 1.2 percent of GDP for the second quarter of 2018. Italy's debt to GDP ratio is more than 131 percent, meaning it is barely able to service the interest, let alone pay down the principal.

Weak economic growth is leading to lower tax revenue at the same time that there is an increase in demand for social spending. Italy's creditors are demanding that the government shore up the banking system through deeper cuts to social spending and continued pension "reform."

As Italy's new coalition government of La Lega (The League) and Movimento 5 Stelle (M5S) puts together the next budget it is being closely scrutinized by European authorities and, more importantly, the markets, which will not allow for increased domestic spending.

The attacks already carried out on pensioners and workers since the 2008 global economic crash have resulted in a massive economic polarisation and increased social tensions. The major increase in the retirement age left millions of seniors in poverty. Although the liberalisation of the labour market slightly reduced unemployment figures several years ago, now two of every three newly created jobs are temporary and precarious; short-term contracts or low-paying positions.

According to the most recent report by Italian National Institute of Statistics (Istat), 30 percent of people in Italy—more than 18 million—are at risk of poverty or social exclusion.

Official unemployment stands at 10 percent, with youth unemployment more than 40 percent, the third highest in Europe. In reality, unemployment is much higher than the official statistics, since more than 30 percent of all working-age Italians are not counted since they are considered "inactive" because they cannot prove they are actively looking and/or have applied for work when statistics are taken. This means that for youth, a much higher percentage is without work or training.

The most recent report by the Caritas charity documents that for the first time the group most affected by poverty are aged 18 to 34. According to the Catholic charity, one in ten Italians in the 18-34 age group lives in extreme poverty and the group has seen a steep rise in the number of young people relying on its centres for food, shelter and clothing.

An equal number of men and women sought help from the charity, and 60.8 percent of those who did so were unemployed. The charity also noted a rise in requests for help from people in employment.

Historically, poverty has been mostly concentrated in the south of Italy. However, in recent years Caritas has also noted a marked increase in the number of requests for help from the centre-north of the country.

These statistics conceal a development with explosive social consequences. As the Italian economy faces a possible collapse and youth joblessness continues to rise, an increasing number of youth are turning their backs on traditional politics.

In a recent European-wide survey of youth, when asked, “Would you actively participate in a large-scale uprising against the generation in power if it happened in the next days or months?” more than half, 53 percent, said “yes.”

With social anger at the boiling point, Italian politicians are focusing their attention on agitating against refugees and immigrants, in order to divide the working class in an effort to direct the anger of the exploited and oppressed against the most vulnerable sections of the population.