Summary for non-specialists
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Macroeconomic Imbalances – Italy 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

ITALY *is experiencing macroeconomic imbalances, which require monitoring and decisive policy action.* In particular, export performance and the underlying loss of competitiveness as well as high public indebtedness in an environment of subdued growth deserve continued attention in a broad reform agenda in order to reduce the risk of adverse effects on the functioning of the Italian economy and of the Economic and Monetary Union, notably given the size of the Italian economy.

More specifically, in a context of elevated risk aversion in financial markets, Italy's high public debt weighs on the country's growth prospects through several channels, in particular the high tax burden needed to service the debt, funding pressures for Italian banks and thus for the private sector, increased macroeconomic uncertainty and a severely limited margin for countercyclical fiscal policies and growth-enhancing public expenditure. In order to put the high public debt-to-GDP ratio on a steadily declining path, Italy has been pursuing a strategy of sizeable fiscal consolidation, but subdued growth prospects make it challenging – but even more essential – to achieve and sustain the necessary large primary surpluses. Italy's declining external competitiveness since the late 1990s is reflected in substantial export market share losses. Stagnant productivity, outpaced by labour cost growth, has implied increasing unit labour costs compared to peers, and the sizeable appreciation of Italy's nominal effective exchange rate between 2003 and 2009 further undermined cost competitiveness. The high tax burden, especially on labour and capital, also negatively affects competitiveness. In addition, Italy's export performance continues to

suffer from an unfavourable product specialisation, and the country's weak human capital endowment hampers a move towards a technologically more advanced specialisation model. Institutional and regulatory barriers, an unfriendly business environment and structural firm-level features hinder the ability of many Italian companies to grow, limiting productivity gains and international expansion. These factors also limit the inflow of foreign direct investment, thus missing out on a further important potential source of productivity enhancements. Finally, the double-dip recession has seriously weakened the ability of the Italian banking sector to support the adjustment needed to address imbalances.