Summary for non-specialists
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Macroeconomic Imbalances

Italy 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 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 *excessive macroeconomic imbalances, which require specific monitoring and strong policy action*. In particular, the implications of the very high level of public debt and weak external competitiveness, both ultimately rooted in the protracted sluggish productivity growth, deserve urgent policy attention. The need for decisive action so as to reduce the risk of adverse effects on the functioning of the Italian economy and of the euro area, is particularly important given the size of the Italian economy. The Commission intends to put in motion a specific monitoring of the policies recommended by the Council to Italy in the context of the European Semester, and will regularly report to the Council and the Euro Group.

More specifically, high public debt puts a heavy burden on the economy, in particular in the context of chronically weak growth and subdued inflation. Reaching and sustaining very high primary surpluses – above historical averages – and robust GDP growth for an extended period, both necessary to put the debt-to-GDP ratio on a firmly declining path, will be a major challenge. In 2013, Italy has made progress toward its medium-term fiscal objective. However, there is a risk that the adjustment of the structural balance in 2014 is insufficient given the need to reduce the very large public debt ratio at an adequate pace. The crisis has eroded the initial resilience of the Italian banking sector and weakens its role to support the recovery of the economy The losses of competitiveness are rooted in a continued misalignment between wages and productivity, a high labour tax wedge, an unfavourable export product structure and a high share of small firms which find it difficult to compete internationally. Rigidities in wage setting hinder sufficient wage differentiation in line with productivity developments and local labour market conditions. Long-standing inefficiencies in the public administration and judicial system, weak corporate governance,

and high levels of corruption and tax evasion reduce the allocative efficiency in the economy and hamper the materialisation of the benefits of the adopted reforms. Large human capital gaps – reflecting low returns to education for younger generations, the country's specialisation in low-to-medium technology sectors and structural weaknesses in the education system – adds to the productivity challenge.