L’economia europea rallenta, l’Italia sarà pronta?

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After three years of strong growth, momentum is fading away in the Euro area.

Revisions in the forecast GDP growth, Euro area

- Is the slowdown temporary or not?
- Why is the EA suffering more than the others?
**Economic outlook**

**EA macroeconomic situation**

- **Euro area**
  - 2015
  - 2017
  - 2018

- **Labour market slack**
  - $u - u^*$

- **Investment gap**
  - $I^* - I$

- **External surplus**
  - CA - CA*

- **Persistently low inflation**
  - (2% - core infl.)

- **Note**: Axis normalised for each variable based on the distribution for EA countries in 2015, 2017 and 2018

**Source**: European Commission
## Italy’s structural growth gap

<table>
<thead>
<tr>
<th>Period</th>
<th>Italian GDP Growth rate, (%)</th>
<th>Rest of the Euro Area(^{(1)}) GDP growth rate, (%)</th>
<th>Growth Gap, (pps.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. 1999-2007</td>
<td>1.5</td>
<td>2.4</td>
<td>-1.0</td>
</tr>
<tr>
<td>Avg. 2008-2014</td>
<td>-1.3</td>
<td>0.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>Avg. 2015-2017</td>
<td>1.4</td>
<td>2.3</td>
<td>-1.0</td>
</tr>
<tr>
<td>2018</td>
<td>0.9*</td>
<td>2.0</td>
<td>-1.1</td>
</tr>
<tr>
<td>2019</td>
<td>0.2</td>
<td>1.6</td>
<td>-1.4</td>
</tr>
</tbody>
</table>

Note: \(^{(1)}\) Euro Area, excluding Italy  
Source: Ameco, European Commission;  
*ISTAT flash preliminary release
Public debt: when was the “original sin”? 

Source: Ameco, European Commission
Italy displays “excessive macroeconomic imbalances”

Structural weaknesses & misallocation

- Lower space for productive spending and anticyclical policies
- Higher fiscal sustainability risks
- Vulnerability to financial markets sentiment & negative spillovers to the real economy

High Public Debt

- Adjustment issue: high unemployment

Weak Productivity Dynamics

- Adjustment issue: still high NPLs

Low potential growth (≤0.5%) also with negative fiscal implications

Low non-cost competitiveness

Limited scope for wage increases

Macroeconomic Imbalance Procedure (assessment of NRP)

Country Specific Recommendations

Fiscal surveillance (opinion on SP + report on debt)
## Italy made limited progress on the 2018 CSRs

### 2018 CSRs

<table>
<thead>
<tr>
<th>Category</th>
<th>Some progress</th>
<th>Limited progress</th>
<th>No progress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public finances</strong></td>
<td></td>
<td>• Tackling tax evasion “without consent” (e.g. through e-invoicing)</td>
<td>• Updating cadastral values</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Reducing tax expenditures</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Rationalising public expenditure (pensions)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Encouraging e-payments</td>
</tr>
<tr>
<td><strong>Institutional capacity (PA &amp; justice) and competition</strong></td>
<td>• New anti-corruption law (including prescription terms)</td>
<td>• Enforcing the framework for SOEs</td>
<td>• Reform of civil justice</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Reform of criminal justice &amp; appeal system</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Reform of local public services and public management</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• New competition law</td>
</tr>
<tr>
<td><strong>Banking and access to finance</strong></td>
<td>• Reduction of NPLs</td>
<td>• Incentives for SMEs to access credit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reform of insolvency</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Labour market, education, investment &amp; innovation</strong></td>
<td>• Implementing the reform of active labour market policies</td>
<td>• Incentives to R&amp;D&amp;I and vocational-oriented tertiary education</td>
<td>• Raising women’s labour market participation</td>
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</table>
Policy responses

❖ At the EU/EA level
  ➢ Reduce policy uncertainty
  ➢ Stand ready to respond in case of stronger slowdown
  ➢ Complete EMU: June EA summit and beyond

❖ At national level
  ➢ Reduce political and policy uncertainty
  ➢ Start preparing early 2020 Stability Law to rein in public debt
  ➢ Address real structural bottlenecks to growth
BACKGROUND SLIDES
## Italian outlook

### Banking sector indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 (Q3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL ratio (%)</td>
<td>16.5</td>
<td>15.0</td>
<td>11.2</td>
<td>9.5</td>
</tr>
<tr>
<td>NPL coverage ratio (%)</td>
<td>46.1</td>
<td>49.1</td>
<td>50.5</td>
<td>54.3</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>3.1</td>
<td>-7.7</td>
<td>7.1</td>
<td>6.1</td>
</tr>
<tr>
<td>CET 1 ratio</td>
<td>11.8</td>
<td>10.9</td>
<td>13.4</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Source: ECB

### Italian sovereign 10-year spreads versus Germany, Spain and Portugal (basis points)

Source: Bloomberg