Higher growth is needed to raise employment, improve living standards and ensure healthy public finances. Italy should:

• Provide targeted fiscal support until the recovery is well underway
• Invest in green infrastructure and R&D and reform civil justice and competition
• Improve the public sector's effectiveness by focusing on performance, filling skill gaps and reviewing regulatory barriers
SUPPORTING THE ECONOMIC RECOVERY FROM COVID-19
The pandemic hit a poorly performing economy

Real GDP per capita
Index 2000 = 100

Source: OECD (2021), National Accounts (database).
Regional divides are stark

Note: Employment rate is the share of employed in the population aged 15 and over in 2020; Investment share in GDP in 2018; The ISTAT estimate of the relative poverty in 2020 is based on a poverty line (International Standard of Poverty Line - ISPL) defining as poor a household of two components with a consumption expenditure level lower or equal to the mean per-capita consumption expenditure. Source: ISTAT.
COVID had a large effect on important sectors

Change in real output in 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Travel and tourism</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>-70%</td>
<td>-60%</td>
</tr>
<tr>
<td>Italy</td>
<td>-60%</td>
<td>-50%</td>
</tr>
<tr>
<td>Portugal</td>
<td>-50%</td>
<td>-40%</td>
</tr>
<tr>
<td>Greece</td>
<td>-40%</td>
<td>-30%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-30%</td>
<td>-20%</td>
</tr>
<tr>
<td>France</td>
<td>-20%</td>
<td>-10%</td>
</tr>
<tr>
<td>Germany</td>
<td>-10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Job retention schemes were widely used, especially early in the crisis.

Note: Data are provisional. Short-time work - unrestricted: no significant limits on the reduction in working time; short-time work - furlough: no partial reductions in working time allowed.

Source: OECD (2021), OECD Employment Outlook 2021, Chapter 2 “Job retention schemes during the COVID-19 crisis: Promoting job retention while supporting job creation”
The banking sector has strengthened

Regulatory tier 1 capital to risk-weighted assets
2020 Q4, or latest, %

Note: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes New Zealand and Switzerland.
Source: IMF (2021), IMF Financial Soundness Indicators Database; and Bank of Italy.
But non-performing loans remain high by international standards

Note: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes New Zealand and Switzerland.
Source: IMF (2021), IMF Financial Soundness Indicators Database; and Bank of Italy.
Strong H1 2021 resulted in higher growth projections

(annual growth rates, unless specified)  

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021(^f)</th>
<th>2022(^f)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross domestic product</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>0.3</td>
<td>-10.7</td>
<td>4.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Government consumption</td>
<td>-0.8</td>
<td>1.6</td>
<td>0.9</td>
<td>-0.6</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>1.1</td>
<td>-9.2</td>
<td>15.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Exports of goods &amp; services</td>
<td>1.9</td>
<td>-14.5</td>
<td>12.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Imports of goods &amp; services</td>
<td>-0.5</td>
<td>-13.1</td>
<td>12.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Unemployment rate (%)(^1)</td>
<td>10.0</td>
<td>9.3</td>
<td>10.4</td>
<td>10.1</td>
</tr>
<tr>
<td>Consumer price index(^2)</td>
<td>0.6</td>
<td>-0.1</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Current account balance(^3)</td>
<td>3.2</td>
<td>3.5</td>
<td>3.3</td>
<td>3.3</td>
</tr>
</tbody>
</table>

\(^1\) Based on provisional Istat data. \(^2\) Harmonised Consumer Price Index. \(^3\) % of GDP

Source: OECD Economic outlook and provisional projections
Key recommendations for a stronger and more resilient recovery in income and jobs

• Continue fiscal support until the recovery is well underway and make it increasingly targeted
• Announce a medium-term fiscal plan in advance to implement once the recovery is self-sustained
• Mitigate the impact of rising bankruptcies by increasing resources for civil courts, implementing civil justice reform bill and further support the non-performing loan market and out-of-court settlement procedures
RAISING INVESTMENT AND PRODUCTIVITY GROWTH
Investment lags other countries

Investment in selected OECD countries

2020 or latest

% of GDP

General government
Households
Corporations

Note: Households include non-profit institutions serving households (NPISHs). OECD unweighted average is computed using the available OECD countries. For Estonia, Hungary, Italy and Slovenia, private investment is the difference between total investment and government gross fixed capital formation.

Source: OECD National Accounts Statistics database; and OECD Economic Outlook database.
R&D spending is low

Gross domestic expenditure on research and development
2019, % of GDP

Note: Other includes primarily spending by higher education and non-profit organisations. Due to data unavailability the OECD average excludes Australia, Chile, Costa Rica, New Zealand and Switzerland.
Source: OECD (2021), Main Science and Technology Indicators (database) http://oe.cd/msti.
Uncertainty about regulations and taxes weighs on green investment

Major obstacle to investment
2019, % of all firms

Note: Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.
An inefficient justice system hampers investment

Note: The recovery rate is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. OECD is the median of OECD countries.

Productivity gains have been low

Average annual change in output per hour worked, 2012 to 2019

Note: Output measured in USD, constant 2015 prices and PPP
Source: Calculations based on data from OECD Productivity database.
The productivity gap largely reflects underperforming service sectors.

Average annual change in real gross value added per person employed

- Italy Manufacturing: 1.0% (2000-07), 0.0% (2012-19)
- OECD Manufacturing: 4.0% (2000-07), 2.0% (2012-19)
- Italy Services: -0.5% (2000-07), -1.0% (2012-19)
- OECD Services: 2.5% (2000-07), 1.5% (2012-19)

Note: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes Colombia, Mexico and Turkey.
Source: Calculations based on data from OECD Productivity database.
Investment in manufacturing has risen, but not in services.

Real investment in manufacturing and services

Index, 2007 = 100

Source: ISTAT and OECD calculations.
Restrictive regulations in services limit business dynamism

Occupational entry regulations (OER) indicator for professional services

Note: An indicator value of 0 indicates the absence of regulations, 6 reflects a fully regulated market. Regulations for Canada and US represent the unweighted average of province/state level regulations.

Key recommendations to raise investment and productivity

• Reduce the stock of regulations
• Minimise regulatory barriers to entering professional services, by using certification schemes.
• Introduce a national productivity board to set a research agenda and raise the profile of productivity in the national debate
• Provide certainty with a long-term plan on carbon prices and supporting policies to ease transition costs.
PUBLIC FINANCE REFORMS TO SUPPORT FASTER GROWTH AND JOB CREATION
Not much room left for investment and education

Public expenditure in % of GDP
2019 or latest

- Old age pensions
- Compensation of employees
- Education
- Public debt
- Public investment

Source: OECD (2021), National Accounts Statistics (database).
Poverty is high – particularly among younger Italians

Poverty rate by age group
2018 or latest

Note: Poverty rate at 50 % of median equivalised income after taxes and transfers. Whiskers indicate range of OECD countries between the first and the last decile.
Source: OECD (2021), Income Distribution Database (IDD).
Support to help jobseekers find work is low

Total spending per unemployed on active labour market policies

% of GDP per capita, 2018 or latest

Note: OECD average covers the countries shown in the graph.
Source: OECD (2021), Statistics on Labour Market Programmes (database); OECD (2021), Labour Force Statistics (database).
Spending on pensions is set to rise further

**Old-age dependency ratio**

Note: Number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64. Due to data unavailability the OECD average excludes Colombia and Costa Rica.

Permanently reducing the tax wedge for more people could boost employment

Average labour tax wedge

2019

%  

Single without children (100% of the average wage)  
Couple with 2 children (100% and 67% of the average wage)

Household composition and earnings as % of average wage

Note: The “Italy incl. 2021 tax credit and social contribution rebate” relates only to the employees eligible for these measures, and is not a workforce-wide value. OECD average is an unweighted average.
Source: OECD Tax database; Ministry of Finance and Economy, and OECD estimates for 2021.
Main recommendations to raise employment

• Improve the composition of public spending with strengthened expenditure reviews and a succinct set of policy performance indicators.
• Reform taxes to support higher employment, with a lower tax wedge and reduce income tax disincentives for second earners - particularly women
• Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services
• Improve access to quality childcare across all regions
• Contain pension spending by allowing the early retirement schemes to expire, and link life expectancy and retirement age.
THE NATIONAL RESILIENCE AND RECOVERY PLAN CAN HELP SUSTAIN INVESTMENTS AND GROWTH-SUPPORTING REFORMS
The National Recovery and Resilience Plan will support investment and structural reforms.

Next Generation EU grants and loans, % of GDP

Grants
Loans

Note: 2020 GDP at current prices are used. Loans are assumed at 6.8% of 2019 gross national income for some countries. Actual amounts may differ. Figure does not include the additional own resources included in the Italian National Recovery and Resilience Plan. This is equivalent to 1.2% of 2020 GDP.

Source: European Commission, https://ec.europa.eu/info/strategy/recovery-plan-europe_en; and EUROSTAT.
Sustaining the National Recovery Plan reforms can boost living standards

The impact of reforms on real GDP per capita

Source: OECD projections, assumes no impact from inflation.
Reforms should boost growth which is key for lower debt

A primary balance of 1.5% is assumed, and then ageing expenses are added to the fiscal profile. This profile illustrates the impact of ageing policies on the budget. It does not reflect an expected fiscal strategy.

Source: Ministry of Finance and Economy; OECD (2021), OECD Economic Outlook (database); D. Turner and Y. Guillemette (2021) and OECD calculations.
Strengthening the public sector’s effectiveness is key

Note: Whiskers show the range between the first to last decile of countries.

Accelerating public investment can help lagging regions

Municipal governments’ average disbursement rates of EU public investment funds

Over 2014-20, by region and municipality size

Note: "Small" municipalities' population is below 50,000, "medium" between 50,000 and 250,000, and large above 250,000.

Source: OpenCivitas database and OECD calculations.
Capacity constraints to public investment need addressing

Major obstacles to municipal infrastructure investment
2019, % of all municipalities surveyed

- Availability of funds
- Technical capacity
- Length of regulatory process
- Agreement among stakeholders
- Regulatory uncertainty
- Agreement with other municipalities
- Technological uncertainty
- Core infrastructure

Many public employees are nearing retirement

**Source:** OECD Economic Outlook database; and ILO, ILOSTAT (database)
Progress with e-government will help but users’ take-up has lagged

Note: The OECD Digital Government Index aims to measure the digital transformation of the public sector, understood as the transition from e-government to digital government, measured across six dimensions. 
Source: OECD Survey on Digital Government 1.0
Main recommendations to raise public sector effectiveness

• Rejuvenate the public sector workforce, through more agile recruiting, training and career management
• Consolidate smaller agencies’ public procurement activities
• Clarify competencies of different levels of government, supported by bodies that encourage effective practices
• Continue providing an architecture and platforms that enable public agencies’ digitalisation
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