

2021 OECD ECONOMIC SURVEY OF ITALY

*Laying the foundations for
a stronger recovery*

Rome, September, 6th 2021





Key Messages

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

Italy should:

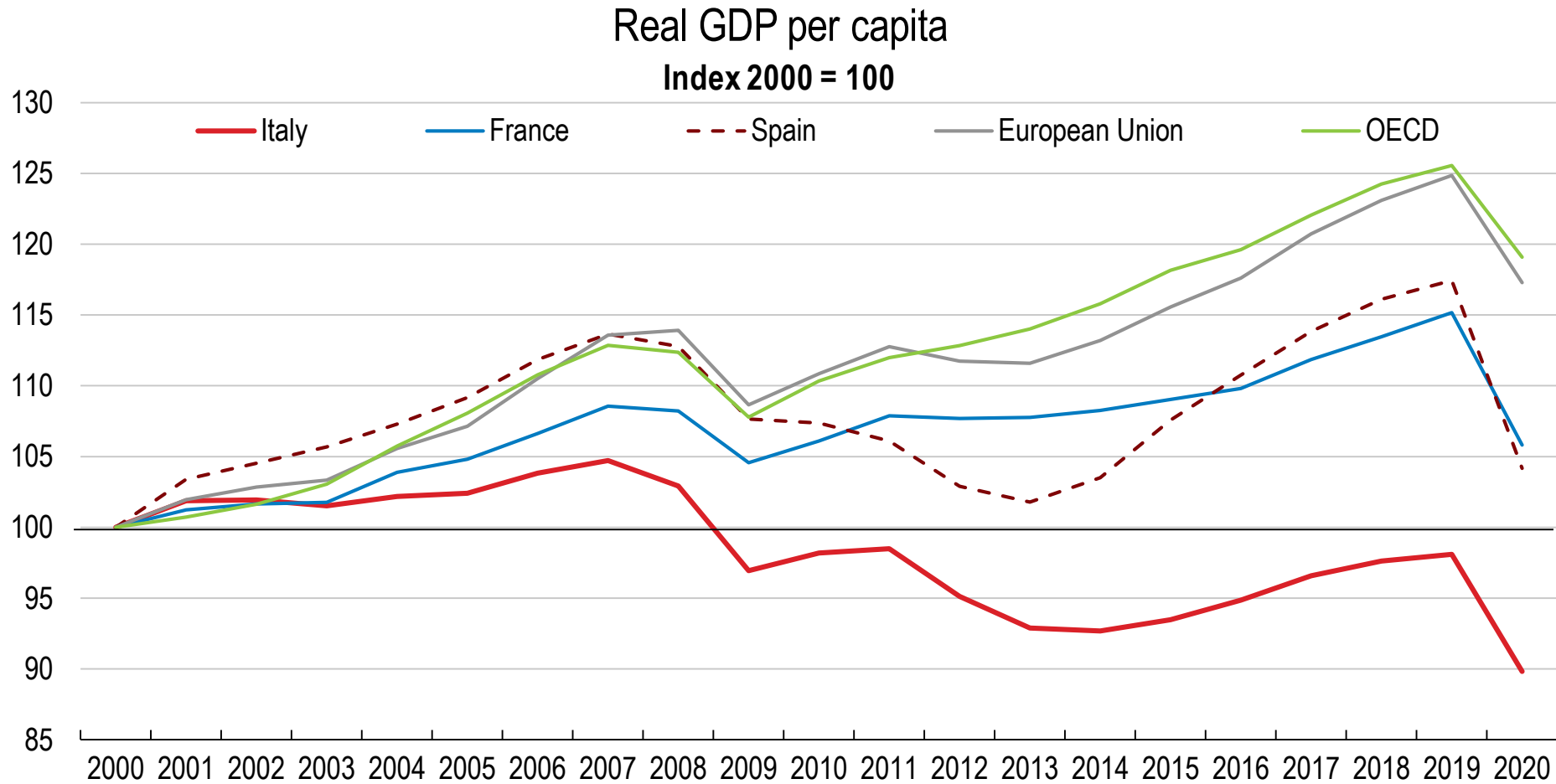
- Provide targeted fiscal support until the recovery is well underway
- Invest in green infrastructure and R&D and reform civil justice and competition
- Improve the public sector's effectiveness by focusing on performance, filling skill gaps and reviewing regulatory barriers



SUPPORTING THE ECONOMIC RECOVERY FROM COVID-19



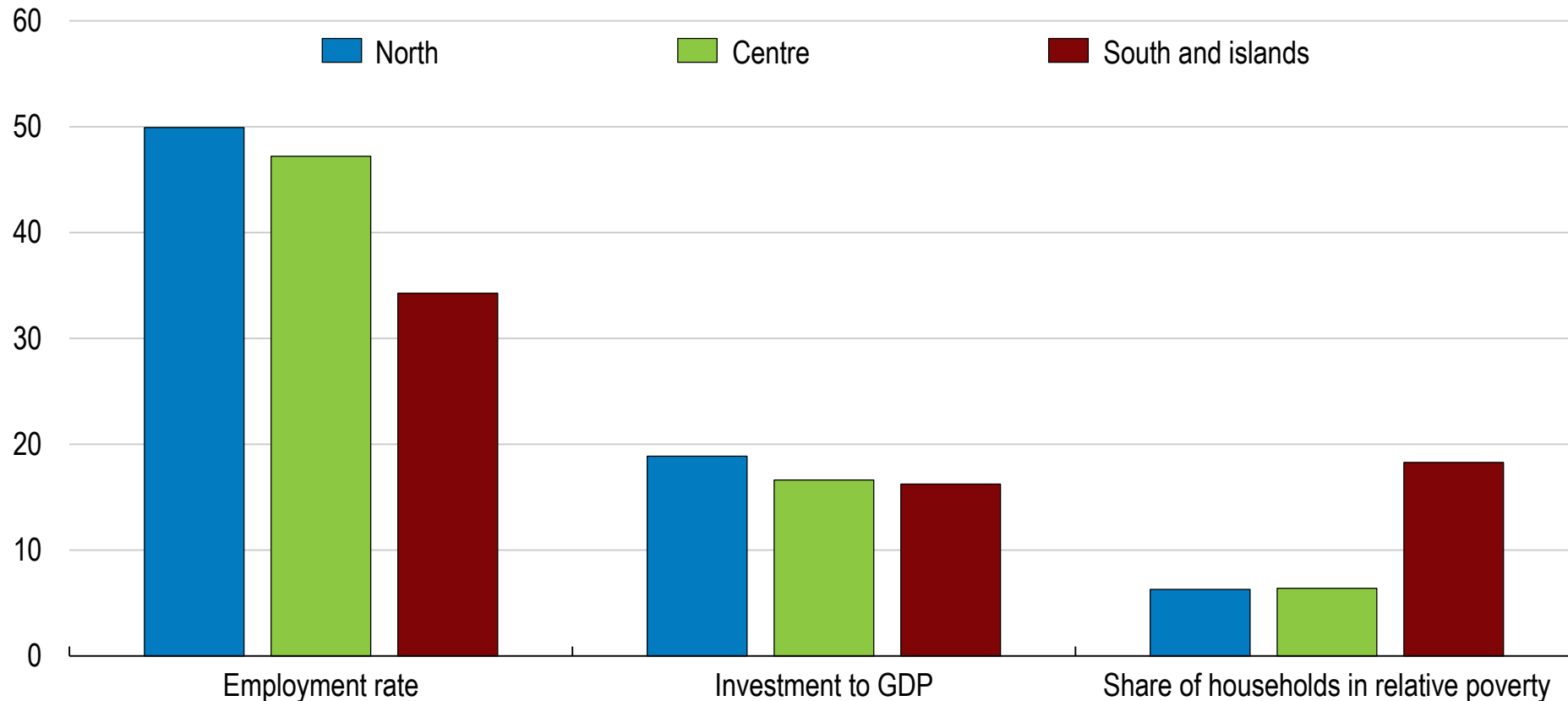
The pandemic hit a poorly performing economy



Source: OECD (2021), National Accounts (database).



Regional divides are stark



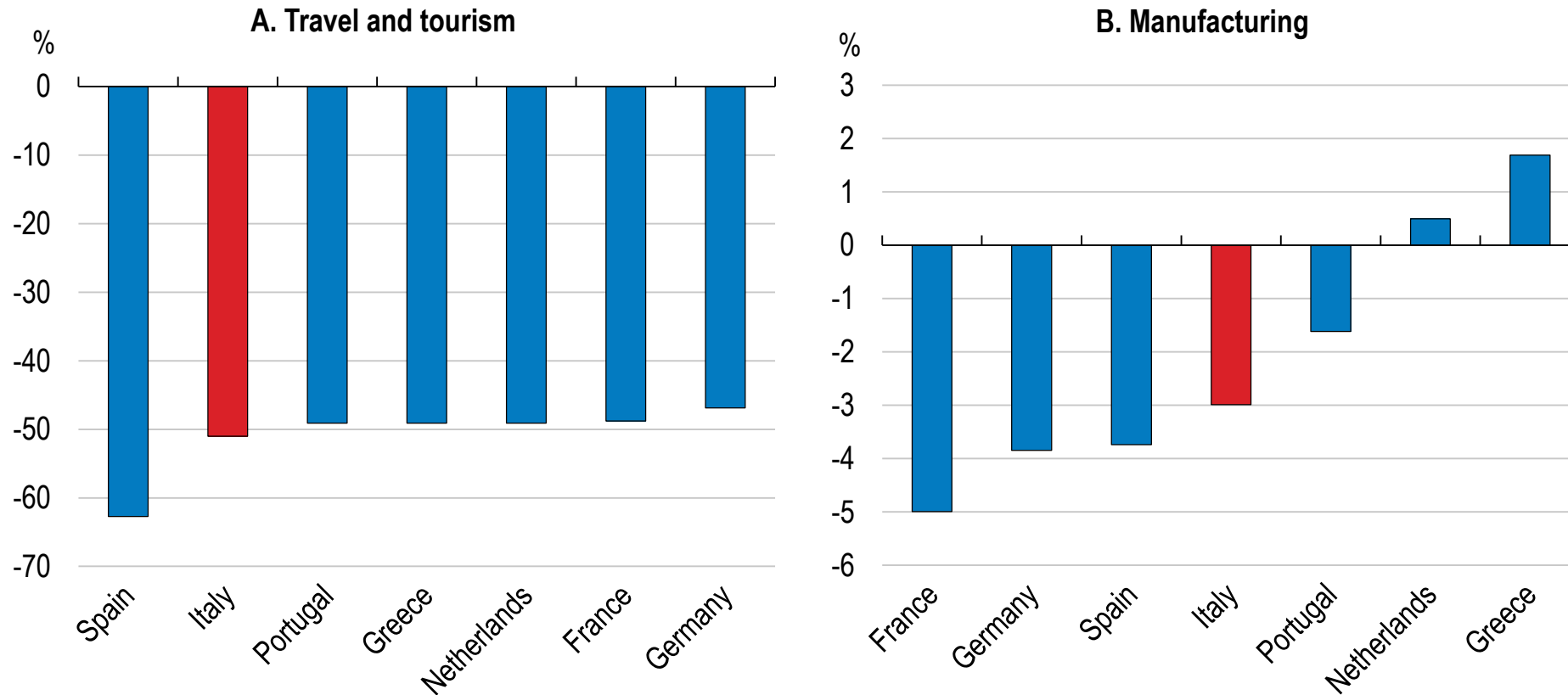
Note: Employment rate is the share of employed in the population aged 15 and over in 2020; Investment share in GDP in 2018; The ISTAT estimate of the relative poverty in 2020 is based on a poverty line (International Standard of Poverty Line - ISPL) defining as poor a household of two components with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

Source: ISTAT.



COVID had a large effect on important sectors

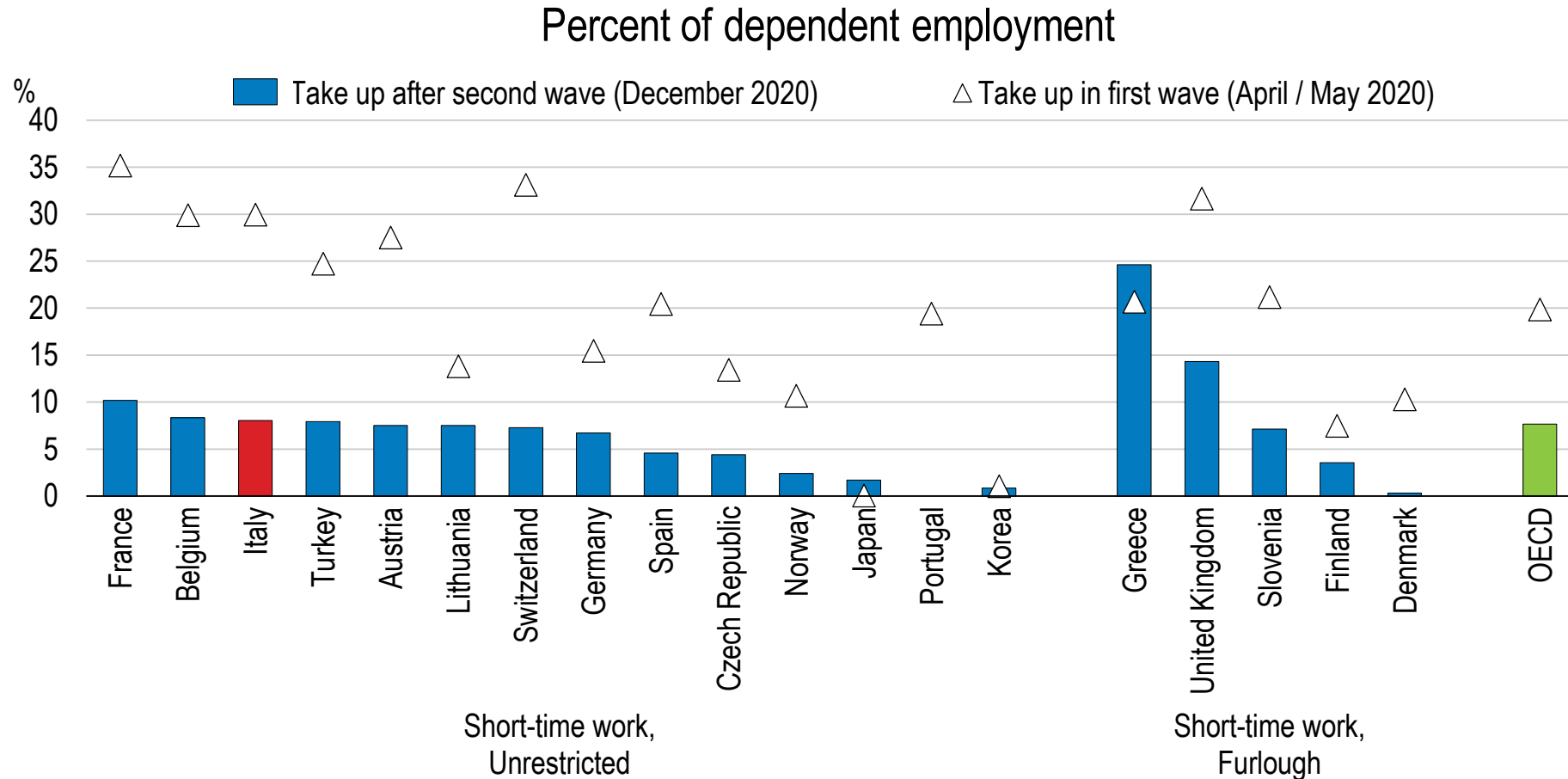
Change in real output in 2020



Source: World Travel and Tourism Council (2021), Travel and Tourism: Economic Impact 2021; OECD (2021), Quarterly National Accounts (database).



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



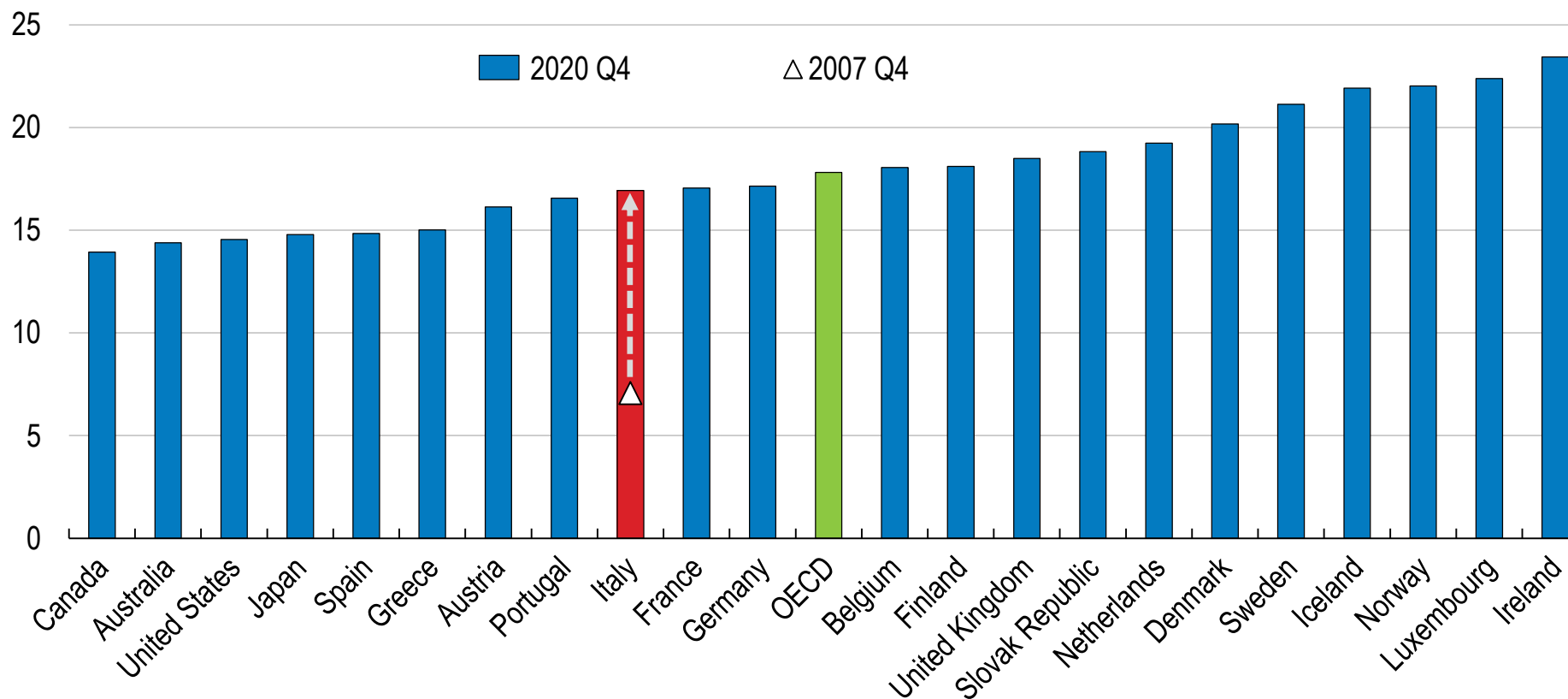
Note: Data are provisional. Short-time work - unrestricted: no significant limits on the reduction in working time; short-time work - furlough: no partial reductions in working time allowed.

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, %

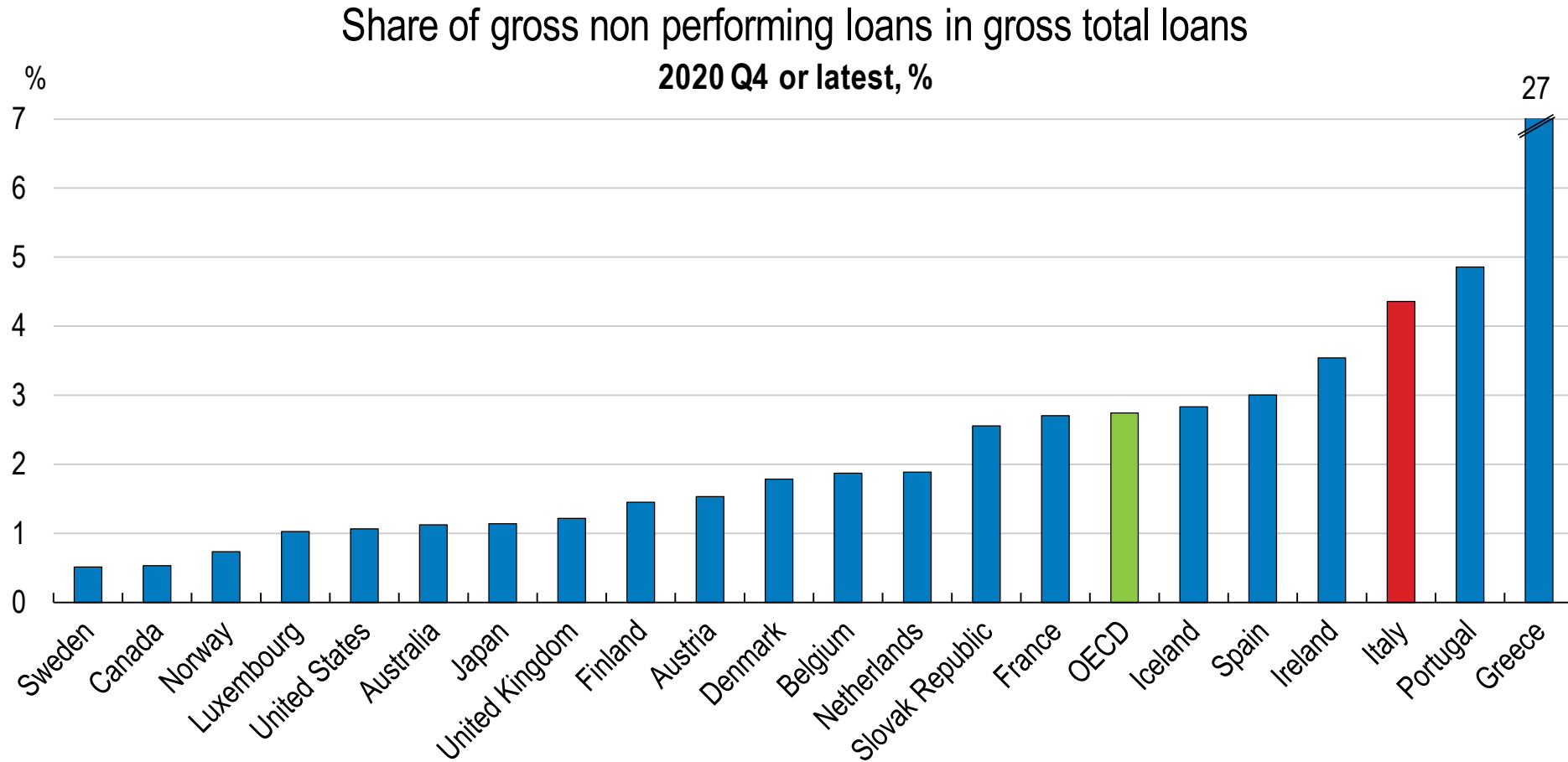


Note: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes New Zealand and Switzerland.

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

| <i>(annual growth rates, unless specified)</i> | 2019 | 2020 | 2021^f | 2022^f |
|--|-------------|-------------|-------------------------|-------------------------|
| Gross domestic product | 0.3 | -8.9 | 5.9 | 4.1 |
| Private consumption | 0.3 | -10.7 | 4.7 | 4.5 |
| Government consumption | -0.8 | 1.6 | 0.9 | -0.6 |
| Gross fixed capital formation | 1.1 | -9.2 | 15.9 | 8.7 |
| Exports of goods & services | 1.9 | -14.5 | 12.0 | 7.1 |
| Imports of goods & services | -0.5 | -13.1 | 12.3 | 7.5 |
| Unemployment rate (%) ¹ | 10.0 | 9.3 | 10.4 | 10.1 |
| Consumer price index ² | 0.6 | -0.1 | 1.5 | 1.3 |
| Current account balance ³ | 3.2 | 3.5 | 3.3 | 3.3 |

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



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

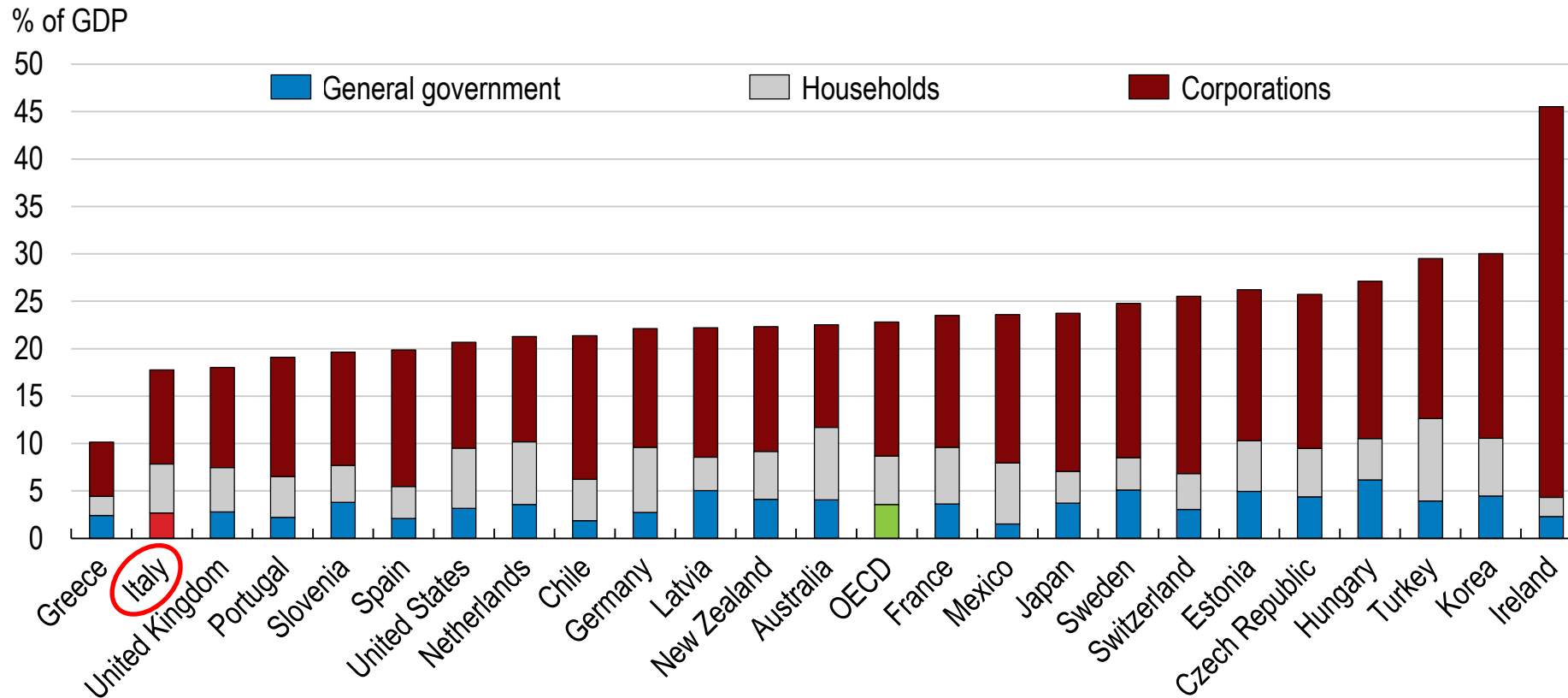


RAISING INVESTMENT AND PRODUCTIVITY GROWTH



Investment lags other countries

Investment in selected OECD countries
2020 or latest



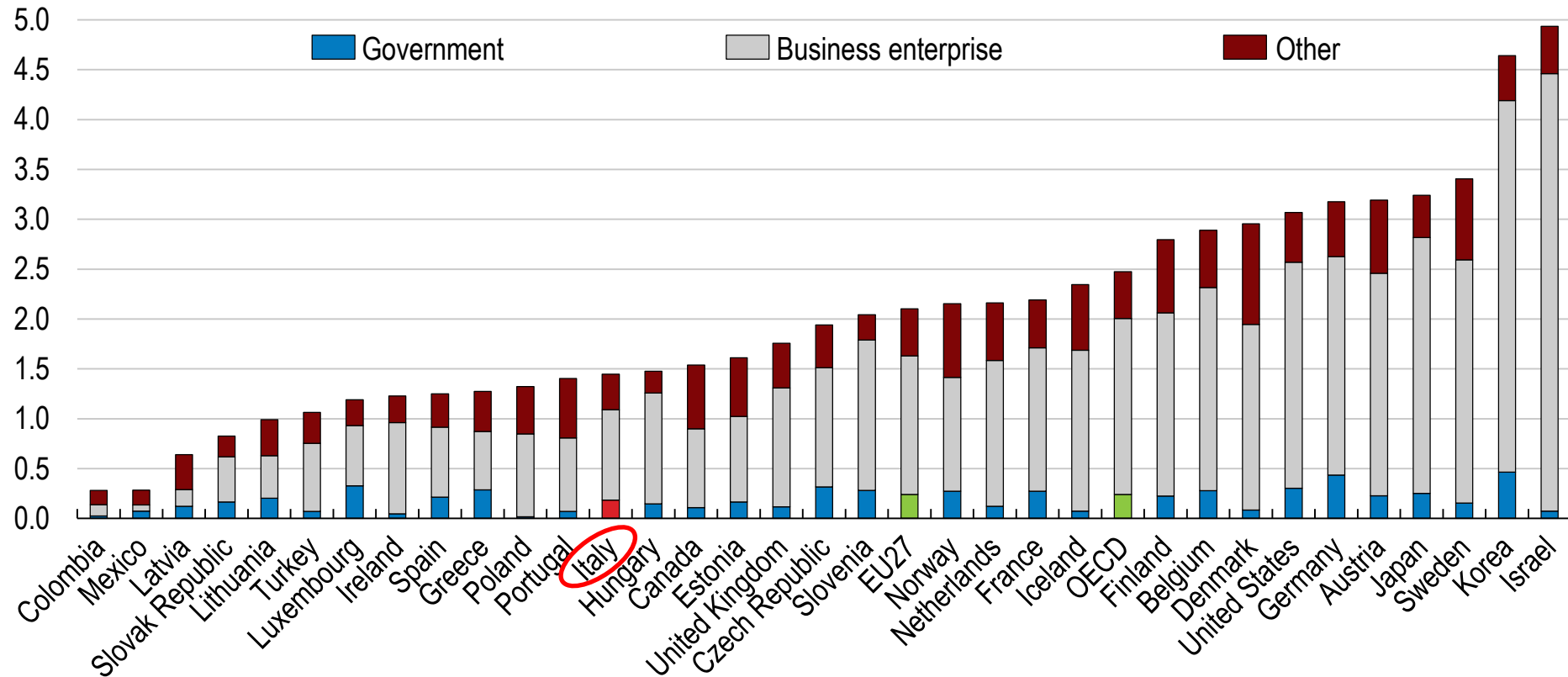
Note: Households include non-profit institutions serving households (NPISHs). OECD unweighted average is computed using the available OECD countries. For Estonia, Hungary, Italy and Slovenia, private investment is the difference between total investment and government gross fixed capital formation.

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



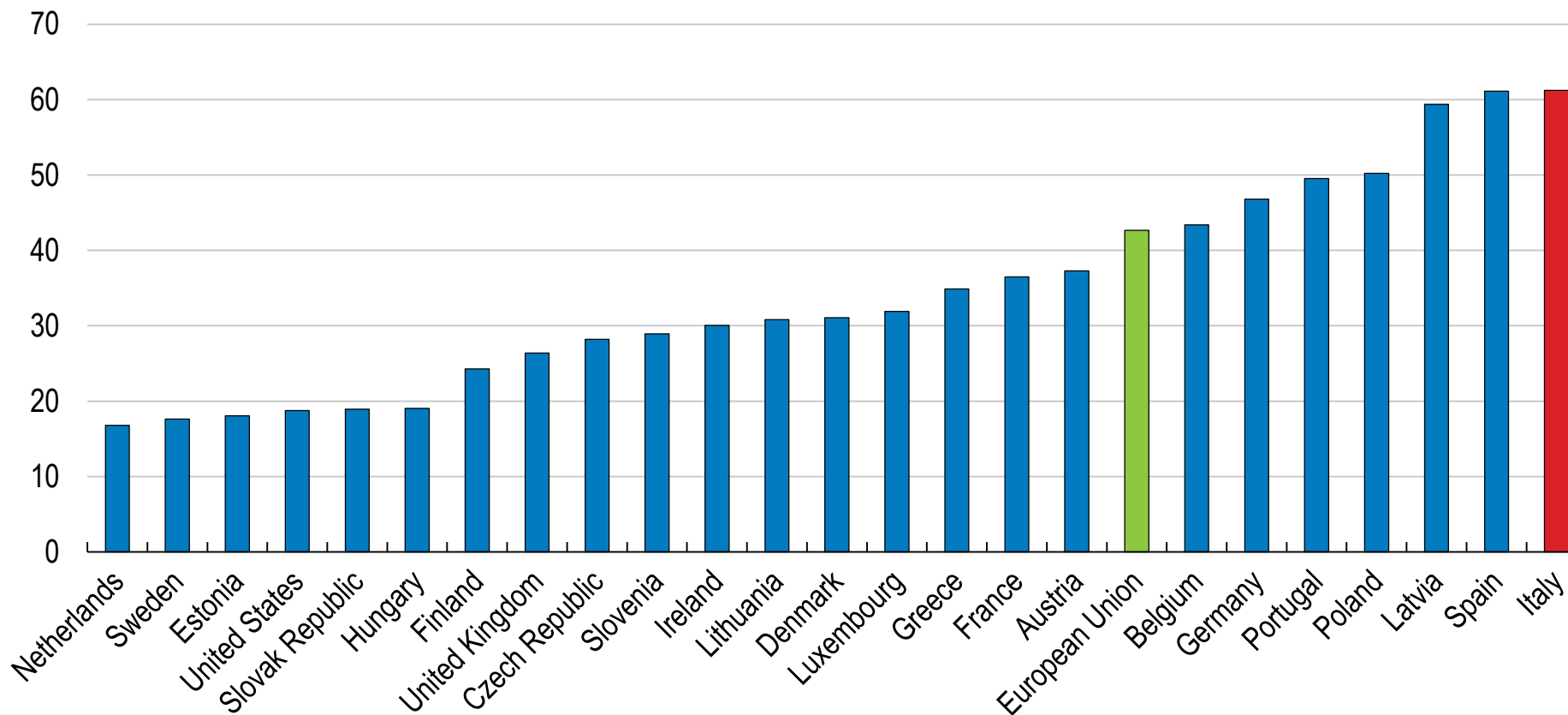
Note: Other includes primarily spending by higher education and non-profit organisations. Due to data unavailability the OECD average excludes Australia, Chile, Costa Rica, New Zealand and Switzerland.

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



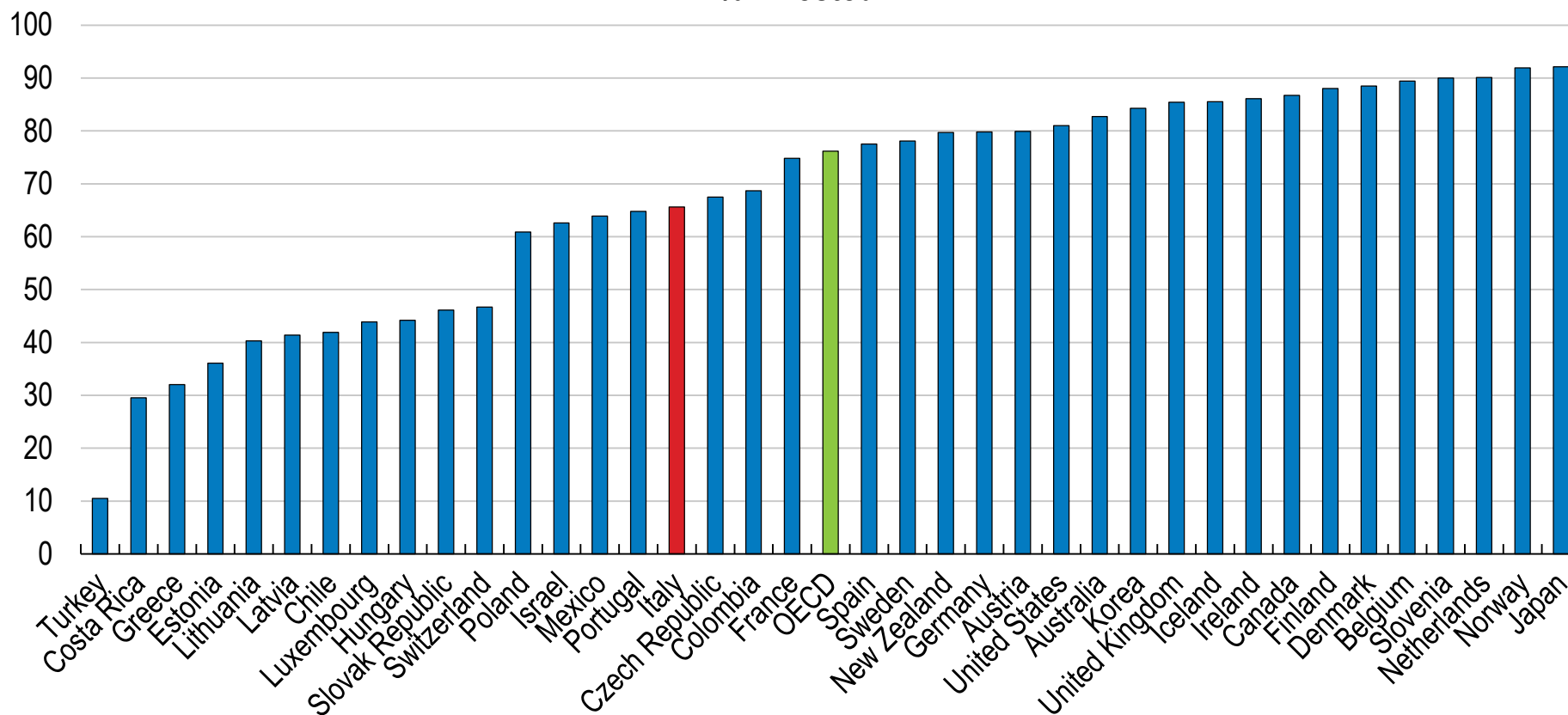
Note: Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.

Source: European Investment Bank (2020), EIB Investment Survey.



An inefficient justice system hampers investment

Recovery rate from bankruptcy procedures
% invested



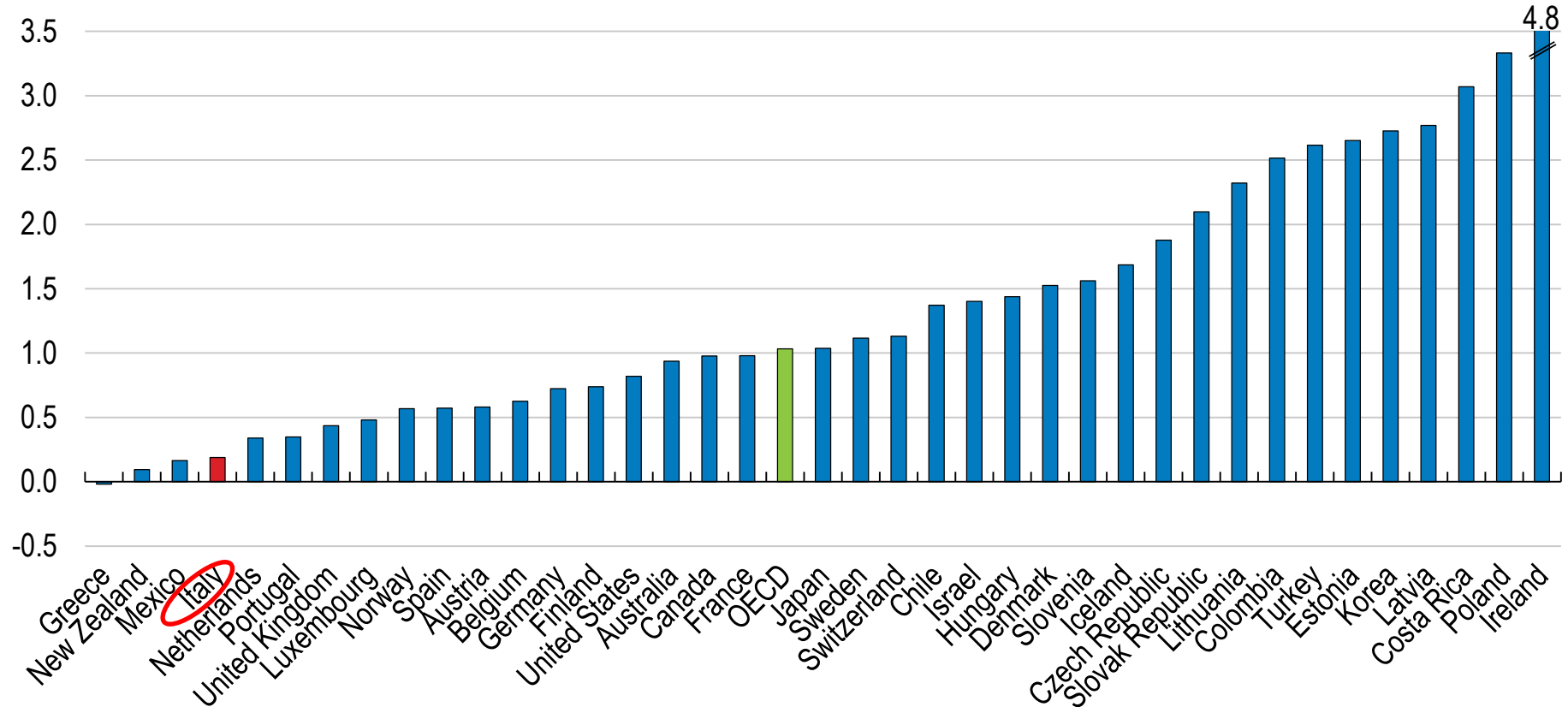
Note: The recovery rate is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. OECD is the median of OECD countries.

Source: World Bank (2020), Resolving Insolvency, Doing Business 2020.



Productivity gains have been low

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



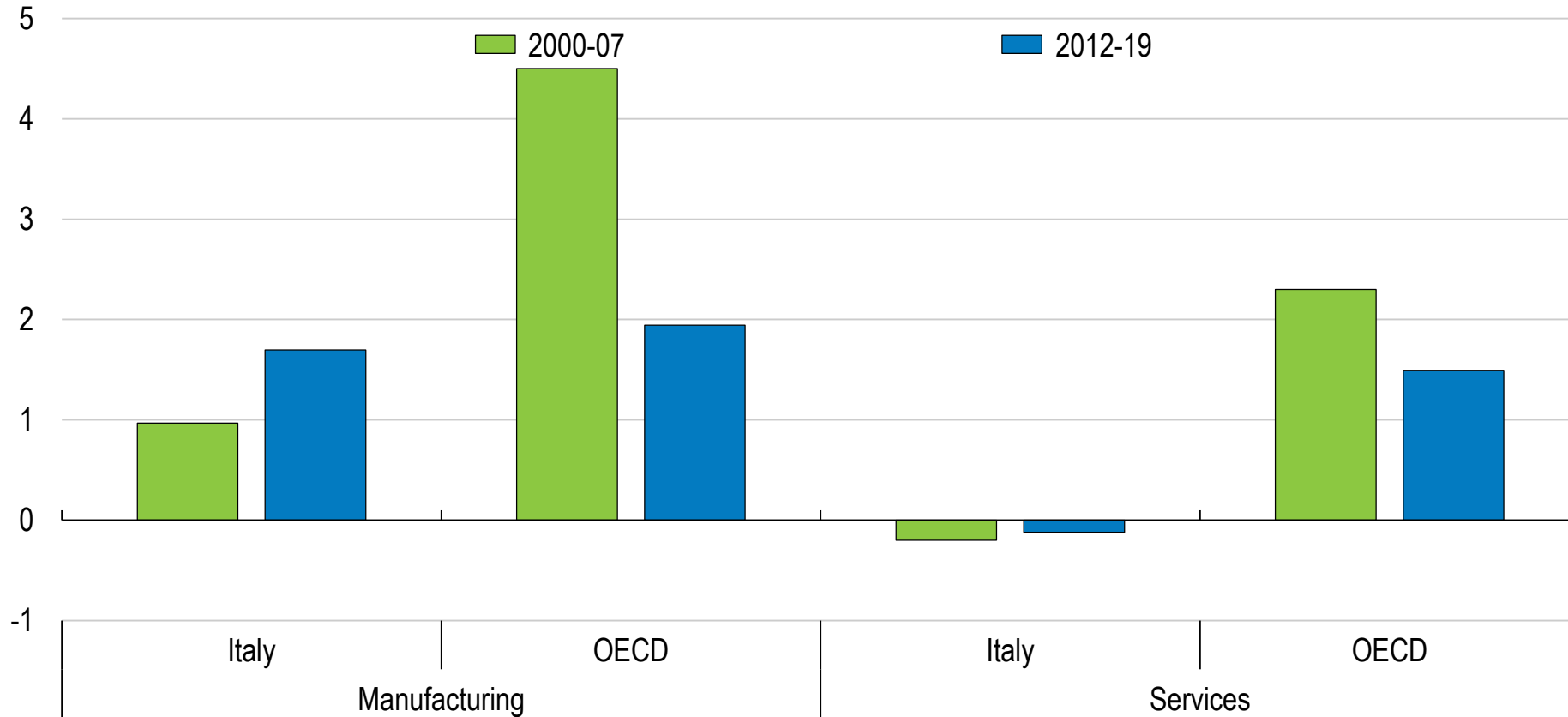
Note: Output measured in USD, constant 2015 prices and PPP

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

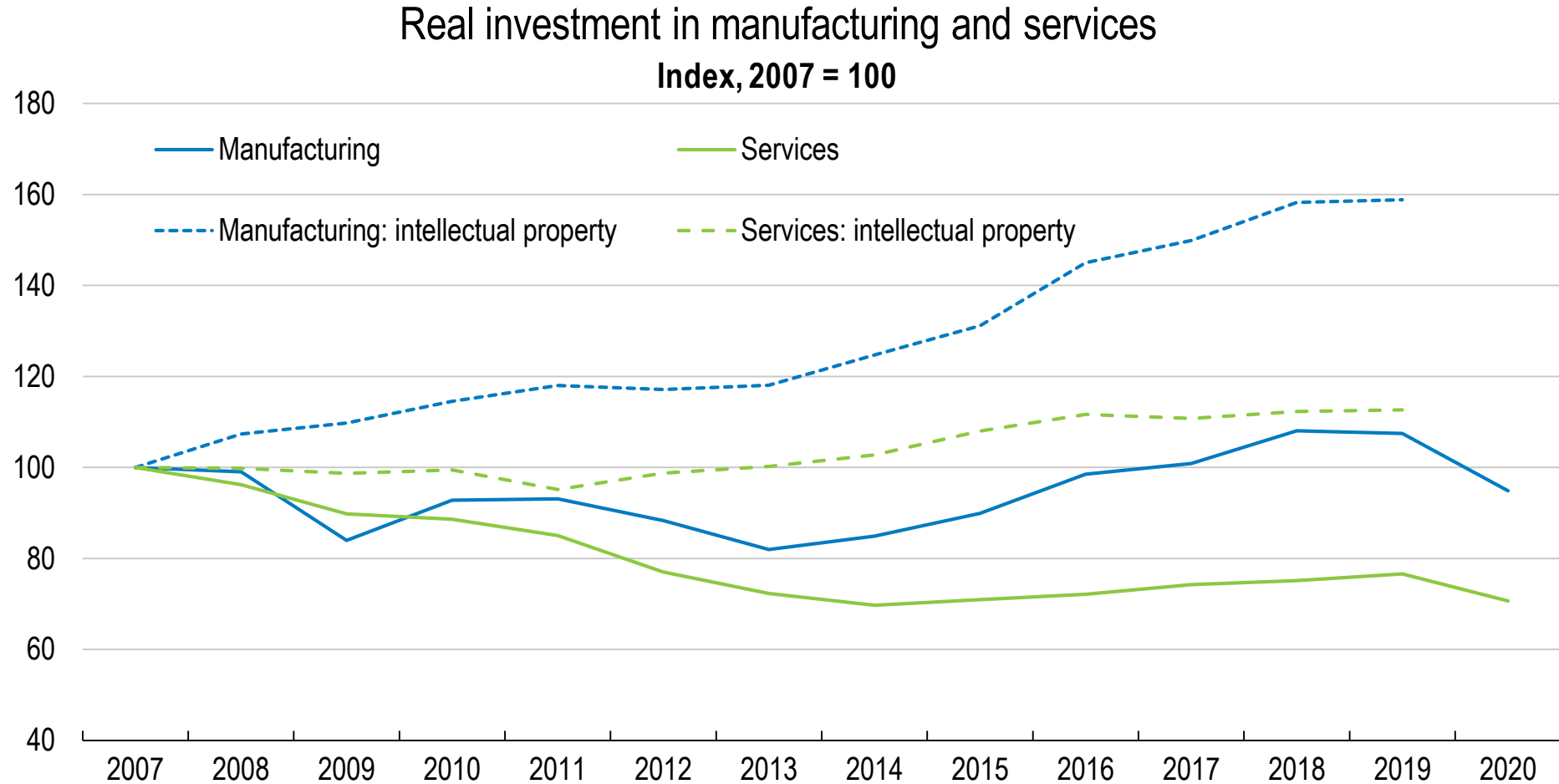


Note: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes Colombia, Mexico and Turkey.

Source: Calculations based on data from OECD Productivity database.



Investment in manufacturing has risen, but not in services

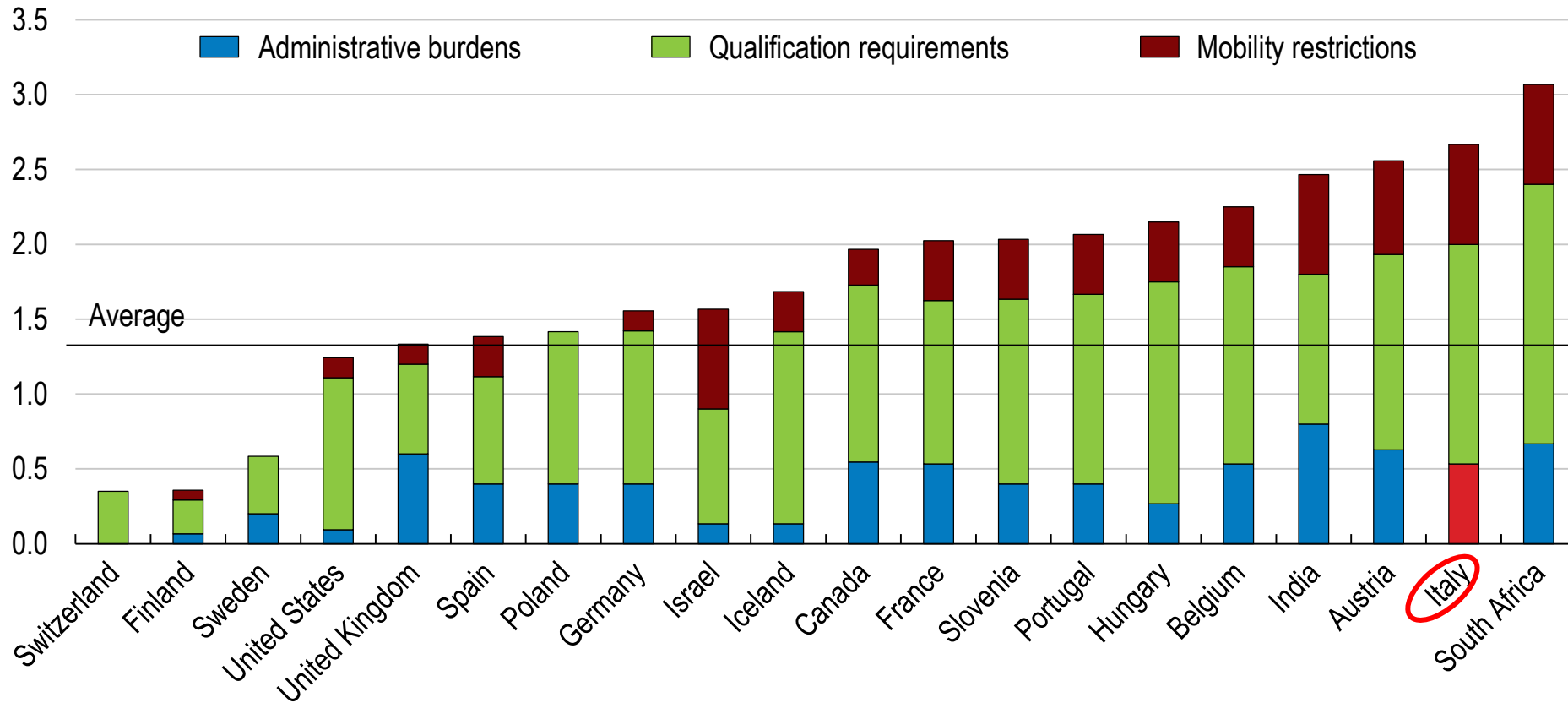


Source: ISTAT and OECD calculations.



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.

Source: Von Rueden, C. and I. Bambalaitė (2020), "Measuring occupational entry regulations: A new OECD approach", OECD Economics Department Working Papers, No. 1606, OECD Publishing, Paris, <https://doi.org/10.1787/296dae6b-en>



Key recommendations to raise investment and productivity

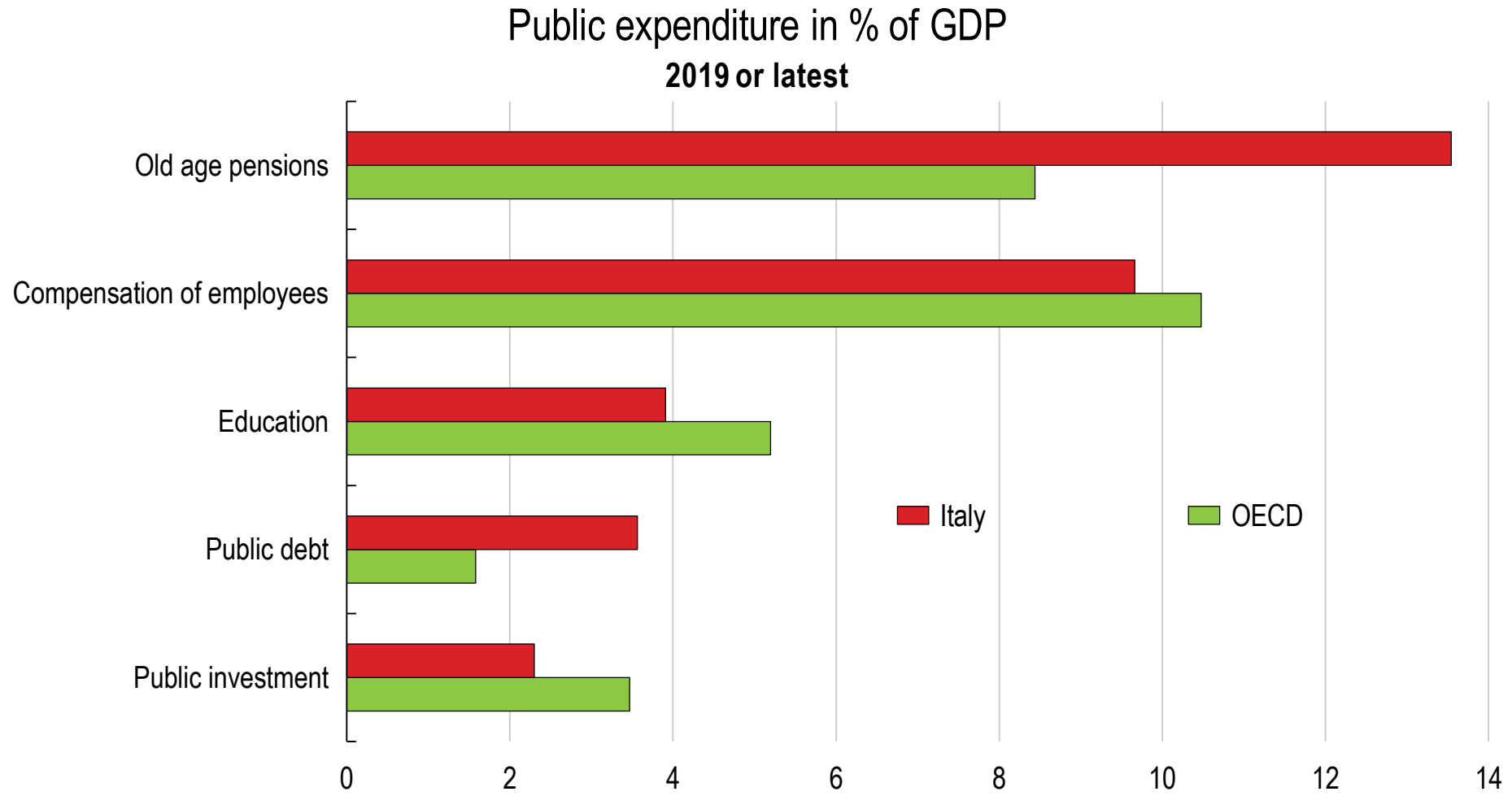
- Reduce the stock of regulations
- Minimise regulatory barriers to entering professional services, by using certification schemes.
- Introduce a national productivity board to set a research agenda and raise the profile of productivity in the national debate
- Provide certainty with a long-term plan on carbon prices and supporting policies to ease transition costs.



PUBLIC FINANCE REFORMS TO SUPPORT FASTER GROWTH AND JOB CREATION



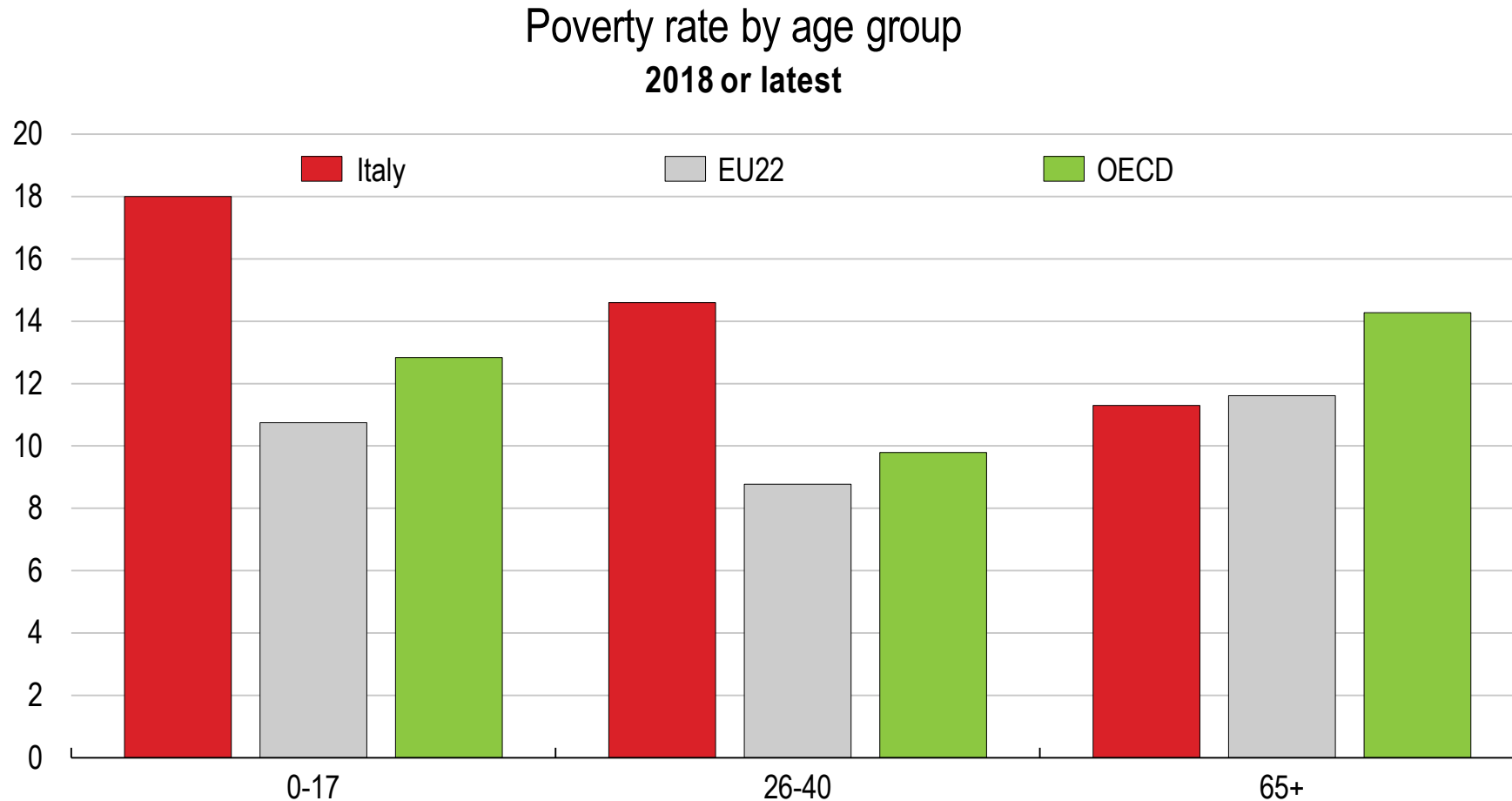
Not much room left for investment and education



Source: OECD (2021), National Accounts Statistics (database).



Poverty is high – particularly among younger Italians



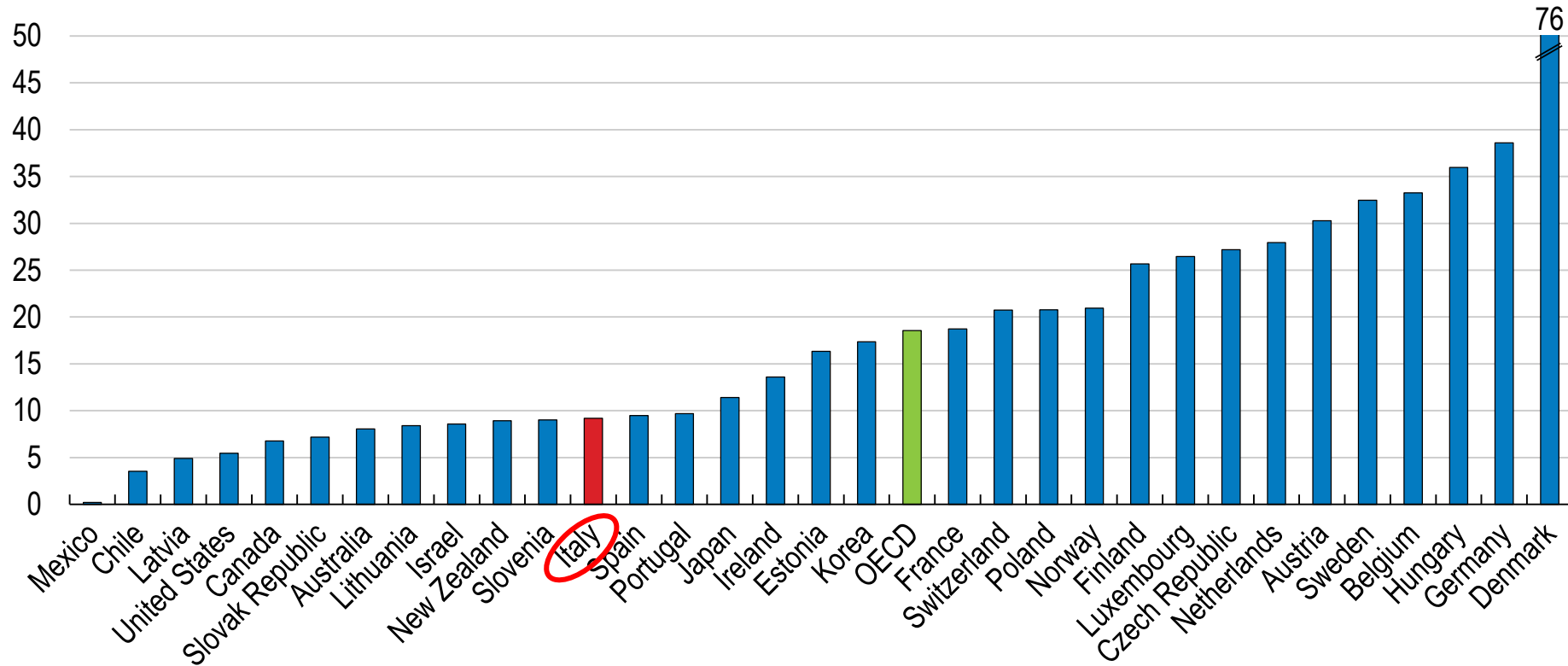
Note: Poverty rate at 50 % of median equivalised income after taxes and transfers. Whiskers indicate range of OECD countries between the first and the last decile.

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

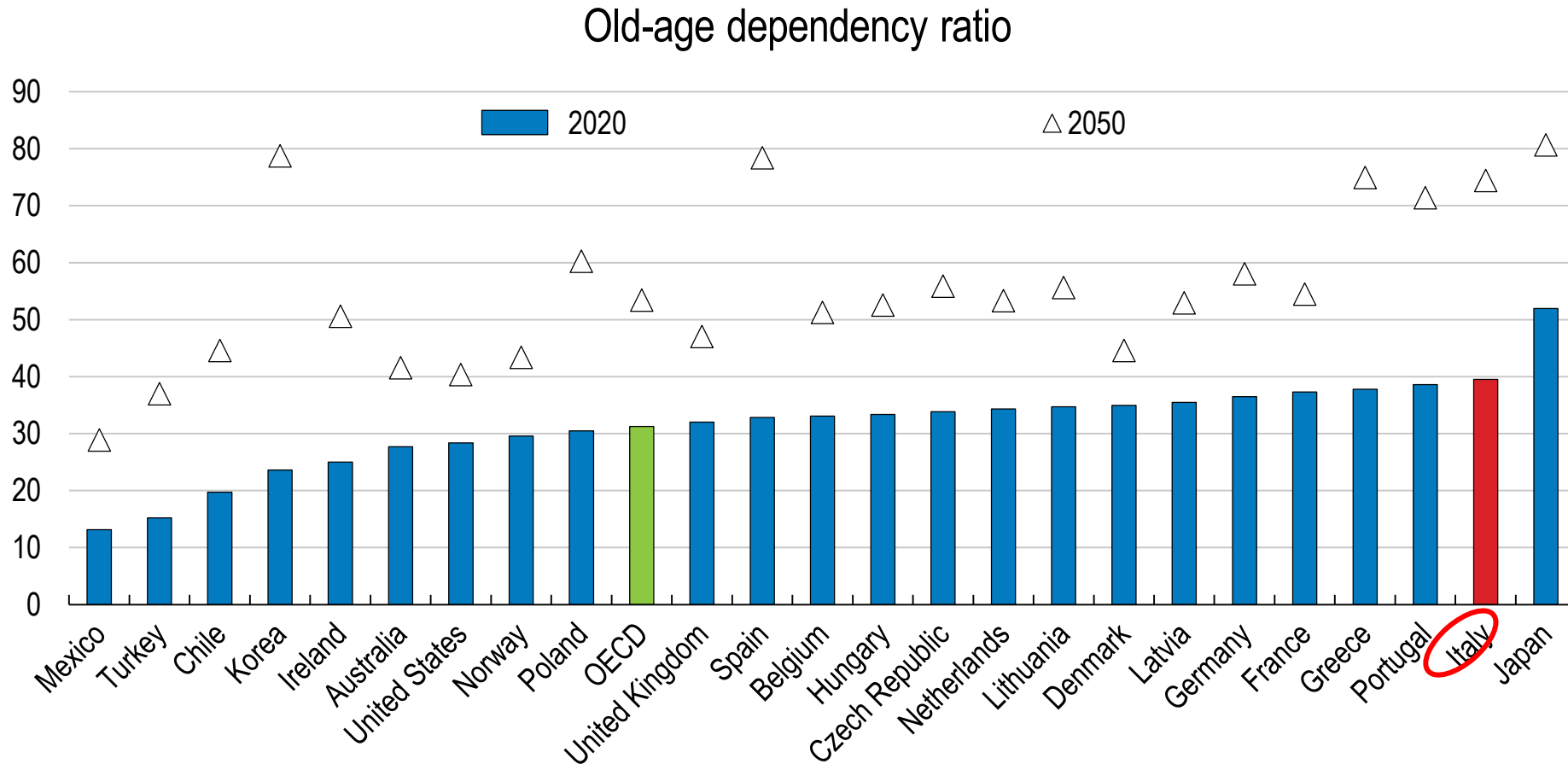


Note: OECD average covers the countries shown in the graph.

Source: OECD (2021), Statistics on Labour Market Programmes (database); OECD (2021), Labour Force Statistics (database).



Spending on pensions is set to rise further

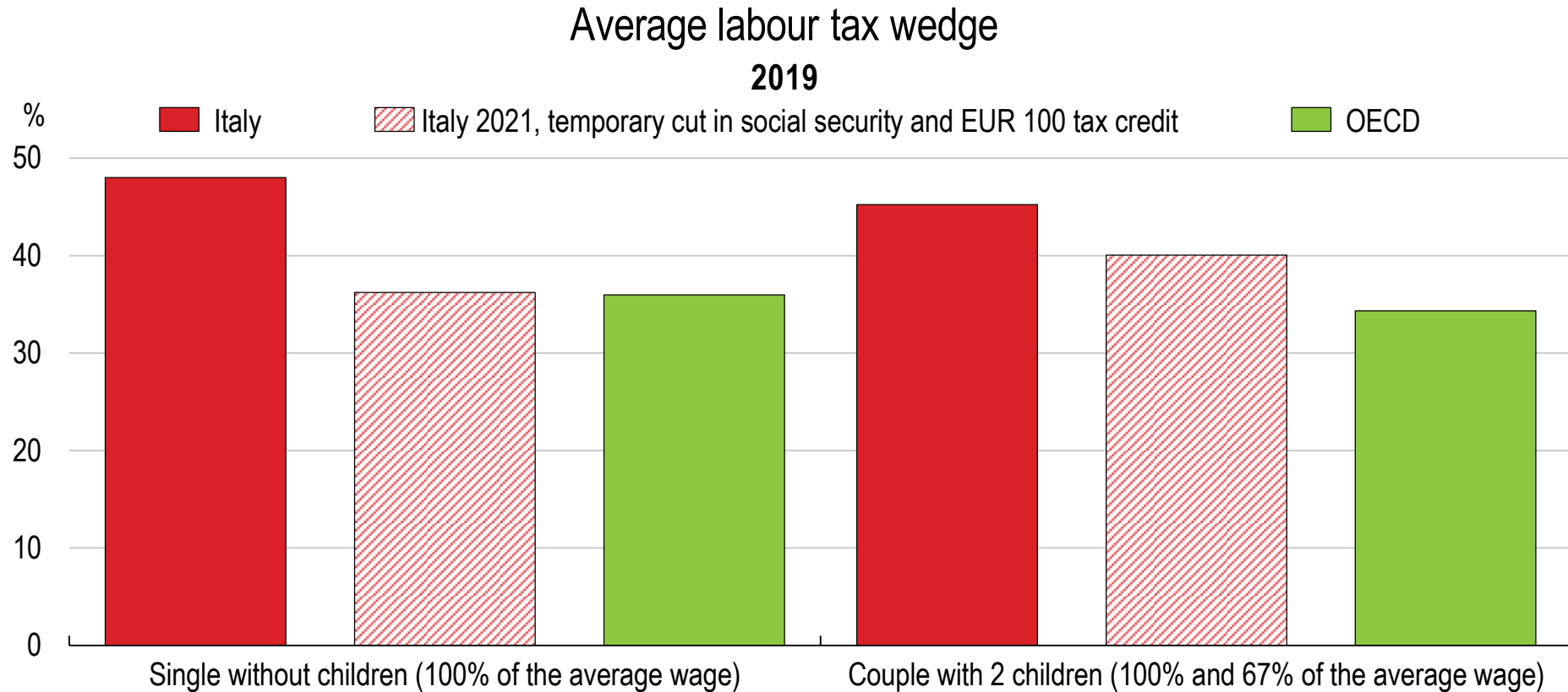


Note: Number of individuals aged 65 and over per 100 people of working age defined as those aged between 20 and 64. Due to data unavailability the OECD average excludes Colombia and Costa Rica.

Source: OECD (2019), Pensions at a Glance (database).



Permanently reducing the tax wedge for more people could boost employment



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.

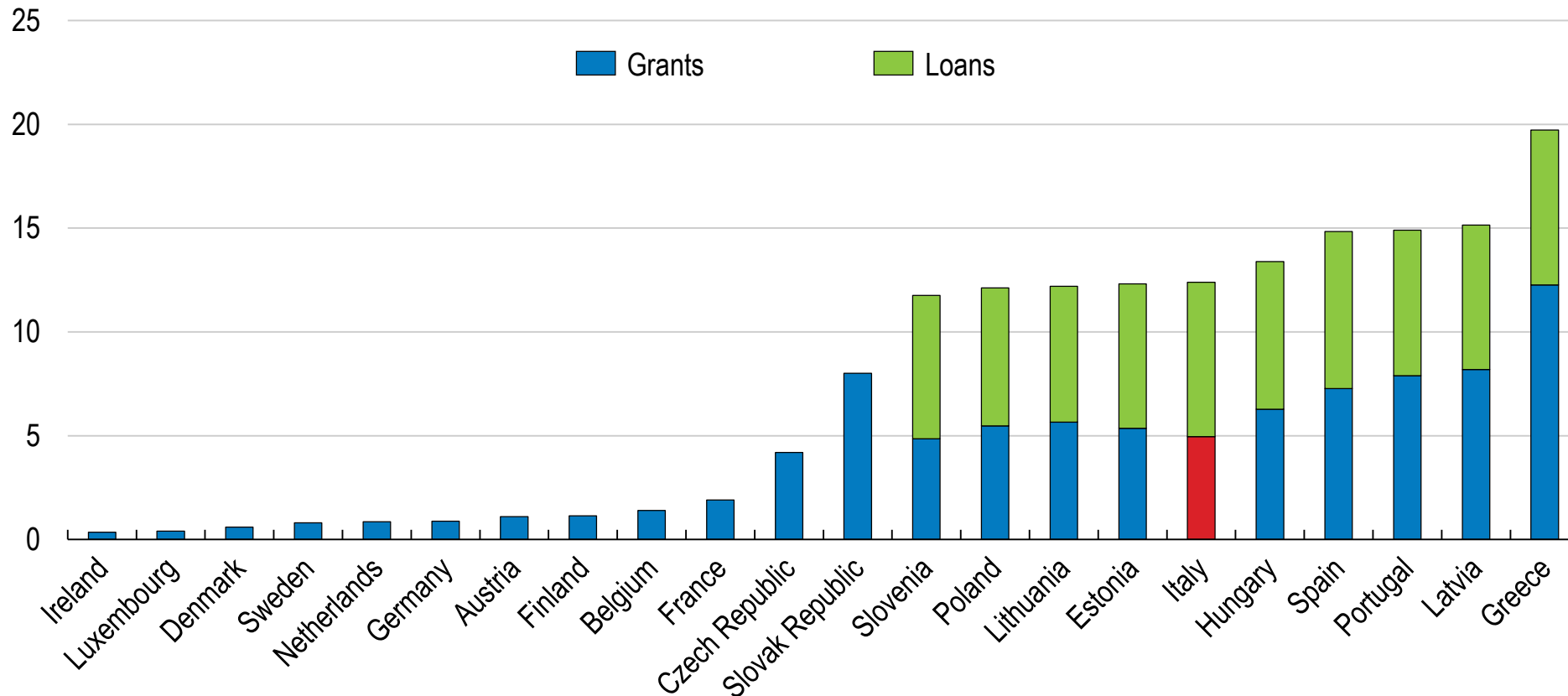


THE NATIONAL RESILIENCE AND
RECOVERY PLAN CAN HELP SUSTAIN
INVESTMENTS AND GROWTH-
SUPPORTING REFORMS



The National Recovery and Resilience Plan will support investment and structural reforms

Next Generation EU grants and loans, % of GDP



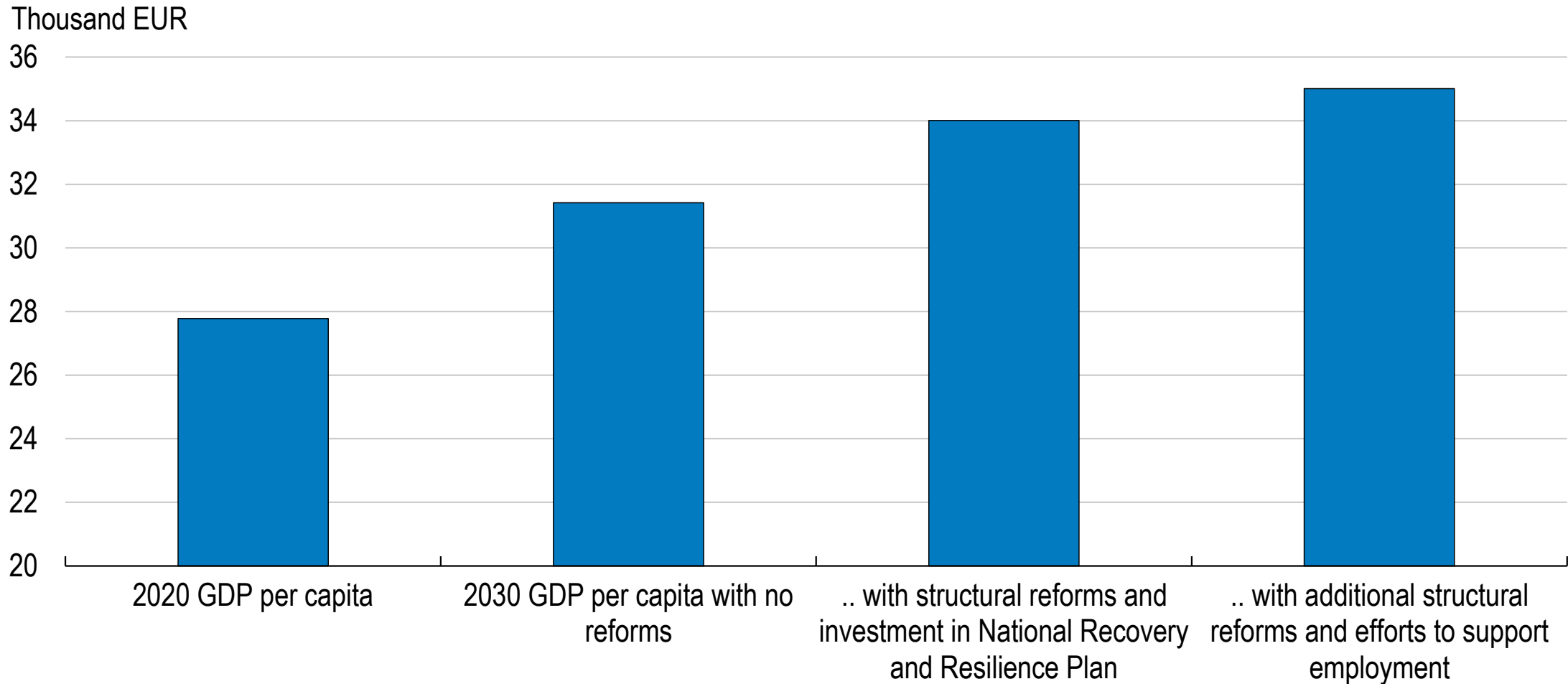
Note: 2020 GDP at current prices are used. Loans are assumed at 6.8% of 2019 gross national income for some countries. Actual amounts may differ. Figure does not include the additional own resources included in the Italian National Recovery and Resilience Plan. This is equivalent to 1.2% of 2020 GDP.

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

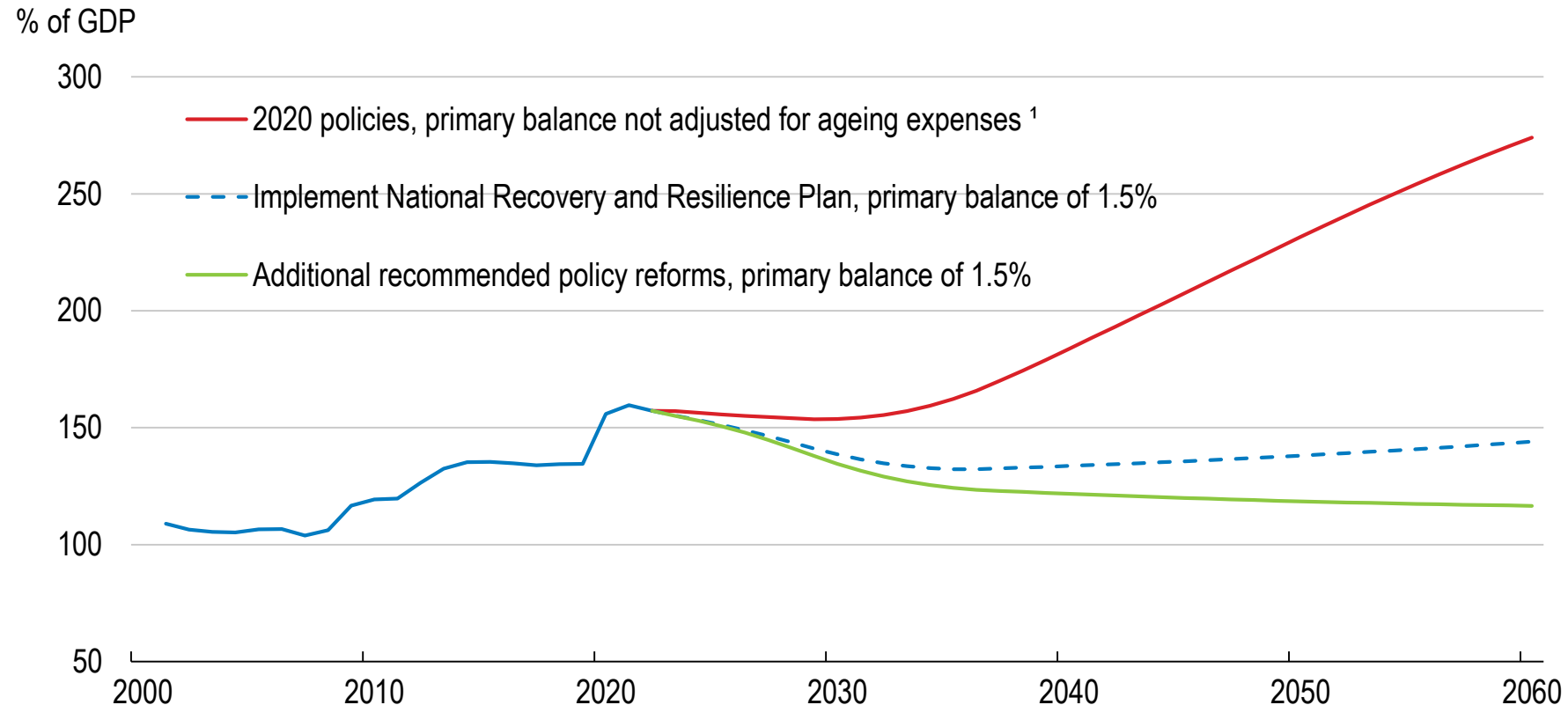


Source: OECD projections, assumes no impact from inflation.



Reforms should boost growth which is key for lower debt

Public debt-to-GDP ratio, alternative reform scenarios

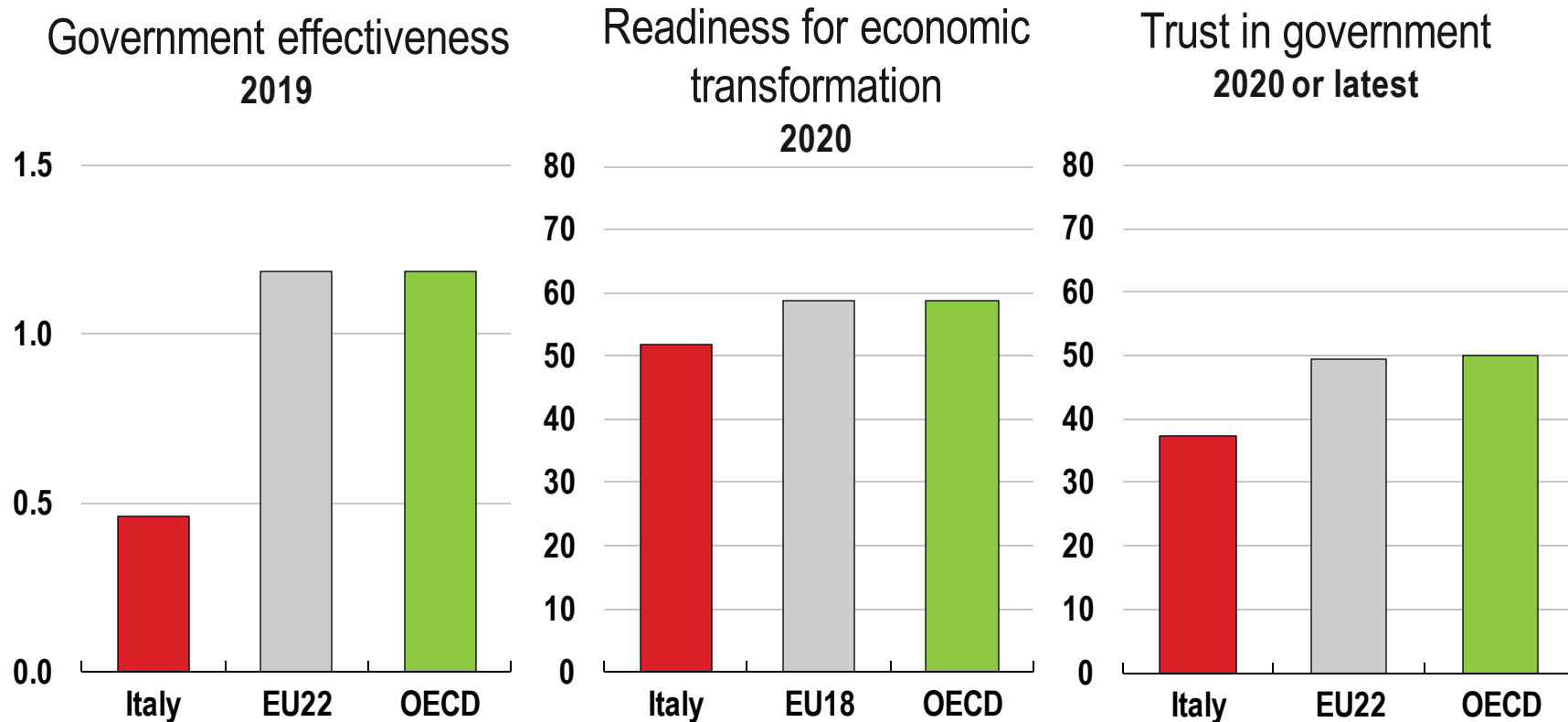


1. A primary balance of 1.5% is assumed, and then ageing expenses are added to the fiscal profile. This profile illustrates the impact of ageing policies on the budget. It does not reflect an expected fiscal strategy.

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.

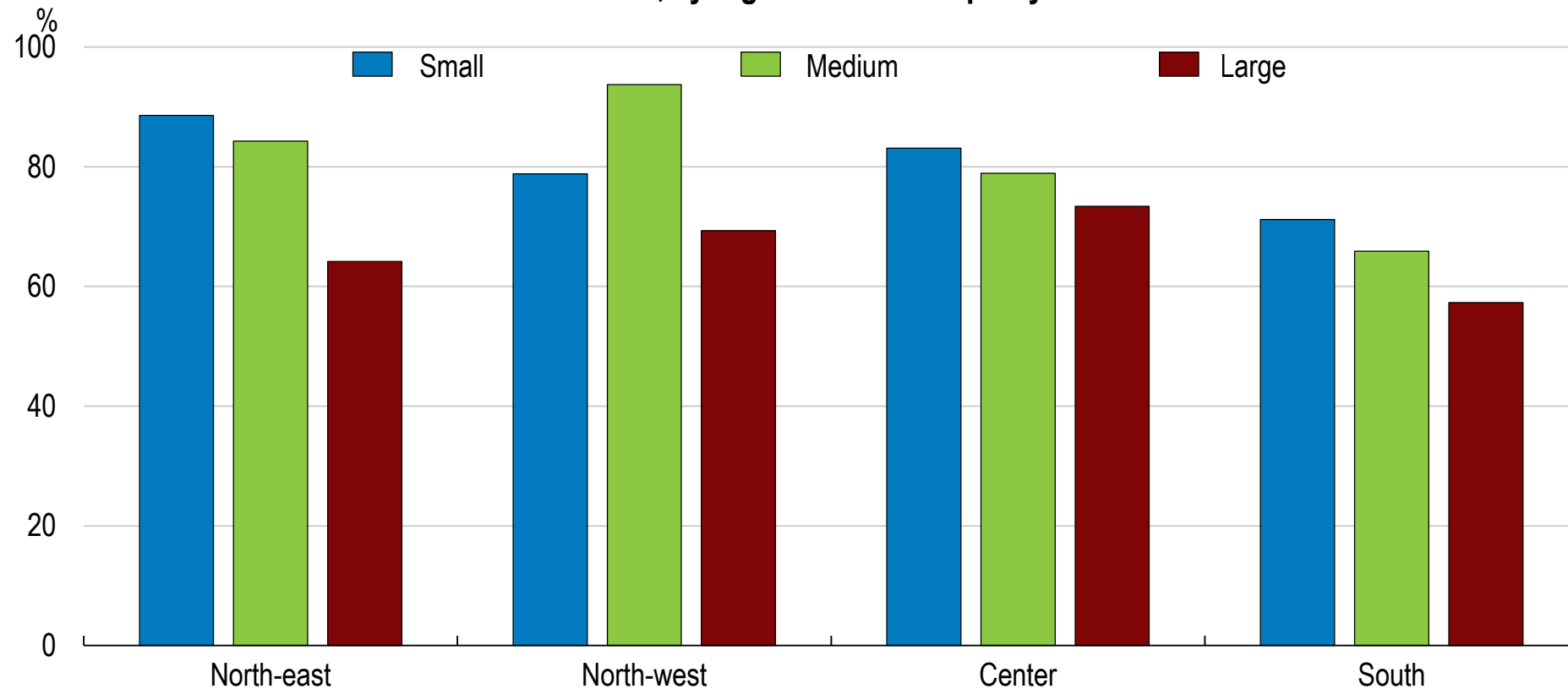
Sources: World Bank (2020), Worldwide Governance Indicators (database); World Economic Forum (2021), The Global Competitiveness Report 2020; OECD (2021), How's Life: Well-being (database).



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



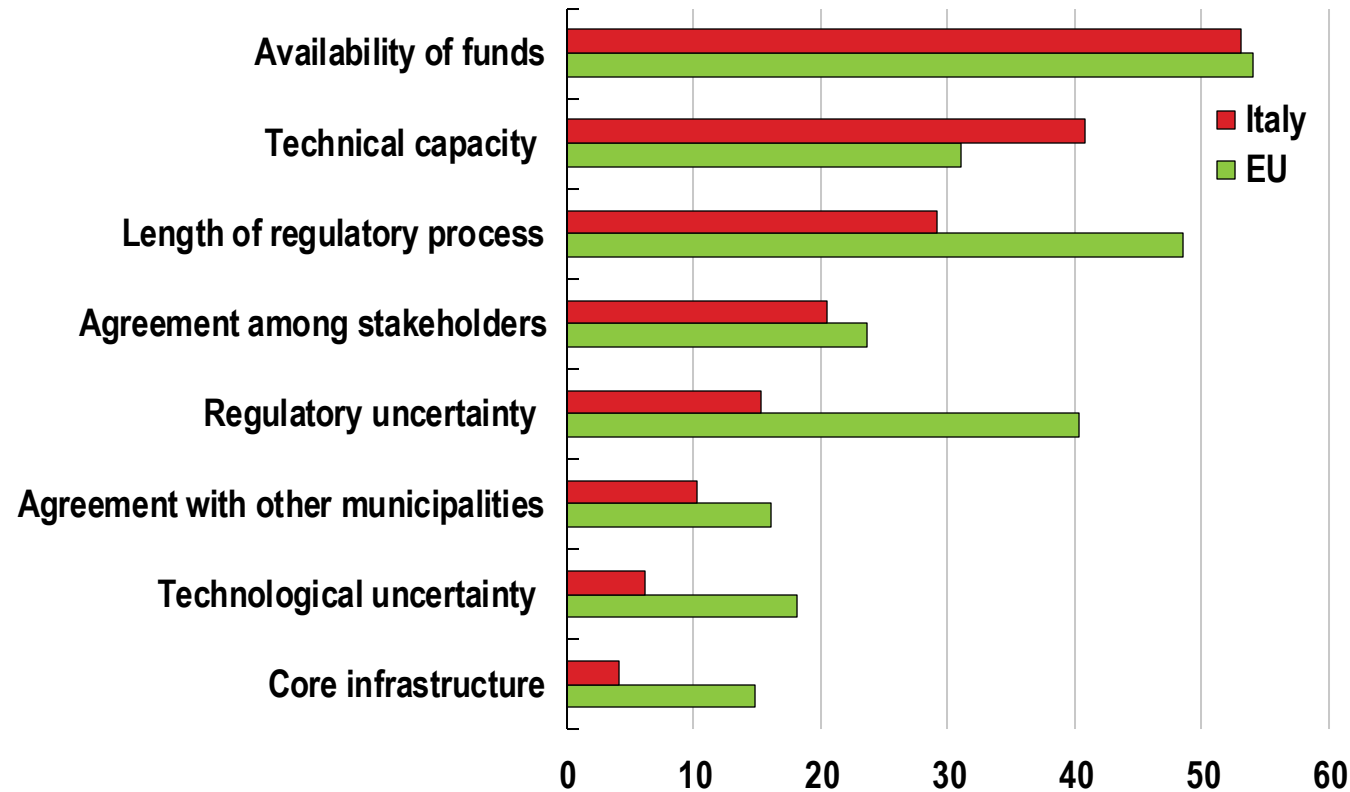
Note: "Small" municipalities' population is below 50 000, "medium" between 50 000 and 250 000, and large above 250 000.

Source: OpenCivitas database and OECD calculations.



Capacity constraints to public investment need addressing

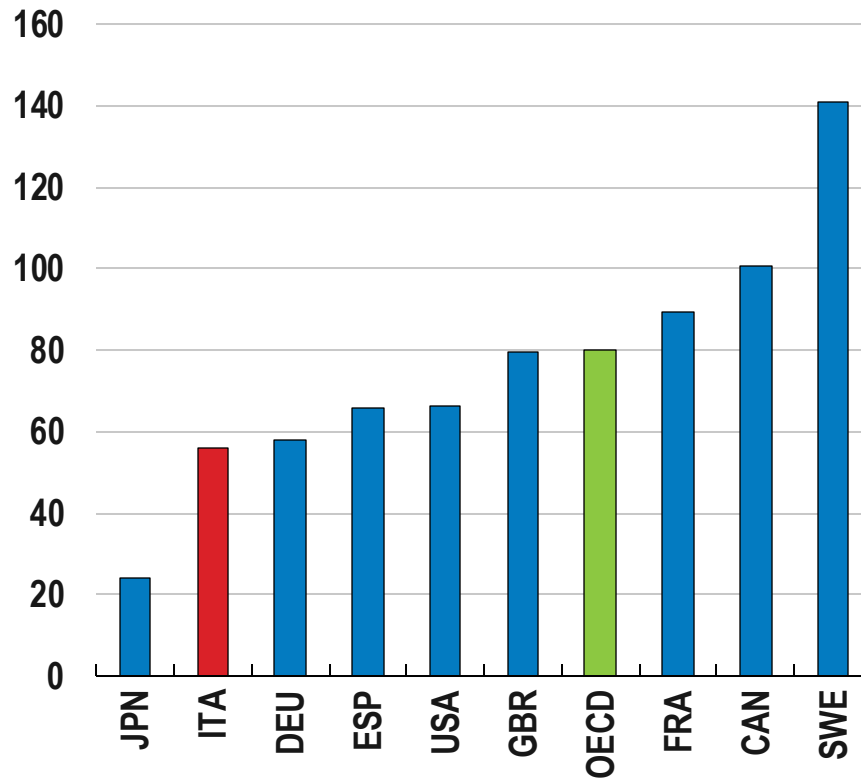
Major obstacles to municipal infrastructure investment
2019, % of all municipalities surveyed



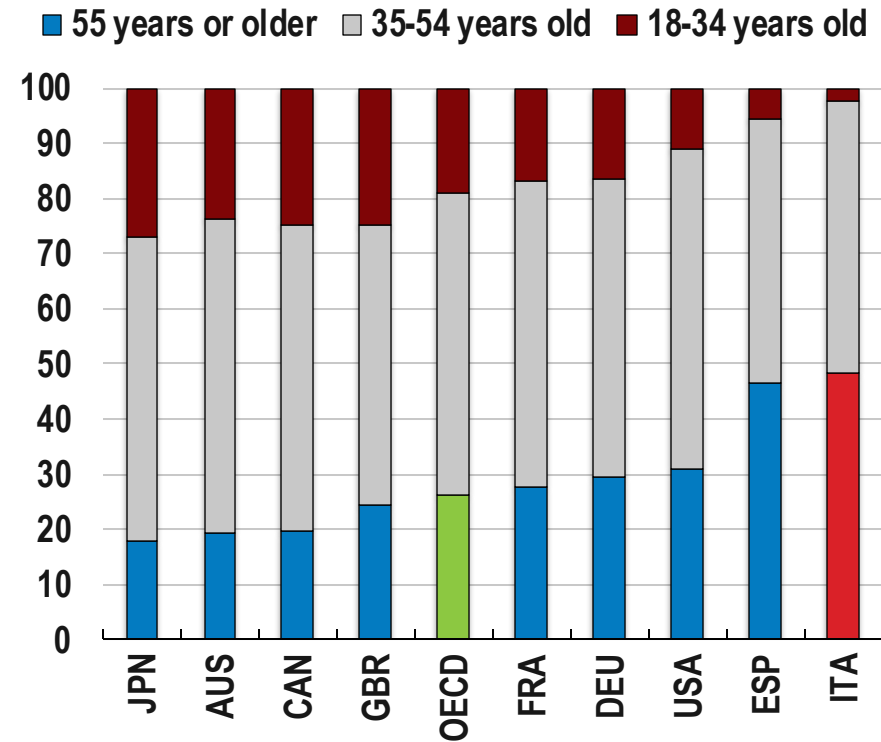


Many public employees are nearing retirement

Public employees
Total, per 1000 population, 2020



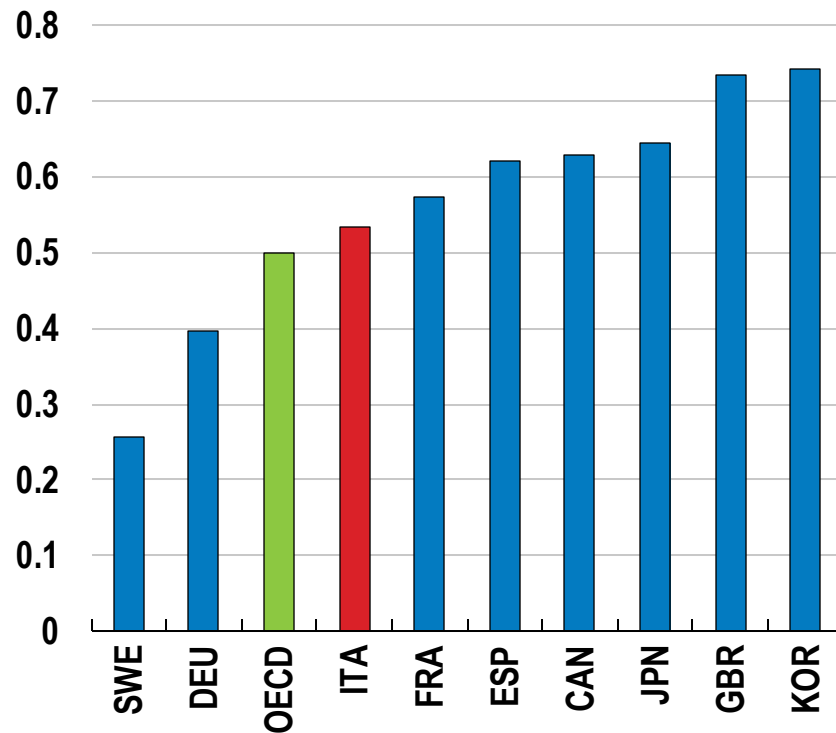
Public sector employees by age group
Central government, 2020



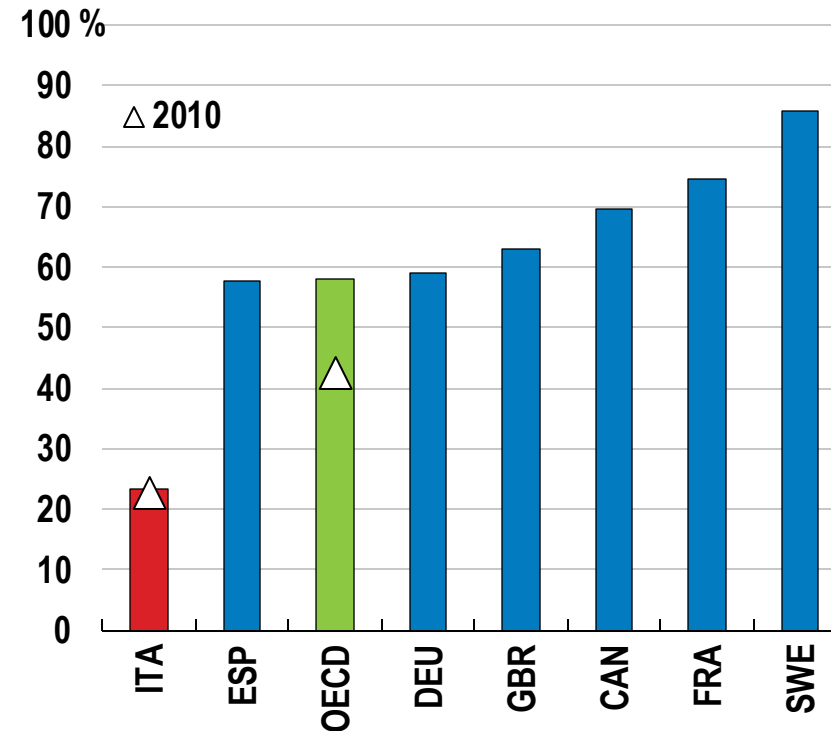


Progress with e-government will help but users' take-up has lagged

OECD Digital Government Index
2019



Share of individuals using the internet to
interact with public authorities
2019



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



For more information



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