

ITALY

GDP is projected to grow by 1% in 2017 and 0.8% in 2018. Rising global demand and the recent depreciation of the euro are supporting exports. Business investment is strengthening, but public investment has not yet recovered. Private consumption growth remains robust despite slowing job creation and modest wage gains. Inflationary pressures are subdued because of large spare capacity, although recent energy and food price increases have pushed up consumer prices.

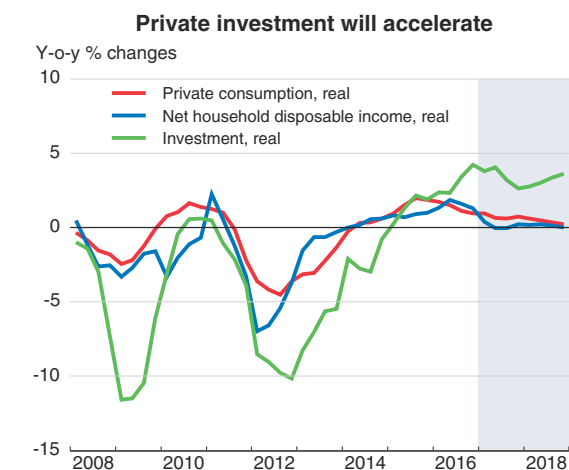
Lower interest payments due to accommodative euro area monetary policy have helped to expand fiscal room, and fiscal policy is projected to remain mildly expansionary in 2017. These projections assume a fiscal retrenchment of about 1% of GDP in 2018, as required by EU fiscal rules even though the economy is running well below its potential and the recovery is still fragile. Prioritising public spending on infrastructure, research and anti-poverty programmes, and continuing structural reforms would accelerate the recovery and raise potential output.

Italy's integration in global value chains remains limited, partly because many firms are small and suffer from low productivity. Moreover, the benefits from globalisation have not been equitably shared because of shortcomings in the education system, ineffective job-search and training programmes and ineffective anti-poverty programmes. Boosting innovation and competition and facilitating the restructuring of insolvent firms would enable companies to adjust to globalisation and raise participation in global value chains. Implementing the new active labour market policies and the nationwide anti-poverty programme will help people to adjust to globalisation.

Exports and investment are supporting the recovery

The business investment recovery has gained strength on the back of generous tax incentives and persistently low interest rates. Business confidence has improved and manufacturing and services sectors have experienced output growth. Though the flow of new non-performing loans has slowed, the stock remains high and, along with the low profitability of the banking sector, limits credit, especially to SMEs and the construction

Italy



StatLink <http://dx.doi.org/10.1787/888933503339>

Italy: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment ¹	0.1	0.7	1.3	0.7	0.5
Unemployment rate ^{1,2}	12.6	11.9	11.7	11.5	11.2
Compensation of employee ³	0.2	0.8	0.6	1.0	1.1
Unit labour cost	0.2	1.2	1.5	1.1	1.0
Household disposable income	0.6	0.8	1.5	1.4	1.4
GDP deflator	1.0	0.7	0.8	1.2	1.2
Harmonised index of consumer prices	0.2	0.1	-0.1	1.5	1.3
Core harmonised index of consumer prices ⁴	0.7	0.7	0.5	0.6	1.3
Private consumption deflator	0.3	0.0	0.0	1.3	1.3

1. Data for whole economy employment are from the national accounts. These data include an estimate made by Istat for employment in the underground economy. Total employment according to the national accounts is higher than labour force survey data indicate, by approximately 2 million or about 10%. The unemployment rate is calculated relative to labour force survey data.

2. As a percentage of labour force.

3. In the total economy.

4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

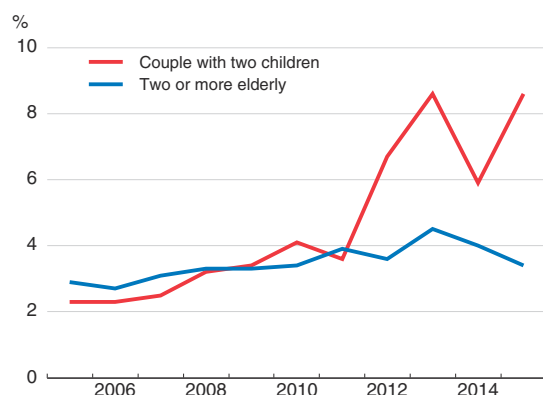
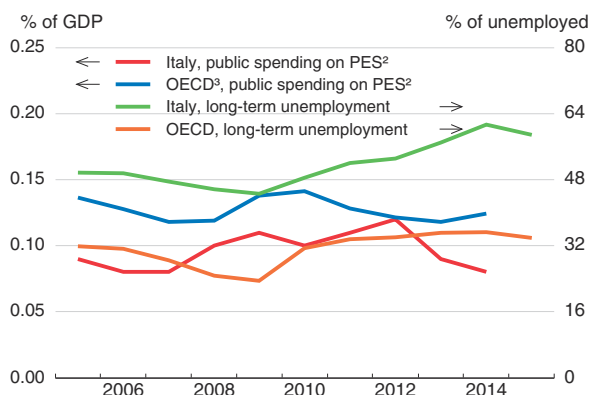
Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505410>

sector. Construction-sector confidence has improved, but activity has yet to start recovering and residential investment remains weak. Stronger growth in Italy's export markets, such as Germany and the United States, and recent competitiveness gains are driving export growth. Imports are also rising fast, due to rising investment and imports of intermediate goods for exports.

Private consumption has been growing solidly despite weakening employment growth – due to the expiration of social security contribution exemptions – and modest

Italy

Poverty of families with children is high
 Absolute poverty rate¹, by household type

Low spending on job search and training policies raises long-term unemployment


1. Absolute poverty is defined as consumption expenditure lower than or equal to the monetary value of a minimum basket of goods and services considered as essential.

2. Public spending on public employment services (PES) includes placement and related services, benefit administration and other expenditure.

3. Unweighted average.

Source: National Institute of Statistics (ISTAT); and OECD, Labour Force Statistics database.

StatLink  <http://dx.doi.org/10.1787/888933503358>

Italy: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, net ¹	3.9	3.1	3.3	2.7	2.4
General government financial balance ²	-3.0	-2.7	-2.4	-2.1	-1.4
General government gross debt ²	158.4	159.6	158.1	157.4	156.2
General government debt, Maastricht definition ²	131.7	132.1	132.5	131.8	130.6
Current account balance ²	1.9	1.4	2.6	2.1	2.3
Short-term interest rate ³	0.2	0.0	-0.3	-0.3	-0.3
Long-term interest rate ⁴	2.9	1.7	1.5	2.3	2.7

1. Net saving as a percentage of net disposable income. Includes "famiglie produttrici".

2. As a percentage of GDP. These figures are national accounts basis; they differ by 0.1% from the frequently quoted Excessive Deficit Procedure figures.

3. 3-month interbank rate.

4. 10-year government bonds.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505429>

wage gains. Consumer confidence remains fragile and retail sales are flat. Large unused capacity keeps inflation low. Recent manufacturing and services indicators point to moderate output growth in the near term.

Prudent fiscal policies and further progress on structural reforms are key to stronger growth and lower debt

The government faces the tasks of lowering the budget deficit and public debt, strengthening the recovery and continuing the structural reform process. Lower interest payments and a structural fiscal adjustment of 0.2% of GDP will contribute to lower the government budget deficit to 2.1% of GDP in 2017. For 2018, the projections assume a fiscal tightening of 1% of GDP through a mix of higher consumption taxes and spending cuts, as

Italy: **Demand and output**

	2015	2016	2017	2018	Fourth quarter		
					2016	2017	2018
	Current prices EUR billion	Percentage changes from previous year, volume (2010 prices)					
GDP at market prices	1 644.4	1.0	1.0	0.8	1.0	1.1	0.6
Private consumption	1 001.2	1.3	0.7	0.4	0.9	0.7	0.2
Government consumption	311.6	0.6	0.6	0.1	1.0	0.5	0.0
Gross fixed investment	276.3	3.1	3.4	3.2	4.2	2.6	3.6
Final domestic demand	1 589.1	1.5	1.2	0.8	1.5	1.0	0.8
Stockbuilding ¹	7.8	-0.4	-0.1	0.0			
Total domestic demand	1 596.9	1.1	1.0	0.9	1.0	1.0	0.8
Exports of goods and services	493.0	2.6	4.1	3.6	3.8	3.3	3.5
Imports of goods and services	445.5	3.1	4.7	3.9	4.3	3.3	4.4
Net exports ¹	47.5	-0.1	0.0	0.0			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505448>

called for by European Union rules, even though the government has recently signalled its intention to implement a fiscal adjustment of 0.3% of GDP.

The public debt has stabilised in relation to GDP, but its high level remains a vulnerability. The government has earmarked EUR 20 billion for bank recapitalisation, which, if it were all used, would increase public debt by 1.2% of GDP. Progressing on structural reforms and continuing prudent fiscal policies, by shifting the spending mix towards infrastructure, innovation and anti-poverty programmes, are crucial to raise growth in an inclusive way and steadily reduce the public debt-to-GDP ratio. Broadening the tax base by persevering in the fight against tax evasion and introducing residential property taxes based on updated property values would raise revenue and make taxes fairer. Cuts in social security contributions would boost employment, especially of low-paid, low-skilled workers. Reform of the personal income tax system should aim at base broadening by eliminating tax expenditures and lowering tax rates for low-income earners, without diminishing tax receipts. This would strengthen work incentives and increase progressivity and fairness.

Despite its large manufacturing sector, Italy's integration in global value chains is limited, partly because many firms are small and suffer from low productivity. At the same time, ineffective social and training policies – resulting in high poverty and unemployment rates – have prevented Italy from sharing the benefits from globalisation more widely. Boosting innovation and competition and facilitating the restructuring of insolvent firms would allow companies to adjust to globalisation while also raising participation in global value chains. The quick and full implementation of the new labour market activation policies linked to universal unemployment benefits is key to retrain displaced workers and help them find new jobs. Scaling up post-secondary vocational education and training with strong involvement of the business sector would help to address the large job-market skill mismatch.

The economic recovery will continue at a moderate pace

GDP growth is projected to remain at 1% in 2017 and then edge down to 0.8% in 2018, due to the already legislated fiscal tightening of 1% of GDP. Declining net job creation along with uncertainties relating to Brexit will moderate private consumption growth. Reviving global demand will raise exports. The current account balance will remain in surplus. Investment will accelerate in 2017 as generous incentives to business investment continue to bear fruit. Public investment will increase only marginally because of the tight fiscal situation and persistent delays in project selection and execution.

In 2018, less fiscal adjustment than assumed would boost growth. The resolution of uncertainties relating to bank recapitalisation needs and faster progress on reducing bad loans would increase confidence and make room for more credit, strengthening private investment. Also, public investment could increase faster than projected. Furthermore, higher consumer confidence might lead to lower saving and stronger private consumption, despite slowing employment growth. On the other hand, renewed political and financial market turmoil in the EU or a faster pace of monetary policy normalisation might result in higher interest payments, requiring a higher primary fiscal surplus; and a recurrence of the refugee crisis could result in political, social and financial strains, lowering consumption and investment. Lower growth in export markets or increased protectionism would hurt growth.