

ITALY

Growth is projected to edge down to 1.4% in 2018 and 1.1% in 2019. Exports and business investment are increasingly driving the recovery. Private consumption growth will moderate due to waning job growth and weaker household purchasing power due to rising inflation. Consumer price inflation is edging up as excess capacity narrows and will accelerate in 2019. The current account surplus is projected to remain high.

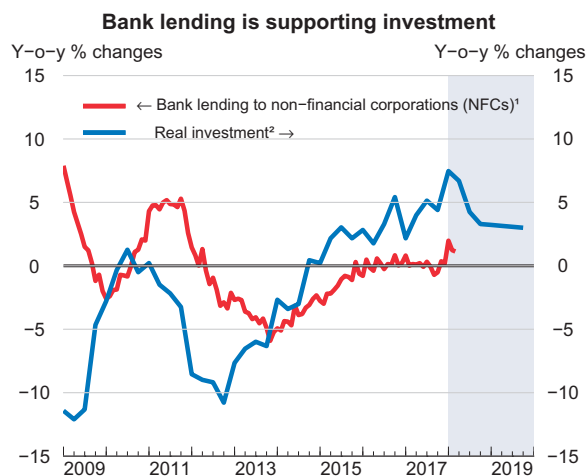
The stock of non-performing loans in the banking system has declined markedly from its peak thanks to policies put in place. In 2018, the fiscal stance is projected to be slightly expansionary. Reflecting perceived increased policy uncertainty, government bond yields have risen recently. Possible policy changes by the incoming government are not incorporated in the projection. Priorities should be given to shifting the spending mix towards infrastructure and enhancing targeted anti-poverty programmes to tackle large social and regional divides while boosting growth.

Stronger investment and exports are sustaining growth

Business investment is expanding solidly, supported by tax incentives, linked to the Industry 4.0 plan, and the revival of bank lending to firms. Banks' credit standards have eased and demand for loans to finance fixed investment is rising. According to surveys, a growing share of firms plan to further increase their investment in 2018. Residential investment is edging up and demand for mortgages by households has been expanding for some time. House prices may have finally stopped falling and construction is picking up. However, public investment continues to stagnate, hampered by problems related to the implementation of the new public procurement code and spending restraints.

Global growth is buttressing exports. Increasing specialisation in sectors less exposed to competition from low-cost producers and quality upgrading are resulting in higher market shares, despite rising relative unit labour costs. The unemployment rate is declining gradually but job growth has lost some vigour. Also, the quality of job creation

Italy



1. Adjusted for effect of securitisation.

2. Real gross fixed capital formation.

Source: OECD Economic Outlook 103 database; and Bank of Italy.

StatLink <http://dx.doi.org/10.1787/888933730218>


Italy: Demand, output and prices

	2014	2015	2016	2017	2018	2019
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 622.6	0.8	1.0	1.6	1.4	1.1
Private consumption	985.9	1.9	1.4	1.4	0.9	0.6
Government consumption	313.3	-0.6	0.6	0.1	0.5	0.2
Gross fixed capital formation	271.8	1.9	3.3	3.9	5.4	3.1
Final domestic demand	1 571.0	1.4	1.6	1.6	1.6	1.0
Stockbuilding ¹	5.3	0.0	-0.3	-0.2	-0.3	0.0
Total domestic demand	1 576.2	1.4	1.3	1.3	1.3	1.0
Exports of goods and services	475.0	4.2	2.6	6.0	5.4	4.3
Imports of goods and services	428.6	6.6	3.8	5.7	5.5	4.2
Net exports ¹	46.4	-0.5	-0.3	0.3	0.1	0.1
<i>Memorandum items</i>						
GDP deflator	—	0.9	0.8	0.6	1.3	1.6
Harmonised index of consumer prices	—	0.1	-0.1	1.3	1.2	1.7
Harmonised index of core inflation ²	—	0.7	0.5	0.8	0.9	1.7
Unemployment rate (% of labour force)	—	11.9	11.7	11.2	11.0	10.8
Household saving ratio, net (% of disposable income)	—	3.2	3.1	2.4	1.7	1.1
General government financial balance (% of GDP)	—	-2.6	-2.5	-2.3	-1.8	-0.9
General government gross debt (% of GDP)	—	159.1	157.5	154.6	153.0	150.5
General government debt, Maastricht definition (% of GDP)	—	131.6	132.0	131.7	130.0	127.6
Current account balance (% of GDP)	—	1.5	2.6	2.8	2.2	2.1

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

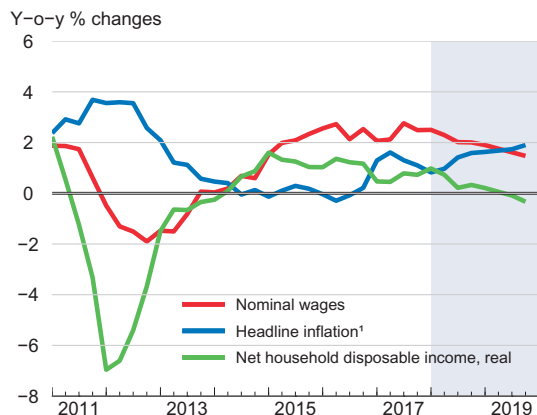
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 103 database.

StatLink  <http://dx.doi.org/10.1787/888933731187>

Italy

Rising price inflation and moderate wage growth curb household purchasing power gains




Unemployment is gradually declining but employment growth has slowed



1. Harmonised consumer price index (HICP).

Source: OECD Economic Outlook 103 database.

StatLink  <http://dx.doi.org/10.1787/888933730237>

has worsened as temporary contracts account for most of the new jobs. Public-sector wages will increase in 2018 for the first time in 10 years, but ample slack in the labour market is curbing private-sector wage growth, which, along with rising inflation, is curtailing real household disposable income growth. Leading economic indicators suggest that the economy may be losing momentum.

Tackling regional and social divides requires policy actions

Progress on structural and social policy reforms and continuing prudent fiscal policies are key to boosting growth and tackling social and regional divides. The employment rate has reached 58%, close to its historical high, but it is still one of the lowest among OECD countries. In southern regions, the employment rate is more than 20 percentage points lower than in northern ones and poverty is substantially higher. Joblessness and poverty are particularly high among women and young people. Shifting the spending mix towards infrastructure to better connect southern regions with the north and the rest of Europe, and enhancing targeted anti-poverty programmes would contribute to reduce such divides while boosting growth. The recent steps to encourage decentralised wage bargaining hold the promise of better aligning wages to productivity and encouraging hiring in low-productivity and high-unemployment regions. A permanent cut in social security contributions would further boost job creation. Reforming the personal income tax system should aim at fighting tax evasion simplifying tax expenditures and lowering tax rates for low-income earners, without diminishing tax revenues.

The strategy of stabilising the banking sector through a mix of recapitalisation and resolution is paying off. The stock of non-performing loans in banks' balance sheets has declined by about 20% from its peak, following large sales in the secondary market. Banks' governance reforms along with the ongoing economic expansion are improving loan quality. The ratio of new non-performing loans to outstanding loans has fallen to below pre-crisis levels.

The cost of the government intervention in the banking sector has been limited and led to a revision of the 2017 headline budget deficit from 1.9% to 2.3% of GDP. Public debt as a share of GDP remains high but has finally started to decline, despite the assumption of some contingent liabilities related to the intervention in the banking sector.

In 2018, the fiscal stance will be weakly expansionary and the budget deficit will fall to 1.8% of GDP. Based on legislated measures, in 2019 the hike in indirect taxes – for about 0.7% of GDP – will turn the fiscal stance contractionary and the budget deficit will diminish to 0.9% of GDP. These projections are based on legislated measures and do not take into account the policies envisaged by the incoming government.

Growth is projected to edge down

Economic growth is projected to decelerate as investment growth will abate, though remain robust, while subdued employment and wage growth will mitigate private consumption growth. Exports growth is projected to decline due to slackening external demand, while slowing investment and private consumption will lessen import growth. Policy uncertainty could have an impact on the economic expansion. Investment could prove more resilient than projected if firms expand capacity further and residential investment rebounds. If international tensions in the Mediterranean region were to diminish, social strains due to the large influx of refugees would ease, boosting confidence and exports towards trade partners in the region. The expansionary fiscal stance in Germany could support exports more than expected.