

ITALY'S RECOVERY: CYCLICAL OR STRUCTURAL?

Cyclical or structural? **This question is puzzling commentators when considering Italy's economic recovery.** Italy started to show signs of recovery in 2014, a year in which the country registered a 0.1 per cent increase in GDP after a double-dip recession that between 2009 and 2013 led to a 10% drop in national product. In the following years the recovery grew stronger and **now the economy is growing at a similar rate to other euro-area countries.**

The **cyclical components** of Italy's recovery are quite obvious: the European Central Bank's **expansive monetary policy** and the recovery in **world trade.** These factors, in the current phase help fiscal consolidation and account for an increased share of exports. Nonetheless, **Italian export performance vastly exceeds that of international trade.** This **manufacturing success story** is due to the growing competitiveness of Italian companies that, during the recession, engaged in business reorganisation, invested to increase productivity and innovate their products, thereby improving their global market share.

Beyond cyclical factors there are also relevant **structural components** that explain Italy's recovery.

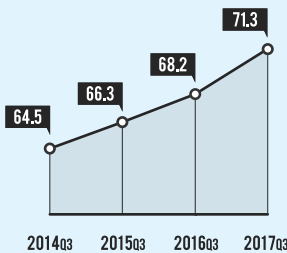
The **Industry 4.0 plan**

included tax incentives for private sector investment that induced businesses to adopt new technologies and new, state-of-the-art manufacturing paradigms. Private sector investment is improving the competitiveness of Italy's industrial base, as the age-old problem of poor productivity is being addressed.

The second structural component of recovery relates to the labour market, whose rules have been changed by the **Jobs Act**, a comprehensive set of measures that increased flexibility and introduced, among other things, active labour market schemes to enable better matching of work demand and supply, reducing social exclusion and bringing human capital back into the production cycle.

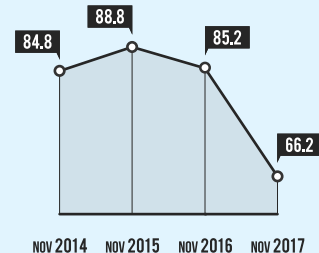
The third structural component of recovery is the **banking sector.** The reforms introduced in 2015 profoundly changed the financial market: the reforms of large and small cooperative banks (*banche popolari* and *banche di credito cooperativo*) promoted mergers and acquisitions and improved efficiency and competitiveness, while the reform of banking foundations helped sever the remaining ties between local politicians and financial powerhouses. Seven **specific cases of banks in strains have been fixed.** Systemically, this caused a watershed that is making loans flow back to the real economy. Conversely, innovation in the financial sector did not end there. The increase and diversification of business funding sources continued over the course of this Parliament,

GROSS FIXED CAPITAL FORMATION (CLV 2010, BN €)

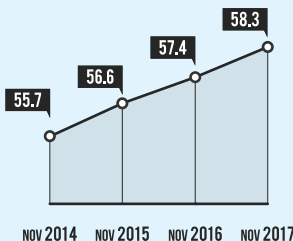


MEF ELABORATIONS ON EUROSTAT, ISTAT AND BANK OF ITALY DATA

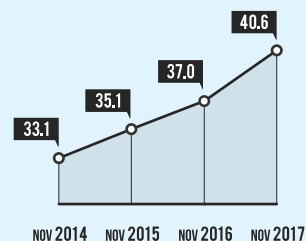
NPLS (NET VALUE, BN €)



EMPLOYMENT RATE (% 15-64 YEARS)



EXPORT (WORLD, BN €)



thanks to the implementation of the **“Finance for Growth”** programme, reducing the Italian economy’s dependence on bank lending which is mainly focused on the short term. After the considerable performance of mini-bonds, for example, a veritable boom was registered following the introduction of PIRs (*Piani Individuali di Risparmio* - Individual savings plans) that will help channel funds to SMEs in future years.

There are also other structural changes that did not make the headlines. Among those, it is particularly relevant **the reform of the tax administration**. Since 2015, the tax authority went through a radical change in the way it interacts with taxpayers, for example by increasing the range of services provided to firms and making rules more predictable thus reducing the risk of litigation. The principles of

due process and simplification are driving this change. Also, the **reform of the insolvency law** - currently being implemented - changed provisions dating back over seventy years and promoted restructuring and rescuing of ailing businesses.

Some of these structural changes underpinning Italy’s economic recovery have been recognised by international analysts, others – in our view - are still underestimated.

More in general, this Parliament, which is drawing to a close, will be remembered for the introduction of long overdue structural changes (some of which had been waiting for over 20 years).

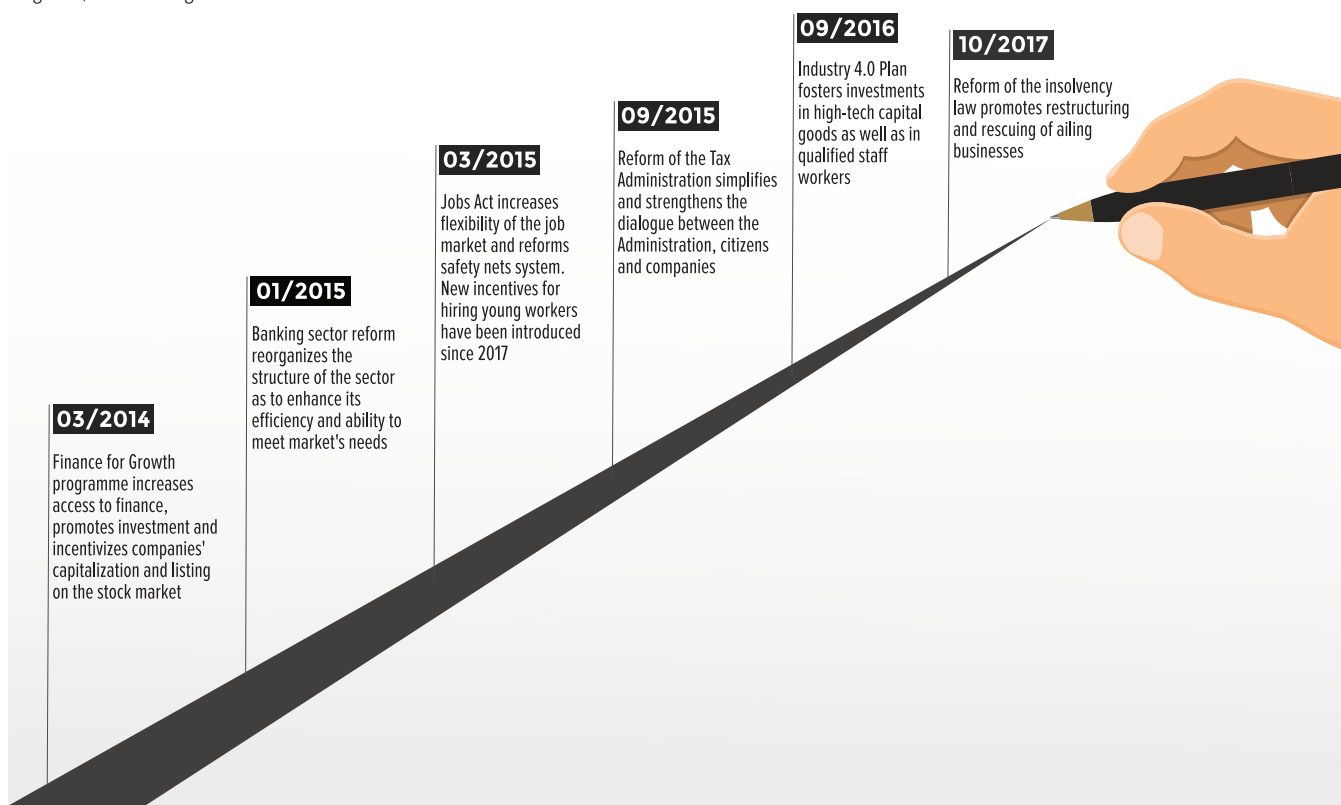
The impact of all these reforms will grow stronger in future years; this is why growth prospects are set to increase in the short and medium term.

Last but not least: **fiscal consolidation**. After eight years of continuous increases, the debt-to-GDP ratio was reversed in 2015. This ratio was stabilised thanks to significant primary surpluses and consistently declining deficit-to-GDP ratios.

Continuing on **the narrow path** of pursuing economic growth and fiscal responsibility, Italy will finally be able to reduce its debt burden, freeing up resources for more sustained and sustainable development.

STRUCTURAL REFORMS FOR SUSTAINABLE GROWTH IN THE LONG TERM

Since inception of its mandate the Italian Government committed to a series of structural reforms to boost competitiveness and foster long term, sustainable growth.





TURN NECESSITY INTO VIRTUE: THE “SIOPE+” SYSTEM

The delay of Italian public debt payments is above the EU threshold.

The average time for payments from public entities in Italy is about 64 days (in 2016) while the EU prescribes a maximum delay of 30-60 days. Italy is undergoing an EU infringement procedure since 2014 and in December 2017 the European Commission decided to refer Italy to the Court of Justice of the EU due to systemic payments delay by the public authorities in commercial transactions, thus breaching EU rules on payment arrangements (Late Payment Directive, Directive 2011/7/EU).

This is indeed a longstanding issue that the Government decided to tackle once and for all by integrating two existing monitoring tools: the Commercial Debt Platform (PCC) and the Electronic Information System of Public Entities’ Operations (SIOPE) creating a new monitoring system now called SIOPE+ System.

The Commercial Debt Platform (PCC) is the system managed by the General Accounting Office (RGS) that collects, on a daily basis, information about electronic invoices sent to public entities. Every public entity reports

on the PCC when each invoice is paid, allowing the RGS to evaluate the stock of public debt and to calculate the delay of commercial debt payments. Notwithstanding, PCC is not comprehensive as monitoring tool because public entities must sort manually the matching between payments and invoices making it costly, untimely and potentially incomplete.

On the other hand, **the Electronic Information System of Public Entities’ Operations (SIOPE)** which is managed by the Bank of Italy, receives information from the banking system about payments by public entities but the costs of reporting information to SIOPE is sustained by banks and it entails no information about invoices.

Therefore - despite the relatively good performance of having these two systems working in parallel -it became clear that for completing the monitoring and covering the whole dynamic of commercial debt creation and management, it was necessary to set up an automatic and integrated system with no cost and full coverage: **the SIOPE+ System.**

Within the SIOPE+ System public entities must order payments and collec-

tions to their bank treasurers exclusively by electronic forms according to the «Standard Payment and Collection Order (OPI)», issued by the Agency for Digital Italy, and through the SIOPE+ infrastructure managed by the Bank of Italy.

Therefore, **the SIOPE+ System automatically gathers information about payments and invoices and sends it in real time to the Bank of Italy and to the RGS making monitoring activities more accurate, timely, efficient (in terms of time and work) and effective by increasing the quality of the information, the availability of micro-data and reducing the risk of human mistakes.**

The implementation of the new System is currently ongoing according to a defined roadmap that will see it completed by October 2018.

FURTHER INFORMATION

[SIOPE+ System](#)

The implementation roadmap of the new system tracking payments from government entities

4 different groups according to different administrative entities

» Jan 2018

130 ENTITIES
ALL REGIONS
ALL LOCAL GOVERNMENTS

» Apr 2018

110 ENTITIES
BIG MUNICIPALITIES (MORE
THAN 60,001 PEOPLE)

» Jul 2018

1120 ENTITIES
MEDIUM MUNICIPALITIES (BETWEEN
10,001 AND 60,000 PEOPLE)

» Oct 2018

6700 ENTITIES
SMALL MUNICIPALITIES (LESS
THAN 10,000 PEOPLE) AND
HEALTH STRUCTURES

BUILDING A STRONGER UNION FOR EUROPEANS

The ongoing recovery can help heal the European economy, however, **in a longer perspective failure to address fundamental governance issues could undermine the European project.** The Italian Government has recently updated its proposal to reform common economic policies and institutions. Following the rules **already laid down in early 2016**, the paper - "**Reforming the European Monetary Union in a stronger European Union**" - **describes the steps required to strengthen and deepen the integration process. At EU level, bold policy action is needed to provide five European public goods:** a 'co-managed and co-financed migration policy at European borders'; a complete implementation of the European Defence Plan; an effective and coordinated internal and external security capability; a permanent Juncker plan focused on innovation-driven investment with significant spillovers across Member States; a financial facility to combat child poverty, thereby investing in Europe's future generations. The rationale for this proposal is both political - addressing some of the major concerns of our societies - and economic - as these areas of intervention are more efficiently dealt with at EU level. This also implies that the small increase in the forthcoming common budget will leave the overall tax burden on European citizens unchanged if not slightly diminished. Lastly, the overall amount of cohesion policy resources should remain unchanged, but it should be simplified and be based on a performance-oriented approach. **As far as the EMU is concerned, a multiannual approach should be adopted with regard to fiscal rules,**

while investment and reform clauses should become more accessible.

Moreover, in order to address current account imbalances between eurozone members, **the macroeconomic imbalances procedure should work in a more symmetric and effective way.** Lastly, a stabilisation tool for the Eurozone has to be introduced to tackle major shocks exceeding the absorption capacity of national automatic stabilizers. A rainy day fund for unemployment would serve the purpose. **Completing the Banking Union is essential to ensure effective transmission of the single monetary policy, better risk diversification across Member States and adequate financing of the economy.**

The agreed roadmap, including the introduction of a European Deposit Insurance Scheme and a common backstop for the Single Resolution Fund (SRF), should be pursued without delay together with the Action Plan to reduce Non-Performing Loans (NPLs) endorsed by the Ecofin Council. In order to further reduce major risks embedded in our banking sector, Italy has proposed that a task force could be established for the valuation of illiquid securities, especially level 3 assets.

Overall, the Eurozone would benefit from a shift towards an institution-based approach whereby the European Single Mechanism (ESM) is integrated into the EU legal system and tasked to run the automatic stabilisation function and the common fiscal backstop for the Banking Union, while a European Finance Minister is appointed with the mandate of overseeing public finances, promoting investment and structural reforms, defining and recommending an aggregate fiscal stance for the whole Eurozone.

EFSI IN ITALY

JUNCKER PLAN'S EUROPEAN FUND FOR STRATEGIC INVESTMENT

TOTAL FINANCING VOLUME

€6.6 bn
DECEMBER 2017

EXPECTED VOLUME OF INVESTMENT

€36.8 bn
DECEMBER 2017

Projects breakdown

So far **54 infrastructure and innovation projects** were approved for **€4.7 bn in European Investment Bank (EIB) financing under the EFSI.** This is expected to trigger **€14.4 bn** in investments.

Under EFSI the European Investment Fund (EIF) **approved 59 agreements with financial intermediaries** (banks, funds, etc.). The **financing totals €1.9 bn** and is expected to trigger **€22.4 bn in investments**, benefitting **206,211** small companies or start-ups.

SOURCE: EUROPEAN COMMISSION



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In Italy, since the financial crisis, our duty as policy makers has been stabilising a high public debt while bringing the economy out of sluggish or negative growth and The Narrow Path is an image of the difficulties we are facing and the goals we are achieving. Here we update periodically a professional audience about the evolution of structural conditions affecting the economic activity in the country.