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Italy's Economy and Fiscal Consolidation

Erfurt, 26th October 2012

MINISTERO DELL'ECONOMIA E DELLE FINANZE

No major imbalances

- **No major macroeconomic imbalances apart from high public debt**: no major bubbles in the housing market, low household debt, fundamentally sound banking system, no major external imbalances.

- **No increase in discretionary spending during the crisis**: very prudent fiscal policy; automatic stabilisers allowed to work.

- **Policy measures promptly enacted to continue fiscal consolidation and enhance potential growth**.

- **However, the european sovereign debt and banking crisis** is major threat to Italy's **economic growth** and **fiscal sustainability.**

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Macroeconomic scenario (2012 DEF)

(% change yoy)	2011	2012	2013	2014	2015
Real GDP	0.4	-2,4	0.2	1.1	1.3
Domestic demand net of inventories	-0.4	-1.8	0.2	0.7	1.0
Inventories	-0.5	-0.3	0.1	0.0	0.0
Net export	1.4	1.0	0.1	0.2	0.3
Nominal GDP	1.7	0.5	2.4	2.8	3.2
GDP deflator	1.3	1.8	1.9	1.9	1.9
Labour cost	1.4	1.1	1.1	1.4	1.3
Productivity (on GDP)	0.3	-0.6	0.4	0.5	0.6
Unit labour cost (on GDP)	1.0	1.7	0.7	0.9	0.7
Employment (FTE)	0.1	-0.6	0.1	0.4	0.6
Unemployment rate	8.4	9.3	9.2	8.9	8.6
Current account balance	-3.1	-2.3	-2.0	-1.7	-1.3

Source: 2012 DEF

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Sharp increase in net export contribution to GDP growth
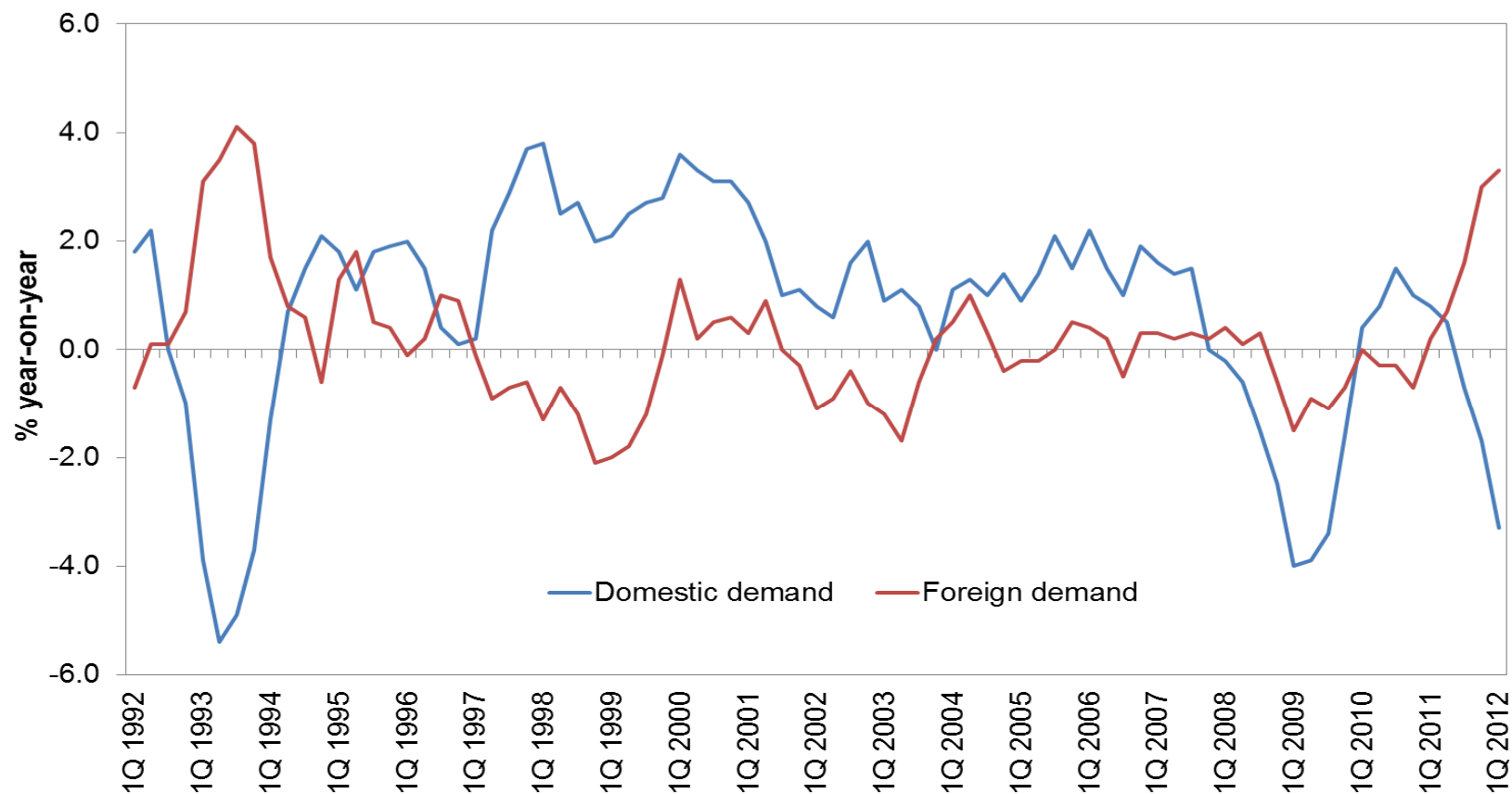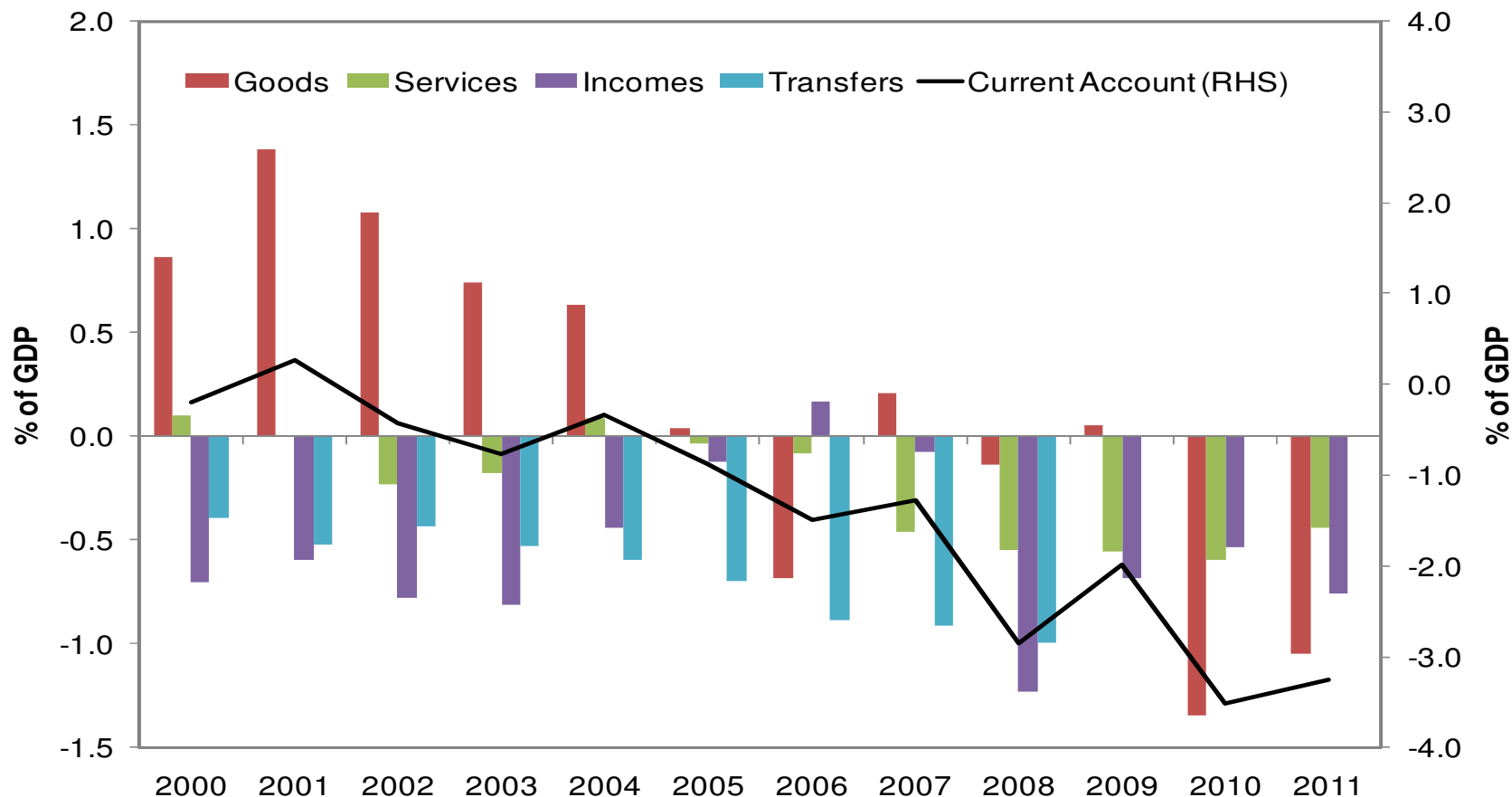

source: Istat

Italy's current account has worsened gradually

- From 2000 to 2010 Italy experienced a **modest deterioration** in the current account, mostly due to higher cost of energy imports.

- Trade of goods has worsened since the second half of 2000; trade of services remained stable in 2002-2006 and worsened thereafter.

- Unfortunately, Italian exporters are mostly specialised in **sectors with declining shares in total global trade** (textiles, clothing, furniture).

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Current account deficit: expected to narrow further in 2012

Source: Bank of Italy.

Sharp improvement in Italy's trade balance in 2011
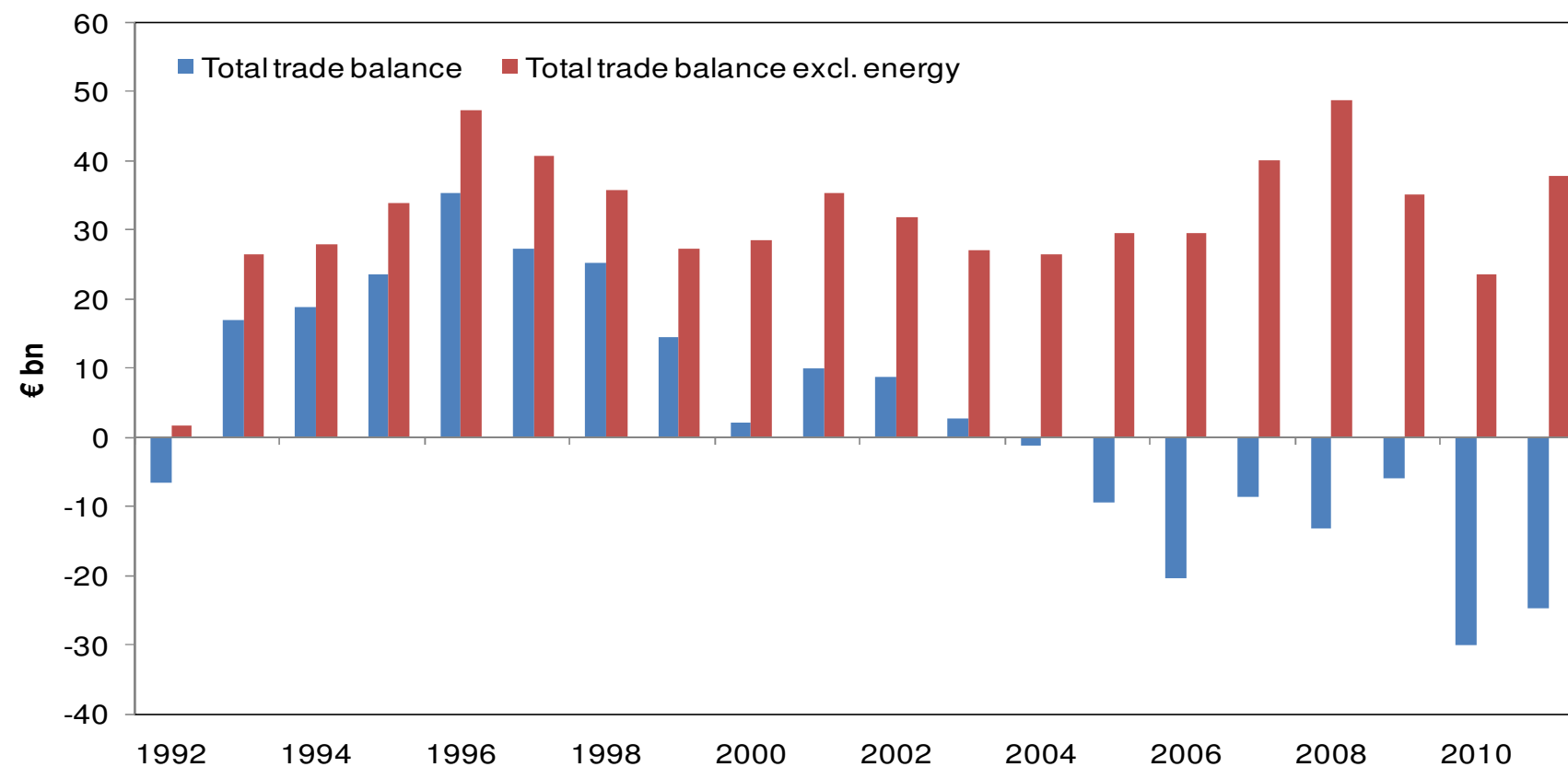
Source: ISTAT.
Note: Energy includes oil and natural gas.

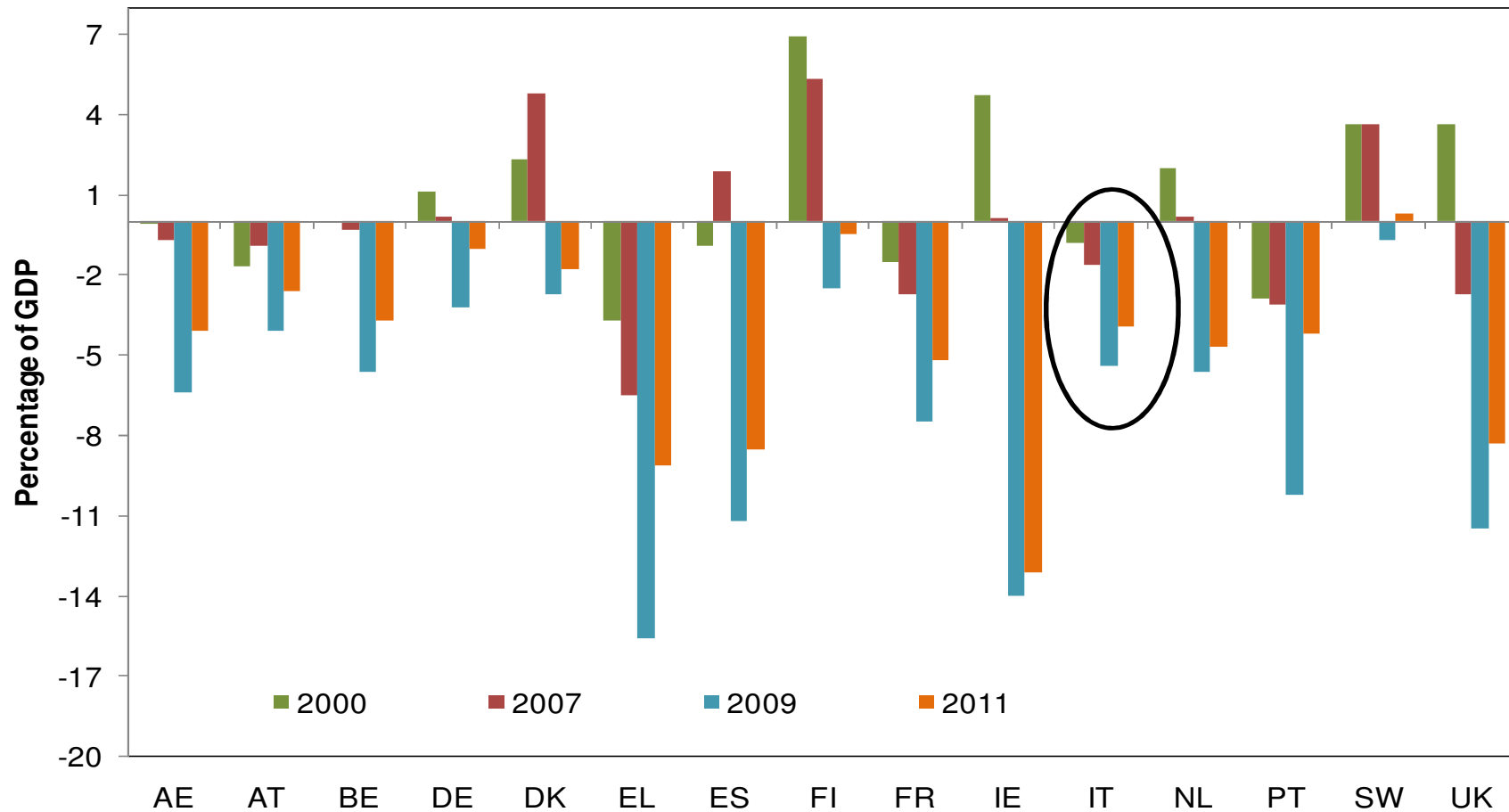# Modest deterioration in Italy's public deficit during the crisis

Source: Eurostat.

Debt-to-GDP increased mainly due to the denominator
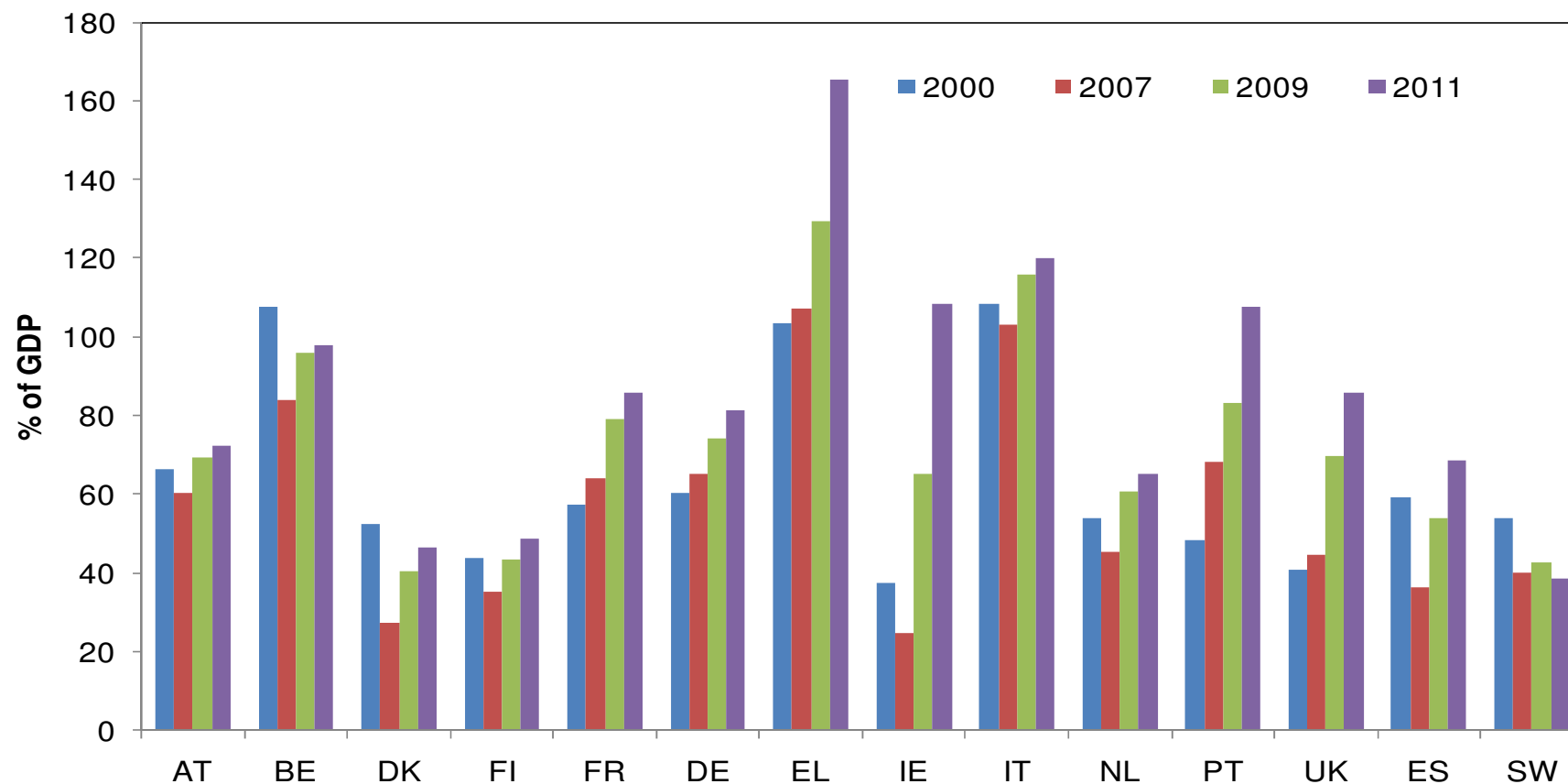
Source: Eurostat

Lengthened maturity of public debt reduces risks

Source: 2012 DEF.

Key public finance projections

% of GDP	2010	2011	2012	2013	2014	2015
Net Borrowing Requirement	-4.6	-3.9	-2.6	-1.6	-1.5	-1.4
Cyclically-adjusted NBR	-3.6	-3.6	-0.9	0.2	-0,2	-0,5
Change in Cyclically-adjusted NBR	-0.4	0.0	-2.8	-1.1	0.5	0.3
Primary Balance	0.0	1.0	2.9	4	4.4	4.8
Public Debt	119.2	120.7	126.4	126.1	123.1	119.9
Public Debt (net support to EZ)	118.9	119.9	123.3	122.3	119.3	116.1

Source: September 2012 DEF

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Primary surplus at 4% of GDP or above from 2014 onwards

Source: 2012 DEF.

IMF comparisons on projected primary balances
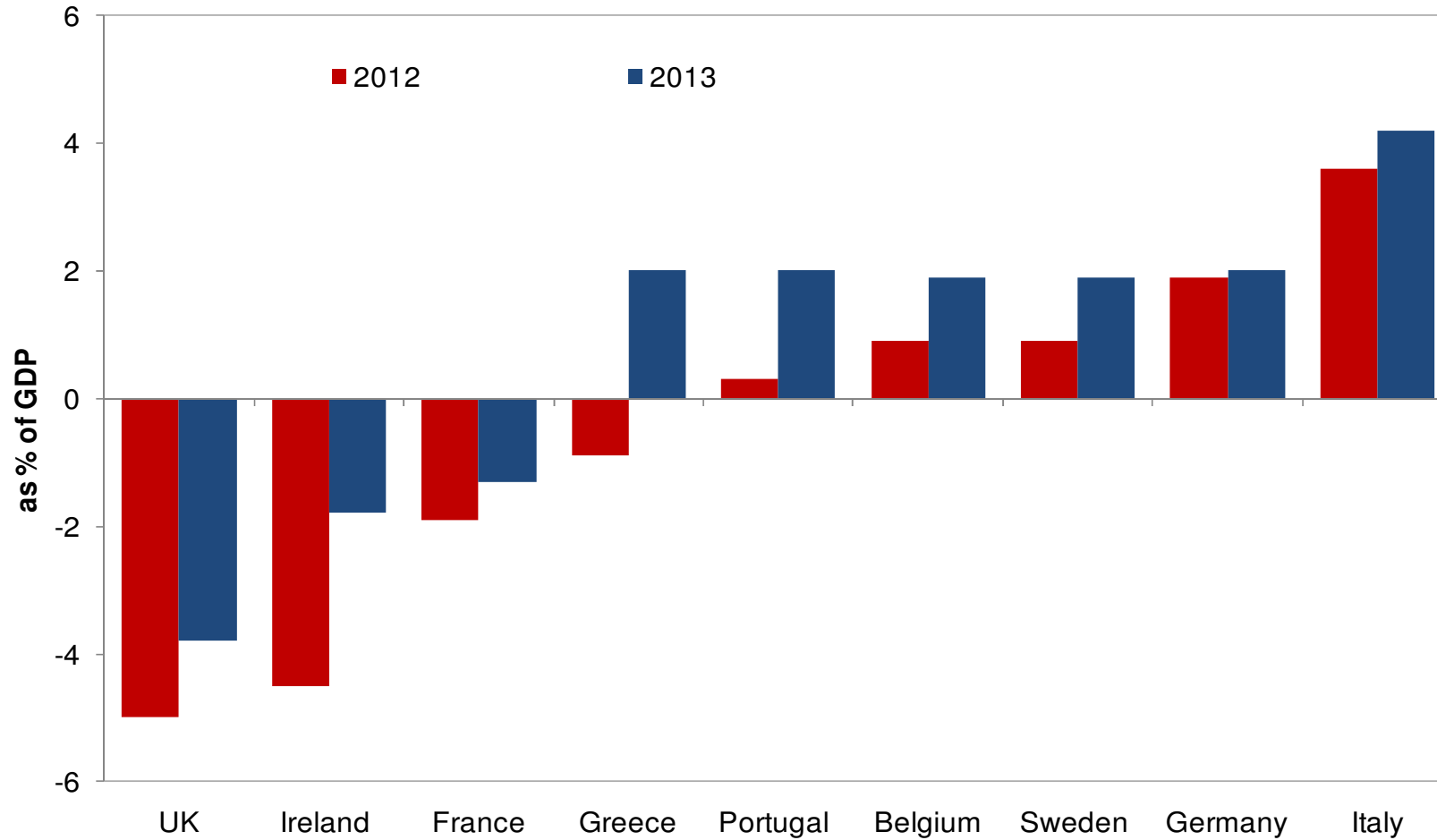
Source: IMF.

Constitutional reforms

- **Balanced budget rule included in the Constitution**: Parliament voted on the draft amendment in December, approved in April (Constitutional Law n. 1/2012 - entry into force FY 2014). Secondary legislation to be introduced by February 2013.

- **Independent authority** for monitoring fiscal sustainability to be established by 2013.

Macroeconomic impact of the 2011 fiscal consolidation

Differences versus baseline scenario, percentage change of GDP	2012	2013	2014	2012	2013	2014
	ITEM			QUEST III Italy		
GDP	**-1.0**	**-1.0**	**-0.6**	**-0.7**	**-1.0**	**-0.4**
Summer 2011 measures	-0.8	-0.7	-0.5	-0.6	-0.9	-0.4
December 2011 measures	-0.2	-0.3	-0.1	-0.1	-0.1	0.0
Employment (FTE)	**-0.4**	**-0.6**	**-0.9**	**-0.9**	**-1.1**	**-0.5**
Summer 2011 measures	-0.3	-0.5	-0.7	-0.8	-1.0	-0.5
December 2011 measures	-0.1	-0.1	-0.2	-0.1	-0.2	0.0

Source: April 2012 DEF
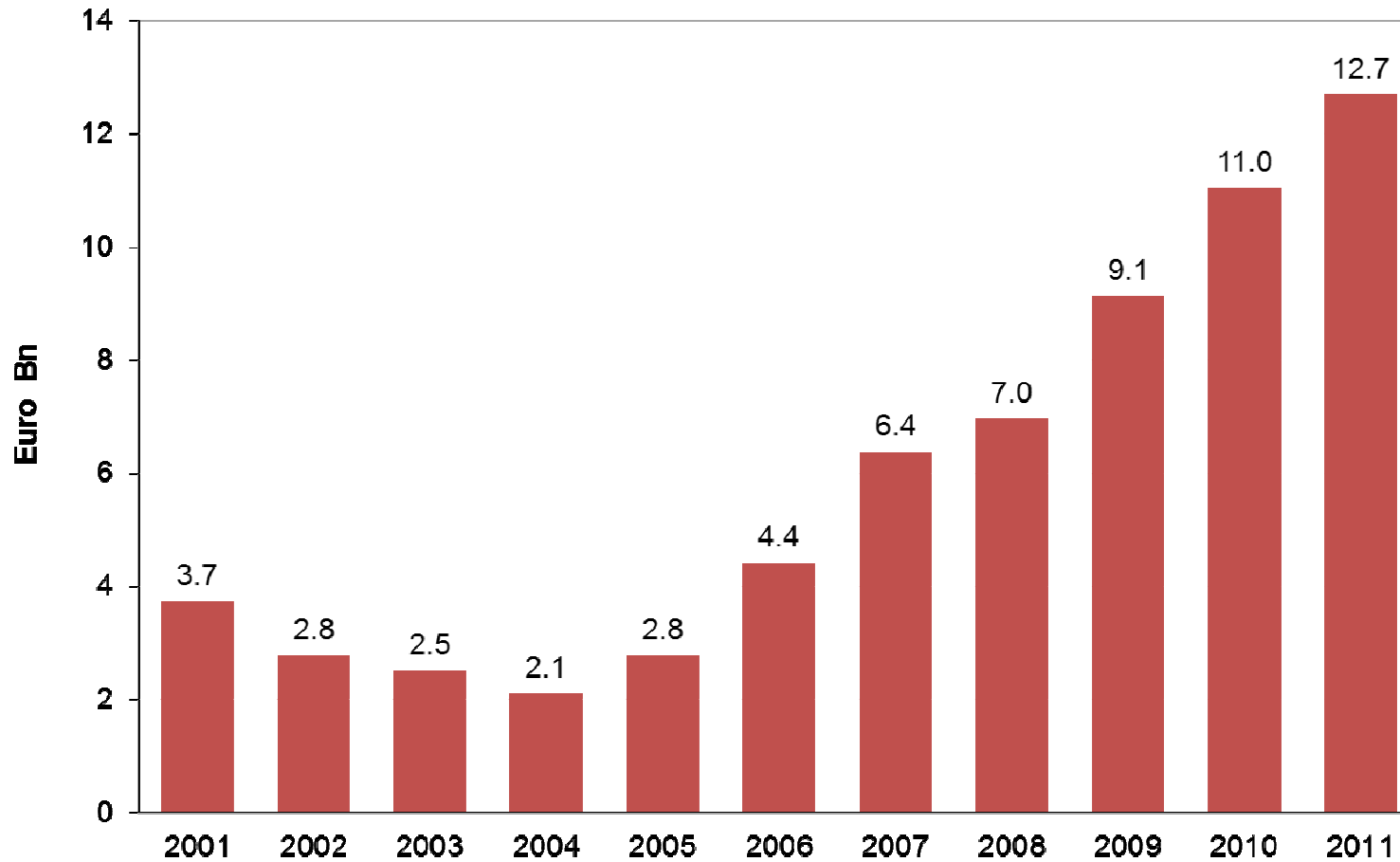
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Effectiveness of measures to fight tax evasion

Source: Ministry of Economy and Finance- Revenue Agency.