



AN ITALIAN PERSPECTIVE

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The Italian Economy: a Tale of Bumblebees and Butterflies

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Its flight is clumsy, heavy, uncertain and noisy. But it flies! Defying the laws of aerodynamics. This is the bumblebee – and the Italian economy. In the time of the pandemic, its strengths and weaknesses have appeared patently (pandemics are excellent at this), and inextricably intertwined.

Take for instance the fact that northern Italy was the first to be hit by the Covid-19 outbreak in Europe and provided therefore the benefit of advance notice to the rest of Europe. This is the consequence of the number one position of Italy in the global value chains for the apparel fashion footwear and machine tools industry. Personal contacts in those sectors are much more important than in other sectors in which other countries, like Germany, take the dominant position in Europe. This explains why the contagion coming from China spread to Italy first rather than elsewhere in Europe. The strength of the Italian hub for global value chains in those sectors became then the source of contagion and greater vulnerability.

Take also the highly reputed quality of hospitals and hospitalization services in Lombardy. Over-reliance on this position of strength, coupled with unpreparedness (which is a trait common to most developed countries), led to the saturation of intensive care and the blowout of the regional health system. In other regions with different less prestigious health structures there was more reliance on home care, coupled with mass screening and early intervention, with better outcomes. Once again, a point of relative strength became a fatal weakness.

Fairs, festivals, exhibitions, art and local folklore give Italian tourism a unique and holistic flavour but were devastated by the virus. The recovery therefore will be much more challenging in the Bel Paese than in other standard Alpine or Mediterranean resorts.

But the entanglement between strengths and vulnerabilities can work also positively, i.e. in the recovery. Considering for instance the high integration of European manufacturing, we can expect a quick and smooth recovery in exports, the “made in Italy” sector and advanced SMEs. Value chains are resilient diversified and adapt flexibly to shifting environments. Like after previous crises, we expect that Italian exports’ competitiveness, the trade sur-

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plus and the net external position will be restored swiftly. The same can be said of the financial conditions of banks and firms, which are today better than in 2007. Particularly if the progress towards the European Banking Union and the Capital Markets Union is not delayed. Italian households' net, real and financial wealth is high, higher than the Euro-area average (see on this Visco, *Considerazioni finali*, 2020). Household debt is low by international standards and is concentrated among those with a greater debt repayment capacity. Corporate debt at the end of 2019 amounted to 68% of GDP, compared with 108 in the Euro-area and more than 150% in France and the Netherlands. Private debt in proportion of GDP is lower than in Germany, and more than 50 points lower than the Euro-area average. Therefore, if the European rebound were to take ground and speed, do expect surprisingly good news from the Italian economy.

If overall debt is no problem and private debt has ample margins of resilience, Italian public debt is an old vulnerability that after the pandemic will bite even more. The problem is not so much its size and sustainability. But the fact that redressing it requires deep and wide-ranging reforms of the public sector, from justice and bureaucracy to schools and education, from welfare and labour markets to infrastructure and public services, from taxation to privatisations and liberalisations. From this angle, the post-Covid recovery will have to be a long and steadfast journey of regeneration capable of disentangling the private economy-public policy knot, alias strengths and vulnerabilities.

Only such a reform process will unencumber the bumblebee, so that it can fly like a butterfly.

The author

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