Reviving Italy’s Growth

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In Curno, 50 km north east of Milan, is the headquarters of Brembo, the Italian company supplying brakes for Teslas and Ferraris as well as for mass market cars and motorcycles. Founded in 1961, its 255 employees generate over USD 3 billion of revenue from production facilities across 15 countries.

1500 km away, in Sicily’s south-east, Gaetana Jacono runs the Valle dell’Acate winery. She is bringing to six generations of wine making tradition new production technologies and distribution approaches that are developing exports to large new markets.

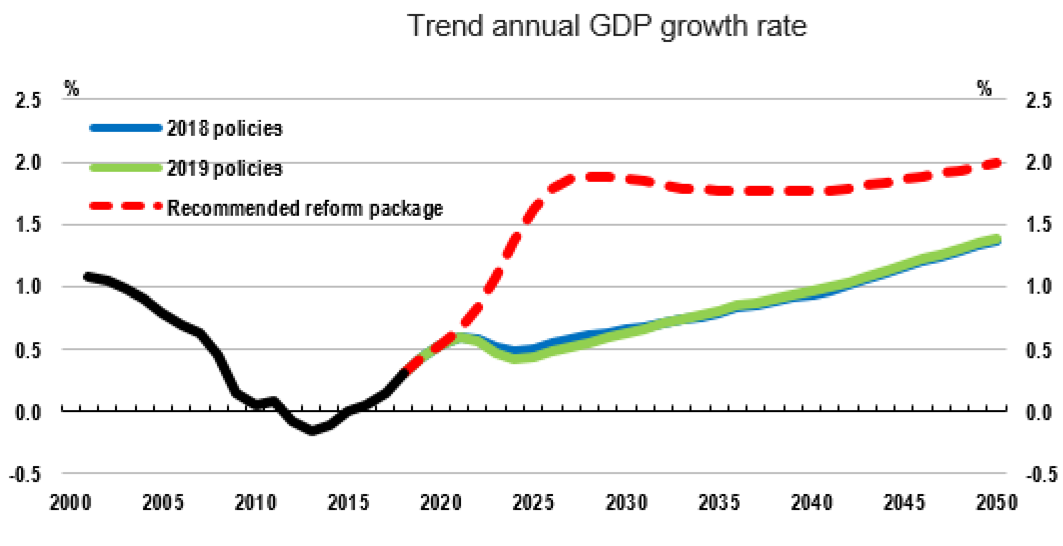
Enterprises like Brembo and Valle dell’Acate have helped Italy in recent years gradually recover from its extended recession. These are mostly medium sized enterprises that are highly productive and have grown activity and created jobs though investment and exports, supported by government policies such as the Industry 4.0 programme or labour market and education reforms.

But Italy’s recovery stalled in late 2018, before Italy could reverse the deep losses in incomes and well-being suffered during the extended recession. Overall, income per capita today is near its level in 2000, and economy-wide productivity has been stagnant. This

lack of progress
has seen poverty rates rise, especially among the young and families. The
OECD's latest projections are for GDP to contract by 0.2% in 2019 and to expand
by 0.5% in 2020.

What will it take to restart and extend Italy's recovery?

A clear multi-year reform programme to boost employment and productivity, while reducing steadily public debt, would lift average annual growth rates and improve inclusiveness. This is among the key policy insights of the OECD's 2019 Economic Survey of Italy, launched on 1 April 2019 by the OECD Secretary General and Italy's Minister of Finance. Compared current polices, this reform programme would raise growth rates by about 1.5 percentage points by 2030, expand employment and reduce inequalities.



Source: OECD (2019), *Economic Survey of Italy*, OECD Publishing, Paris

Increasing productivity growth is key. Boosting productivity will require enhancing competition in markets that are still protected, such as
professional services and local public services; raising innovation and
business dynamics, including through strengthening targeted

incentives connected to the Industry 4.0 plan; removing incentives for SMEs to stay small and obstacles hampering their growth; and completing the reform of insolvency regime.

Among the reforms proposed in the *Survey*, those concerning the efficiency of public administration and justice system would have the largest impact on GDP growth by strengthening the rule of law, thus supporting investment and productivity growth. The expansion of active labour market programmes and reducing social security contributions would also generate large benefits by boosting employment and social inclusion.

Reducing the public debt ratio by steadily raising the primary budget surplus to above 2% is essential to address the risk to the broader economy of the high public debt ratio. Lower interest rates have reduced interest payments on the public debt to a record low of 3.5% of GDP in 2018, which is however near what Italy spends on education.

Italy can raise the primary budget surplus by incorporating in the annual budget through and effective spending reviews that help rationalise current spending by reducing waste and reallocating resources towards more effective programmes. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Implementing this programme would help Italy’s successful enterprises develop and new enterprises to follow their path, generating opportunities for Italians across the country. A future blog will discuss how this reform programme can address the large disparities between the regions such as those around Brembo’s headquarters and those around Valle dell’Acate.

References

OECD (2019), OECD Economic Surveys: Italy 2019, OECD Publishing, Paris.