Moving from game plan to victory: how Italy can score faster, fairer growth into the long term

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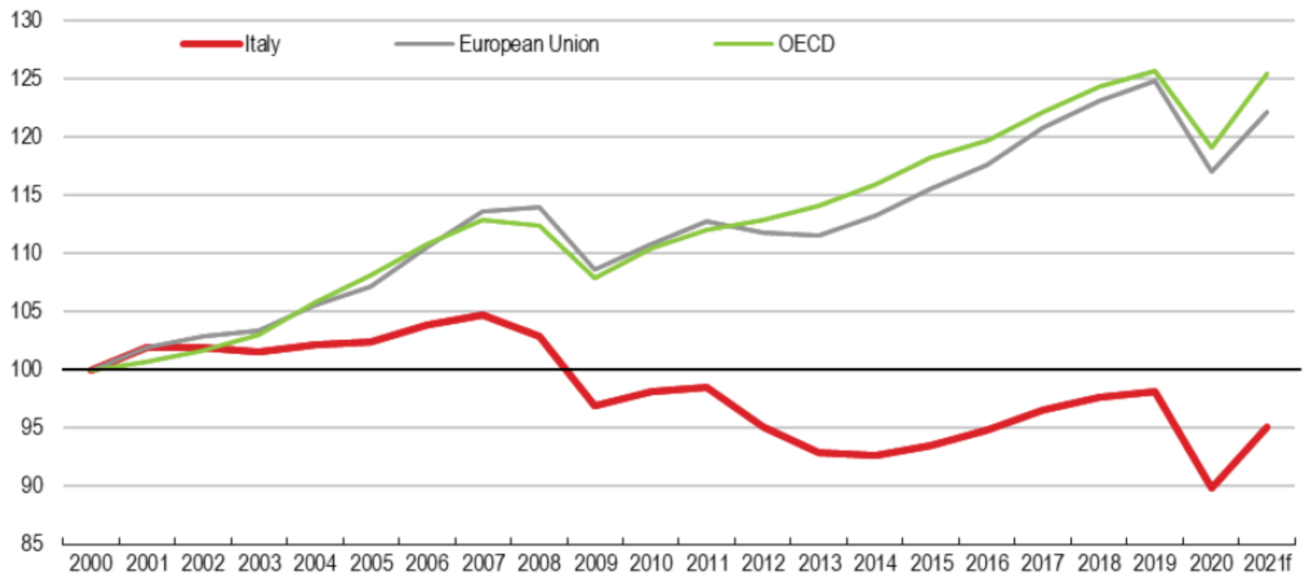
The crisis hit Italy early and hard. After a deep contraction, the economy is forecast to rebound by almost 6% this year, and then grow at 4.1% in 2022. The recovery has been underpinned by a successful vaccination campaign and efforts to preserve companies and provide much needed income support to households. Growth will reach 2019 levels by the first half of 2022.

Getting back to pre-crisis performance is not enough: We project that at the end of this year, GDP per capita will be more than 3% lower than a decade earlier, and 5% than in 2000 – in contrast, it will have risen by almost 12% and 25% across the average of OECD countries (Figure 1).

Figure 1. Per capita income has stagnated, falling behind peers

Real GDP per capita, index 2000 = 100



Note: 2021 projections based on EO109 for OECD and European Union; provisional projection for Italy.
Source: OECD (2021), National Accounts (database).

The government has outlined an appropriately ambitious National Recovery and Resilience Plan that prioritises reforms for critical constraints in Italy. It rightly seeks to improve the responsiveness of the civil justice system, improve the competitiveness of network industries such as energy and rail, and strengthen the public sector's effectiveness. These have been combined with EUR 235 billion in spending (13% of 2021 GDP), including investments in greener energy, transport, digital and social infrastructure. Clear milestones, new accountability mechanisms and innovations to support faster investment spending should assist with delivering the Plan. Implementing the plan will raise growth and stabilise Italy's public debt-to-GDP ratio.

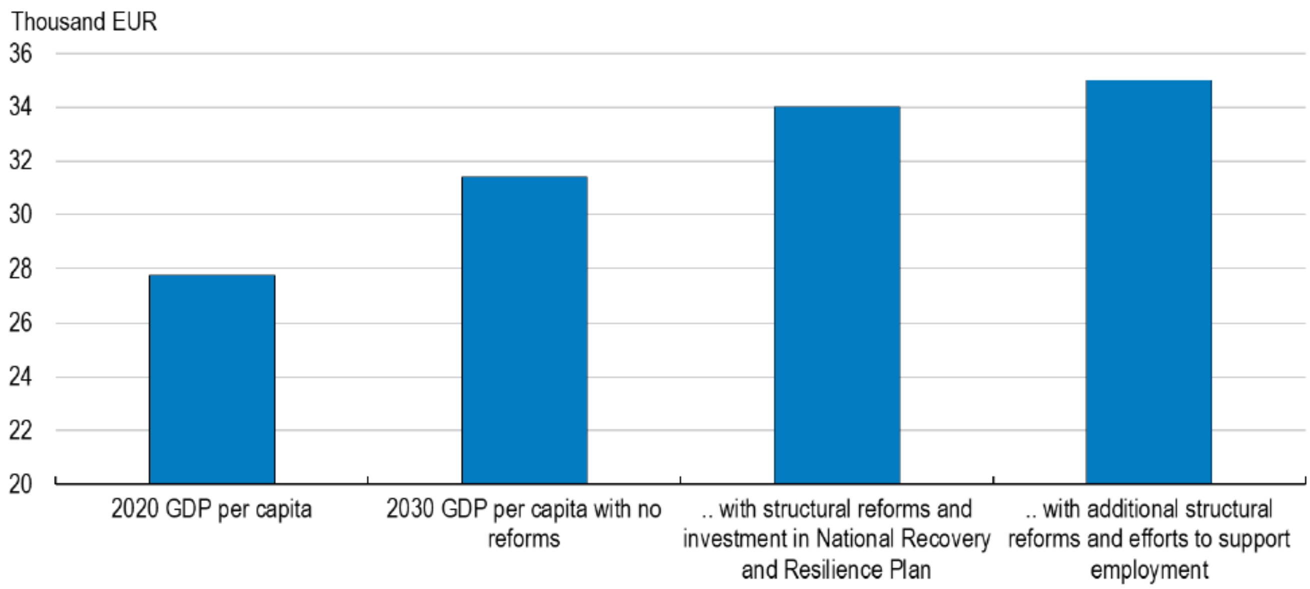
The OECD's 2021 Economic Survey of Italy presents three steps for Italy to strengthen the impact of the National Recovery Plan and to leave behind the COVID crisis.

First, policy should remain supportive and increasingly targeted until the recovery is well underway.

Second, to fully reap the benefits of the plan, the efforts underway to strengthen the effectiveness of the public sector can be bolstered. This is the focus of the special chapter of the Economic Survey.

Third, Italy’s reform and investment programme needs to be sustained beyond the ambitions of the National Recovery and Resilience Plan to achieve stronger growth and gains in living standards (Figure 2). This should be combined with a medium term credible fiscal plan, to be implemented only once the economy is fully recovered, to place Italy’s public debt burden on a sustained downward path.

Figure 2. Reforms can help raise GDP per capita

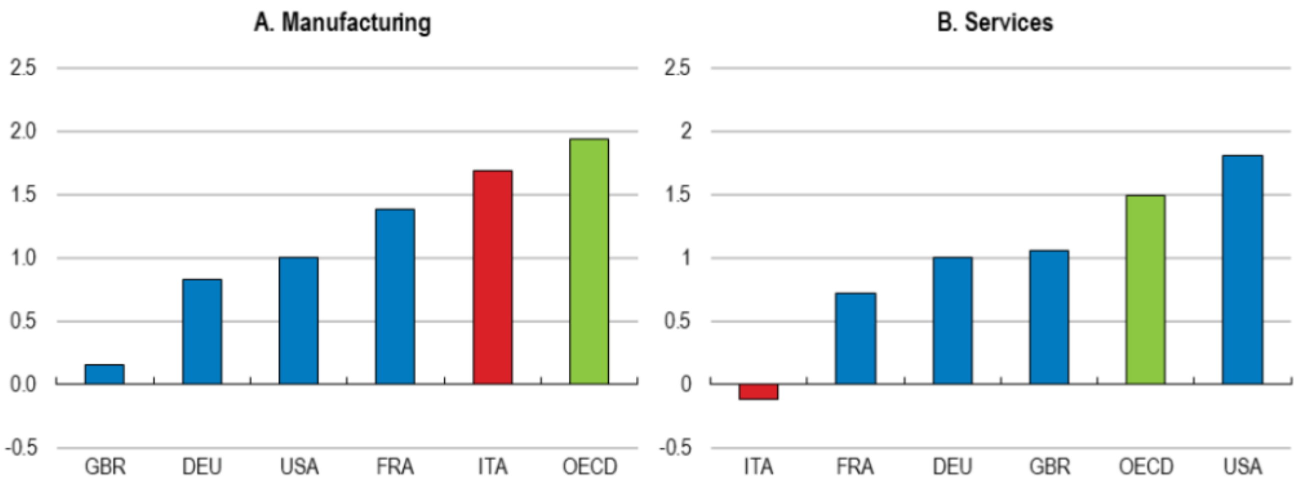


Source: OECD projections, assumes no impact from inflation.
Allocating more public spending to areas that best support growth, such as investment and education, can reverse the current bias in spending against the young. Comprehensive tax reform which permanently lowers the tax burden on labour and which reduces high marginal effective tax rates on second earners will encourage higher workforce participation and address gender inequalities. Reviewing Italy’s massive stock of regulations and streamlining how they are enforced can help improve dynamism and productivity, especially in the services sector which has lagged the productivity gains achieved by Italy’s manufacturers (Figure 3) (OECD, 2020).

Figure 3. Productivity in manufacturing has risen, but

services sector productivity lags

Gross value added per person employed in constant prices, average annual growth rates 2012-2019



Note: Each panel contains unweighted OECD average of available countries. Due to data unavailability, the OECD averages do not include Colombia, Mexico or Turkey.
Source: Calculations based on data from OECD Productivity database.

References

OECD (2021), *OECD Economic Surveys: Italy 2021*, OECD Publishing, Paris, https://doi.org/10.1787/07d8b9cd-en.

OECD (2020), “Italy: Business Dynamics”, *Insights on Productivity and Business Dynamics*, OECD, Paris, https://www.oecd.org/sti/ind/oecd-business-dynamics-insights-italy.pdf