



OECD ECONOMIC SURVEY OF ITALY 2019

*Reviving growth and
broadening its benefits*

1 April 2019, Rome

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Key messages

Stronger, more inclusive and sustainable growth

- A clear multi-year reform programme to boost employment and productivity, while reducing steadily the public debt ratio

Tackling large social and regional divides

- Strengthen work incentives through tax and social benefit reforms and improving public employment services

Better public investment and regional development policies

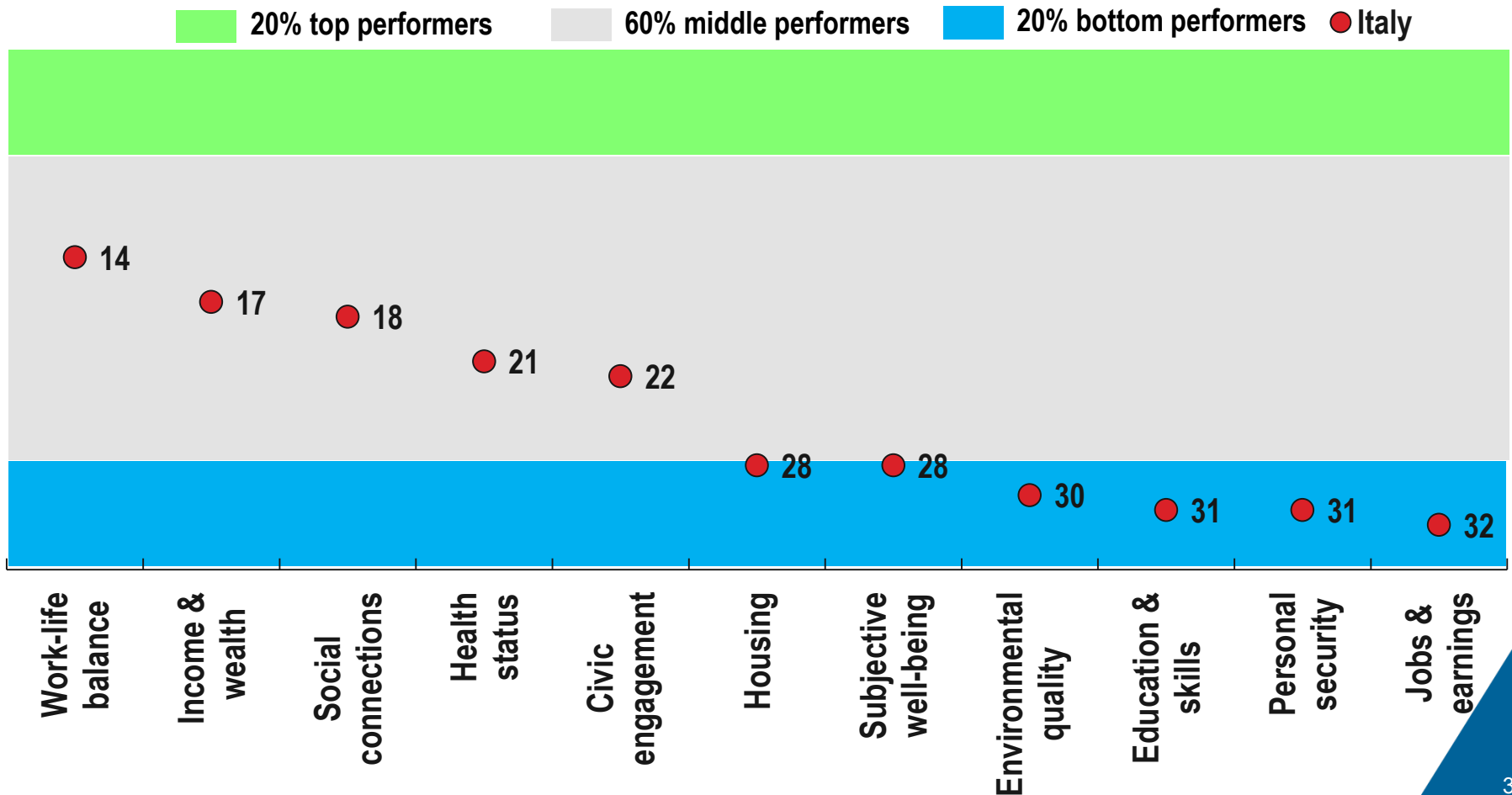
- Local administration needs strengthening and rationalising with better support and coordination from the central government



Italy performs well in health, social connections and work-life balance

OECD Better Life Index

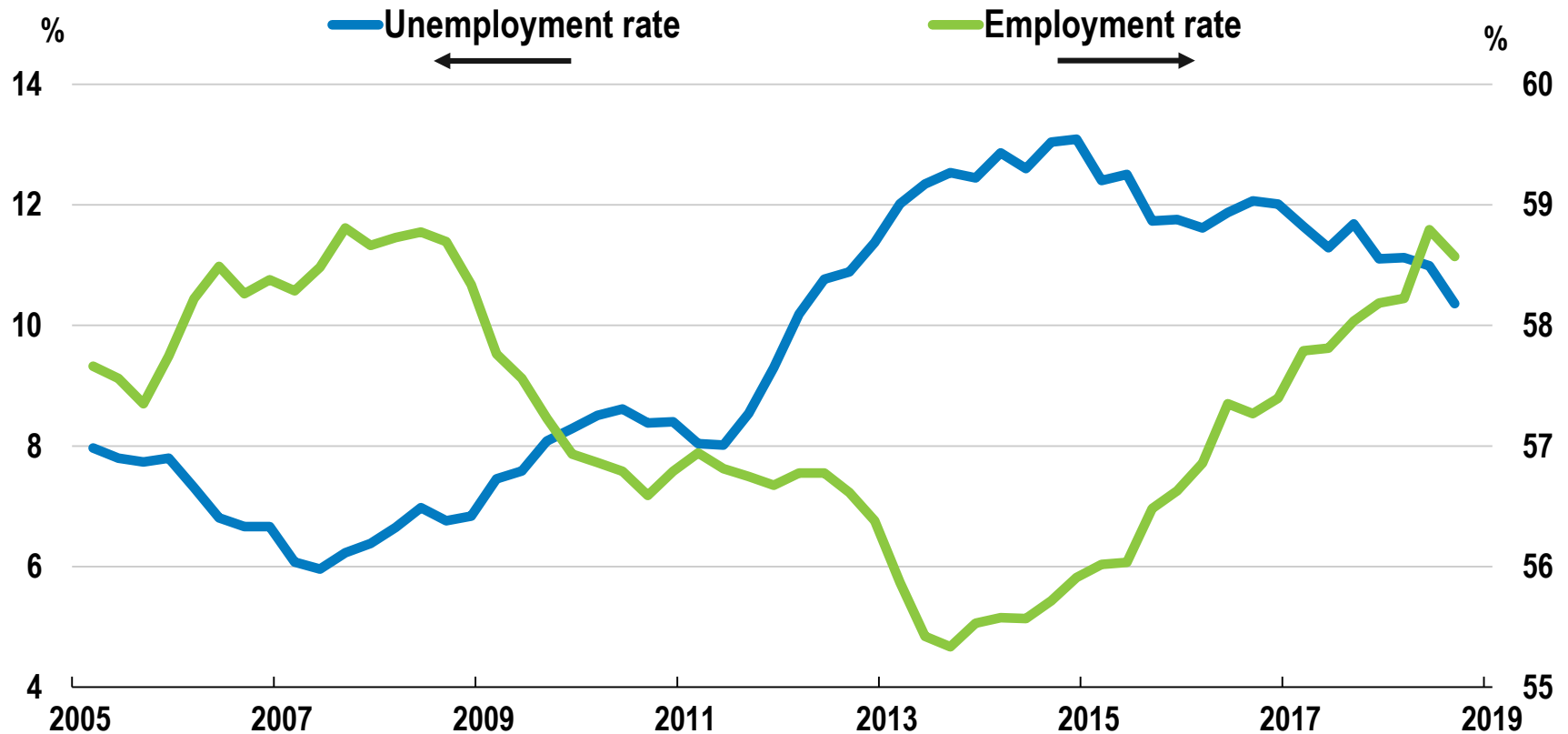
Rankings from 1 (highest) to 35 (lowest), 2017





More jobs have been created and unemployment has fallen

Employment and unemployment rates



* Persons aged 15-64

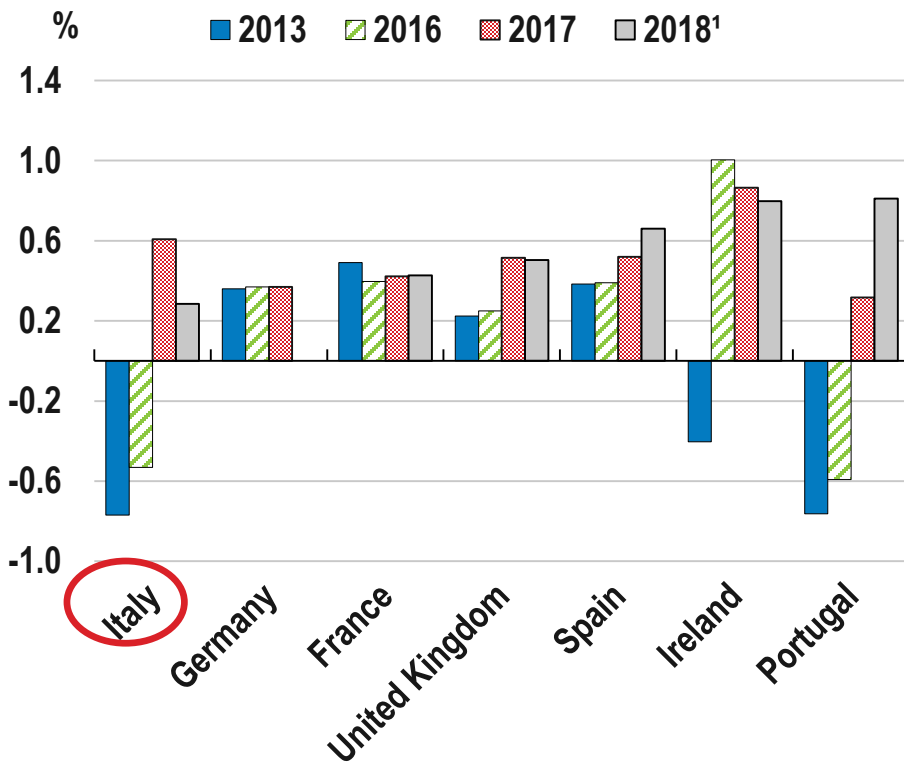
Source: OECD Labour Force Statistics database.



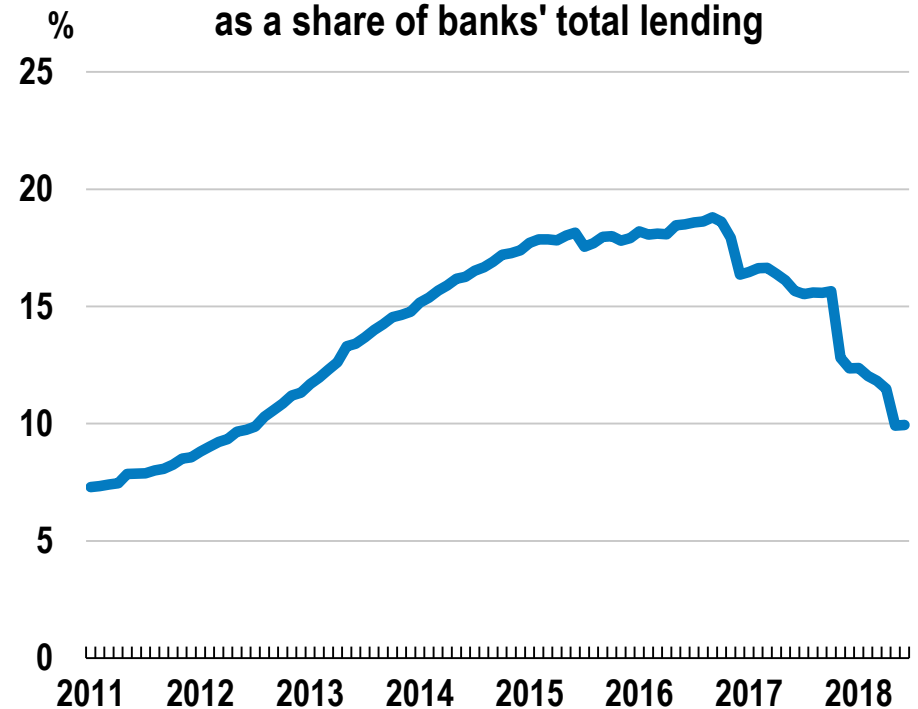
Banks are in better health

Banks' return on assets and bad loan ratio

Return on assets



Bad loans to non-financial corporations as a share of banks' total lending



1. Data for 2018 refer to either Q1 (United Kingdom), Q2 (France and Italy) or Q3 (Ireland, Portugal and Spain), depending on data availability.

Source: IMF Financial Soundness Indicators database; and Bank of Italy.

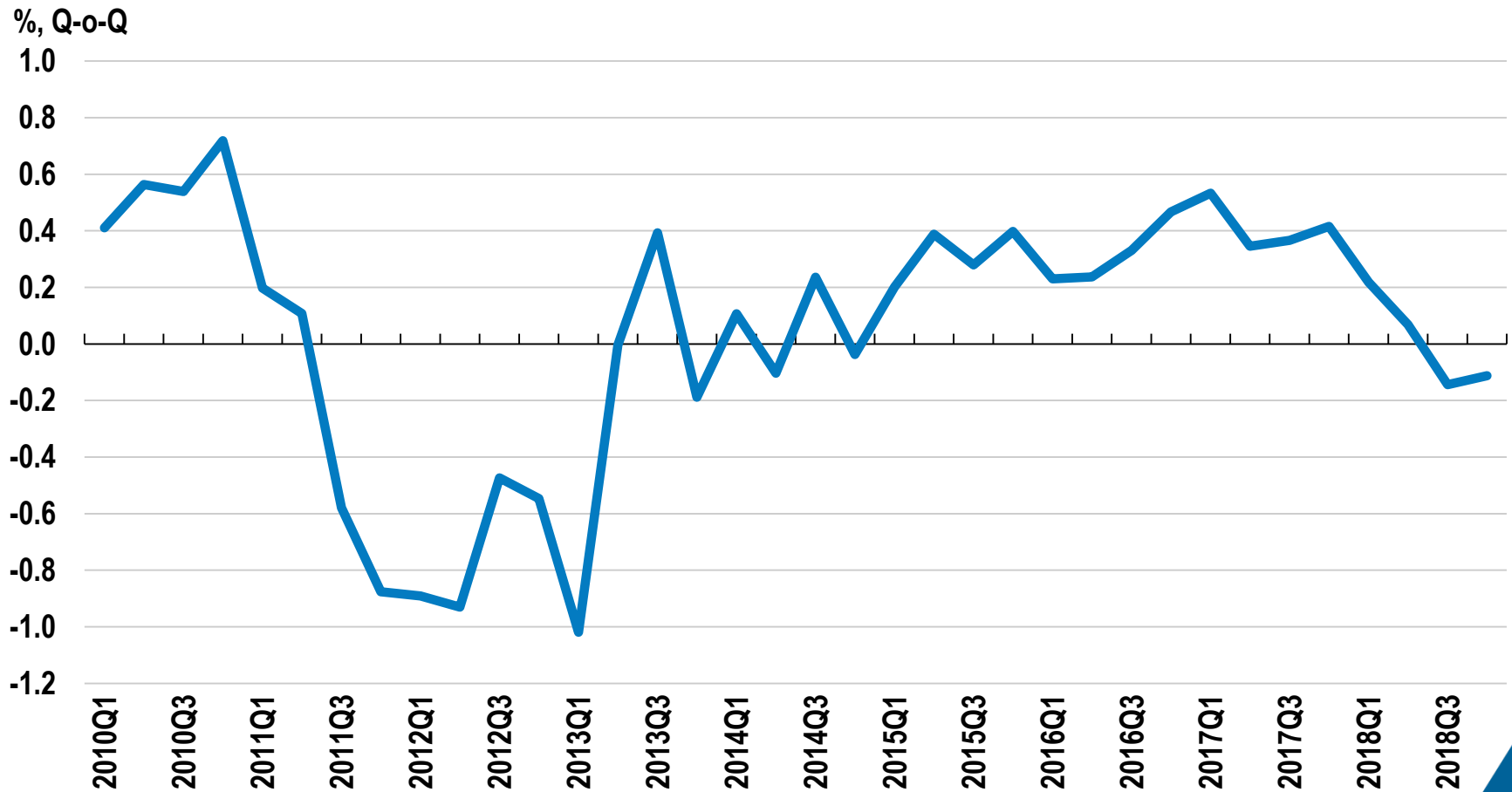


After a modest recovery, the economy is weakening amid persistent challenges



The economy had been slowly recovering but recently it has stalled

Real GDP growth



Source: OECD Economic Outlook 104 database, including more recent information.



Growth will resume at a modest pace

Annual % change, unless otherwise indicated

	2018	2019 (p)	2020 (p)
Gross domestic product	0.8	-0.2	0.5
Private consumption	0.6	0.5	0.5
Gross fixed capital formation	3.2	-0.2	1.1
Exports	1.4	2.7	2.3
Imports	1.8	2.1	2.7
Unemployment rate (%)	10.6	12.0	12.0
Fiscal balance (% GDP)	-2.1	-2.5	-3.0
Public debt (gross, % of GDP)	132	134	135
Current account (% of GDP)	2.6	2.7	2.4

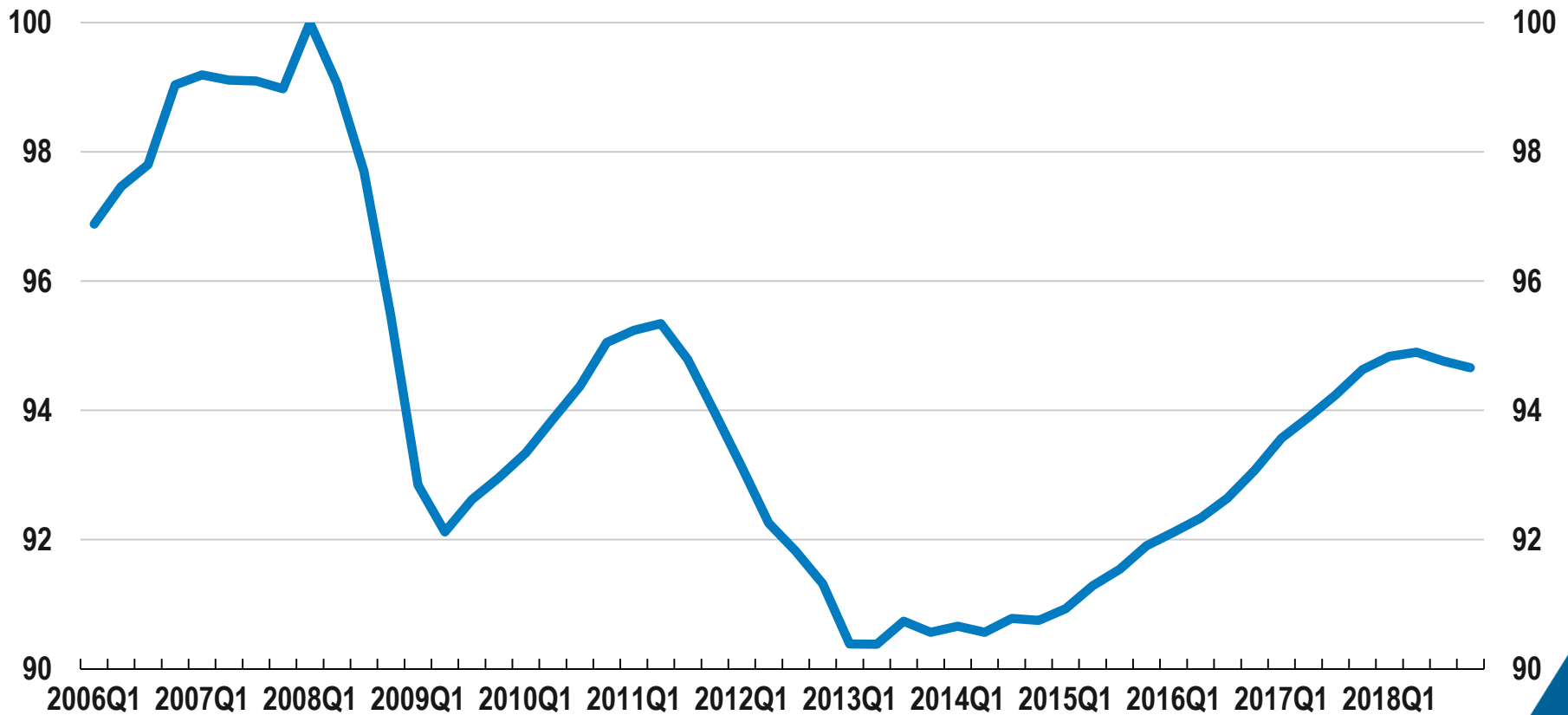
Note: p denotes projections for 2019 and 2020.

Source: OECD *Economic Outlook 104* database, including more recent information.



Real GDP is still well below its pre-crisis peak

Real GDP, Index 2008Q1 = 100

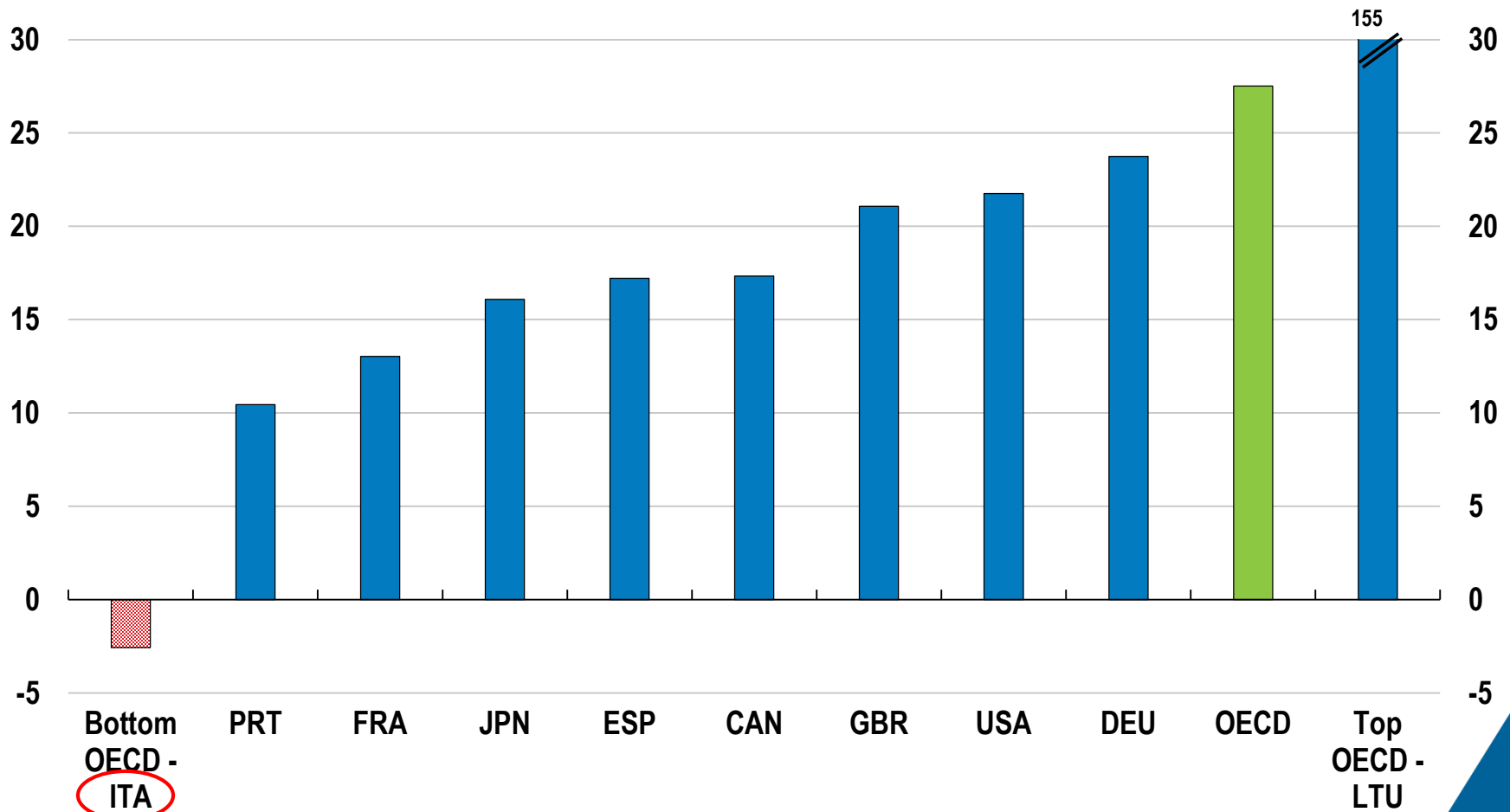


Source: OECD Economic Outlook 104 database, including more recent information.



Italy is the only OECD country where incomes are no higher than in 2000

% difference in real GDP per capita between 2000 and 2018

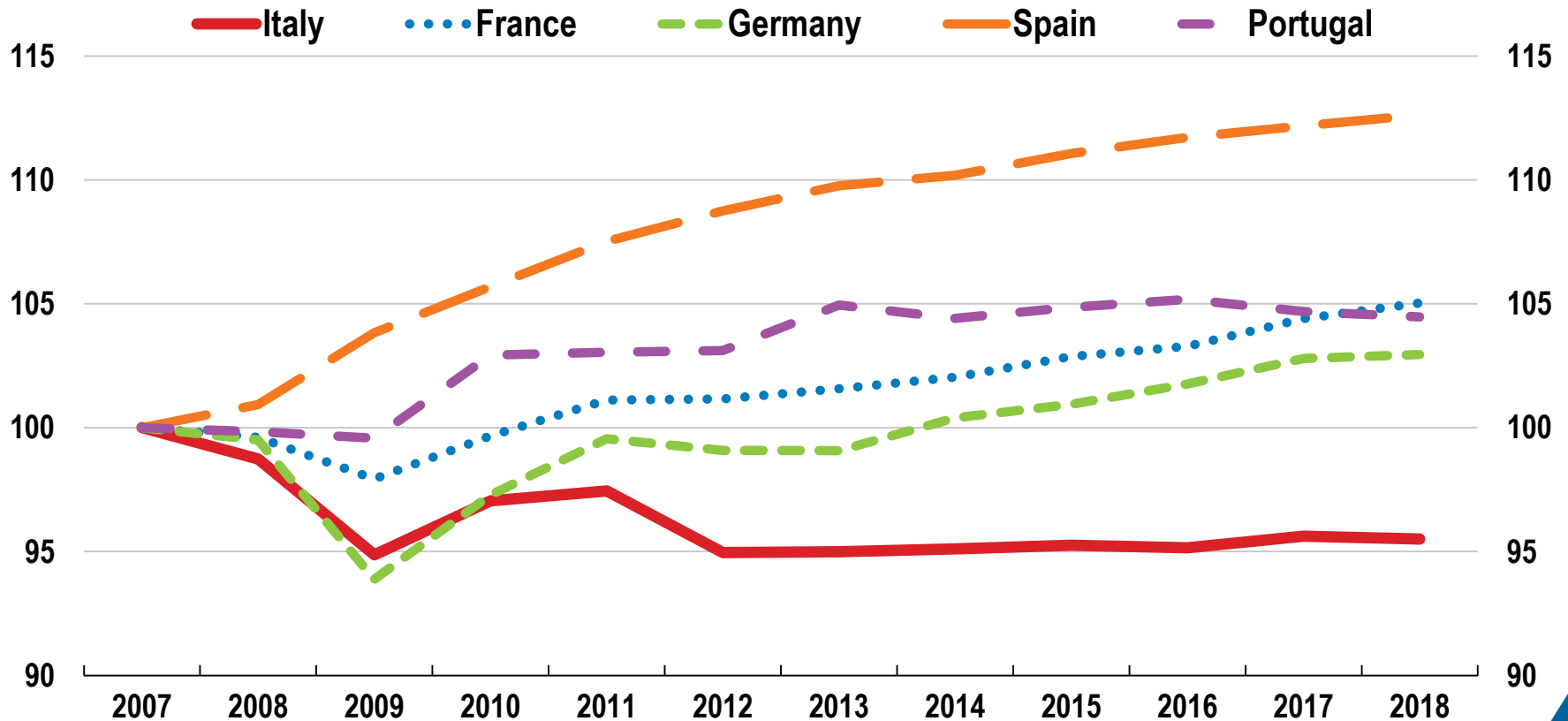


Source: OECD Economic Outlook 104 database, including more recent information.



Productivity has stagnated

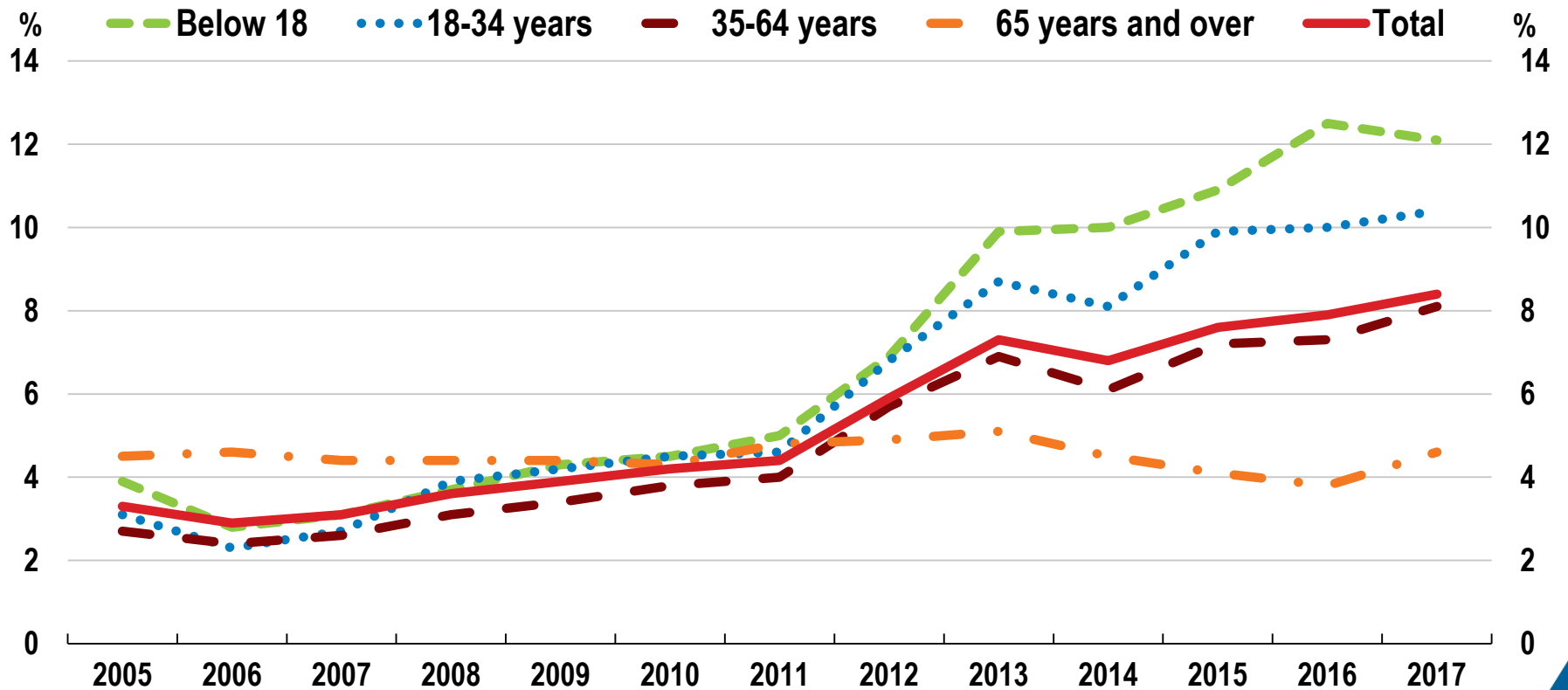
Real GDP per worker, 2007 = 100





Poverty rose during the crisis, especially for the young

% of age groups living in households in absolute poverty

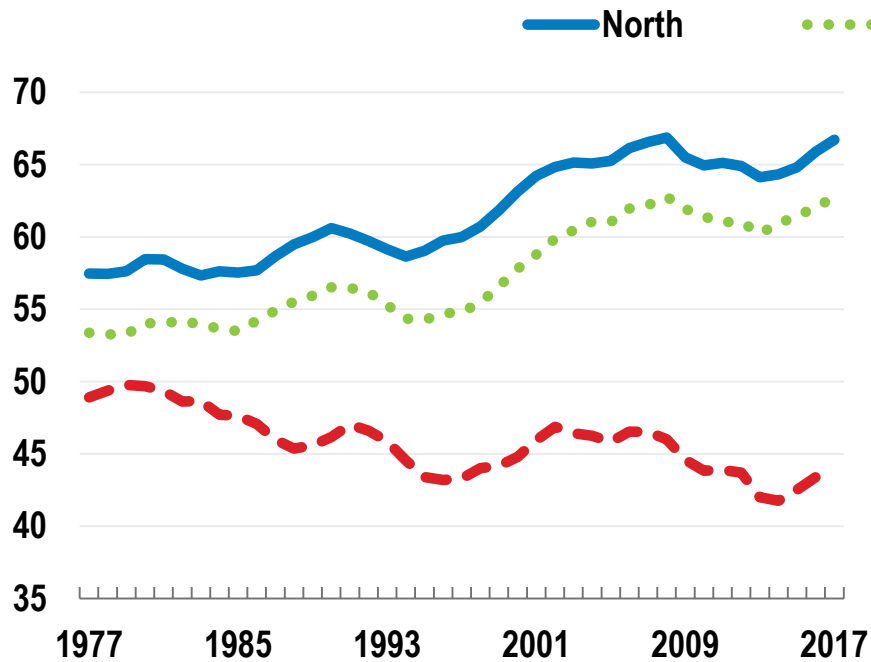




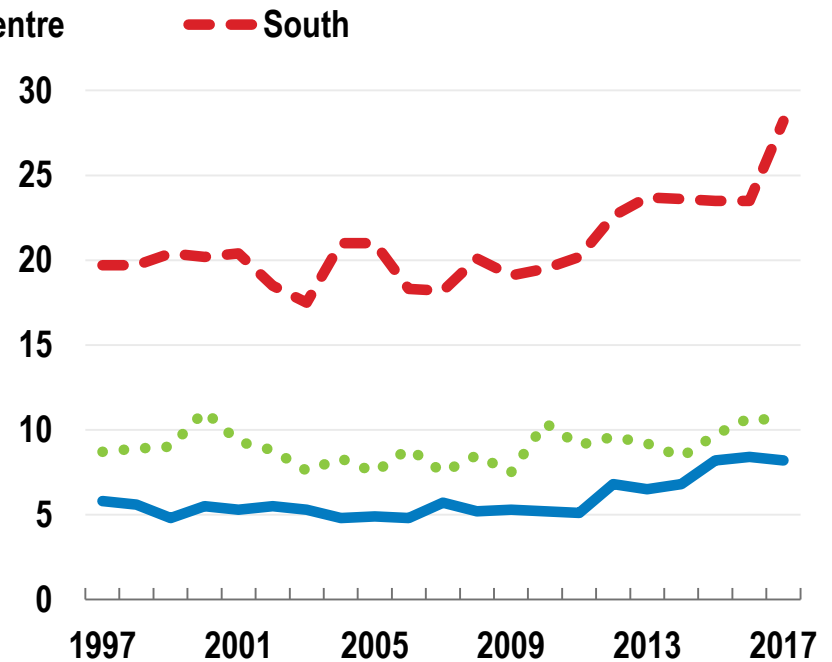
Italy's large regional disparities have widened

Employment rate and relative poverty rate

Employment rate
% of population, 15-64 year olds



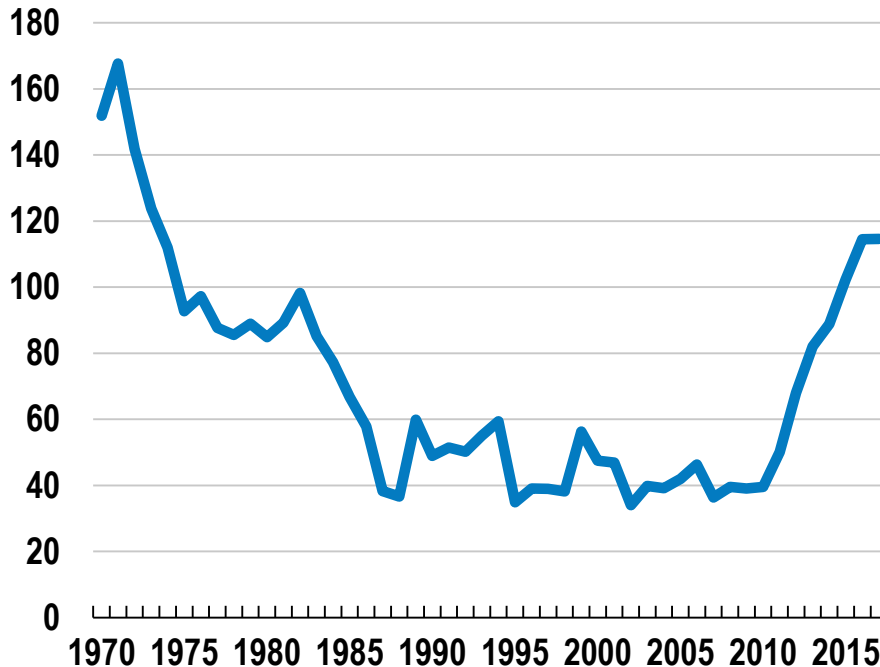
Relative poverty rate, % of persons living in households in relative poverty



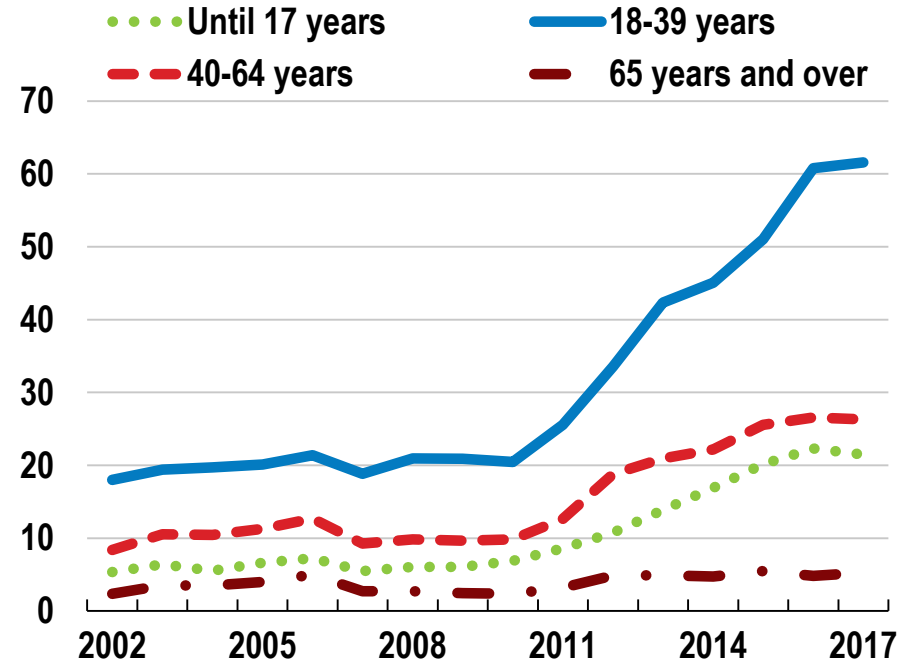


Rising numbers of the young are emigrating

Italian emigrants
Thousand of persons



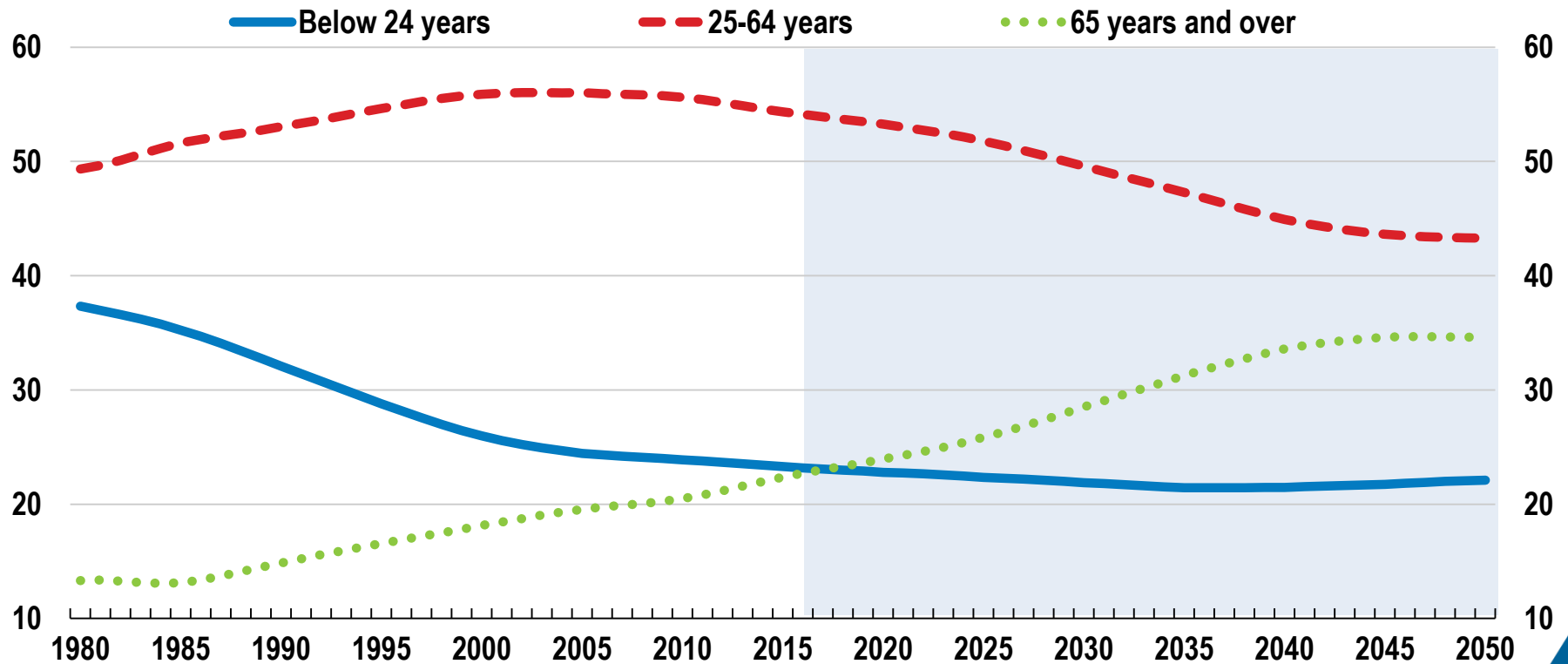
Italian emigrants by age group
Thousand of persons





Population ageing will soon shrink the workforce

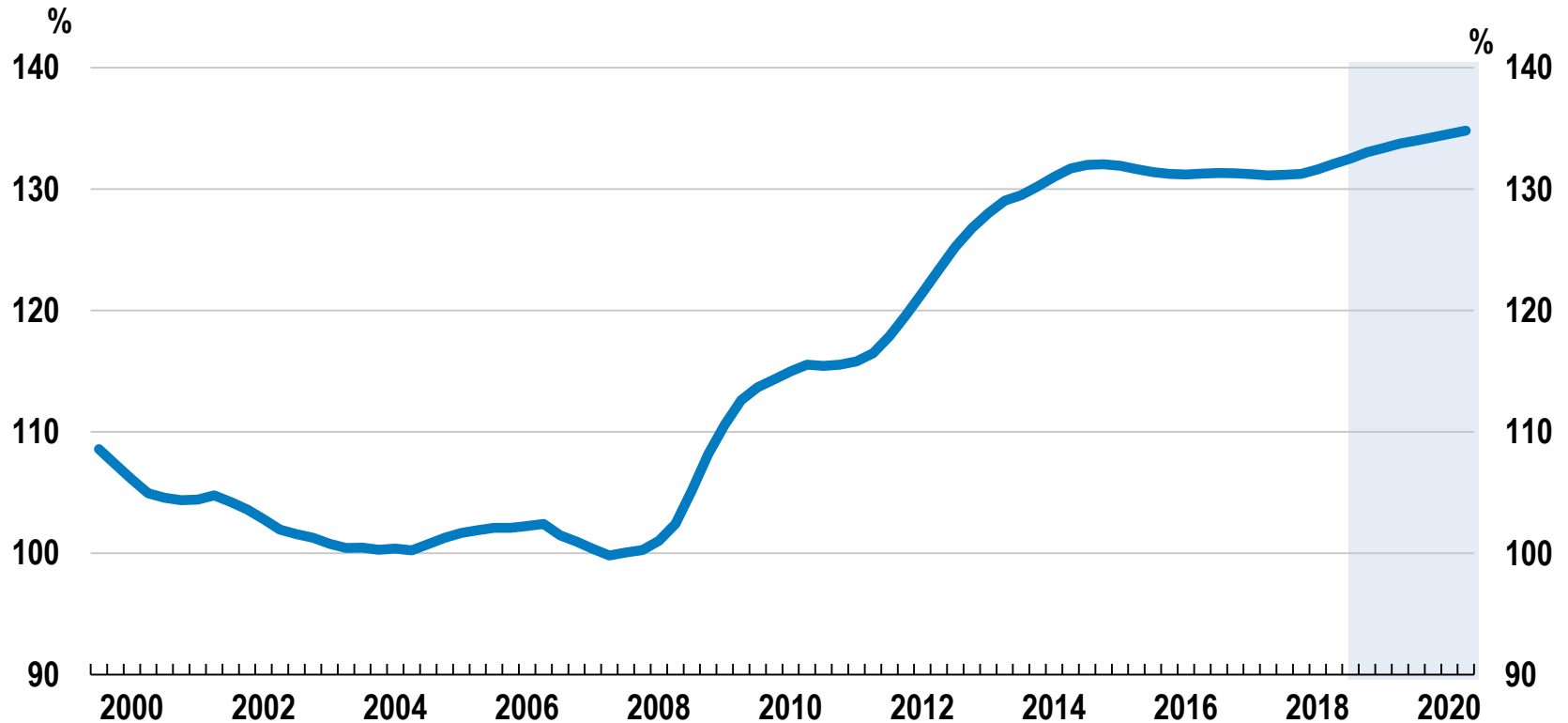
Age groups' share of population, %





High public debt poses risks and reduces fiscal options

Gross public debt-to-GDP ratio



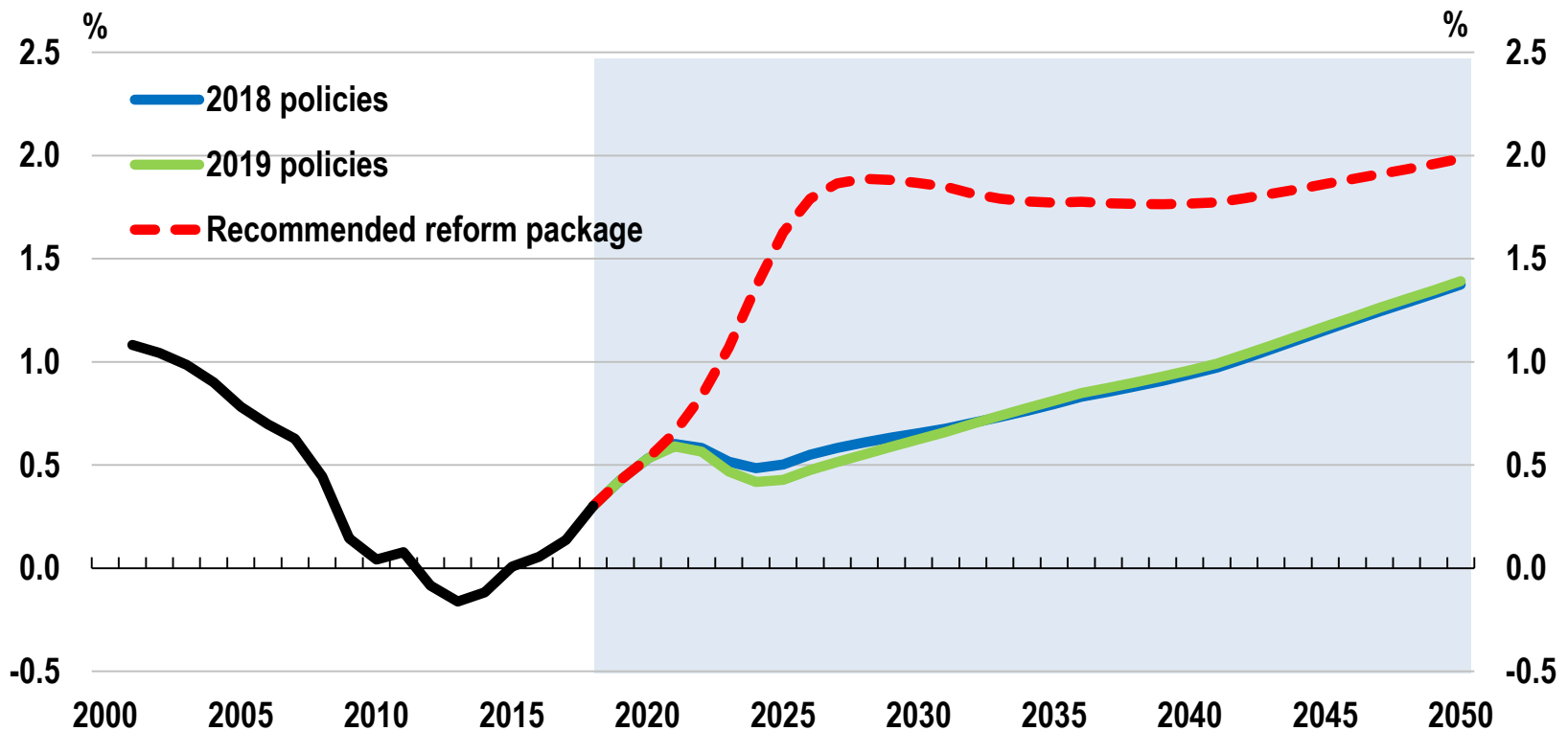


Reforms to enhance growth and well-being while reducing the public debt



A broad multi-year reform programme would boost growth

Trend annual real GDP growth rate, %



Note: the recommended reform programme includes actions, among other things, to raise the efficiency of the public administration, introduce an in-work benefit scheme, strengthen active labour market programmes and additional support for R&D spending.

Source: OECD calculations.



Reforms to boost growth through higher employment, investment and productivity

% difference in level of GDP, relative to 2018 policies

	2025	2030	2040
Activating workers:			
Raise active labour market spending per unemployed person by 130% by 2025	0.9%	3.7%	6.3%
More effective public administration and justice systems:			
Reform the public administration and justice system, to close half of the gap in 'rule of law' between Italy and the OECD average by 2030	0.2%	1.1%	4.4%
Reducing inequality and the labour income tax wedge:			
Introduce a moderate guaranteed minimum income scheme, in-work benefits, and reform social security contribution rates and tax credits	0.9%	2.4%	3.8%
Invest in innovation:			
R&D spending rises from 1.3% of GDP to 2.0% of GDP by 2025, near the G7 average	0.0%	0.1%	0.6%
Support labour force inclusiveness and participation:			
Raise in-kind family benefits, such as child and elder care, by 40% by 2030, to reach the OECD average	0.0%	0.2%	0.5%
Overall effect¹	2.0%	7.8%	16.2%

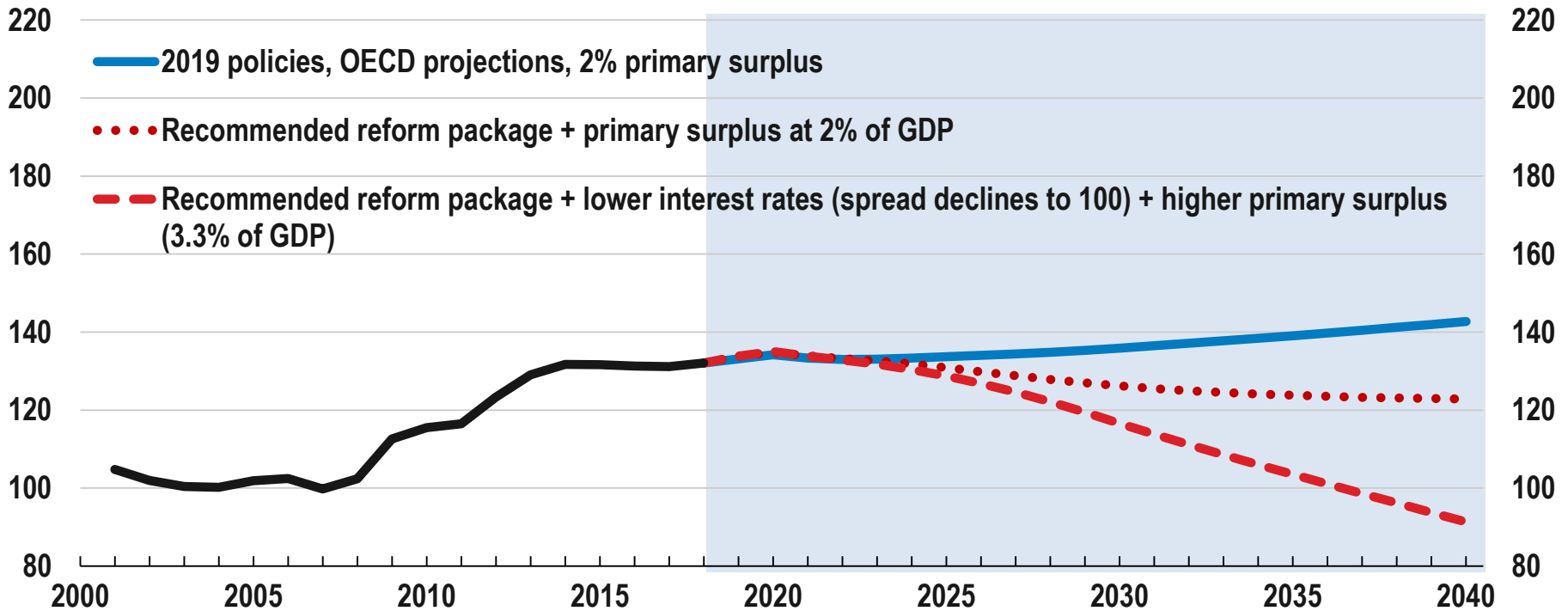
1. Components do not sum to overall effect due to interactions between individual reforms.

Source: OECD calculations



A larger primary surplus and the reform package would put debt on a downward path

Public debt, % of GDP

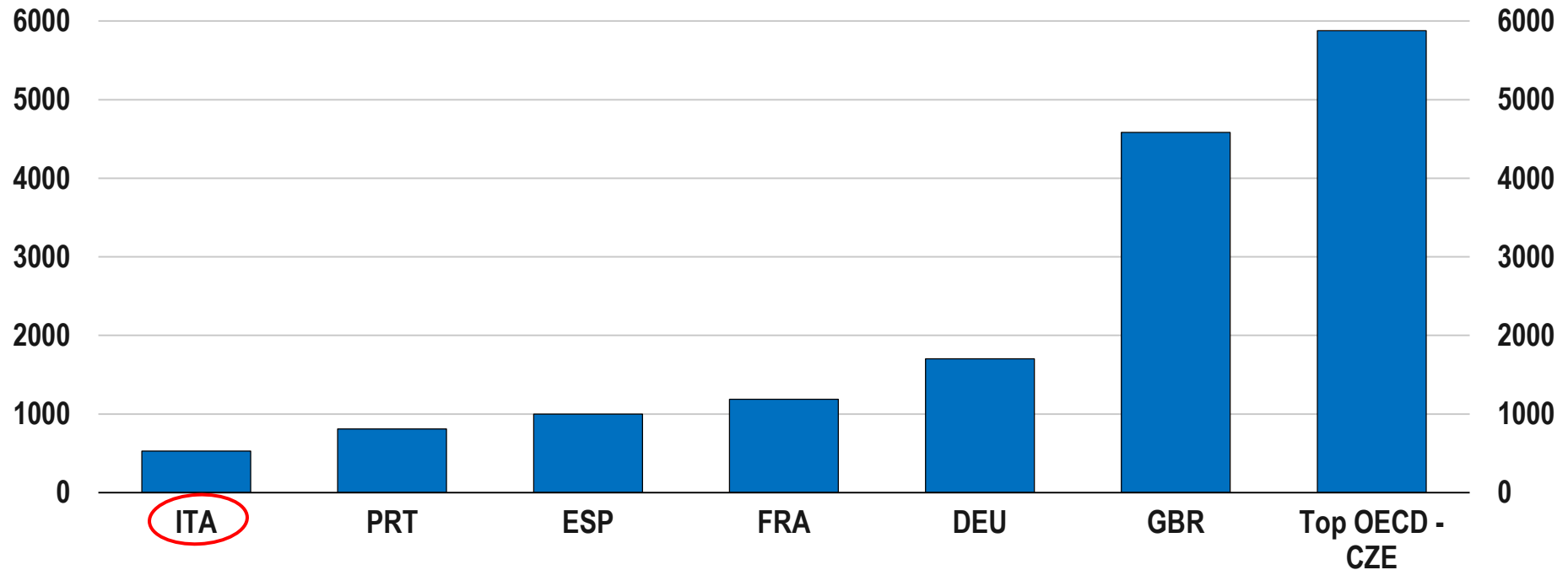


- *Set out a medium-term fiscal plan within the EU Growth and Stability Pact, aiming to steadily raise the primary surplus.*
- *Reverse the changes in early retirement rules introduced in 2019.*



Few payments are done electronically, abetting tax evasion and supporting informality

Non-cash payments, % of GDP, 2017

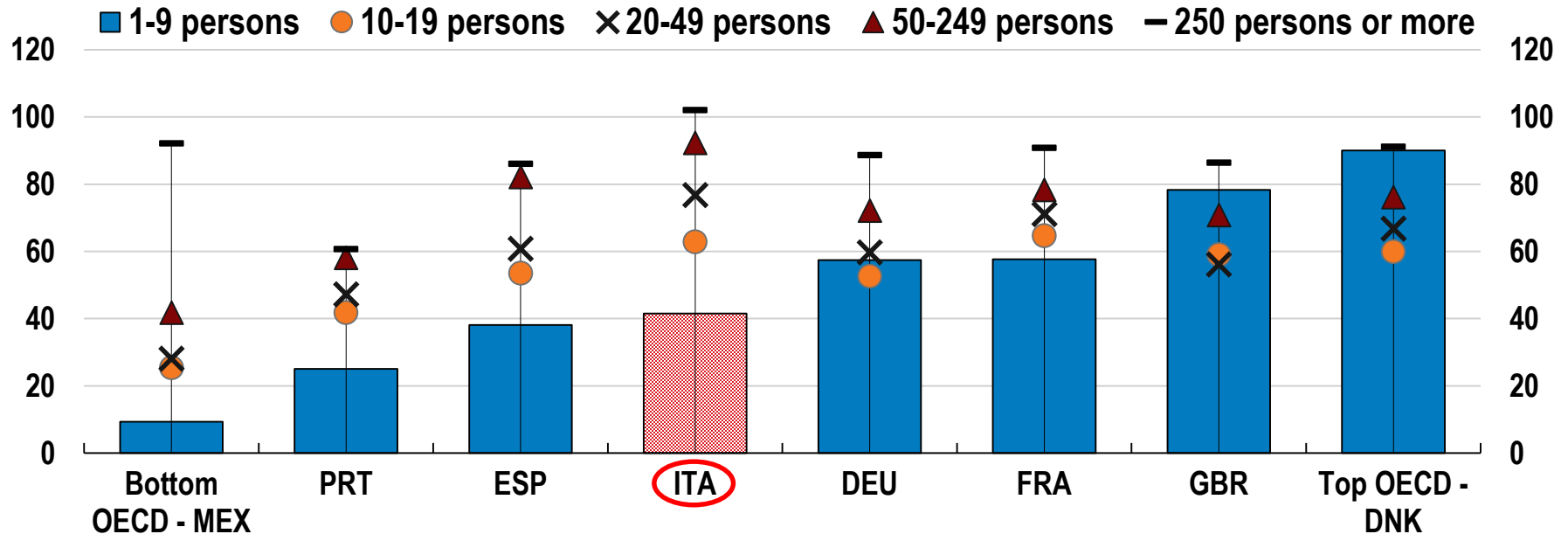


- Lower the maximum threshold for cash payments. Continue to improve voluntary tax compliance and avoid repeated tax amnesties.
- Continue to improve coordination across tax administration agencies.



Removing obstacles hindering the growth of small, productive firms would boost productivity

Labour productivity, 2016 or latest available



- Continue to pursue reforms to boost productivity including measures to improve the efficiency of the judicial system through improvements in administration processes and greater use of alternative dispute resolution.
- Complete the reform of the insolvency regime.

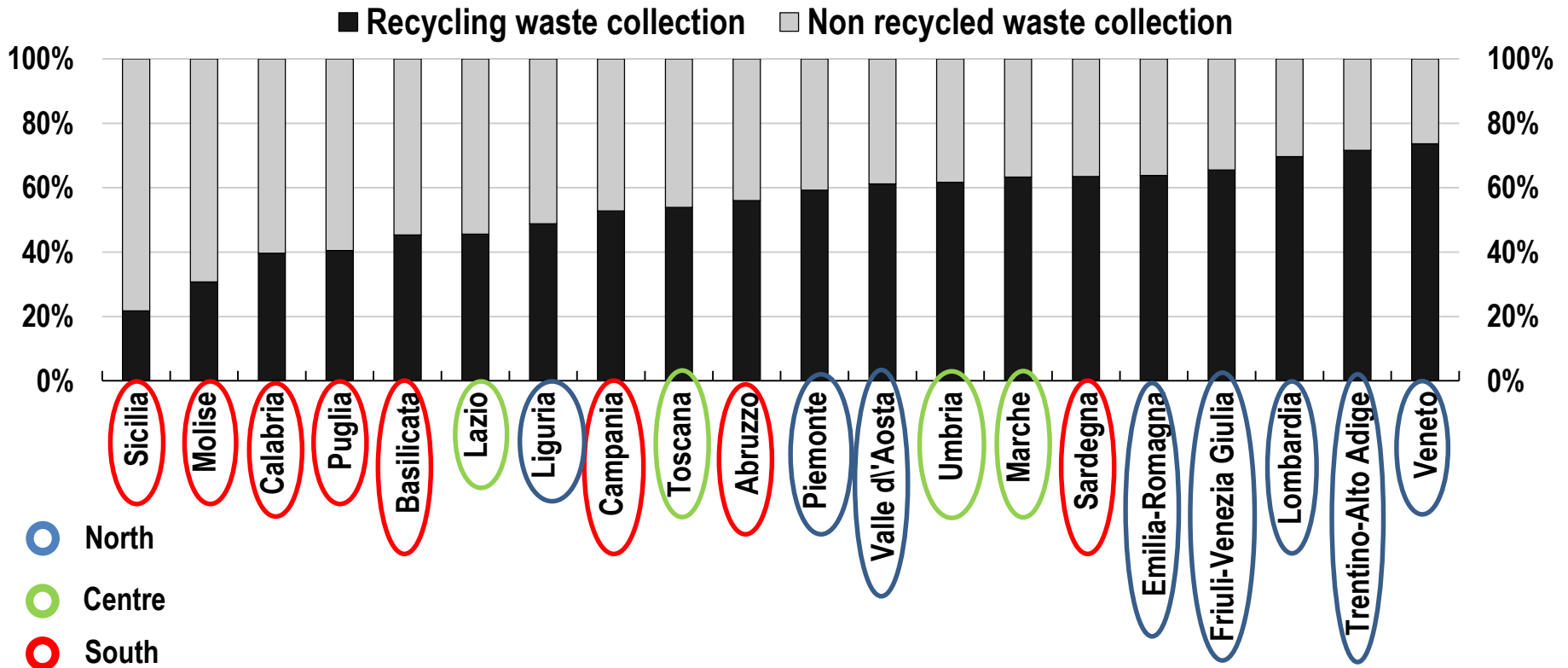
Note: Labour productivity is computed as value added per person employed, thousands of USD, current PPPs.

Source: OECD Entrepreneurship at a Glance Highlights 2018.



Ensuring all regions have effective waste management can lift well-being

Waste management by region, % of total waste collection



➤ *Restructure operations relating to waste management of sub-national governments that repeatedly fail to reach targets for waste collection and recycling.*



Main recommendations

A multi-year reform programme to enhance growth and well-being while boosting fiscal credibility

- Develop a multi-year programme of institutional, economic and social reforms and do not reverse important measures taken in recent years.
- Boost fiscal credibility by setting out a medium-term fiscal plan within the EU Growth and Stability Pact, aiming to steadily raise the primary surplus.
- Continue to pursue reforms to boost productivity including measures to improve the efficiency of the judicial system through improvements in administration processes and greater use of alternative dispute resolution.
- Reverse the changes in early retirement rules introduced in 2019 and preserve the link between retirement age and life expectancy.
- Abolish tax expenditures that are poorly targeted or have outdated objectives.
- Restructure operations relating to waste management of sub-national governments that repeatedly fail to reach targets for waste collection and recycling.

More in **‘Key policy insights’**

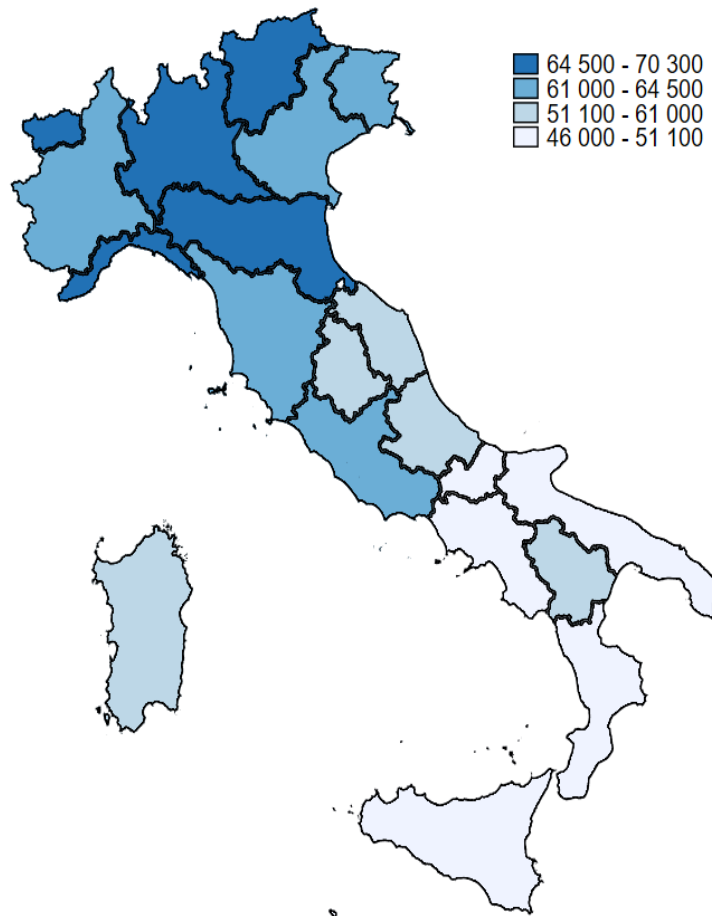


Addressing Italy's social and regional disparities

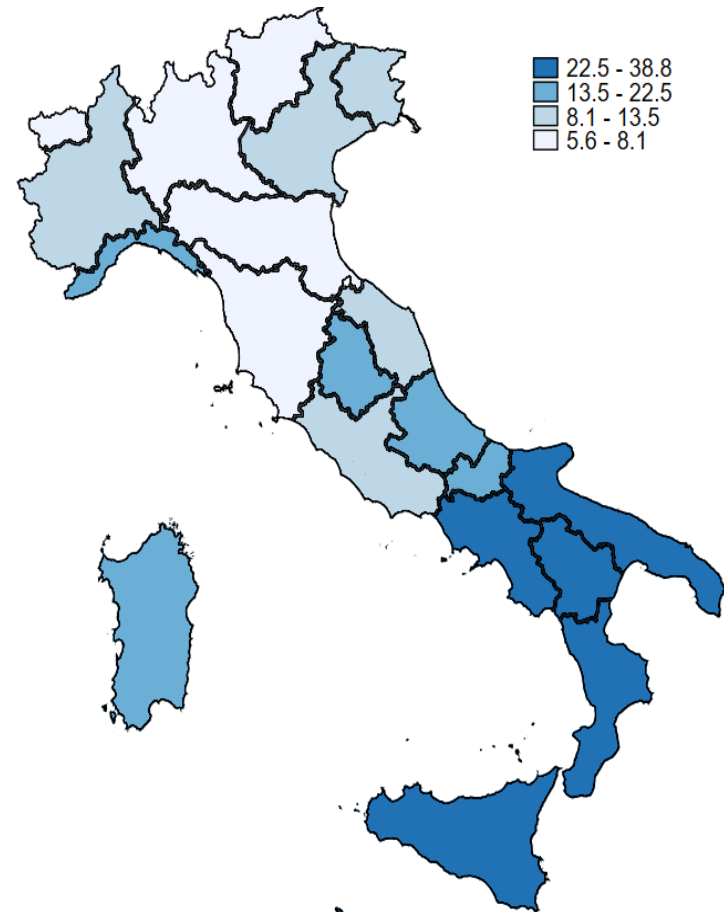


Social disparities are large and follow regional lines

Value added per employee
EUR, 2016



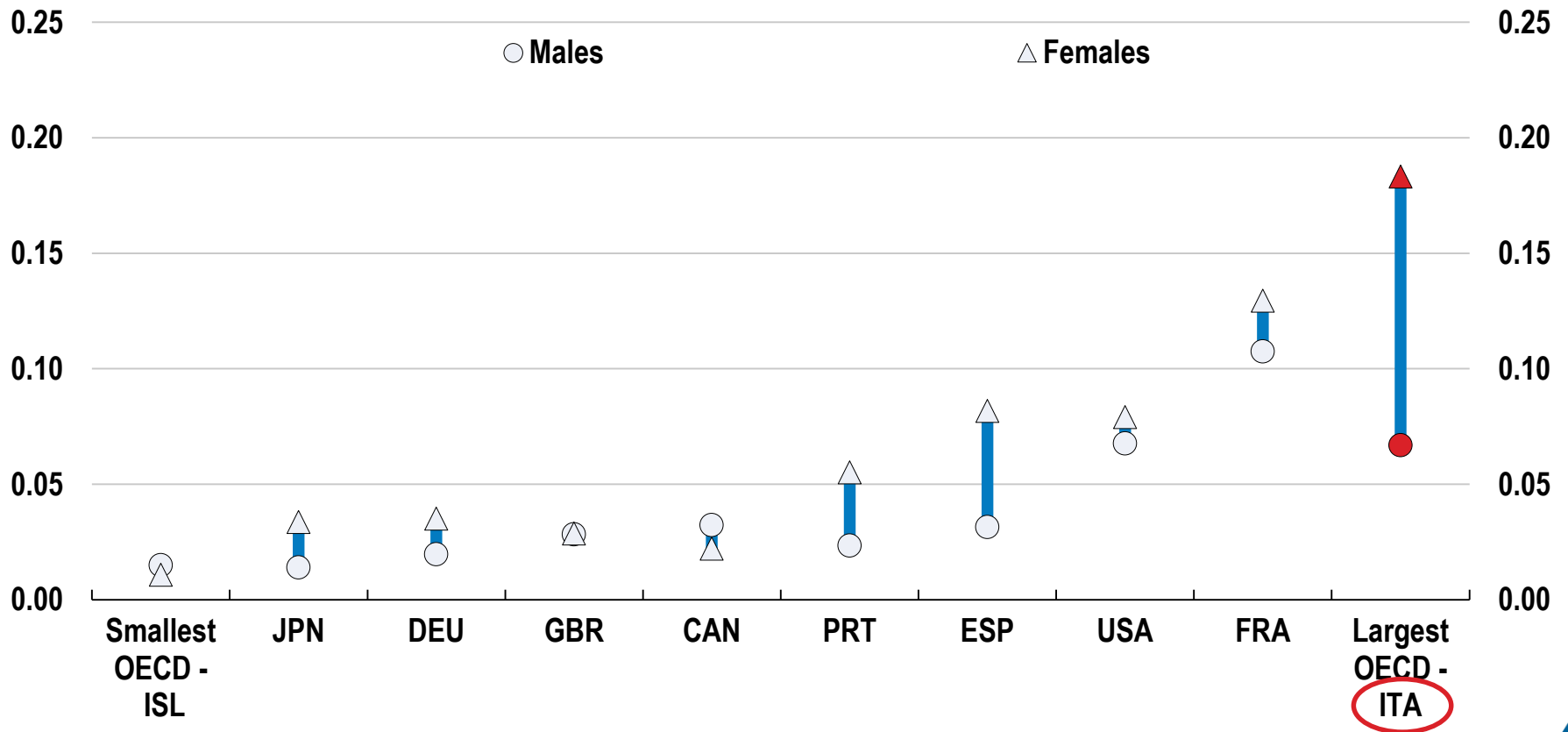
Relative poverty rate
% of persons living in households in relative poverty, 2017





Wide regional differences in employment rates drive income disparities

Dispersion of employment rates across regions*



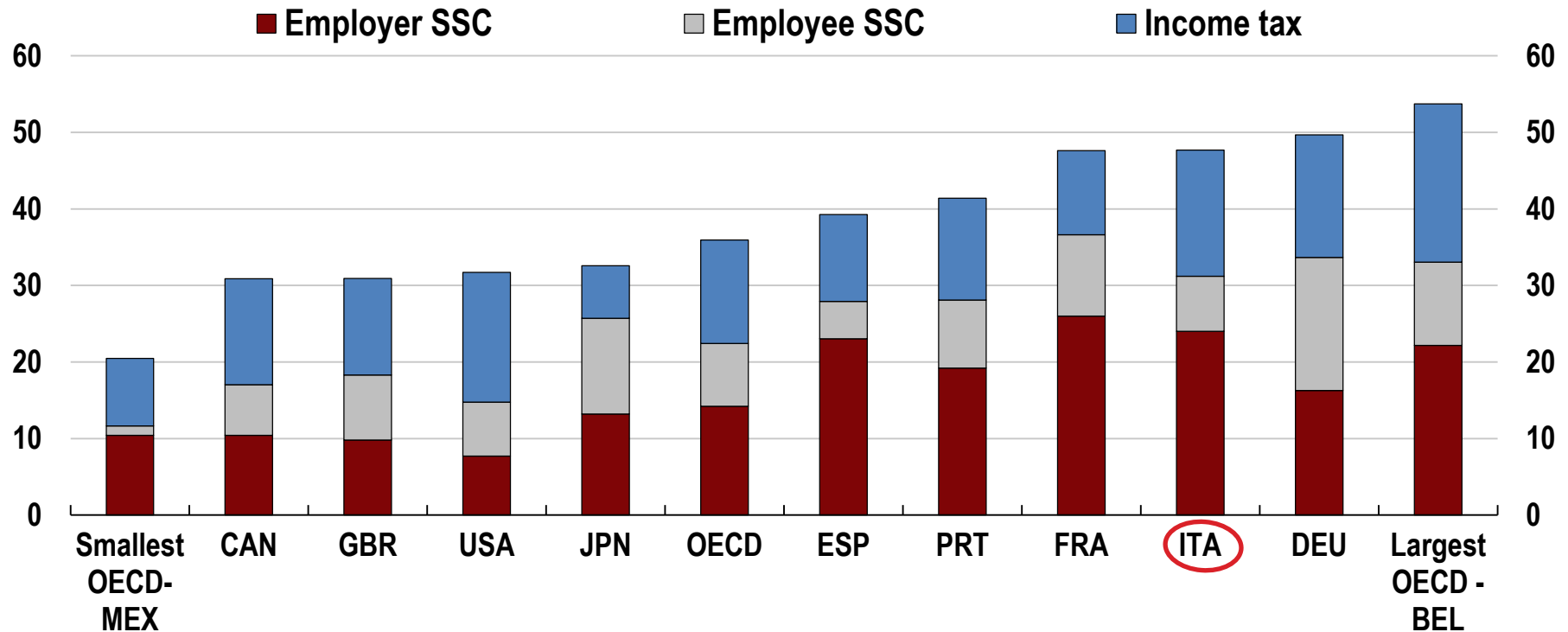
Note: Coefficient of variation in employment rates across regions, 15-64 year olds.

Source: OECD *Regional Statistics* database. Eurostat data for France.



Employer social security contributions are high, stifling employment growth

Average, % of labour cost, 2017

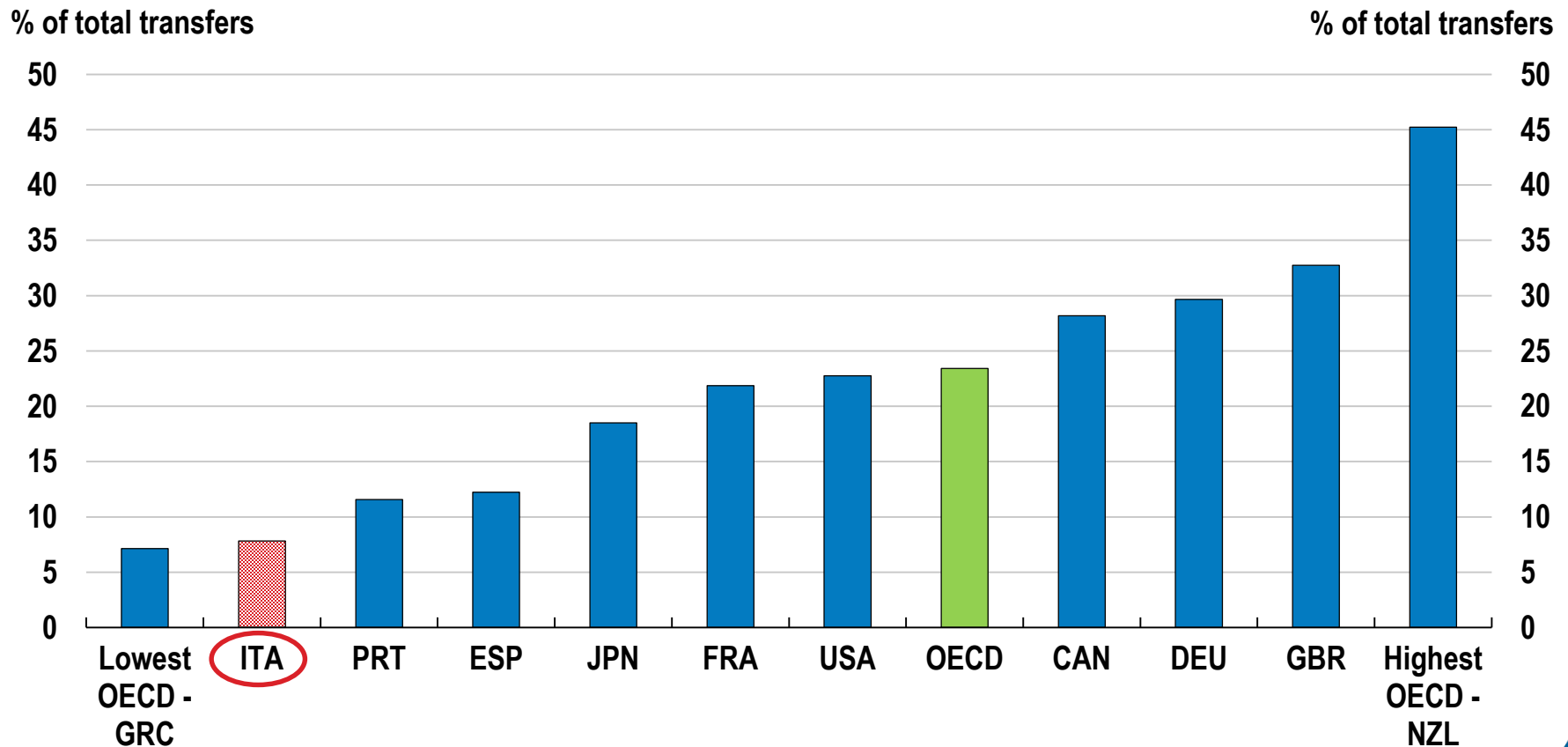


➤ *Reduce the labour income tax wedge on low-income workers and second earners by lowering employer social security contributions and tax and benefit reforms, while maintaining the tax system's progressivity.*



Transfers do not reach the poorest households

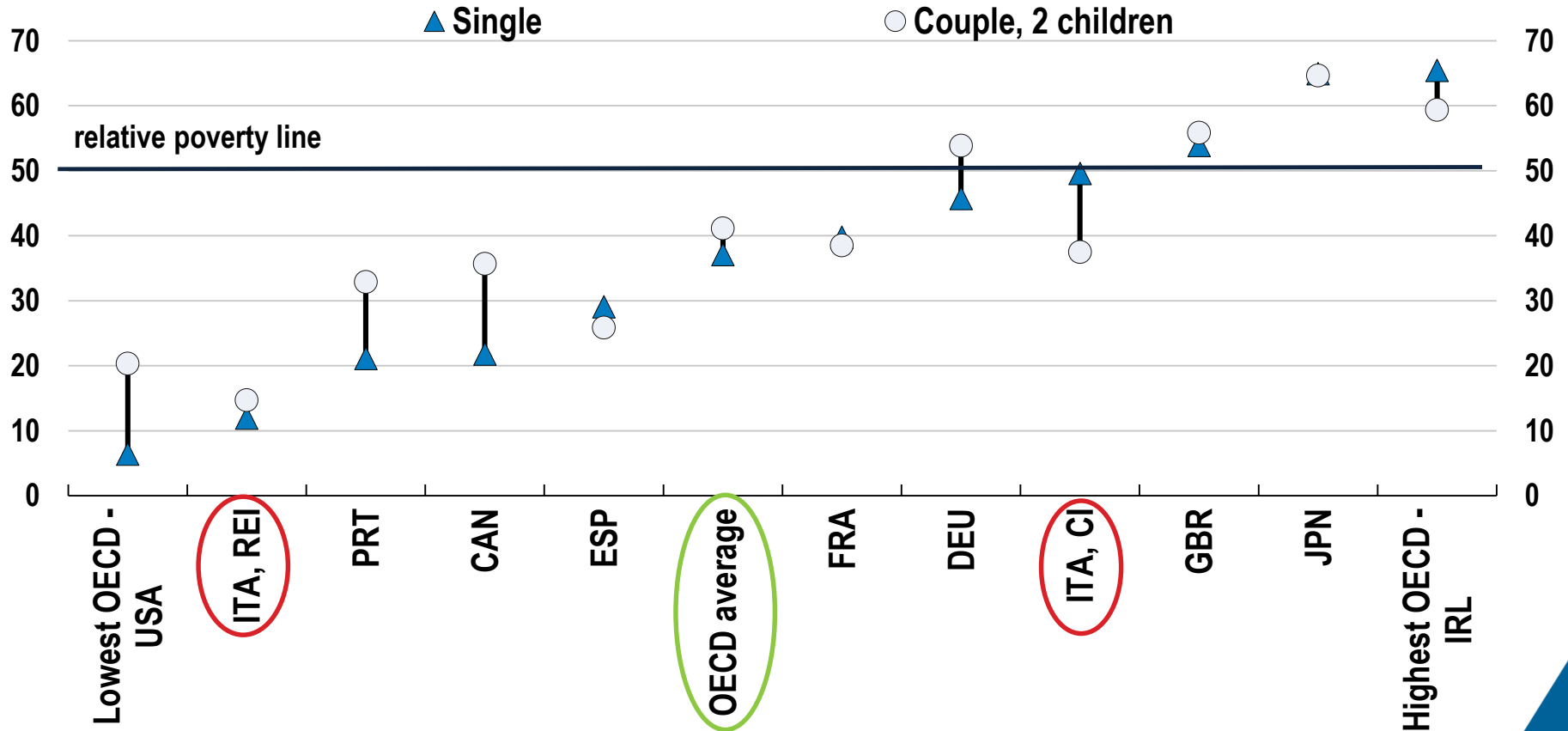
Transfers to poorest 20% of working age population, 2016





The Citizen's Income provides a large boost to poor households

Net household income for households receiving guaranteed minimum income, % of median disposable income



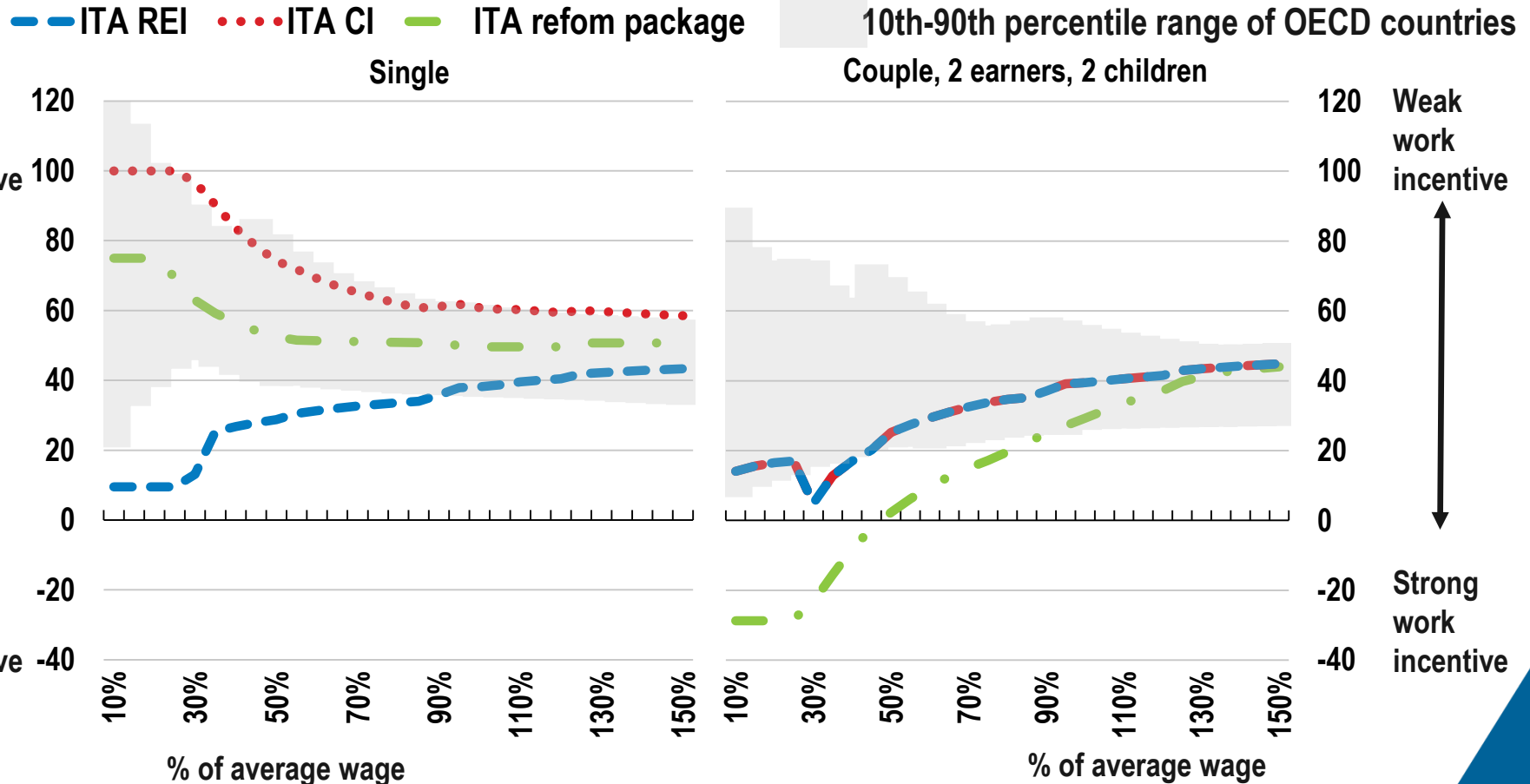
Note: CI indicates “Citizen’s Income”, while REI indicates “Reddito d’Inclusione”.

Source: Calculations based on OECD Tax-benefit model.



The Citizen's Income discourages moving into low-wage work, especially in single-earner households

Effective tax rate when moving into work, %



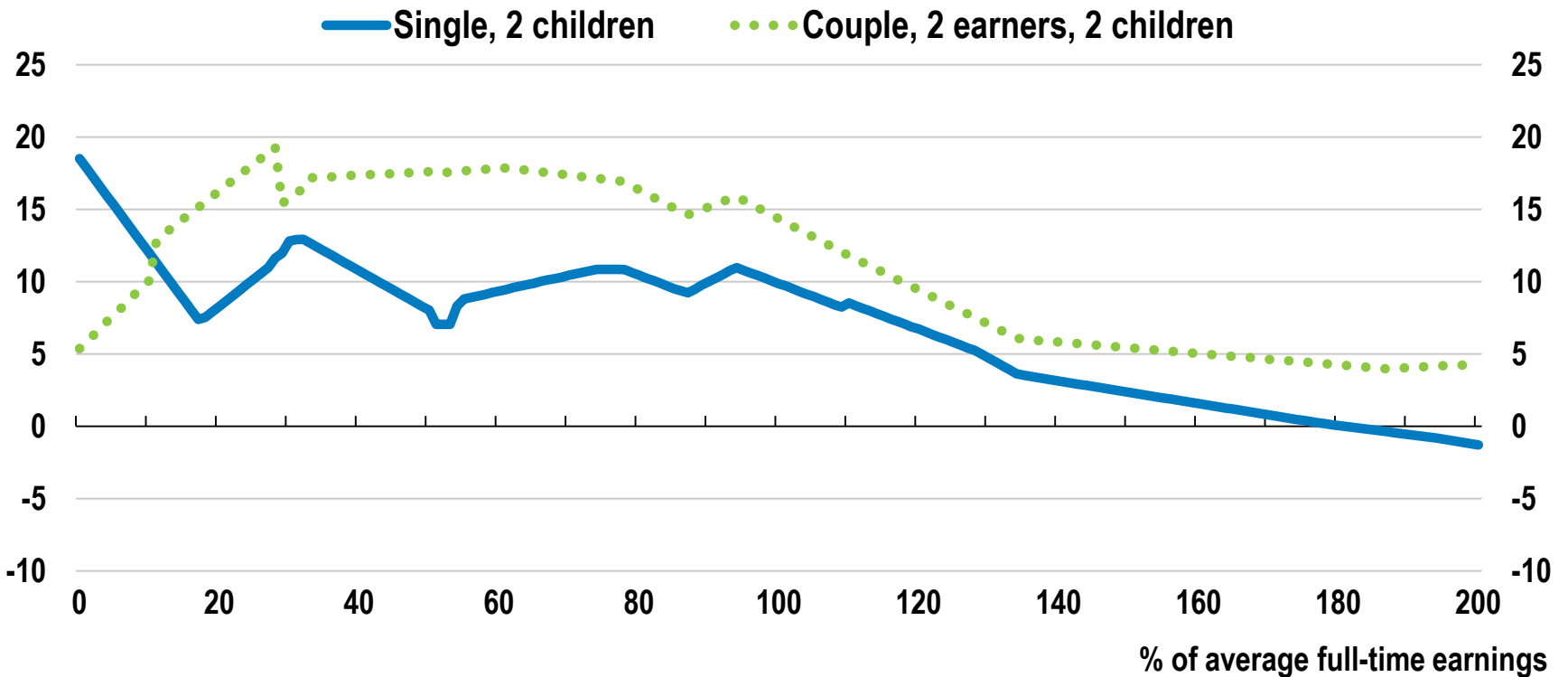
Note: CI indicates “Citizen’s Income”, while REI indicates “Reddito d’Inclusione”.

Source: Calculations based on OECD Tax-benefit model.



The proposed reforms (tapering CI benefits, low-income in-work benefits, and reformed tax credits) would boost incomes

% gain in net income from the reform package relative to 2018 policies



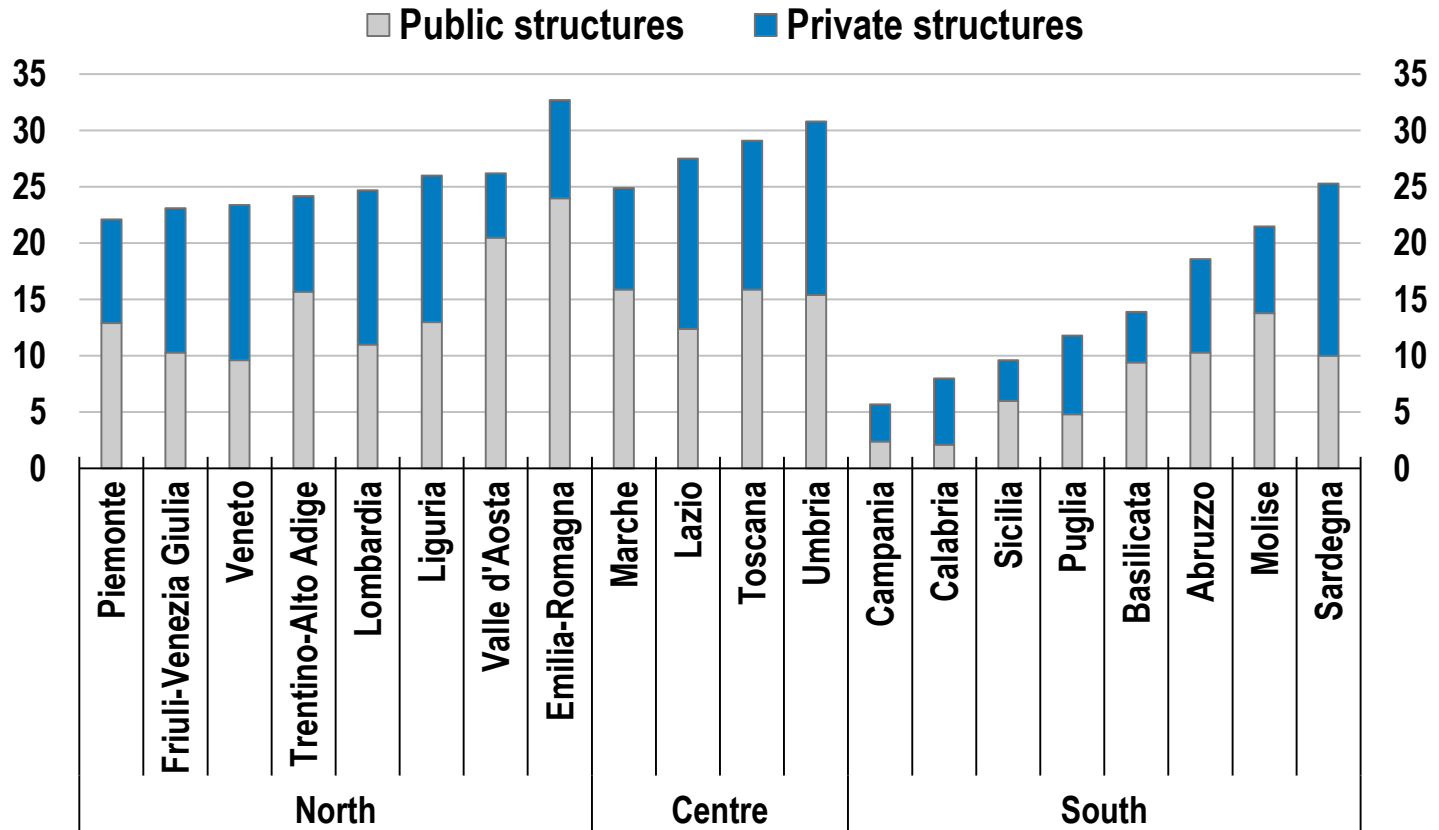
➤ Lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners.

Source: Calculations based on OECD Tax-benefit model.



Low access to childcare in many regions is a barrier to work

Childcare places, ages 0-2, per 100 children, 2014

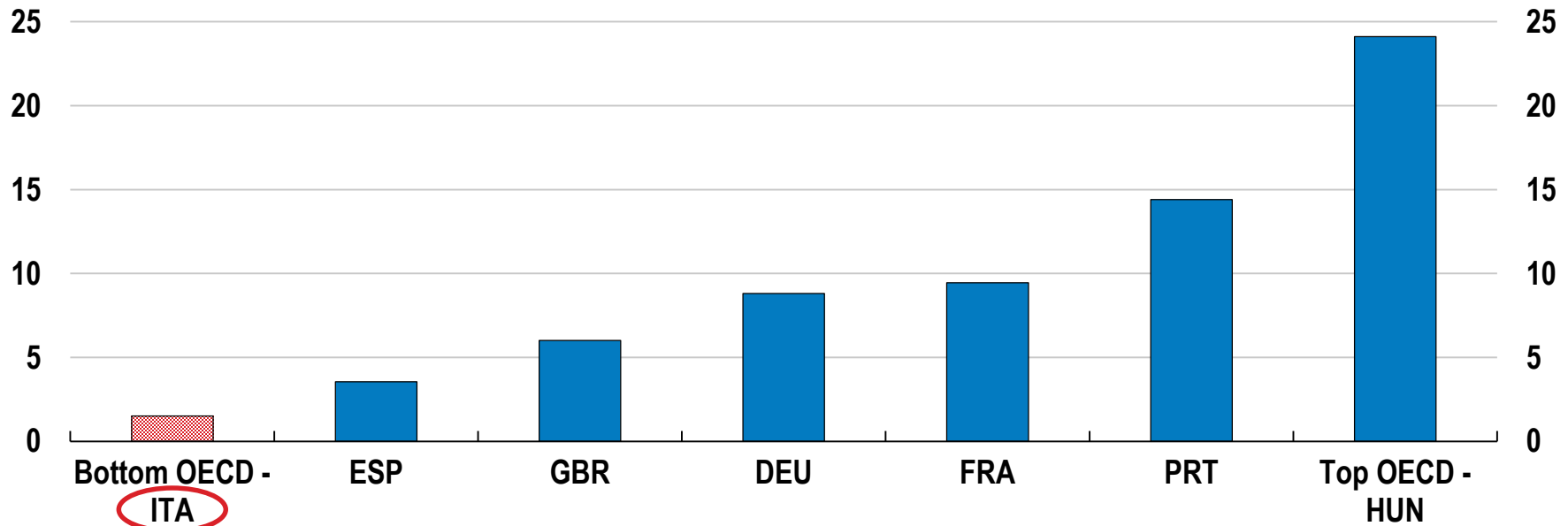


➤ Provide more quality infant care places at a low cost relative to average wages, prioritising regions with low female employment.



Strengthening public employment services is key to job creation

% of employees who found a job through public employment services*



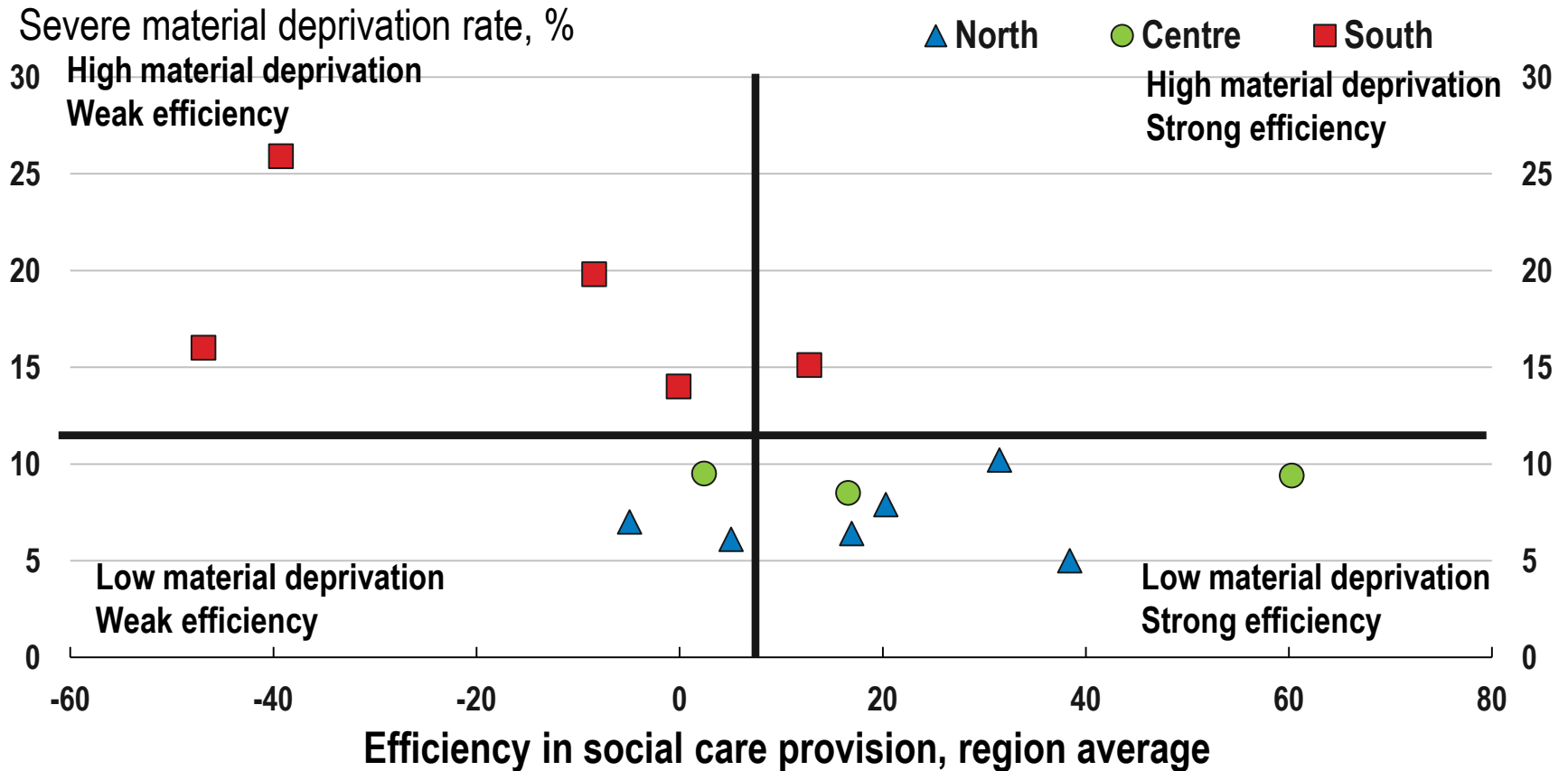
- *Implement a multi-year plan to revamp public employment services based on enforcing essential service standards and higher investments in IT systems, profiling tools and human resources.*
- *Grant to ANPAL the power to restructure public employment services that repeatedly fail to meet commonly agreed performance targets.*

* Employees aged 25-64 who started a job during the previous 12 months, 2014 data.

Source: OECD calculations based on EU-LFS 2014.



Social services are weak where they are most needed



➤ *Ensure capacity to administer the Citizen's Income by building on and strengthening, where necessary, municipalities' social assistance services and establishing strong collaboration with public employment services.*



Main recommendations

Addressing Italy's social and regional disparities

- Implement a multi-year plan to revamp public employment services based on enforcing essential service standards and higher investments in IT systems, profiling tools and human resources.
- Grant to ANPAL the power to restructure public employment services that repeatedly fail to meet commonly agreed performance targets.
- Ensure capacity to administer the Citizen's Income by building on and strengthening, where necessary, municipalities' social assistance services and establishing strong collaboration with public employment services.
- Provide more quality infant care places at a low cost relative to average wages, prioritising regions with low female employment.
- Reduce the labour income tax wedge on low-income workers and second earners through lowering employer social security contributions and tax and benefit reforms, while maintaining the tax system's progressivity.
- Taper Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners.

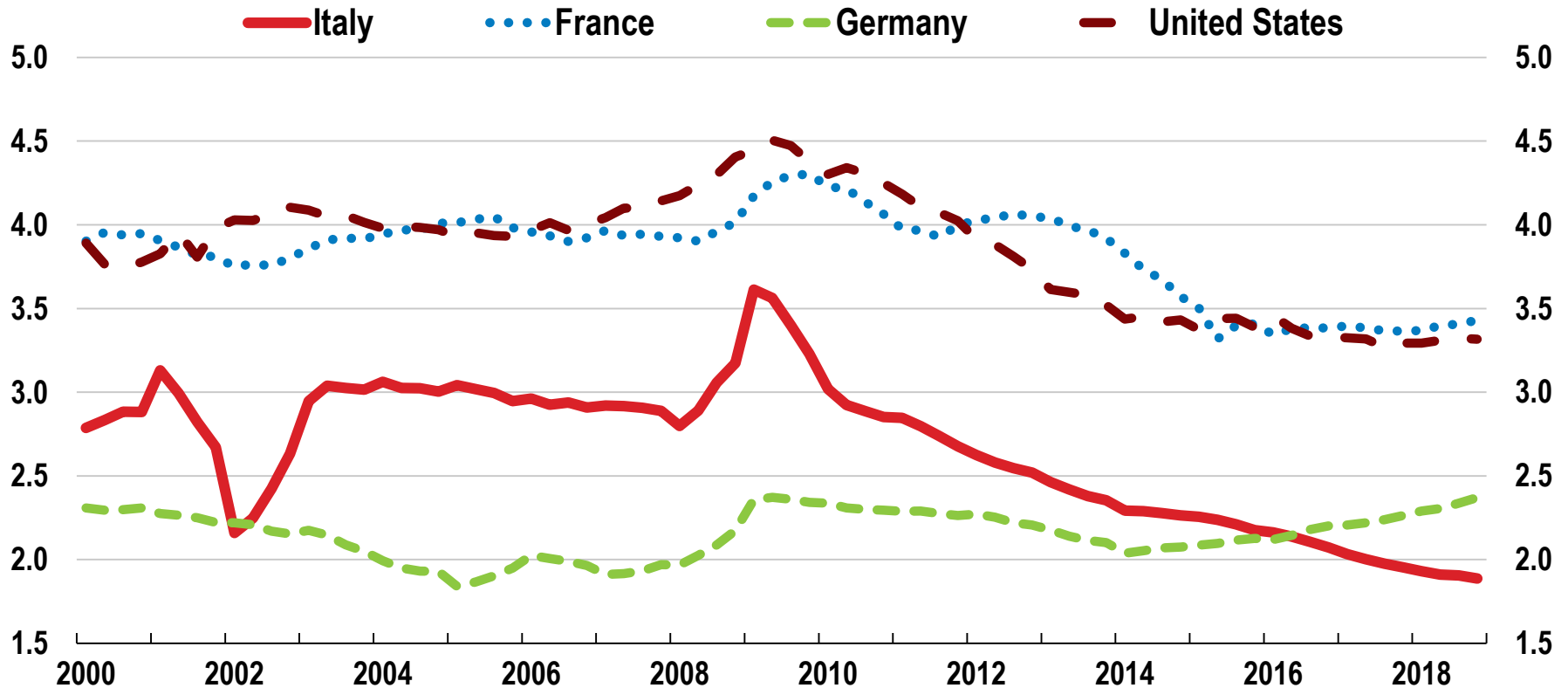


Improving public investment and regional development policies



Public investment has slumped

Government investment, % GDP

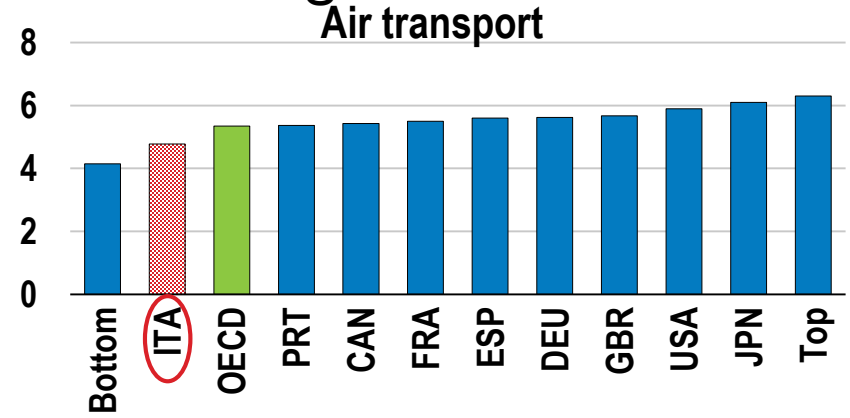
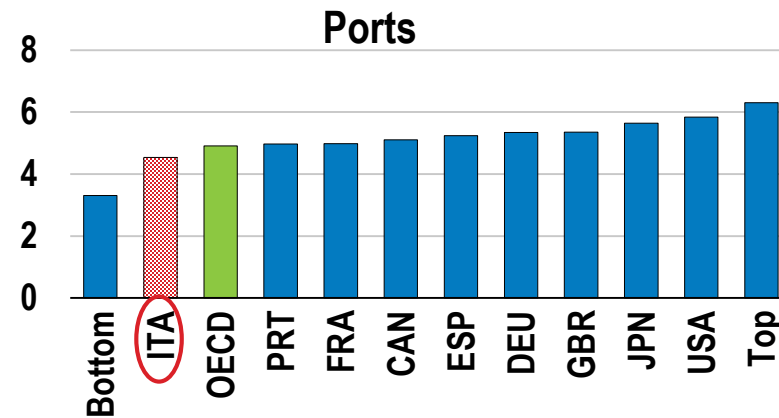
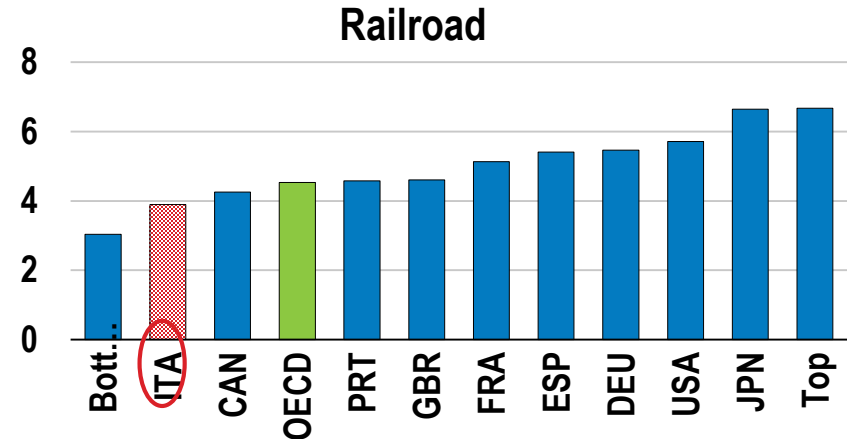
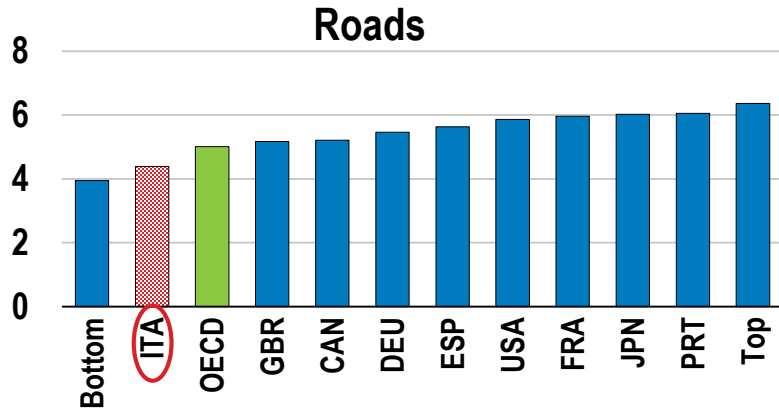


➤ *Simplify the most complex aspects of the public procurement code, but protect the powers of the anticorruption authority.*



Perceived infrastructure quality is lagging

Global Competitiveness Index, scale from 1 to 7 (best)

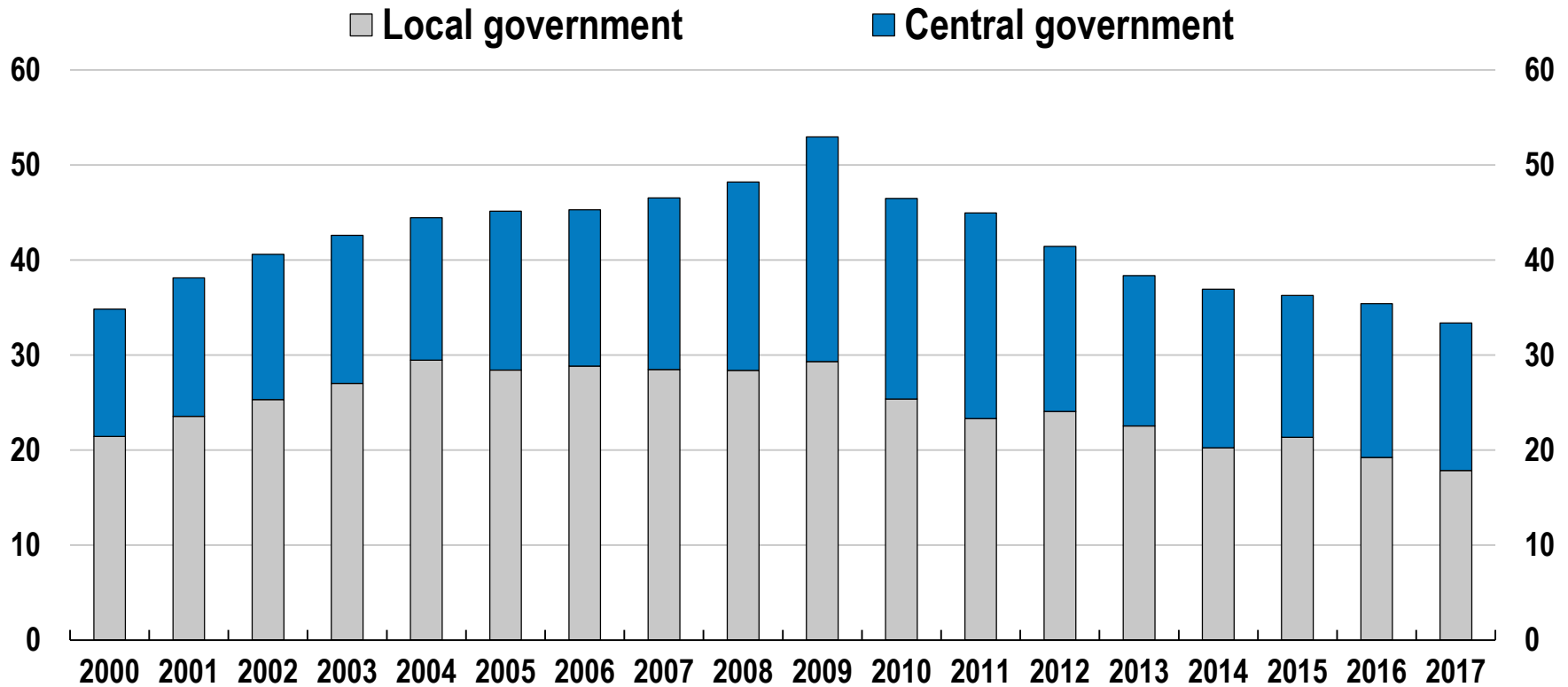


➤ *Develop a comprehensive public investment and spatial plan linking infrastructure developments with land use management.*



Investment by subnational governments is falling

Public investment, EUR billions

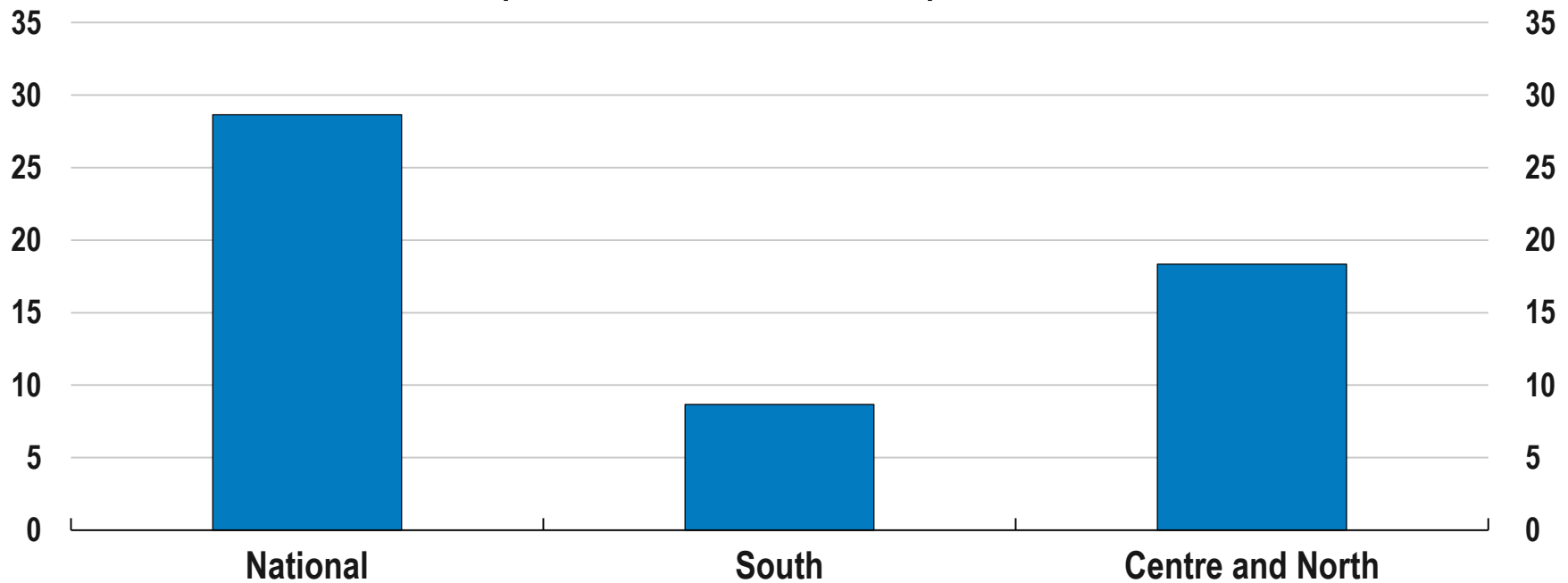


➤ *Create as planned a technical support unit for public investment using existing administrative structures and ensure it is well staffed.*



Absorption of EU funds is low, especially in the south

Spending of EU funds 2014-2020 programming period, at end September 2018, % of planned investments

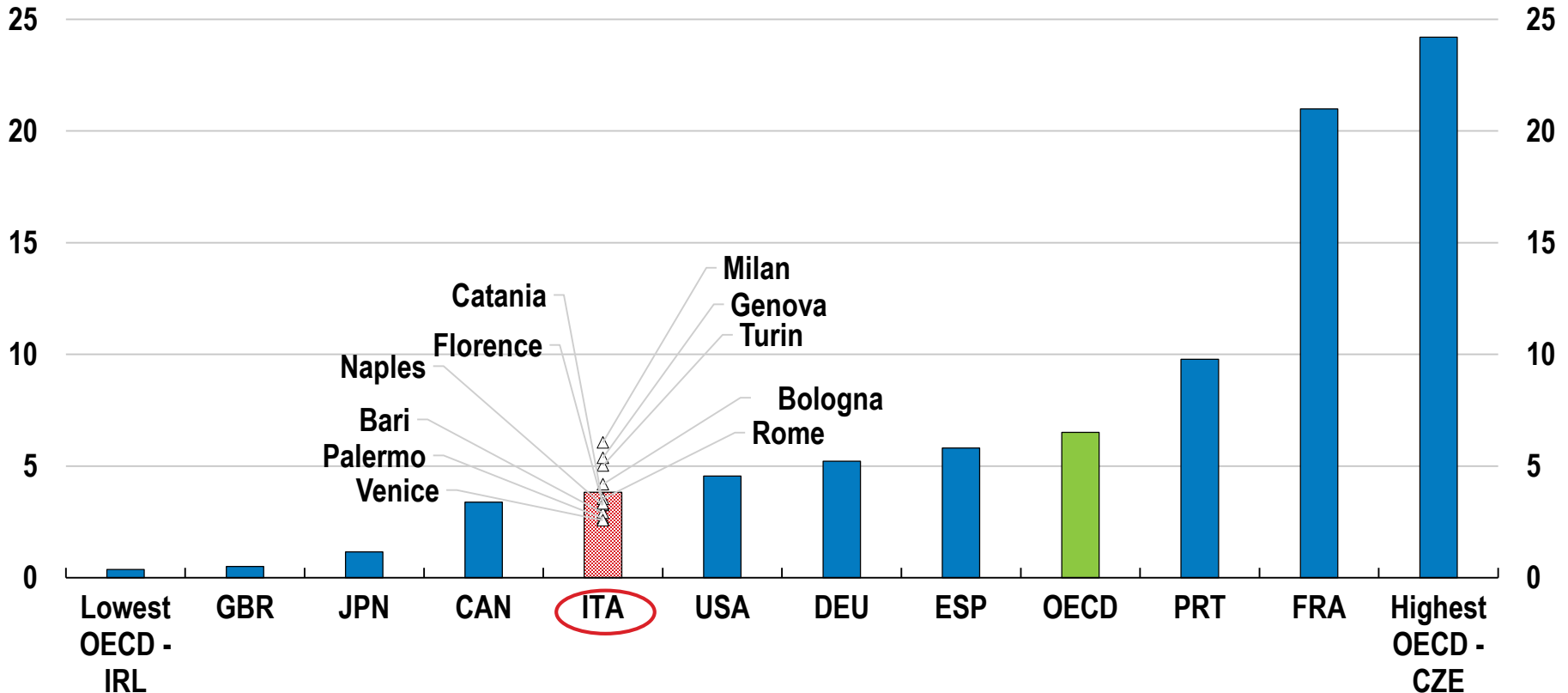


- *Rationalise and improve coordination among bodies involved in regional development policies by strengthening the role and expertise of central government bodies.*



Metropolitan areas' administration is somewhat fragmented, weighing on efficiency

Number of municipalities in metropolitan areas per 100 000 inhabitants, 2014



- Empower metropolitan governance bodies with the transfer of some of the powers of regions and provinces.



Main recommendations

Improving public investment and regional development policies

- Create as planned a technical support unit for public investment using existing administrative structures and ensure it is well staffed.
- Simplify the most complex aspects of the public procurement code, but protect the powers of the anticorruption authority.
- Develop a comprehensive public investment and spatial plan linking infrastructure developments with land use management.
- Rationalise and improve coordination among bodies involved in regional development policies by strengthening the role and expertise of central government bodies
- Empower metropolitan governance bodies with the transfer of some of the powers of regions and provinces.

**More in ‘Key Policy Insights’
and Chapter 1: Tackling Italy’s social and regional divide**

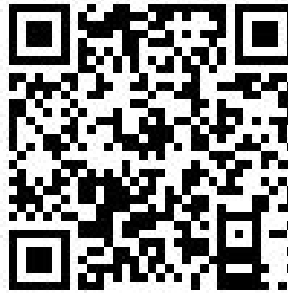


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