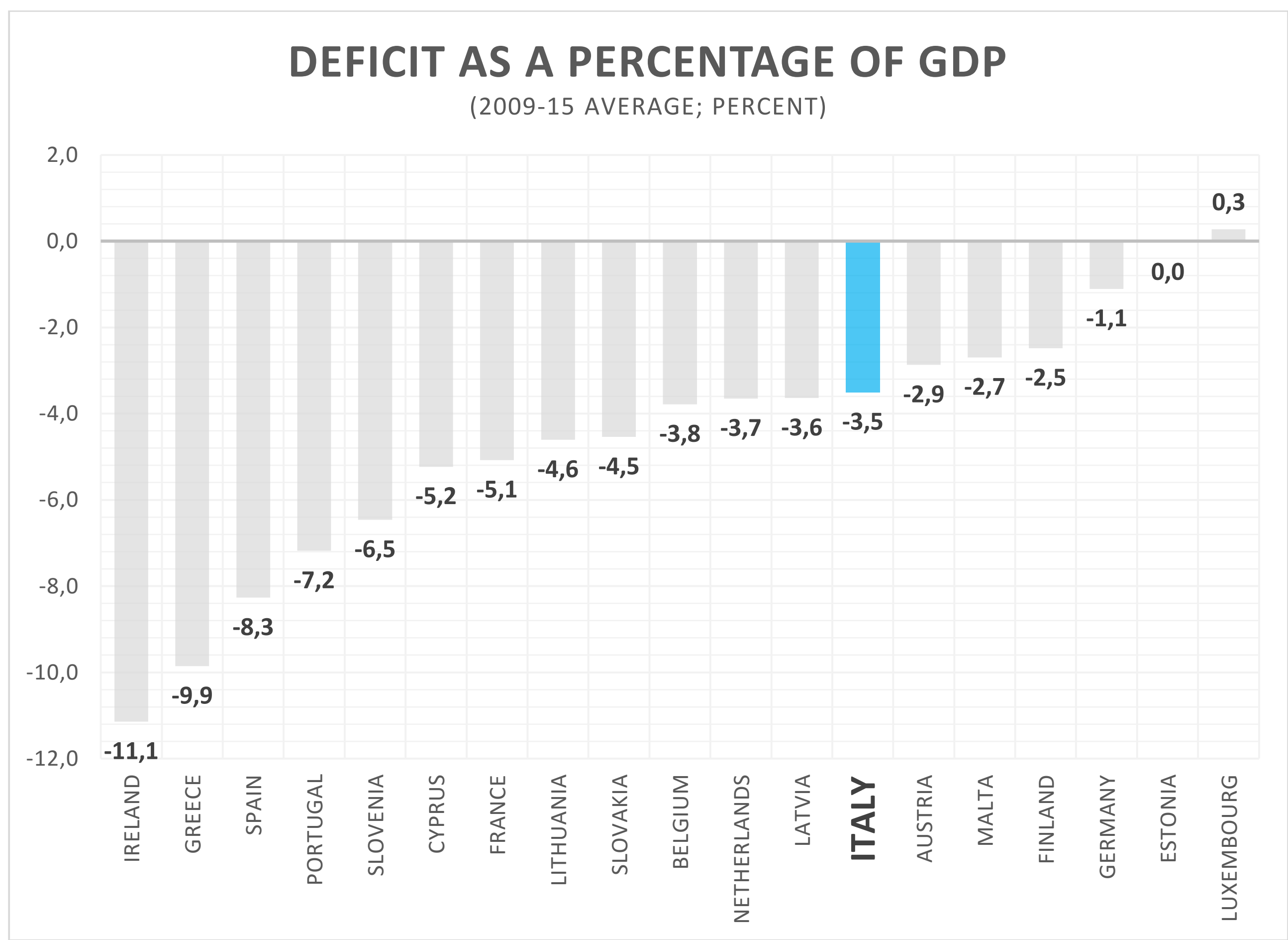
Consolidation and promoting growth

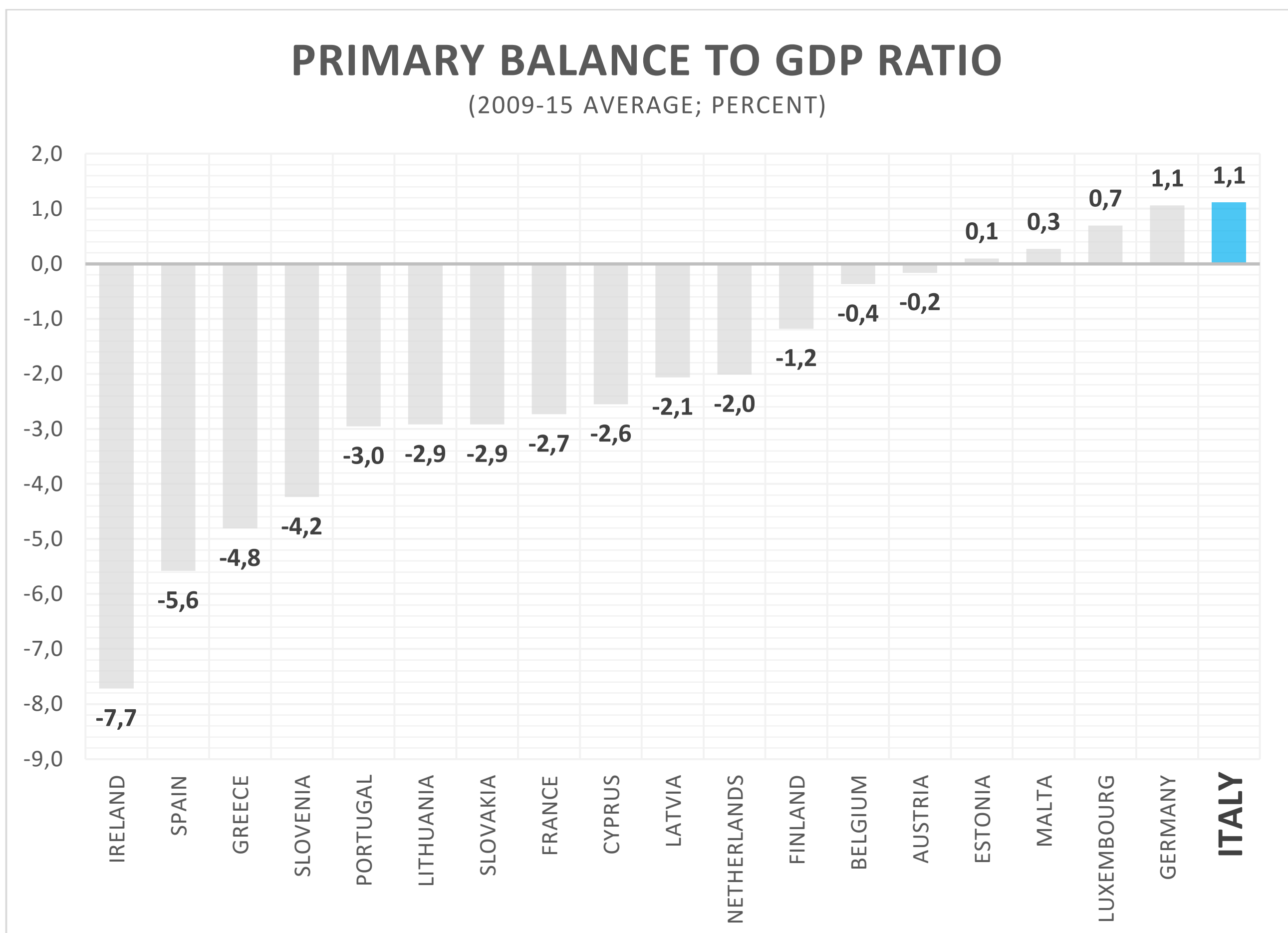
March 2016

Some clarification is needed regarding certain analyses reported on by the media concerning with the size of fiscal adjustment measures implemented by Italy in recent years. This can be done by recreating what has actually been **Italy's fiscal effort during the financial crisis**. According to some observers, the consolidation of public finances undertaken by our country over the past six years could place it among the least significant of those undertaken by countries in the euro area. Nothing could be less accurate. Between 2009 – the first year to witness a contraction in euro area production – and 2015, Italy maintained the equivalent of an average deficit of 3.5 percent; only six Eurozone countries produced a lower deficit (Austria, Malta, Finland, Germany, Estonia and Luxembourg). Considering the significant fall in GDP during the same time period, **an extraordinary degree of fiscal effort** therefore came into play.



Source: Ameco

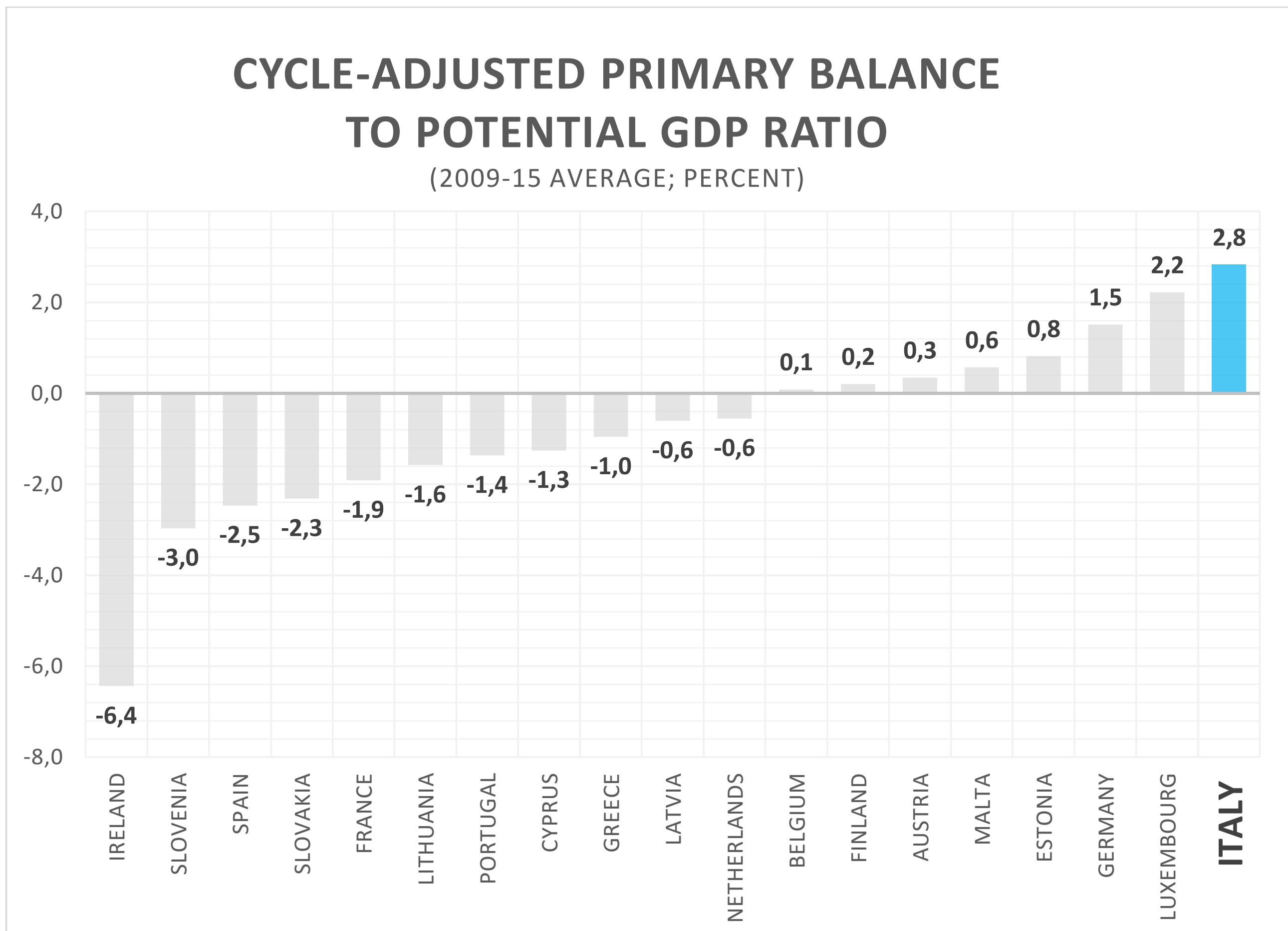
To fully appreciate the effort made by the country one needs to look at the primary balance, excluding the public debt burden: hence **Italy turns out to be the country that has maintained the highest primary surplus on average (1.1 percent)**, and ranks among the few to show a positive balance, as compared to most of the Eurozone member states which, in fact, have seen their positions deteriorate during the same time period. For example, Spain had an average primary deficit of 5.6 percent of GDP in this period and France that of 2.7 percent.



Source: Ameco

Aside from the debt burden, the current balance would need to be adjusted in view of the effects of the economic cycle. Through a correct evaluation of the primary balance in terms of the cycle, **Italy's** consolidation effort becomes accentuated and emerges

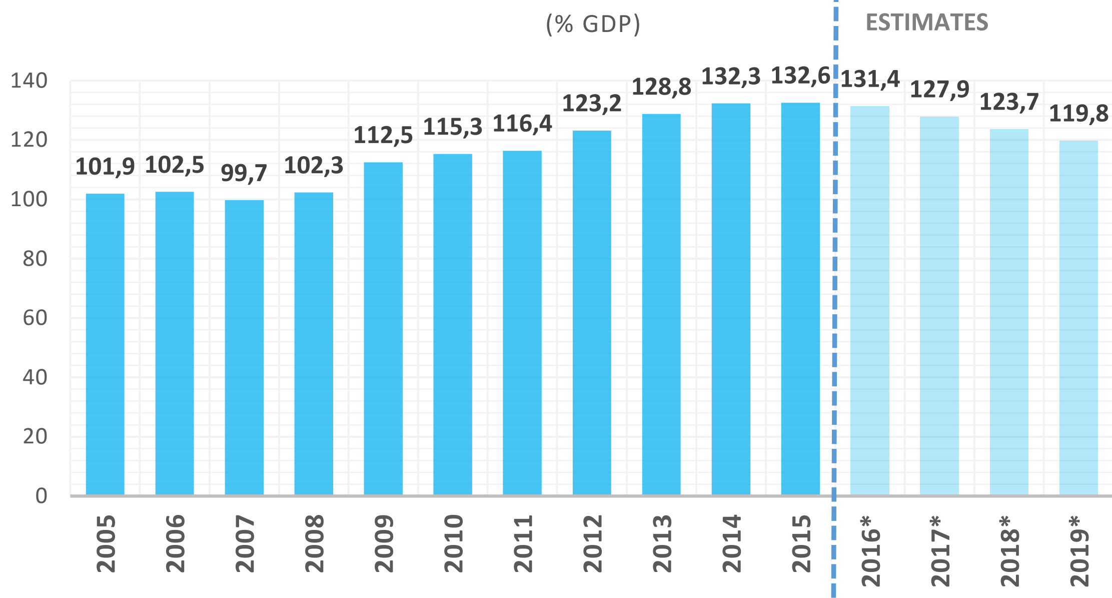
clearly as **the country that has kept up the most substantial process of fiscal consolidation of public finances within the area**.



Source: Ameco

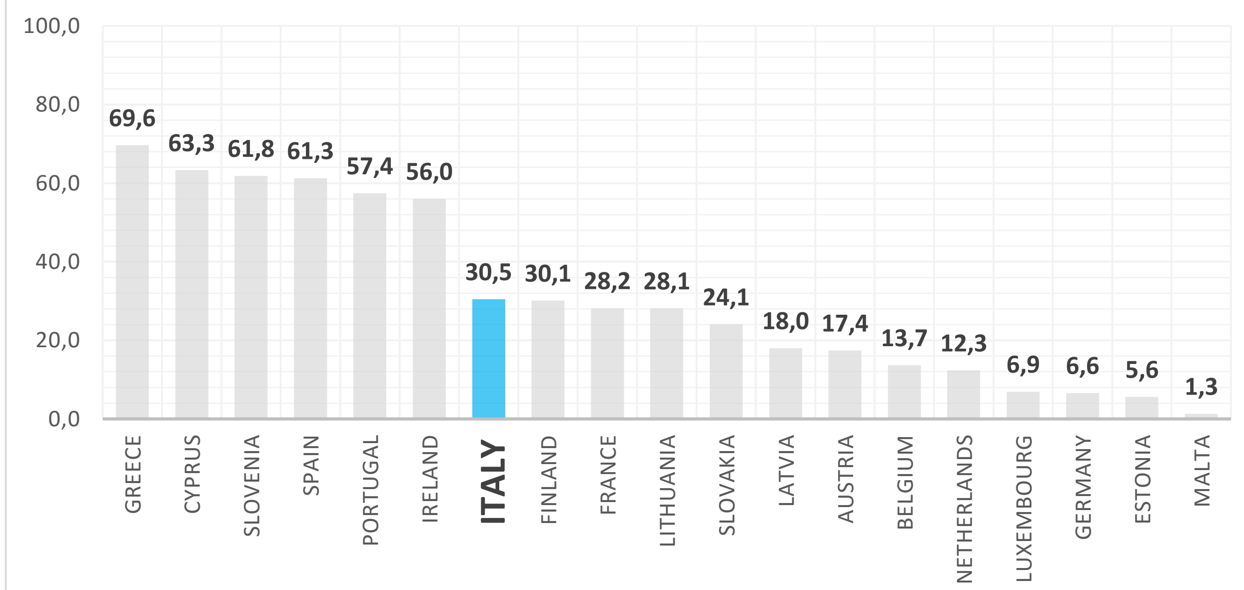
There is obviously a good reason behind the choice of a prudent fiscal policy: the existence of a high public debt. Nevertheless, it is precisely due to a budgetary policy that is attentive to maintaining sustainability of public finances, that the Italian debt has increased during this period at a considerably lower rate than that of other countries and in line with the area average.

Furthermore, **it is clear that the debt-to-GDP ratio has stabilised substantially in 2015** and it is anticipated that, as of the start of 2016, this ratio will continue to decline.



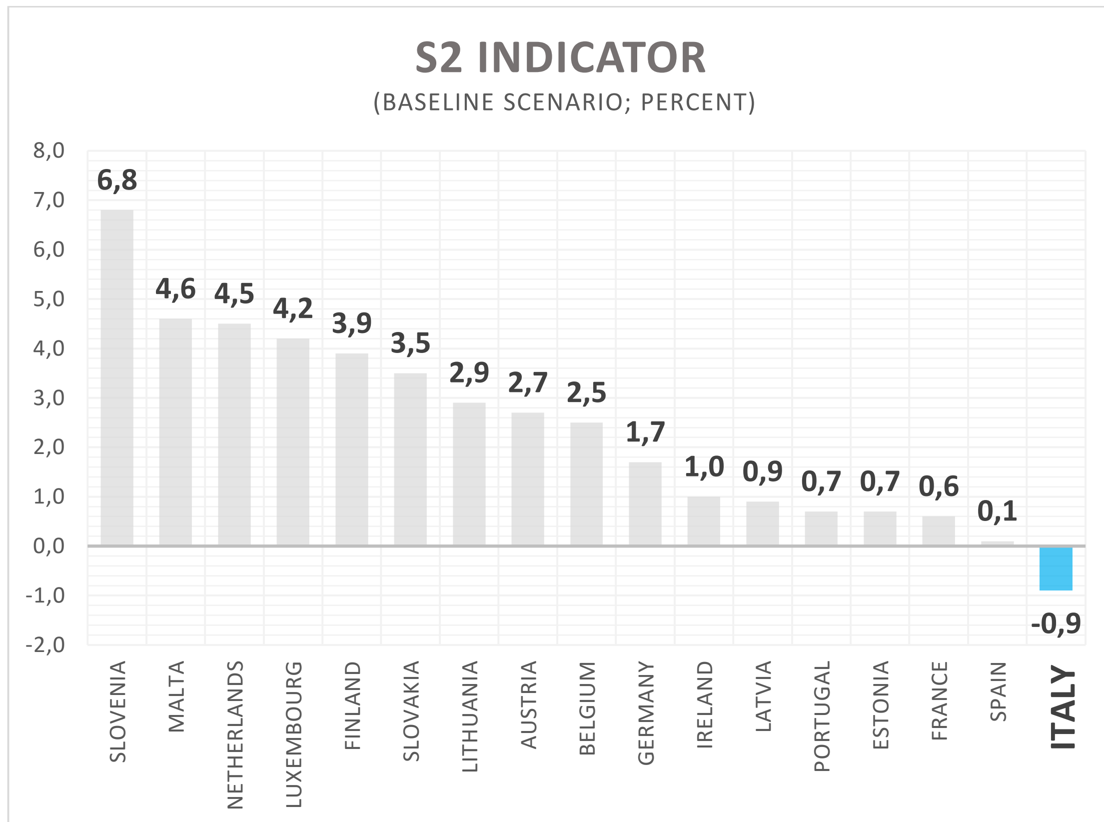
Source: Ministry of Economy and Finance

The historical series covering 2005-2014 corresponds to Ameco data; data used for 2015 are from final figures issued by Istat as the Ameco series data has not yet been updated; estimates are taken from the MEF series since Ameco's only go up to 2017 (Ameco estimates: 2016 - 132.4; 2017 - 130.6).



Source: Ameco

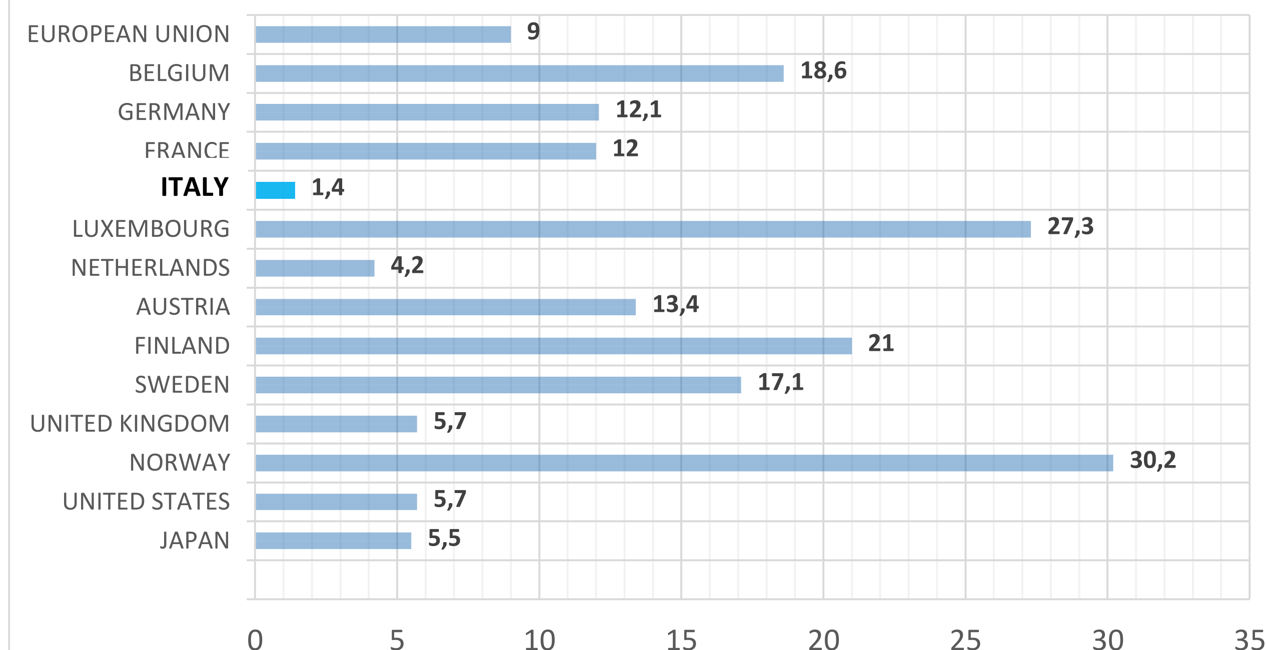
These results correspond with the calculations stated by the European Commission and according to which **Italy would rank among countries at a low risk with regard to long-term public finance sustainability**.



Source: *Fiscal Sustainability Report 2015*, European Commission (January 2016)

The S2 indicator shows the long-term public finance sustainability of countries that are not covered by macroeconomic adjustment programmes based on a methodology agreed at European level, over the infinite horizon and on the basis of the government's inter-temporal budget constraint and projected macroeconomic variables under the assumption of a fiscal policy that remains unchanged with respect to the latest projection issued by the Commission (2017, Autumn forecasts 2015). Greater (positive) S2 indicator rates are associated with greater fiscal adjustments needed to ensure public fiscal sustainability.

Italy's fiscal adjustment has helped preserve autonomy in how it conducts its economic policy, and something the Government has made use of in the adoption of a series of growth-enhancing measures which, in turn, has proven an essential factor in achieving fiscal stability.



Italy: reclassifying the €80 bonus for full-time workers as a remission of the tax wedge, instead of as a social expenditure (According to official statistics, the figure is 2.2).

Source: Ameco

In other words, Italy has put into effect **a fiscal consolidation that fully takes growth into account**. As a result of this strategy, Italy has emerged from recession, and during the past three years its deficit-to-GDP ratio has fallen below 3% (from 2.9% in 2013 to 2.6% in 2015).

Alongside fiscal policy actions there have also been **structural reforms, capable of modernising the economic, administrative and institutional system**. The planned programme of actions regarding the job market, competitiveness, education, the justice system and public administration and simplification through which the Government plans to modernise and revitalise the country naturally contributes to improving long-term fiscal sustainability. And all this thanks, above all, to an overall improvement in these factors' productivity. The reforms allow for a further bolstering of the country's

competitiveness, its potential for growth, its fiscal sustainability and consequently market and international investment confidence.

The **Government intends to go forward along the path of fiscal consolidation**, ensuring control of its public accounts and at the same time having an impact on the composition of general government revenue and expenditure so as to favour growth. These are measures that form part of **a political and economic strategy that pays close attention to budgetary discipline**, yet is also aimed at re-launching public and private investment, and hence providing support for growth and ultimately job creation.