EUROPE NEWS

EU Vote Opens Way for Italian Reforms

Economy Minister Says EU Must Put Growth First

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Italian Economy Minister Pier Carlo Padoan at a news conference in France in April. *European Pressphoto Agency*

ROME—The resounding European electoral victory by Italian Prime Minister Matteo Renzi's party last weekend will give the government new impetus for his ambitious plans for reform and will strengthen Rome's hand in pushing for European Union policies to accelerate growth, said Economy Minister Pier Carlo Padoan.

Mr. Renzi's center-left Democratic Party enjoyed a surprising victory in Sunday's European parliamentary elections, capturing nearly 41% of the vote, about double that of runner-up, the antiestablishment Five Star Movement. The result was a huge boost for Mr. Renzi's promise to "revolutionize" the country, leaving the 39-year-old premier the only European leader aside from Germany's Angela Merkel, to win on a pro -European platform.

The vote "certainly is a strong mandate for reforms," said Mr. Padoan, who was a senior official at the International Monetary Fund and chief economist at the Organization for Economic Cooperation and Development before joining the Renzi government in February. "It will give renewed impetus to the government. We will use that additional political capital across the board."

Il voto europeo spiana la strada alla riforme in Italia

The result gives Mr. Renzi, arguably Europe's strongest center-left leader, the leverage to shift EU policy away from austerity and toward growth and jobs creation. Italy takes over the European presidency in July, and some have called for Brussels to give Italy a break on some budgetary strictures to free up funds for investment and job-creation.

"Europe must now clearly put growth and jobs at the top of its priority list," said Mr. Padoan. "It's about not just paying lip service to jobs and growth, but getting serious about it. This is not for Italy, this is for Europe...[And] if a country implements structural reforms, there should be recognition of a different budget profile."

Mr. Renzi has an ambitious program of reforms, ranging from a new electoral law aimed at producing more stable governments to an overhaul of unemployment schemes, but his reliance on a series of smaller parties to pass laws in Parliament has made it hard to put through some key changes, such as labor reform.

Now, he could have a stronger hand in enacting his platform. In the coming weeks, the government plans to push forward with a broad overhaul of Italy's bureaucracy—widely blamed for the country's lack of competitiveness and a major cause of meager flows of foreign investment—as well as measures to help companies, such as further cuts to business taxes and investment incentives, said Mr. Padoan.

Within weeks, the government expects parliamentary approval of a plan to cajole Italians into repatriating some of the tens of billions of untaxed euros hidden in Switzerland and plans to complete a new accord with the Alpine country to exchange information on offshore accounts by the end of the year. That deal should "generate immediate returns," he said.

The need to control Italy's huge debt—one of the highest in the world at 133% of national output—has locked the country into austerity measures in recent years. Meanwhile, squabbling political parties and bureaucratic delays in enacting reforms have stalled change in Italy.

"We can't become a country that is tired, hopeless," said Giorgio Squinzi, head of Italy's employers' association Thursday. "We need the reforms...don't disappoint us."

Italy's huge debt, a fragmented and weak business sector and intractable trades unions have left the country with meager growth for a decade. According to Credit Suisse, Italy's economy has shrunk by 10% from the start of the crisis, leaving it now at its 2000 level.

Timid increases in business and consumer confidence suggest Italy is hitting bottom, although a surprise first-quarter contraction in gross domestic product highlighted the fact that it has fallen behind countries such as Spain in fixing the myriad problems in its labor market, corporate world and institutions. Italian statistical institute Istat expects just 0.6% growth this year and 1% next year.

"The fallout from the recession has been heavy," said Bank of Italy Governor Ignazio Visco in a speech Friday, describing the recovery as "fragile and uncertain."

Mr. Padoan suggested the European Central Bank could also do more to ignite growth. ECB President Mario Draghi has urged governments to shake up their economies, arguing that monetary policy's role in fixing the continent's economic problems is limited.

"The ECB has always correctly stated that monetary policy can do up to a point and that responsibility for stronger growth is mostly in the hands of governments through structural measures," said Mr. Padoan. "Governments are getting more serious about structural measures and therefore I expect the ECB to recognize that."

Italian officials are hoping for a cut in interest rates next week, which could stave off a downward spiral in inflation. Rock-bottom inflation in Italy, among the continent's lowest, makes it harder for the government to cut the country's huge debt.