

Italian Economy: A Quick Overview

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Outline

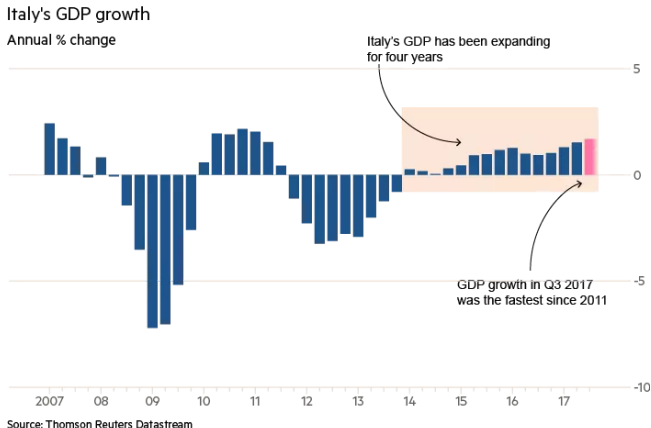
- 1 Challenge 1: Growth and Productivity
- 2 Challenge 2: Young People
- 3 Challenge 3: Credit Markets
- 4 Challenge 4: Foreign Investments
- 5 Concluding Remarks

Slow economic growth

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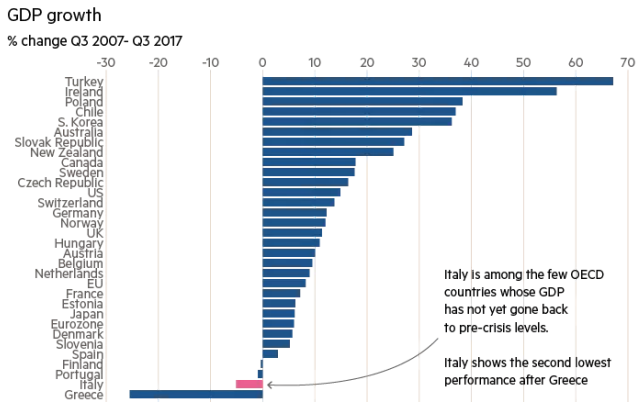


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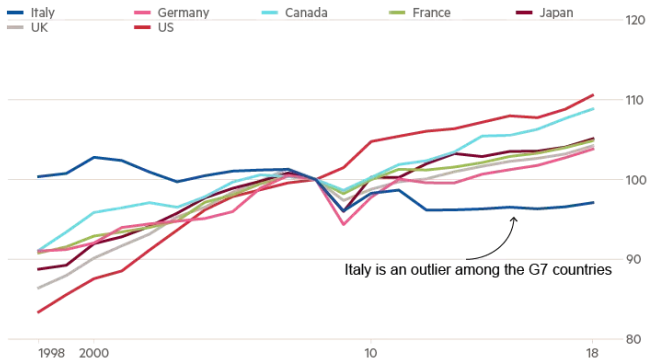
Source: OECD

Italy shows the weakest productivity among G7 countries

- Sluggish productivity growth means Italian businesses need increasingly more people to produce the same value of output as in other big economies.

Labour productivity growth

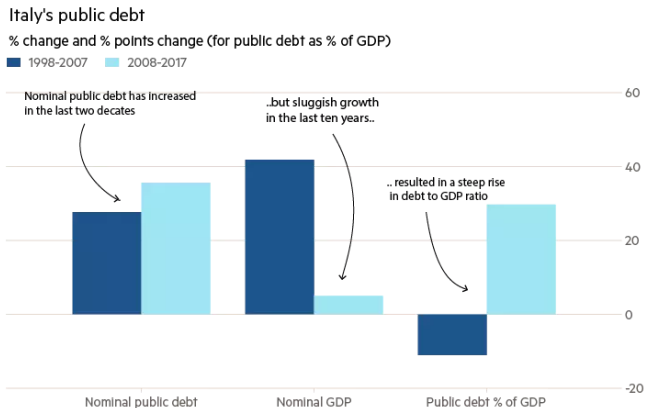
Real, rebased



Source: Thomson Reuters Datastream, OECD

Public debt went up 33 percentage points since 2007

- The high level of public debt makes any rapid increase in interest rates a major risk for public debt dynamics and leaves little room for tax cuts or increases in spending, as proposed in most parties' manifestos.



Source: FT calculations from European Commission data

Poor job opportunities for young people

- One in three people in the labour force aged under 25 is unemployed.

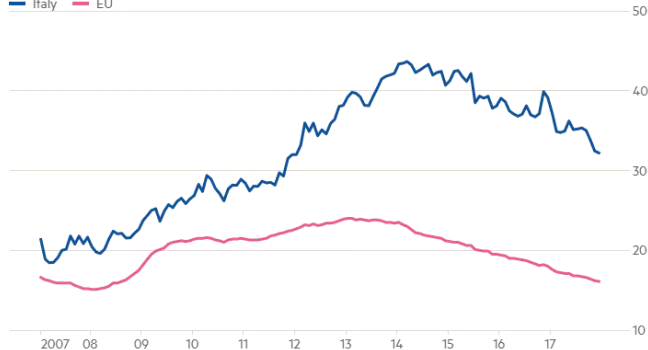
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Youth unemployment rate

Under-25 years old, %

Italy EU



Source: Thomson Reuters Datastream

Poor job opportunities for young people

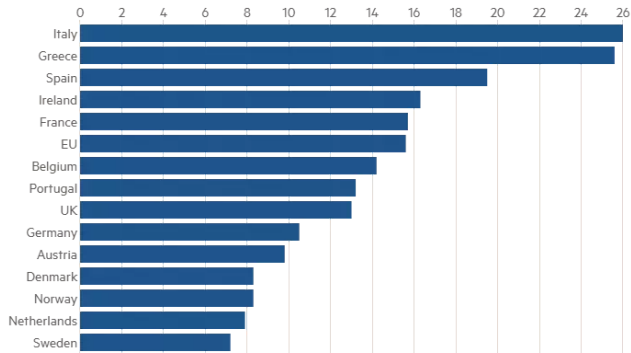
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Young people not in employment, education or training

Neet rates 15-34 years old, 2016 (%)



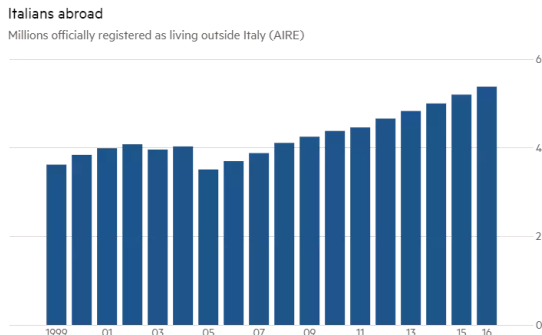
Source: Eurostat

Brain Drain

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- Italian emigrants are also more highly educated than the overall Italian population and university trained people are leaving in increasing numbers. Graduates make up about 30 per cent of emigrants from Italy, up from 12 per cent in 2002

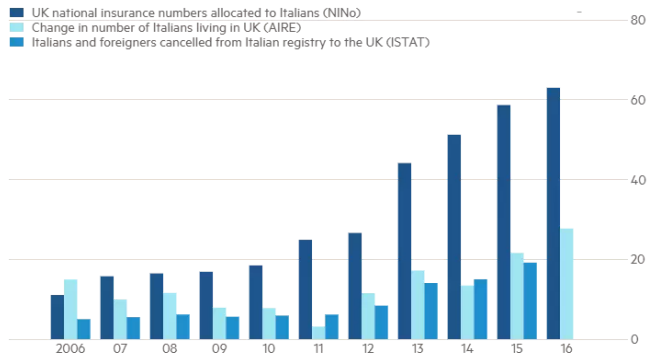


Brain Drain

- The official figures underestimate the scale of the emigration, e.g. the number of Italians obtaining social security numbers in the UK last year was twice as great as the number of those officially registering with the Italian authorities as living in Britain.

Italy's emigration to the UK

('000s)



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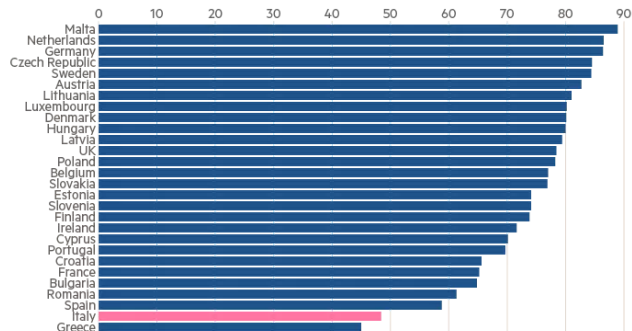
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- Italy is the country with the smartest secretaries and the dumbest managers.

Employment rates of recent graduates

15-34 years old not in education or training, %



High levels of banks' debt

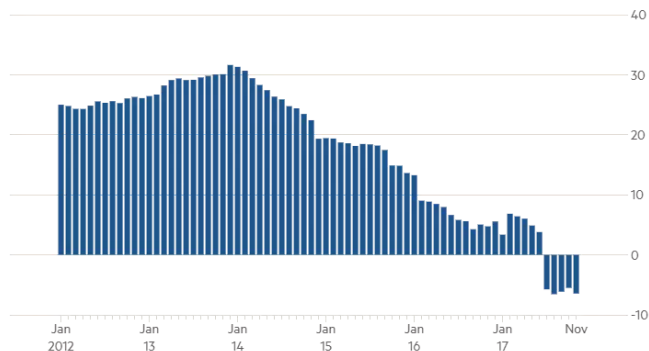
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Italy's banks bad debts

Annual % change



Source: Bank of Italy

Corporate credit growth is still weak

- Rising capital requirements and difficulties in generating capital has much reduced Italian banks' appetite for risk in post-crisis years.

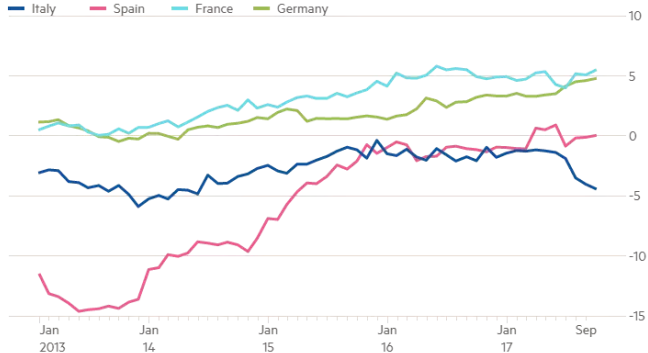
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Loans to non-financial corporations

Annual % change

Italy Spain France Germany



Source: Thomson Reuters Datastream, ECB

House Prices

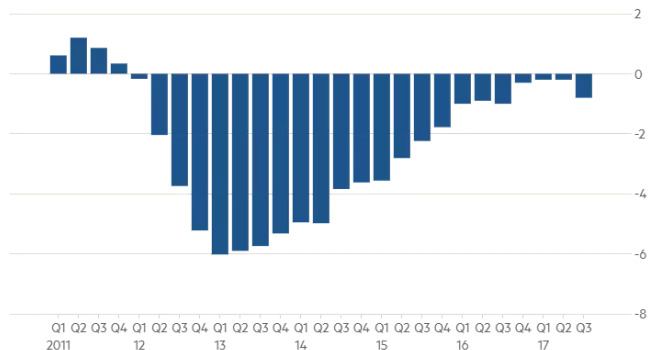
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Italy's house prices contraction worsens

Annual % change



Source: Thomson Reuters Datastream, @valentinaromei

House Prices

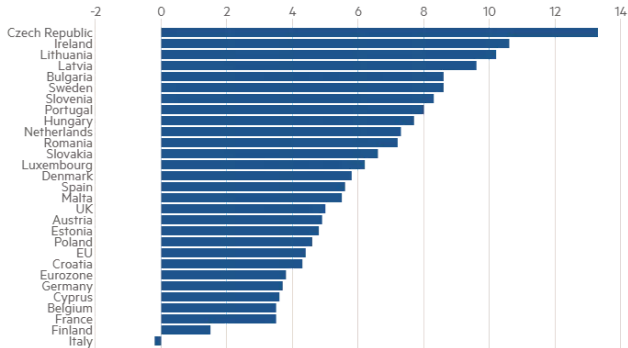
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Italy is the only country in the EU where house prices are still contracting

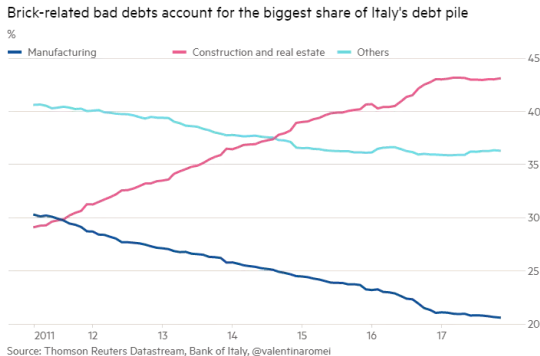
Annual % change, Q2 2017



Source: Eurostat, @valentinaromei

Brick-related bad debts account for the biggest share of debt pile

- In a vicious circle, banks' sales of repossessed property is also contributing to the prolonged house price contraction. The number of real estate units sold via auction — the sale method for banks — increased 25 per cent in the last two years.



Low levels of foreign direct investment

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Italy's ease of doing business

Distance to best performing. 100= best performing

■ 2013 ■ 2017



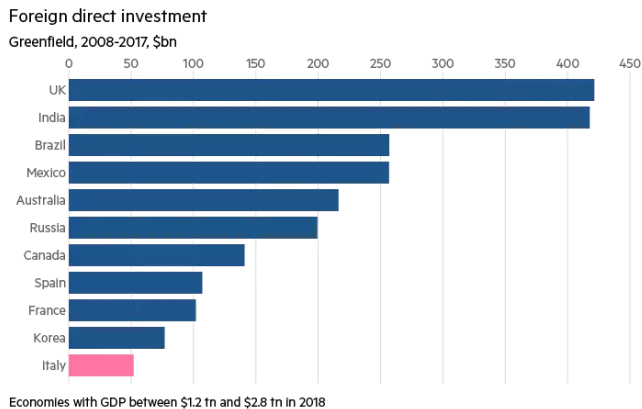
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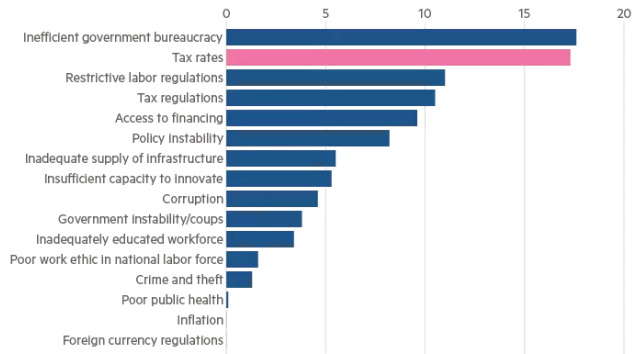
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Most problematic factors for doing business in Italy

2017-18, Executive opinion survey's score



Source: World Economic Forum

Concluding Remarks

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- People in the United States are familiar with high-quality Italian exports, not only in fashion and food (the success of **Eataly** is an example), but also in high-tech manufacturing, from **Ferrari** to **Technogym**.
- Italy is still a beautiful country with high standards of living and lovely people.
- This rosy picture is also supported by recent economic data. In 2017, industrial production was up 4.9 percent, and Italians are now feeling — for the first time in a decade — more optimistic about their future.
- So why Italy might still evoke a sinking ship?

Concluding Remarks

- Italy will have to navigate between the Scylla of the end of the quantitative easing in Europe, which will lead to higher interest rates, and the Charybdis of a U.S. recession, which might lead to lower growth.
- Either one could be fatal; the combination of the two will be absolutely lethal.

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- Lore has it that a frog put in a pot full of cold water will not jump out even when the temperature rises gradually, resulting in it being boiled alive.
- Italy risks the same fate. The pot is the debt burdening the country, but Europe controls the temperature. It does not want to raise it enough, because it fears the spillover of a crisis. But it has no interest in cooling it down, because this will take away the incentives for Italian politicians to act wisely (or at least so Europe thinks).

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- To borrow from Franklin D. Roosevelt, the only thing to fear about Italy is a *lack* of fear itself.