Reforms in Italy: challenges and opportunities

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Structural reforms workshop
2 November 2015
1. The origins of the Italian malaise

2. Three reform priorities
   • #1: Labour productivity
   • #2: Business environment
   • #3: Institutional quality

3. Reform progress and challenges ahead

4. Conclusions
The long-term origins of the Italian malaise

Real GDP growth (1990=100)

Source: OECD
Pellegrino and Zingales (2014) offer a cogent micro-based explanation:

1. Italy failed to embrace the ICT revolution and its...
2. Excessively small family-owned firms were incapable to raise to the...
3. Challenge posed by Chinese competition

Reforms objective: set the conditions for a new growth model to emerge
Reform priority #1: Labour productivity

Real GDP per hour worked (2000 =100)

Source: OECD
Reform priority #2: Business environment

**World Bank Rankings**

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<thead>
<tr>
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<th>Ease of doing business</th>
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<tbody>
<tr>
<td>Germany</td>
<td>15</td>
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<td>Ireland</td>
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<td>Portugal</td>
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<td>France</td>
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<td>Spain</td>
<td>33</td>
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<td><strong>Italy</strong></td>
<td><strong>45</strong></td>
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**Graph:**

Italy attracts far less FDI than other large EU countries

*Source: Deutsche Bank Research*
Reform priority #3: Institutional quality

Source: Terzi (2015)
Reforms in progress

1. **Labour productivity**
   - ✔ Monti labour market reform + “Jobs Act”
   - ✔ Education reform “Buona scuola”
   - ☐ Wage bargaining system reform

2. **Business environment**
   - ✔ Monti product market liberalisations
   - ✔ Some progress on banking sector reform and NPL liquidation
   - ☐ Tax system reform
   - ☐ Judicial procedure reform
   - ☐ More on product market reforms and closed professions
3. Institutions

- Anti-corruption law “Legge Severino”
- Reform of the public administration (framework law)
- Agreement on the Constitutional reform
- Privatisations (Poste Italiane, Ferrovie dello Stato)
- Public sector transparency (lobbying)
- Spending review to increase public sector efficiency
- Restructure public examinations to improve bureaucratic quality
- Reduce gov’t formalities and paperwork
Key takeaways

1. Italy’s long-standing competitiveness problems call for a wide-ranging reform programme

2. Important steps have been taken, particularly over the last 15 months

3. The reform agenda is far from completed, especially for what concerns business environment reforms

4. As the recovery gains traction over the coming months, the greatest challenge will be to keep reform momentum going
Thank you!