Italy and Spain – stocktaking of reforms and challenges ahead

Laura Bardone
DG Economic and Financial Affairs, European Commission

Italy – Spain:
Structural Reforms: dynamic growth impact and policy challenges
Bruegel, Brussels, 2 November 2015
Outline of presentation

- Entering the crisis: similarities and differences
- 7 years later: the extent of adjustment
- Taking stock of reforms
- The challenges ahead
Entering the crisis: similarities and differences

**Italy**

- High public debt, low private debt
- Stagnant productivity growth & subdued economic activity
- Some job creation but participation & employment rates remain low; duality increased

**Spain**

- Low public debt, high private debt on the back of property boom
- Low productivity growth but sustained real GDP growth...
- ... driven by strong job creation in non-tradeable sector; duality increased.
7 years later: diverging growth developments

Real GDP growth

Source: Ameco, own calculations
7 years later: investment has plunged

Gross fixed capital formation (GFCF)

Source: Ameco, own calculations
7 years later: Spain regains cost competitiveness faster

Source: Ameco, own calculations
7 years later: high debt is a source of vulnerability for the economy...

Loans and debt securities, non-financial corporations, households, general government

Source: Eurostat, financial accounts
Taking stock of reforms: labour market reforms relax EPL

Permanent workers

Temporary workers

Source: OECD; for Italy, own estimation for 2014 and 2015
Taking stock of reforms: significant improvements in PMR

Source: OECD
The challenges ahead: need to correct the large stock of imbalances

General government debt and net international investment position, 2014

Source: Eurostat, own calculations
The challenges ahead: completing the fiscal adjustment

General government net lending/borrowing and discretionary fiscal effort (dfe)

Source: Ameco, own calculations
The challenges ahead: addressing the high share of NPLs

Impaired loans

Source: World Bank, Goldman Sachs Global Investment Research
The challenges ahead: improving competitiveness

Source: 2015 World competitiveness report
The challenges ahead: addressing labour market distress

Unemployment rate and underemployment of the 25-74 age class

Source: Eurostat, own calculations
The challenges ahead: improving human capital

Tertiary educational attainment age group 30-34

Difference in average literacy proficiency between 45-54 and 16-24 age group

Literary proficiency

Source: Eurostat, own calculations

Average literacy proficiency among 16-65 year old

Source: OECD, own calculations