

# ITALY: a fair analysis?

GrowthClusters are often asked to work out what is happening in the Italian Economy. A great place to visit; a

terrible reputation for stable government and corruption; a fantastic manufacturing tradition led by some of the world's most impressive brands and designers. The 4<sup>th</sup> largest economy and populace in Europe. So we looked at some economic history - below.



Picture 1. Italian Regions by GDP (2009) in Euro millions, where the darker, the poorer; courtesy of <http://www.targetmap.com/viewer.aspx?reportId=6364> (Click on the link to roll-over and play with numbers)

## FACTS AND FIGURES

- Population is 60 million, where 50% live in the Po Valley (Northern Italy);
- 4.6mn foreign residents, including approx. 1mn Romanians and 0.5mn Albanians (due to cultural proximity);
- Public Debt at nearly 130% of GDP: it is Eurozone's largest, save for Greeks';
- Well-regulated Banks: none had to be rescued in the 2008/9 period;
- A Unified State for 150 years- Decades of alternative Centre Left and Centre Right Governments in the 1990s/2000s
- World Economic Forum Global Competitiveness Table shows Italy falling to 42<sup>nd</sup> (Germany,UK and France in Top 10)
- Current complete stalemate after the February Elections. Three Parties received over 20% of the vote, including the new M5S party of comic Beppe Grillo. The only poor achiever was Mario Monti's Party, who were trying to establish stability and economic reforms, – but received only 10% of the votes.

## DIAGNOSIS

Italy has been in stagnation since the 1980s. Since the Euro was introduced labour costs have risen much more than Germany's - with its currency fixed, Italy's industry has lost its competitiveness. Lack of reforms because of the political unpopularity of the needed measures means that Italy is the only Mediterranean economy NOT to reduce its labour costs.

The old methods of economic growth are no longer available. The dynamism of the 60s and 70s are no longer available. Currency devaluations and increasing public debt cannot fit with Eurozone's discipline.

The business reforms introduced in European competitors since the 1980s - regulations, procedures, business practices, accountancy practices – have not been introduced for fear of affecting popularity. (Italy lies 42<sup>nd</sup> on 'Ease of Doing Business' index below Romania, Bulgaria and Kyrgyzstan). Further, industrialised Italy has suffered badly from the rise of China as a Manufacturing force, but remains stronger than Britain and France.

## CONCLUSIONS

Without a Reform Agenda, Italy will further decline and may suffer at least one more 'missed decade'. Another issue is the aging population which confirms the need for 'shock therapy' on employment and productivity.

On the upside, there may be many FDI opportunities for other Countries. They may be able to "snatch" progressive Italian Companies needing to divert their manufacturing away from Italy. In addition, we expect that opportunities to take over famous Brands may arise.

ANY COMMENTS AND VIEWS WELCOME to the GrowthClusters email.