Crédit Agricole Group economic and sector analysis

Prospects

Monthly – No.19/125 – 12 July 2019

Italy – Monthly News Digest

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☞ Pass for 2019, re-test in 2020

The European Commission has decided not to recommend the opening of a procedure for excessive debt against Italy at the next ECOFIN meeting on 8-9 July. The Italian government finally provided the necessary and sufficient answers. With a mini-budget of €7.6 billion (0.42 of a point of GDP), it has offset the deficit slippage in 2018 and 2019 and offered guarantees for a shift in the public finances in 2020 that is more in line with the targets. The 2019 deficit, for example, should fall from the 2.4% forecast in last April's stability programme, to 2%, in line with the target agreed with the EC in late 2018, when the opening of an excessive deficit procedure was averted. The correction to the public accounts includes €6.1 billion of additional receipts (€3.5 billion in tax receipts and €2.7.billion of exceptional receipts in the capital account) and a €0.1 billion reduction in net spending. To these should be added €1.5 billion in reduced spending on two of the government's flagship measures (the citizen's income and Quota 100, the early retirement mechanism). These measures were approved at the end of the day by a clause to be activated on 15 September if the deficit strayed from the target. It was definitely the lower spending that the EC wanted to ensure it was aimed at cutting the deficit and that the government initially wanted to redistribute to households in the shape of other benefits.

Finally, the mini-budget's adjustment to the structural deficit for 2019 is likely to be 0.45 of a point of GDP, leading to a 0.2-point reduction in the 2019 structural deficit, in line with the criteria of EU regulations.

The mini-budget also helps to reassure as to the trend in the deficit in 2020, with a starting point of a lower deficit. It also provides signals as to the architecture of the 2020 budget, as €1.5 billion in additional tax receipts recorded in 2019 will be structural and renewable in 2020. As a result, the lower spending on the two flagship measures could amount to €5-6 billion in 2020. The public accounts for 2020 could also benefit from lower interest charges due to a drop in Eurozone long-term rates, and from the recent fall in the risk premium on Italian debt.

The government's letter to the EC setting out the measures makes no mention of the flat tax reform announced by the League. Although the project is still on the table, implementation may be more gradual and less extensive than initially expected. It could provide for a cut in the tax rate on incomes above €55,000, funded by a restructuring of deductions and tax breaks. On incomes below €55,000 the application of a family quotient (the system has hitherto been individual) that could reduce the tax burden. The resources for the €80 bonus for the poorest households could also go to fund the reduction in taxation. The measure's cost for the public finances could be reduced, as a result.

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☑ **Our opinion –** *The green-yellow government is skilled at dosing clamour and silence. Although there was a lot of hullabaloo during the confrontation with the EU institutions, there was no mention of the destination of the reduced spending on the deficit of the two flagship measures. So there was no mini-budget in the communications from the two majority parties, so much so, that the two leaders perfectly orchestrated their own absence from the Council of Ministers meeting that approved it, so as to avoid putting their own signatures to it and carrying the political responsibility for it among their voters.*

☞ Unemployment at its lowest since 2012

Italy's unemployment rate continues to trend down. After stabilising in April, if fell by 0.2% to stand at 9.9% in May, a level not seen since February 2012. The employment rate, at 59%, also peaked.

The fall in unemployment can be explained by an increase in employment (+0.3%, or 67,000) and a reduction in the number of job seekers (-1.9%, 51,000). All categories of workers are expanding numerically: fixed-term and long-term contracts, and the self-employed. Over 12 months, employment has risen by 0.4% and the expansion concerns males and females in the 15-24 age group (+43,000) and above all among the over-50s (up by 300,000) while the central age groups have been shrinking. In view of the demographic component, this is a positive trend for all age groups. The numbers on long-term contracts are nevertheless growing more slowly (+63,000, 0.4%) than fixed term employees (+18 000, 0.6%) and the self-employed (+12,000, 0.2%). The growth in employment is matched by a significant drop in jobless numbers (-6.9%) and stability among the under-employed aged 15-64.

☑ **Our opinion –** The labour market is persistently upbeat in Italy. Businesses, even those in an uncertain position, are still hiring. The unemployment rate among those aged 15-24 fell from 42.8% in May 2014 to 30.5% in May 2019. We are forecasting that this trend will continue: the PMIs are pointing to an expansion in employment in services and construction and a contraction in manufacturing.

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05/06/2019	Italy – Monthly News Digest	Italy
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06/05/2019	Italy Monthly digest	Italy
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