Italy

An overview of Italy’s economy
Following years of slow growth, the economic crisis highlighted Italy’s structural problems, in particular its issues with competitiveness and fiscal discipline. Nonetheless, the country is on a path to recovery.

Italy was one of the six member states that established the European Economic Community (EEC), one of the predecessors of the EU. Italy was a founding member of the euro area and was among the first group of countries to introduce the euro on January 1, 1999. Euro notes and coins entered general use on January 1, 2002, replacing the Italian Lira.

After the 1950s, Italy transformed from a weak agriculture-based economy, severely affected by the consequences of World War II, into one of the world’s most industrialized nations. It has a highly developed infrastructure and was ranked number 10 in The Economist’s Quality of Life 2010 Index. However, Italy has been referred to as “the sick man of Europe” due to economic stagnation, political instability, and challenges in pursuing reform programs. The country grew only at a 1.26% rate from 1992 to 2008 in terms of real GDP, just prior to the global downturn.

While Italy has developed a reputation for producing high-quality luxury goods, the small size of Italian businesses prevented the country from benefitting from recent reforms. Due to its strong financial sector, which was not heavily exposed to property developments, Italy was not as badly affected by the global financial crisis as other countries.

Nevertheless, the country economy experienced the worst recession since WWII, but since 2009 has slowly rebounded, particularly in industrial production. Italy is still susceptible to negative market sentiment due to the concerns over its sovereign debt. It has a debt-to-GDP ratio of over 100% since 2008. The new technocrat government recently adopted a strict austerity package aimed at reducing this ratio.

The International Monetary Fund highlights Italy’s slow growth and persistent inflation differential with other Euro area countries and its negative impact on the country’s competitiveness as the country’s most pressing problems. A number of comprehensive reforms have been recommended in order to raise Italy’s longer-term growth potential including fiscal, pension and labor market reform.

Did you know…?  

Geography The independent states of San Marino and the Vatican City are enclaves within the Italian Peninsula and Campione D’Italia is an Italian enclave in Switzerland.

History The history of Italy can be divided generally into four different phases: The Roman Empire, the Middle Ages, Renaissance and the unification of Italy in the 19th century.

Food Italian cuisine is much more than pizza and pasta. The spread of Italian food diversity began after the fall of the Roman Empire when individual city states began to uphold separate identities and traditions.

Culture Italy is the birth place of the Renaissance, which changed the entire thought process of Europe in the 15th and 16th centuries.

Fun Fact As for Coca-Cola in the US, the recipe of Nutella, invented in Piedmont in 1964, is secretly hidden and known only to the surviving Ferrero family.
Italy’s Economy – Key Facts

- Italy’s GDP per capita was $30,133 in 2010, scarcely above the 2009 figure.

- Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south known as the “Mezzogiorno”, with high unemployment.

- The World Economic Forum (WEF) Global Competitiveness Report for 2010/2011 ranked Italy 43rd out of 139 countries in terms of competitiveness. The country’s competitiveness is held back by structural weaknesses in the labor market (ranked 118th on labor market efficiency), weak public finances (ranked 131st on public indebtedness), and a poor institutional environment (ranked 92nd).

- Italy dropped four spots in the World Bank’s 2012 Doing Business Report to place 87th out of 183 countries. It fell ten places in the category of “starting a business” (now 77th).

- According to the European Commission’s September 2012 spring forecast, economic growth is expected to be -1.4% in 2012 and a more welcomed +0.4 in 2013. Plummeting global demand continue to seriously affect the country’s exports, while a weak labor market and inflation pressures contribute to low consumer spending.

- As is typical during recessions, the government has run a large deficit. In 2012, it is projected to reach -2.4%. With the persistent government deficit the general government debt is to reach 123.4% of GDP.

References

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Exports Around 44% of Italian exports are to the euro area, while barely 2% go to China. Therefore, the outlook for Italy’s exports depends on its euro area partners, and thus it does not benefit directly from vigorous growth in emerging markets.

Labor market Due to Italy’s wage supplementation scheme, whereby employees stop working but keep their job at a reduced income, the crisis had a relatively small impact on the labor market.

Inflation Like elsewhere in Europe, Italy also saw a decline in its inflation rate, due to the fall in energy prices and weak demand. The 2011 average was 2.9%, but the 2012 average is expected to decline to 2.5%.

Industry The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of which are family owned.

Demographics Median age in Italy is 43.5 years and the proportion of the population that is older than 65 is 20.3%. On both these measures Italy is the second “oldest” EU country (after Germany).