#prideandprejudice

Something that no one is saying about Italy

Italy is often described, particularly in the international community, by negative parameters: **public debt**, scarce competitiveness, and a nominal budget deficit (which, in the past, led to the European Commission's opening of an excessive deficit procedure).

However, alongside these data, there are some **economic indicators** that are more suitable for representing Italy as what it is: one of the main countries of the developed world, the second-ranking European country for manufacturing, and the **third** largest economy in the Euro Area.

Italy is country that has been**, in the last 20 years**, capable of keeping its accounts under control and of ranking as **one the best performing countries in Europe** and in the world.

This presentation provides some economic data about Italy that are not known or not well enough known, and that are designed to eliminate bias and to adequately represent a country that has actively contributed to the creation of the European Union.

1/6 PRIMARY SURPLUS

(Source: Ameco - European Commission)

Italy's primary surplus is among the highest in the world and is the most stable among EU Member States in the past 20 years. In 2013, Italy's primary surplus as a percentage of GDP was the second highest in the EU, trailing only that for Germany (by 0.16 percentage points) and double that of the surplus for Austria, which ranks **third among the EU's virtuous countries**.

The Government primary budget surplus is the difference between State budget revenues and expenditures, excluding interest payments on the outstanding national debt

PRIMARY SURPLUS

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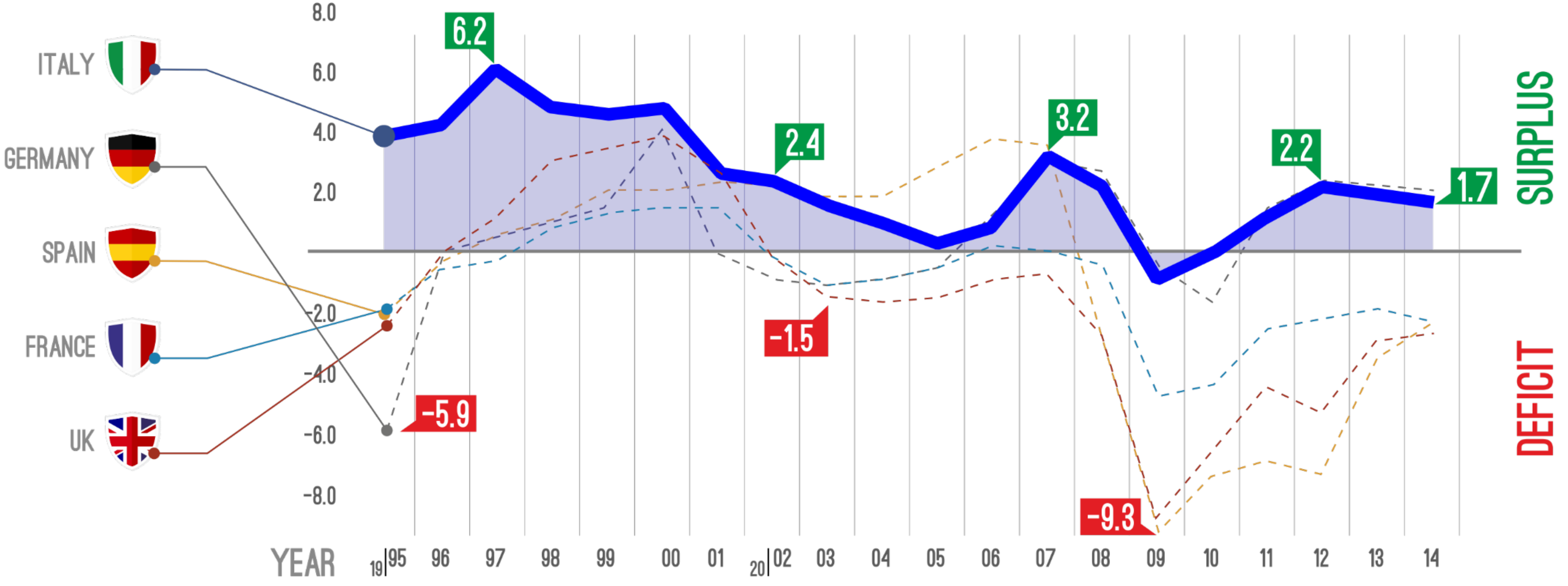
GOVERNMENT PRIMARY BALANCE OF 5 MAJOR EU COUNTRIES: 1995-2014
(% GDP)



GOVERNMENT PRIMARY BALANCE, YEAR 2013 (PCT OF GDP)

GERMANY	2.2
ITALY	2.0
AUSTRIA	1.1
BELGIUM	0.3
PORTUGAL	0.1
EU 28 COUNTRIES	-0.5
SWEDEN	-0.5
IRELAND	-1.3
FRANCE	-1.9
UNITED STATES	-2.0
UK	-2.9
SPAIN	-3.5
JAPAN	-6.7

2/6 DEFICIT/GDP (Source: Ameco - European Commission)

Italy's deficit-to-GDP ratio was below 3% in 2013 and 2012.

Therefore, in 2013, the European Commission sanctioned the closure of the excessive deficit procedure opened in previous years.

According to current forecasts, Italy's public finances will continue in 2014 to stay within the deficit threshold provided by the European treaties for countries that became part of European Monetary Union and adopted Euro as their currency.

Looking at the other Euro Area Member States, it's evident that **Italy is one of the few countries to have respected this rule**.

It is also interesting to note that there are many countries outside the Euro Area with a deficit-to-GDP ratio that exceeds this threshold. These include the United Kingdom, Japan and the United States.

DEFICIT/GDP

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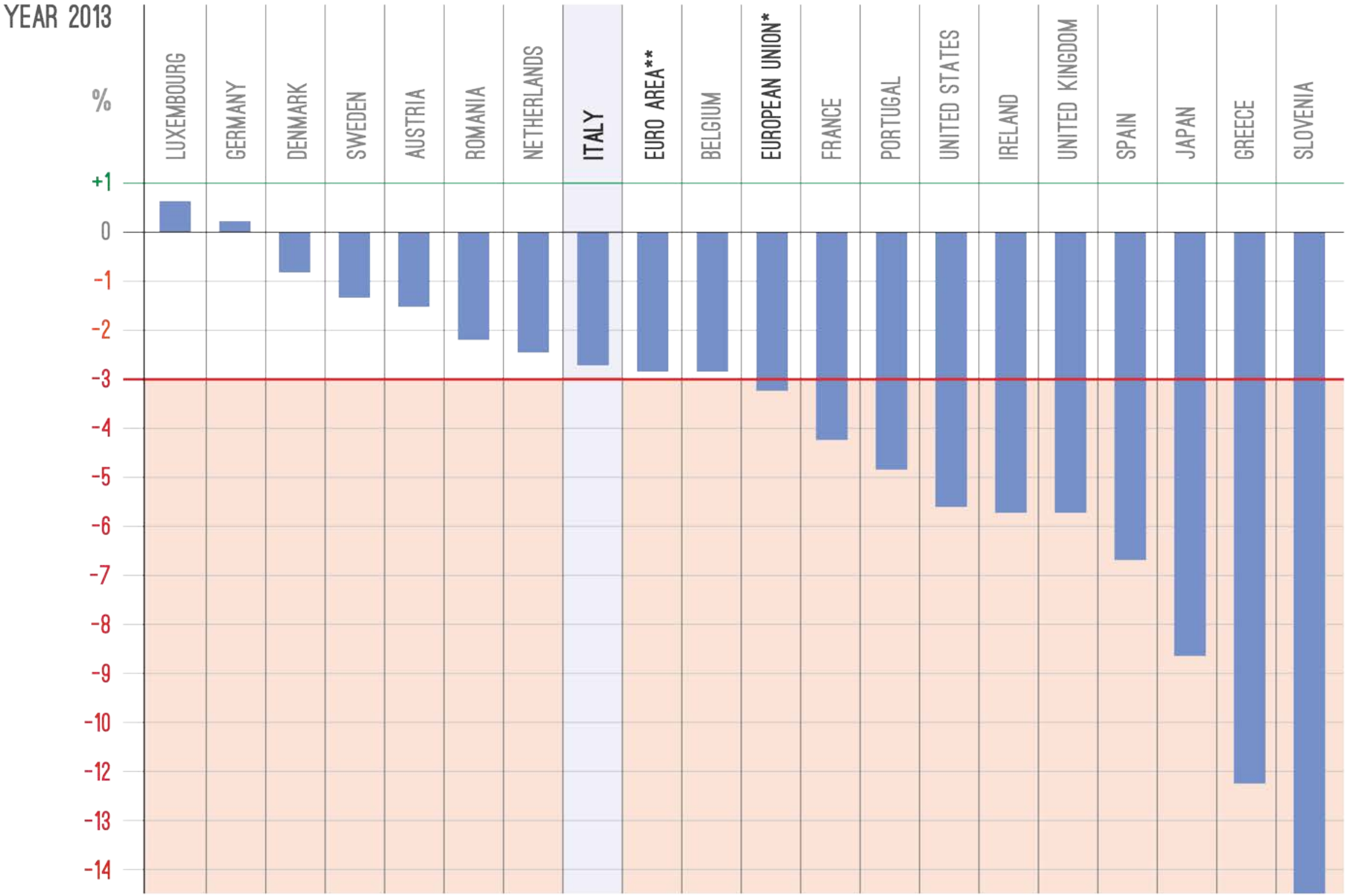

* 28 COUNTRIES
** 18 COUNTRIES

Source: *Ameco – European Commission*

3/6 PUBLIC DEBT (Source: Eurostat, IMF)

The following infographic, constructed on the basis of data from Ameco and the European Commission, reports the percentage change in the debt-to-GDP ratio in **2008** (the beginning of the crisis) and **2014** (estimates).

It is evident that **the trend of Italy's debt has been much less dynamic than that in other countries**.

Italy's performance obviously incorporates the primary surplus in the State budget. Higher nominal growth (computed by taking into account inflation and real growth) would have allowed for a declining debt trend.

With the expected growth and the planned sale of State property already being implemented, **from 2016 the debt-to-GDP ratio will start to decline**.

PUBLIC DEBT
NOMINAL VALUES

Since the beginning of the economic crisis, Italy's public debt has grown at a rate slower than that seen in the United States and in many other countries of the European Union.

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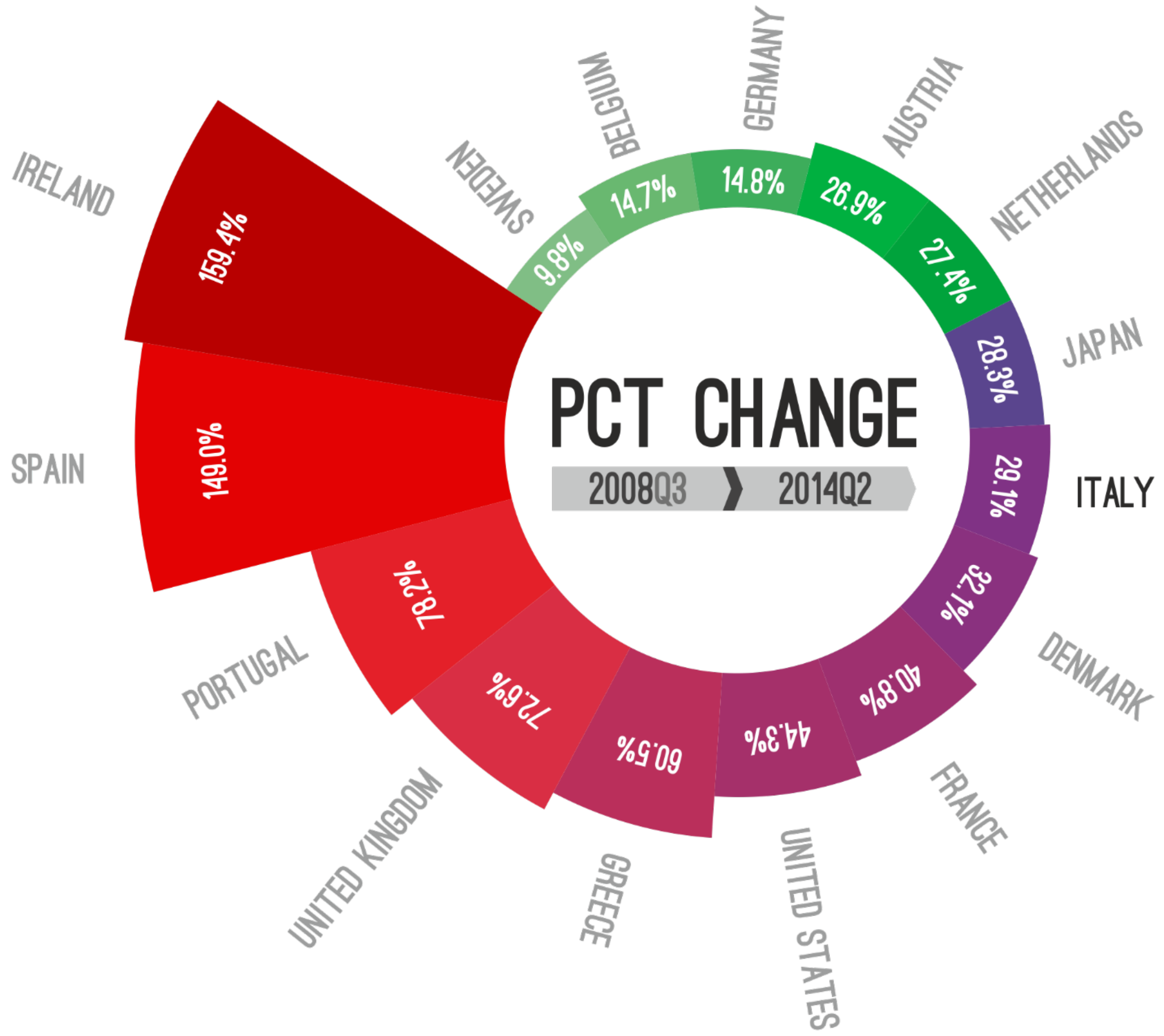
GENERAL GOVERNMENT GROSS DEBT (NOMINAL VALUES)



4/6 SUSTAINABILITY RISK ANALYSIS IN EMU (Source: Public Finance in EMU 2013 – European Commission)

The European Commission's analysis of the **sustainability**[1] of the public finances of the Member States in European Monetary Union has confirmed that (in the short, medium and long term) **Italy's risk level is below the Euro Area average**[2] as well as the average for the EU27[3].

According to the Commission's analysis, Italy's public debt is among the most sustainable in Europe in the long term. The S2 (long-term sustainability indicator) was -2.1[4] compared to an EU average of 3.0 and a Euro Area average of 2.3.

1. *Sustainability risk refers to the gap between the structural budgetary position and a sustainable fiscal position.*
2. *The analysis illustrated in the following graph covers 17 EMU Member States, namely, before the entry of Latvia on 1 January 2014*
3. *Croatia, which joined the EU on 1 July 2013, is not considered in the analysis.*
4. *In interpreting the indicators, it is important to remember that the fiscal adjustment needed to reduce sustainability risk increases as the value of the indicator increases. A negative S2, as in Italy's case, indicates public finance sustainability, without the need for further adjustments. Even the short-and medium-term sustainability indices show Italy as one of the most sustainable economies.*

SUSTAINABILITY RISK ANALYSIS IN EMU

The European Commission's analysis of the sustainability of the public finances of the Member States in European Monetary Union has confirmed that Italy's risk level is below the Euro Area and the EU averages in the short, medium and long term (Croatia, which joined the EMU on 1 July 2013, is not considered in the analysis)

Source: http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee-2013-4.pdf

RISK CLASSIFICATION IN THE 2013 ASSESSMENT ROUND

'NO-POLICY-CHANGE' SCENARIO
LONG-TERM SUSTAINABILITY CHALLENGE

KEY

RISK CLASSIFICATION

LOW · MEDIUM · HIGH

EUROPEAN UNION (27 COUNTRIES) MEDIUM RISK (3)

€ EURO AREA (17 COUNTRIES) MEDIUM RISK (2.3)

NOTE

CYPRUS, GREECE, IRELAND AND PORTUGAL ARE NOT INCLUDED IN THE ASSESSMENT AS THEY ARE SUBJECT TO SEPARATE MONITORING UNDER THE FINANCIAL ASSISTANCE PROGRAMMES.

Source: *Public Finances in EMU 2013 – European Commission*

5/6 CONTRIBUTIONS TO EFSF/ESM FUNDS (Source: Banca d'Italia)

Sometimes we think that Italy has received aid from the European Union during the years of the economic crisis.

Instead **Italy is the third largest contributor** in terms of **aid paid** directly to struggling countries and to the European financial instruments created during the economic crisis (the so-called EFSF and ESM "bailout funds"), and used to provide financial assistance to Cyprus, Greece, Portugal and Ireland .

As reported in the Supplement to the Statistical Bulletin of the Bank of Italy in October 2014, Italy has provided some 18.5% of this funding from 2012 to 2014, **for a total of EUR 60 billion**, which contributed to increase the Italian public debt.

CONTRIBUTIONS TO EFSF/ESM FUNDS

Italy is the third largest contributor in terms of aid paid directly to struggling countries and to the European financial instruments created during the economic crisis to support troubled EU economies (the so-called EFSF and ESM "bailout funds"), and used by the EU to provide financial assistance to Cyprus, Greece, Portugal and Ireland.

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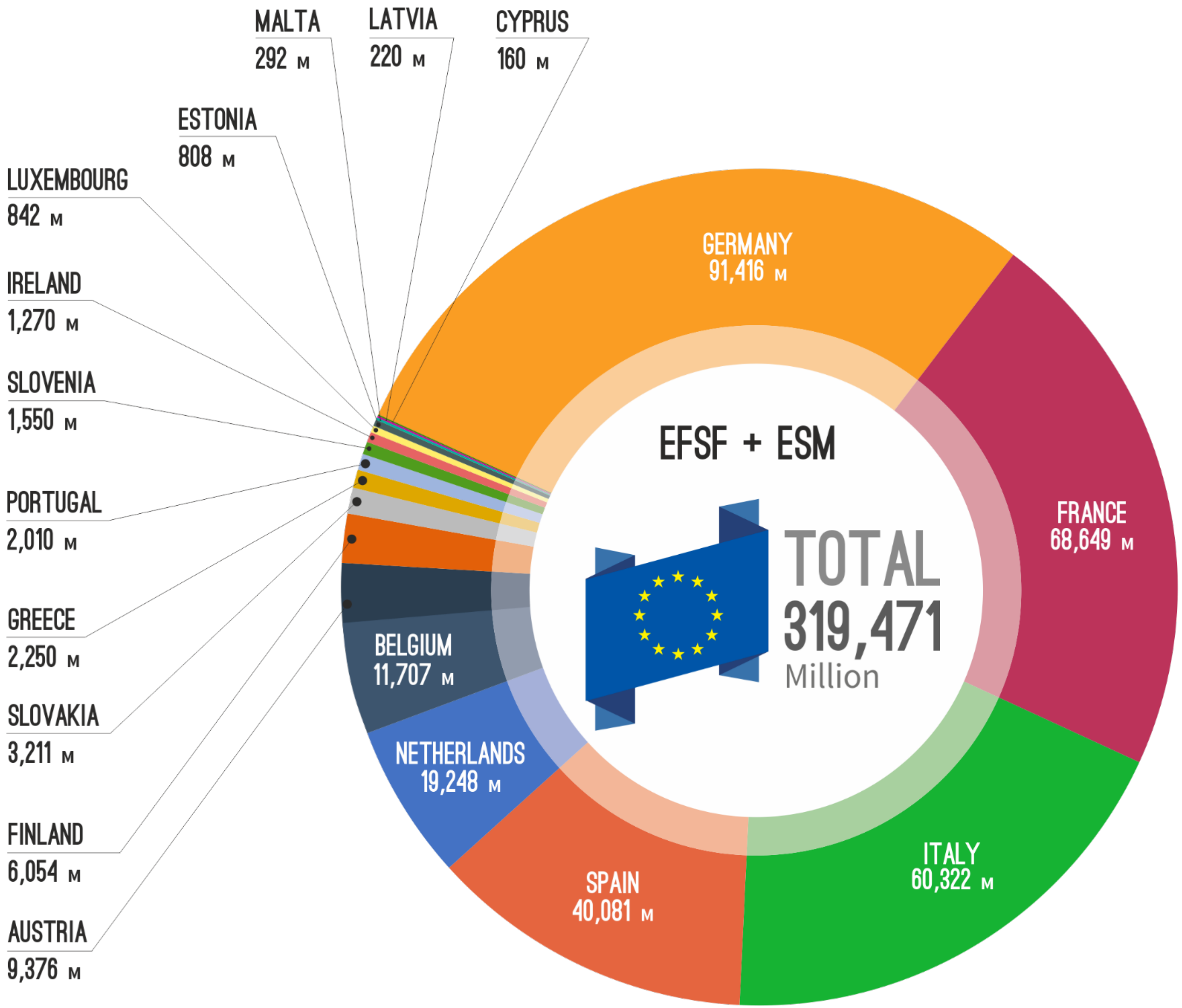
EFSF + ESM
(MILLION EURO)



6/6 GOVERNMENT AID TO BANKS (Source: Eurostat)

Eurostat data show that the national banking and financial systems of the 17 Euro Area countries received government aid in varying proportions during the economic crisis (2007-2013).

Italian banks received government support equal to approximately EUR **4 billion**, compared with EUR **250 billion in Germany** and EUR **165 billion in Great Britain**.

The total amount of aid paid in the European Union, calculated by Eurostat, amounted to EUR 688.2 billion. Of this amount, EUR 517.9 billion went to Euro Area countries.

Italy's intervention thus amounts to just under 1% of state aid granted to banks in the Euro Area, and **75% of this support has already been returned to the State by the recipients**.

GOVERNMENT AID TO BANKS

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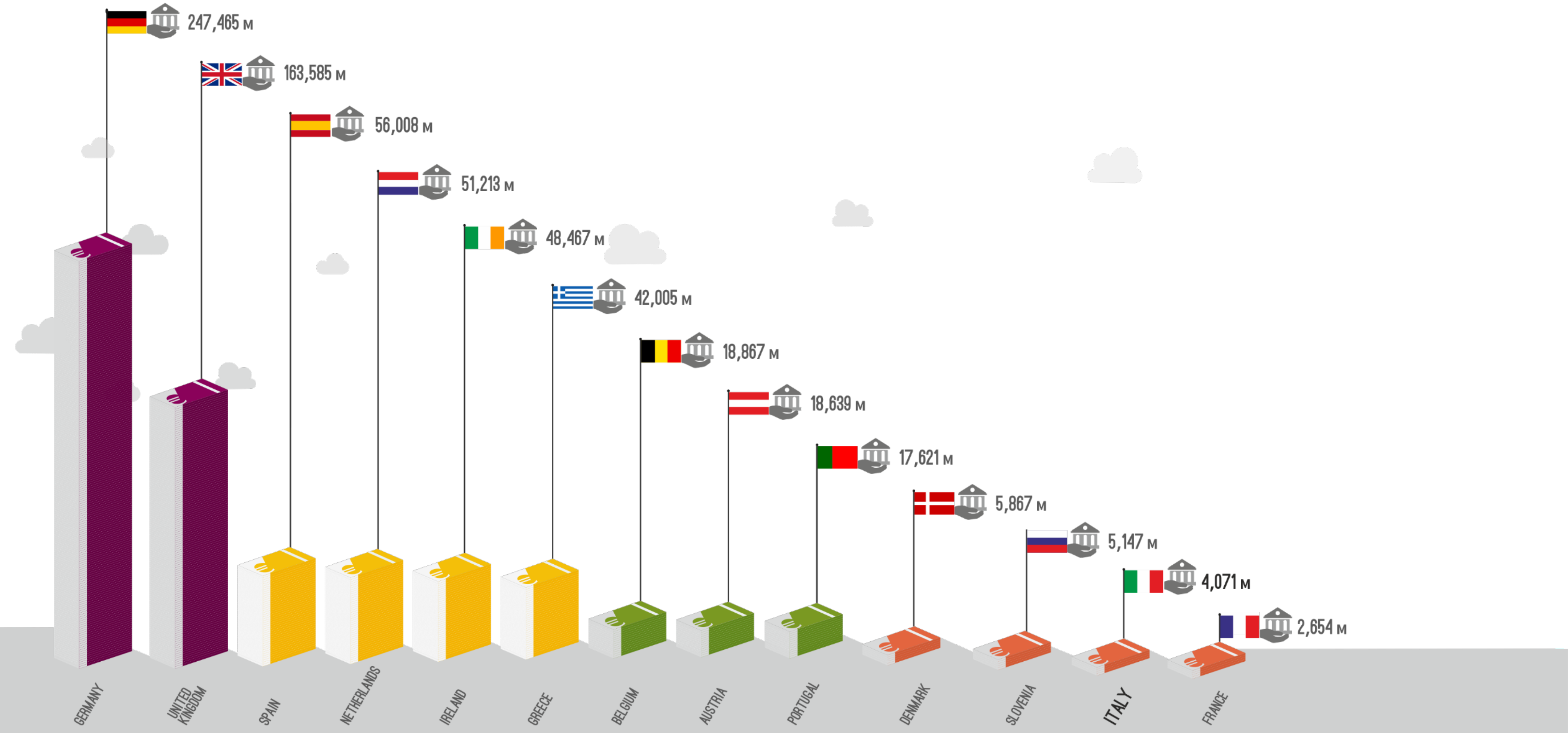
PUBLIC INTERVENTION IN BANKING AND FINANCIAL SYSTEM 2007-2013

(MILLION EURO)



Source: *Eurostat*

Italy has demonstrated the capacity to excel in many fields, from the so-called "**3 F's**" (food, fashion, furniture) to **mechanical production**, civil **engineering** and **scientific research**. It has recorded periods of lofty economic development, during which wealth was widely redistributed, and the quality of life of millions of citizens largely improved.

But Italy has also **wasted many opportunities** to improve its **competitiveness** and to **modernize** public administration. The most obvious manifestation of these missed opportunities is the high level of **public debt**. The nation has responded to this massive burden with significant sacrifices, the evidence of which is seen in the numerous public budgets closed with a primary surplus.

The **Italian government** is fully committed to modernizing and renewing the country, to reward these joint efforts, through a challenging **program of reforms** that are implemented **promptly** and with **determination**. With facts at hand, the aim is to wipe out long-standing and widespread **prejudices** about a nation that deserves to promote itself with **pride**.

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