Press Release

Italy: the five areas of intervention to free the economic potential of the Italian system

PARIS – 8th MARCH –Following the March 4th elections in Italy, Euler Hermes, world leader in credit insurance and a company of the Allianz , presents the main macroeconomic levers that would enable Italy to realise all of its economic potential and accelerate its course towards a virtuous growth path .

"*In a positive European economic climate, we can foresee another two years of positive cycle for Italy, with GDP growth of +1.4% in 2018 and +1.2% in 2019, thanks to the recovery in trade and the accommodative monetary and financial conditions,. The economy will be driven by private consumption returning to positive growth (+1% in real terms), investments (+4.4% in real terms) and exports (+ 4.4% in real terms),*" said **Ludovic Subran**, **Chief Economist at Euler Hermes**.

In this study, Euler Hermes presents five macro areas of intervention to unleash the potential of the national economic system.

#1 Boost purchasing power

Although private consumption has been the main driver of growth, in recent years, the purchasing power of households has turned out to be lower than that of Italy's European counterparts. One could then proceed with the adoption of a more gradual income tax regime than the existing one (from 23% to 43%) which could free up additional purchasing power. Furthermore, the level of consumer energy prices, for example, still remains higher than those of France and Spain. The same applies to the utilities sector, where prices have yet to adjust as they have in other euro countries. Further reform to both sectors combined with greater deregulation would help reduce price rigidities and offer Italian households additional purchasing power.

#2 Unleash financing and investments

Italian banks are in a much better position than last year . The total stock of non-performing loans (NPL) has decreased significantly (by €104 billion, amounting to €274 billion). Despite this decrease, the majority of non-performing loans continues to be composed of business loans (70%); therefore, one solution could be to improve collateral loan rules that would greatly facilitate the valuation and sale of NPLs, by allowing credit institutions to improve the provision of credit to businesses. Continuing on the theme of investments, and in the wake of the success of the ISPs (Individual Savings Plans) in 2017, Italian banks would benefit from creating new investment products.

#3 Mass flourishing: Bank on SMEs

SMEs, which have been both a safety net and true champions of competitiveness for Italy, could serve as a springboard for the country. However, it is necessary to take decisive measures to promote the segment and make their lives a little easier. In fact, a further downward adjustment in the income tax rate could be envisaged, to make it more gradual. Likewise, the social security burden on employers could be further mitigated, to improve the competitiveness of companies in international markets. The issue of payments between companies has become one of the key issues since the average payment collection time (DSO) is 85 days, while the national threshold is 30 days. For example, one possibility is to create a tax incentive or even tax relief for companies that manage to bring payment delays to an acceptable level. At the same time, bringing forward mandatory electronic invoicing as of January 2019th would represent an important step forward in improving the payment habits of companies.

"*Thanks to the improvement of the economic climate, Italian companies have become more reliable in trade payments despite some problems that have not yet been resolved, such as the return of public* *administration debts. The trend in payment habits at national level has improved over the past five years and the number of insolvencies has declined accordingly (-12% in 2017, -10% in 2018). At local level, the southern regions are more heavily penalized, while more export-oriented companies are taking advantage of the recovery in international trade. The reduction in non-performing loans, combined with the consequent reform of bankruptcy procedures should breathe new life into banks and into the production system in the coming months, contributing to a more efficient management of companies' working capital. The buzz around start-ups is another positive element of Italy's economy, specifically with regards to technological innovation (ICT) and foreign investments. With the end of the European monetary easing programs, the biggest risks are now visible on the horizon, particularly for the most indebted and interest-sensitive sectors such as utilities and construction,*" asserts **Massimo Reale**, **Sales Manager Euler Hermes Italia**.

#4 Think Brand equity

Reforms and initiatives aimed at making the Italian system more attractive are bearing fruit, but the country needs a strategy and a plan to improve its image in terms of bureaucracy, judicial proceedings and protected sectors. The aim is to improve the attractiveness of the Italian brand. With this in mind, exports should be made a national priority. The adoption of digital capabilities combined with the knowhow of retail and industrial sectors could boost the already high pricing power of firms compared to peers. In 2018, machinery and equipment will export an additional €6.9 billion as compared to 2017, followed by chemicals (+€4.6 billion) and textile (+€3.4 billion).

#5 Building #ItalianTech

The performance in the logistical and business environments is improving, but the quality of connectivity is still lagging behind. However, innovation (including research & development, quality of scientific research) and workers' skills (including secondary and tertiary education and training) are important assets. "*The Industry Plan 4.0 has also provided the necessary stimulus in terms of technological investments but "Italian innovation" is a brand that needs to be strengthened through improved tax credits for R&D, tax incentives for start-ups and innovative SMEs, digital innovation and competitiveness clusters together with a robust digital infrastructure at national level*," concludes **Ludovic Subran**.

#####

Euler Hermes Group
Jean-Baptiste Mounier +33 (0)1 84 11 51 14
jean-baptiste.mounier@eulerhermes.com

Euler Hermes MMEA
Guglielmo Santella +39 335 8496775
guglielmo.santella@eulerhermes.com

Footprint Consultants
Cécile Jacquet +33 (0)1 80 48 14 80
cjacquet@footprintconsultants.fr
Quentin Giudicelli +33 (0)1 80 48 14 80
qgiudicelli@footprintconsultants.fr