**Global Economy**

# Italy, once again

Expansión (Spain)

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The Italian economy has returned to the spotlight in recent weeks due to the risks that its fiscal policy may entail, and as a result of the noise generated by the proposals of something that may resemble a parallel currency. The tensions that existed between the Italian Government and Brussels in December are emerging once again.

At that time, the discussion focused on the public deficit target for 2019, and ended with an agreement with a figure of 2% of the GDP (2.04% to cover as much as possible), which was halfway through the previous commitments of Italy with the European Commission and the proposals of the new Government. The budget made it possible to start certain key fiscal stimulus measures, defended by the Five Star Movement (5SM) above all, with a slight delay: an extension of early retirement (partially reversing the previous reforms that raised the effective retirement age) and benefits for citizens, which was actually an extended unemployment benefit. The League proposals on tax cuts were left aside.

Since then, we have seen that Italy entered into a recession which it has timidly left in the first quarter of the year, and the outlook of trade and the global economy did not end up improving, which has led to new, more negative public deficit forecasts for this year (-2.5% of GDP) by the Government and the European Commission. In addition, the Commission has warned that the deficit could increase by 3.5% in the event that no additional measures are taken, such as the VAT hike that has been in the chamber for years and that the current government rejects outright. This, together with the increase in public debt in 2018 above expectations (132% of GDP), has started to make investors nervous and has led the Commission to take the first steps towards sanctioning Italy. Although it is likely that no decision will be taken with regard to this until the autumn, since the European authorities are now more focused on launching new appointments.

The recent fiscal proposals of the government coalition for 2020 are added to these problems. The leader of the League has revived its star proposal to implement a single IRPF rate of 15% for incomes below 50,000 euros (with a recognized cost close to 2% of GDP), adding other spending initiatives defended by the 5SM, in a new agreement between the leaders of both parties after a long period of disputes.

Finally, the Treasury mini-bills (mini-Bots in Italian debt jargon) as a payment instrument to suppliers by the public sector is flying again, with the idea that it could become a parallel currency that would allow an eventual exit from the Eurozone. Although it has been dismissed by the finance minister, who is playing the role of fiscal prudence against the two powerful vice presidents alongside the prime minister, the mini-Bots still continue to evoke the specter of the euro's rupture.

The debate over greater fiscal activism to complement a monetary policy with less capacity to catch fire is re-emerging, not only in the United States, but also in Europe. This was mentioned recently by Blanchard, and Mario Draghi even brought it up this week. However, all its proponents point out that fiscal policy should be activated in countries that have sufficient fiscal space, which Italy lacks. The proposals of the Italian Government do not attack the main problems of its economy, which are, fundamentally, supply issues. In its latest report on Italy, the OECD cites as reform priorities competition, the judicial system, and the size and efficiency of the public sector. In addition, it should be noted that the level of productivity per worker is at the same level as it was in 2000, and its GDP per capita is 15% lower than before the crisis. None, or very little of this, is resolved by fiscal instruments such as those that have been proposed.

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