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**Statement by Mr. N'Sonde and Mr. Alle on Italy  
(Preliminary)  
Executive Board Meeting  
May 26, 2021**

We thank staff for an informative report and Mr. Fanizza for his insightful Buff statement.

**We commend the Italian authorities for their prompt and decisive policy responses to mitigate the impact of the COVID-19 pandemic.** Italy ranks among the advanced countries which were most hard-hit by the different phases of the pandemic. The resulting crisis has compromised the economic recovery that was underway by end-2019, following the global financial crisis and euro debt crisis. Output in 2020 dropped almost 9 percent, with contact-intensive services paying the heavier toll. We welcome the authorities' comprehensive policy measures which were effective in limiting unemployment and preserving credit flow to the economy. Furthermore, a strong recovery is expected in the second half of 2021 and in 2022. As the pandemic recedes, the authorities are encouraged to undertake a wide range of structural reforms to bring the economy back to its growth path and minimize scarring.

**We welcome the large fiscal resources allocated to respond to the pandemic's effects but would like to encourage the authorities to pursue a credible fiscal consolidation with the view to putting debt on a downward path, as the recovery takes hold.** The authorities' fiscal response has been comprehensive and appropriate. It encompassed revenue measures such as temporary moratoria on taxes and tax relief while increasing spending through income lifelines to workers, businesses, the self-employed and the poor. Such support should be maintained until the crisis abates. As a result, the general government deficit is anticipated to widen to 11.8 percent of GDP in 2021, up from 9.5 percent in 2020, and 1.6 percent in 2019, and the public debt-to-GDP ratio is expected to peak at about 160 percent this year. We take good note of the authorities' fiscal strategy looking forward, which combines growth-

enhancing investment on the one hand and measures to reduce the deficit on the other. We share the view that improving the quality of spending will also be essential to achieve the fiscal and debt objectives. *That been said, given the uncertainty surrounding the outlook, could staff comment on contingency measures to curb debt, should growth projections not materialize?*

**We take positive note of the measures taken to support the financial sector and ensure adequate credit to the economy.** The combination of government-guaranteed loans available to firms of all sizes, temporary flexibility on capital and liquidity requirements granted to banks and low-cost ECB funding have helped to maintain lending activity. Going forward, with the rescinding of some of the support measures such as moratoria on loan payments, the authorities should closely monitor the trend in NPLs and encourage loan classification, provisioning, and - where needed - restructuring. In addition, the high exposure of banks to the sovereign calls for attention.

**Targeted programs are warranted to address long-stalling interregional development gaps and uneven effects of the pandemic on sectors and the labor market.** Disparities in terms of development among regions preceded the pandemic and may have worsened since. Recovery programs should therefore emphasize some catching-up investment in favor of disadvantaged regions. The same holds for sectors and groups of the labor market which were hard-hit by the pandemic.

**Structural reforms to transform the economy should rank high on the authorities' medium-term agenda.** The pandemic and its scarring effects may have exacerbated some long-stalling structural weaknesses of the Italian economy, thus calling for renewed reform efforts. We welcome the authorities' National Resilience and Recovery Plan (NRRP) as an adequate framework to push the economic transformation agenda forward, including meeting the requirements to tap the opportunities provided by the Next Generation EU (NGEU) resources. Investment in infrastructure and education to boost productivity and improvements in the business environment should be among the priorities. Likewise, lessons learnt from the pandemic should help promote digitalization further. Alongside these key reforms, efforts to enhance governance and fight corruption should gain more impetus.

**With these remarks, we wish the Italian authorities and people, success in their challenging endeavors.**