

SU/21/66

May 27, 2021

**The Acting Chair's Summing Up
Italy—2021 Article IV Consultation
Executive Board Meeting 21/52
May 26, 2021**

Executive Directors agreed with the thrust of the staff appraisal. They commended the Italian and European authorities for their strong and decisive policies that cushioned the social and economic impact of the pandemic. They noted that a robust recovery is expected in 2021 supported by ongoing vaccinations, although large uncertainty remains. Continued policy support will be necessary until the recovery takes hold. Prompt and effective implementation of structural reforms will also be critical to support investment under the National Recovery and Resilience Plan to boost potential growth and foster a green, digital, and more inclusive economy.

Directors recommended that fiscal policy continue to cushion the economic effects of the pandemic through temporary and targeted measures, coupled with a credible plan to significantly reduce public debt ratios over the medium term. They noted that the authorities' plan to strengthen the economy and public finances through a large investment program would capitalize on the temporary window of favorable post-pandemic growth and financing conditions. They encouraged the swift adoption of growth-enhancing reforms, while also raising the efficiency and equity of government spending and tax systems.

Directors stressed the need to support the financial health of viable firms. State resources could help mobilize private investment, with a prominent role for the private sector in determining viability. Faster procedures for debt restructuring and liquidation of nonviable firms will also be important.

Directors noted that the financial sector has been resilient but warrants close monitoring. They recommended continuing to support bank lending but with improved targeting. Incentives for prudent lending and updating borrower checks for any extension of loan moratoria are also important. Directors highlighted the need for a better understanding of loan quality and the proactive classification, provisioning, and expeditious resolution of problem loans.

Directors noted that labor market turnover should resume once the health crisis recedes and the firing ban is phased out. Comprehensive upskilling programs together with labor market reforms and enhanced social safety nets will be critical for raising productivity and helping to transition workers into expanding sectors and bringing more women and youth into the workforce.

Directors welcomed the opportunity provided by Next Generation EU resources to support a greener and more equitable economy. They emphasized that public investment should be accompanied by prompt modernization of public administration and the judiciary, efficient public procurement, enhanced public investment governance, and reduced barriers to competition.

It is expected that the next Article IV consultation with Italy will be held on the standard 12-month cycle.