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July 25, 2022

**Statement by Ms. Medearis and Mr. Westphal on Italy
(Preliminary)
Executive Board Meeting
July 27, 2022**

We thank staff for this report and Mr. Fanizza for the informative Buff statement. We note that Italy's GDP has fully recovered since the pandemic, and we agree with staff that longstanding issues of high debt, weak productivity, and low potential growth are again sources of potential concern. Heightening these vulnerabilities, the war in Ukraine has triggered a surge in energy prices, and anticipated monetary policy tightening has contributed to rising government bond yields. **We urge the authorities to continue following through on implementing structural reforms designed to raise potential growth, in addition to pursuing medium-term fiscal consolidation.** *We would appreciate an update from staff and their views on recent political developments since staff distributed this report and the potential impact on financial conditions given the resulting widening of spreads.*

We agree that in light of Italy's high debt and rising financing costs, the authorities should steadily and decisively improve the primary balance going forward. We underscore the continued risks of Italy's high debt stock coupled with the weak growth outlook, especially in the face of current external headwinds. We agree with the recommendations to modify the tax system and to pass on current higher energy costs to end users. Relatedly, we echo the recommendation to target energy support measures to vulnerable firms and households rather than implement across-the-board cuts in taxes and fees. We concur with staff's recommendation to prioritize future reforms to the pension and early retirement programs. We also agree that the authorities should update real estate values to increase taxable equity.

We welcome efforts by the authorities to carry out comprehensive structural reforms to improve potential growth. We agree with staff that stronger growth will be crucial to putting debt on a downward trajectory. We applaud that the authorities have met all the 2021 and 1H2022 targets under the National Recovery and Resilience Plan (NRRP), aimed at boosting long-term sustainable growth and improving productivity. We encourage the authorities to follow through on their climate and decarbonization goals, even as they attempt

to balance energy security and affordability in the wake of Russia's invasion of Ukraine. We also appreciate staff's analysis in Annex X of the potential impact of a full shutoff of Russian gas, and we urge the authorities to continue to work toward their decarbonization goals to increase energy security over the medium term. The NRRP's financing for green investments will also be key to helping Italy meet climate commitments amid uncertainty.

We applaud the authorities' progress on implementing recommendations to improve bank supervision from Italy's 2020 FSAP, and we agree that banks should prepare for downside scenarios in light of heightened uncertainty and downside risks. Banks should utilize scenario-specific assessments to monitor exposures to NPLs and any potential adverse feedback loops. We also agree that any new loan scheme should be selective and that banks are better placed than the government to take on the potential credit risk of banks' clients. We welcome the implementation of Italy's new Insolvency Code to streamline out-of-court private sector debt restructuring mechanisms, which should help to increase available capital by encouraging efficient court procedures. We applaud the authorities' ongoing efforts to strengthen the AML/CFT framework, particularly regarding cooperation and the exchange of information and financial intelligence. We also agree with staff recommendations to increase the availability of information related to beneficial ownership.