Italy Business Forecast Report Q2 2014

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Abstracts

Core Views

We view positively the urgent structural reform agenda of new Prime Minister Matteo Renzi. However, we remain sceptical that he will be able to avoid the chronic instability, political infighting and rigid vested interests that that have in the past impeded reform efforts. Lack of significant structural reform in the previous years seriously jeopardises Italy's long-term growth trajectory, and raises the risks that the public sector debt burden will become unsustainable.

Even if reforms aimed at addressing Italy's decline in productivity growth and external competitiveness are passed, an ageing demographic profile will make debt consolidation efforts over the long term exceedingly difficult.

Public sector debt levels imply that Italy will eventually be forced to undergo a period of fiscal consolidation over the next decade, which will likely have negative implications for the country's social fabric, regional and global standing and governability.

Major Forecast Changes

No major forecast changes

Key Risks To Outlook

If Renzi's reform programme succeeds at rapidly pushing through key reforms in 2014 and 2015, we see upside risks to our growth forecasts over the medium and long term. Although key structural reforms would likely take several years before their full effect on the real economy is felt, immediate positive benefits could come in the form of rising investor and business confidence, lowering credit spreads while encouraging domestic

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firms to expand and invest. The Italian banking sector remains a key downside risk ahead of the European Central Bank's Asset Quality Review. Any major capital shortfalls uncovered could reignite the negative feedback loop between sovereign and banking sector risk, leading to another rapid loss of investor confidence in Italian assets. This would significant impede the government efforts to push through reform while staying within the European Union's budget deficit limits.

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FORECASTS, %

Table : Emerging Markets , Real GDP Growth , %

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