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REPEAT: MNI: APP End OK For Italy Eco If Tgts Hit: BOI Rossi

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--Italy Growth, Fiscal Targets Strictly Linked: BOI Dep Gov Rossi
--All Italy Govt Policies Need To Address Budget Constraints
--Repeat of story first transmitted at 1115GMT June 20

ROME (MNI) - Italy's economy is in a fit state to weather the end of the European Central Bank's asset purchase program provided that both growth and fiscal targets are met, Bank of Italy Deputy Governor Salvatore Rossi told MNI in an interview.

"Under the assumption that the expected growth rates will be confirmed and that fiscal policy remains prudent and credible, the Italian economy now has the capacity of sustaining a progressive normalization of monetary policy," Rossi said.

According to latest BOI projections, GDP is set to grow 1.3% this year and 1.1% in 2019-20, a slightly slower pace than seen in earlier January forecasts.

Rossi also attempted to downplay concerns over the impact on household balance sheets when the European Central Bank's Asset Purchase Programme comes to an end, now likely at the end of this year.

He noted that according to the bank's estimates, when APP terminates, if financing costs of Italy's private sector increase by an additional 100 basis points with respect to the current macroeconomic projections -- which already assume a gradual increase -- the debt levels of households and firms would reach 12 and 28 percent respectively, values much lower than those seen during the sovereign debt crisis of 2010/11.

"Household consumption should be supported by the continuing improvement of the labour market and low interest rates. The outlook for firms' investment will benefit from rising demand perspectives, favourable financing conditions and government incentives," Rossi said.

Italy's recovery however is expected to continue in the near future provided that favourable monetary and financial conditions, alongside further improvements in global demand, prevail.

--DOWNSIDE RISKS

A number of downside risks exist, warned Rossi, both domestic and global. "Those related to Italy's political scenario emerged recently," he noted, "while other risks stem from economic and trade policies at the international level".

In order to boost Italy's economic resilience, pursuing reforms is therefore paramount, as productivity and employment should top the policy agenda going forward. However, he stressed it must be in an ordered way.

"Several structural reforms have been promoted in the last years, with some success. It is essential now to proceed using a comprehensive approach, whereby each measure is designed as part of a broader strategy in which goals, implications and expected benefits are clarified at the outset," Rossi said.

--CURBING DEBT

Curbing public debt remains key to growth consolidation, particularly since its weakness is a structural issue that clearly emerged before the crisis outbreak.

Despite noting that public finances are in a better shape than in the past thanks to a series of reforms which structurally reduced the dynamics of current expenditure, Rossi acknowledged that more needs to be done to reassure investors, boost debt sustainability and by extension stability. In 2017 Italy's net borrowing went down from 2.5 to 2.3% of GDP, and in May, the European Commission forecast a further 0.6% decrease for 2018.

"Reducing public debt is still a priority, and not only because it's a European constraint, but first and foremost because high public debt is a source of financial vulnerability and constitutes a drag on growth, absorbing resources that could otherwise be used for other policies," the deputy governor said.

Every policy aiming at supporting growth must therefore take into full account budgetary constraints," he added.

Rossi pointed out how thanks to several reforms which have been enacted since the early 1990s, the Italian pension system now stands out as one of the most financially sound.

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