

Intervista del Governatore Visco a Global Finance

Q&A With Bank of Italy. A Tortoise Economy

Ignazio Visco, governor of the Bank of Italy since 2011, spoke with Global Finance about economic conditions globally and in Italy, where the banking system has been stressed, efforts to improve those conditions and Italy's slow-and-steady return to growth.

di Tiziana Barghini

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Global Finance: What do you think of the world economic outlook for this year and next?

Gov. Ignazio Visco: The marked improvement in the global economic outlook that has taken place since the second half of last year is broad-based. The strengthening in investment and the increase in international trade are especially encouraging, and lead me to expect these favorable overall conditions to continue over the next months.

However, while the fight against deflationary pressures has been successful both in the United States and in the euro area, inflation is still too low. The experience of the US, where a tight labor market is struggling to produce sufficient wage and price growth, and of Japan, where deflation is still a threat to the economy, indicate how difficult the task of central banks remains, even at the current encouraging juncture.

GF: The International Monetary Fund recently revised its 2017 forecast for Italy's GDP growth to 1.3% from 0.8%, and predicts GDP expansion of 1% in 2018. What are the Bank of Italy's expectations for economic growth, and what are the main elements driving the country's economy?

Visco: Our view is slightly more positive than that of the IMF. According to our last estimates [published in the Bank's Economic Bulletin in July], Italy's GDP will accelerate to close to 1.5% this year and keep expanding at a similar pace in 2018. Growth will be supported mostly by domestic demand—both private consumption and business investment are expected to expand at a relatively fast pace thanks to the accommodative monetary conditions, with the fiscal stance being broadly neutral—as well as by the ongoing recovery of world trade, to which our exports are responding well. This scenario is, however, subject to downside risks, which stem mainly from the international landscape and from financial markets.

GF: What are your views of the eurozone economy, and your expectations for this year and next?

Visco: Economic recovery in the euro area is gaining momentum and becoming more widespread across member countries. According to the September 2017 ECB projections, GDP will expand at 2.3% this year and slow down somewhat in 2018. However, since inflation is expected to rise only very gradually, a substantial degree of monetary accommodation is still necessary.

The euro-area outlook is also benefiting from the process of economic reforms implemented in most member countries. This process has to continue not only to enable us to return to a path of high and stable growth, but also if we are to face the challenges looming over the global economy. To these ends, it is also key to restore the mutual trust that has been so seriously shaken during the sovereign debt crisis, and take further steps toward the completion of our European project.

GF: While Italy is expected to grow at around 1.3% - 1.5%, expected growth in neighboring countries such as Spain is nearly double that pace. How do you explain this difference?

Visco: Notwithstanding the cyclical upturn, Italy certainly remains among the euro-area laggards. The key reason for this is the very weak performance of investment during the crisis, which is still weighing on productivity and potential growth. However, positive signals are emerging, thanks to the improvement in the business climate and the favorable effects of monetary policy on financial conditions.

The strengthening of capital expenditures, widespread across all sectors and firms, must now be consolidated. It will be encouraged by continuing reform efforts that favor innovation and business activity. Our surveys also suggest that a growing number of firms have made a positive assessment of the tax incentives introduced to encourage adoption of new digital and automation technologies.

GF: As the ECB phases out its quantitative easing program and starts raising interest rates, what impact do you see for the economy of Italy and that of Europe?

Visco: Over the last few years, the European Central Bank (ECB) has implemented extraordinary measures to guarantee price stability and support aggregate demand; it will continue to do so for as long as is necessary. Therefore, the start of a gradual process of monetary normalization would be welcome news: It would signal the materialization of sizable and self-sustained improvements in inflation and economic activity.

In Italy, such a process, as well as the gradual return to higher interest rates, should not be cause for concern, provided that all the actors involved deliver the required pickup in productivity, while aiming at financial stability. What should absolutely be avoided is the risk of an increase in interest rates driven by a fall in market confidence.

GF: Can you share your view of the medium- to long-term outlook for the Italian economy in terms of potential growth and productivity? What sectors of the economy hold the most promise?

Visco: In Italy, potential output remains hampered by a series of intertwined factors. Besides the weak performance of investment in the last decade, important elements have been the rigidity of the economic environment, which has prevented an adequate adjustment to the surge of global markets and changes in technology, and the low efficiency of public services. In this respect, I am confident that the recent intense period of reforms will gradually enhance growth in all sectors of the economy.

To complete the process, it remains necessary to pursue more incisive reforms directed at encouraging new business ventures, increasing competitiveness and eliminating disincentives to the expansion of firms—something that will require a continuous and resolute commitment by all actors in the economy. I believe this is now understood at both the public and private levels.

GF: In a recent speech, you said that the worst of the Italian banking crisis is over. Do you consider the Italian banking system solid and fit to fund the development of the country?

Visco: More precisely, I said that key measures have been taken to resolve the most important cases [MPS and the two Veneto banks], removing the “tail risk” that in the past months was weighing on some individual banks and on the sector as a whole. This has been borne out by the positive response that we have seen in financial markets. In addition, credit quality continues to improve: The ratio of new non-performing loans to total outstanding loans has fallen to the levels that prevailed before the crisis, and the decline in the backlog of non-performing loans, which is ongoing, will benefit from the disposals that some banks are currently undertaking.

These positive developments should now allow Italian banks to focus on supporting the economy and overcoming the challenges facing the banking industry at large, not only in Italy: the changing demand for financial services, the digital revolution and regulatory reforms introduced in the wake of the financial crisis.

GF: How do you see technology? Does it make a central banker’s job easier or harder?

Visco: Undoubtedly both. On the one hand, technological advances allow central banks to carry out their functions more easily and efficiently. On the other hand, they affect the real economy and financial markets, thus modifying the monetary transmission mechanism. These developments are positive overall, but might create new risks that must be carefully monitored.

Recent history confirms these dangers. In the years before the global financial crisis, new products that were originally thought to allow for wider diversification and risk reduction led instead to stronger financial interconnections and drove many banks and financial intermediaries to become exposed to greater risk, sowing the seeds of the crisis.

GF: Is there a single issue facing the Italian economy that keeps you up at night?

Visco: I am obviously concerned by several problems confronting the Italian and global economies. The one I am especially worried about is the risk of an insufficient and delayed response to the many technological and demographic changes that characterize the current worldwide landscape. Their diffuse nature demands a common international strategy, while countries have to remain open to the benefits of global markets and technological progress.

In order to take advantage of all these opportunities, there is a need to invest heavily in education and knowledge and to foster the development of new and interconnected skills, which are of vital importance beyond the economic sphere. On this front, Italy may have more work to do than other advanced countries, but I am confident that we will overcome this challenge. Obviously, domestic and European measures aimed at moderating the economic and social cost of the transition will help to strengthen the response to the ongoing technological and demographic changes.